

Other Real Estate Owned (OREO)

Minutes

July 30, 2009

2pm – 4pm

1. Roll Call –

Stakeholders in attendance included 7 participants in person and 14 participants via telephone.

Linda welcomed the following CPA consultants joining the teleconference:

- Bryan Mogensen, CPA from Clifton Gunderson LLP
- Doug J. Orth, CPA from Orth, Chakler, Murnane, & Co.
- Lisa Sanborn, CPA from Moss Adams LLP

2. Documents on the Web www.dfi.wa.gov –

The list of documents on the Web for the July 30, 2009, OREO rulemaking meeting:

- July 30 Meeting Agenda
- 3rd Discussion Draft OREO Rule
- Two requests for CPA consultants

3. Minutes –

The minutes from June 30 were approved unanimously.

4. Questions to CPAs

Below is a compilation of comments by CPA consultants Bryan Mogensen, Doug J. Orth, and Lisa Sanborn. These comments include excerpts from Lisa Sanborn's written comments to Linda after the meeting.

Accounting Issues

- a. Should the rule provide a general discussion of GAAP related to OREO or should the GAAP discussion be in a guidance document? (Currently, the proposed rule references FAS 15, FAS 144, SPO 92-3, FAS 34, FAS 67, and FAS 66.) [GAAP is the preferred reference.](#)
- b. Does GAAP have a definition of OREO? [The GAAP practice manual for Banking and Thrift Institutions refers to OREO as "foreclosed real estate."](#)
- c. Does GAAP have a definition of "fair value"? [The definition of "fair value" in FAS 157 focuses on the price that would be received to sell the asset or paid to transfer the liability. \(exit price\)](#)
- d. Does GAAP provide definition of the "recorded amount of loan", i.e. what is included in recorded amount of loan? [SOP 01-6 defines recorded amounts of loans in paragraph 8 as follows: "Loans and Trade Receivables Not Held for Sale. Loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff should be reported in the balance sheet at outstanding principal adjusted for any chargeoffs, the allowance for loan losses \(or the allowance for doubtful accounts\), any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans." APB Opinion No. 21 Appendix A defines the recorded amount of a loan as the "present value of the contractual principal and interest cash flows discounted at the loan's effective interest rate." FAS 5 defines "all amounts due" as both principal and interest. FAS 114 defines the "recorded investment in the loan" as to include "accrued interest, net deferred loan fees or costs, and unamortized premium or discount." The term *recorded investment in the loan* is distinguished from net carrying amount of the loan because the latter term is net of a valuation allowance, while the former term is not. The recorded investment in the loan does, however, reflect any](#)

direct recorded investment in the loan does, however, reflect any direct write-down of the investment.

- e. Are there other definitions in GAAP related to OREO? [FSP FAS 144-1](#) "Determination of Cost Basis for foreclosed Assets under FAS 115"
- f. Does GAAP require an appraisal when OREO is acquired? **No** Does GAAP require periodic re-evaluation of value during OREO holding period? **No**
- g. The regulator wants credit unions to account for OREO under GAAP even if the individual journal transaction would not be "material" under GAAP. From an accounting professional, what are the pros and cons of such a requirement? **Pros – clarity and consistency in accounting and reporting between institutions. Cons – it will take more time and expertise for credit unions to account for these transactions correctly, but I don't agree that there are system limitations. The loan would remain in the loan subsidiary ledger to retain the detail and history of the borrower and transactions that have occurred. The reclassification of OREO to a separate general ledger account would occur on a monthly basis and would be a reconciling item between the loan subsidiary ledger and the general ledger.**

5. Review third discussion draft –

Comments are referenced by discussion draft page number.

Page 4

Add Deed of Lieu definition given by Joe Vincent to first paragraph.

Definition of OREO may or may not be included in draft.

Remove the word "plus" paragraph 6.

Remove GAAS and "Sheriff Sale" from definition section if they are not used in the rule.

Page 5

The five year extension is intended for OREO property with issues preventing a sale.

There will not be any additional time allowance after 10 years.

The form will allow special circumstances for the 5 year extension requests submitted past the deadline of 6 months.

Renting OREO is acceptable for state chartered credit unions and leasing could be an option. Guidance may include leasing with option to buy real estate contract.

Reword the last accounting paragraph on pg 5.

Keep reference to the "Director" consistent throughout document.

Page 6 – 9

Much of the discussion on these pages resulted in keeping the policies (headlines) in the rule and putting the procedures in the guidance. This would allow the rule to remain complete yet brief, while the guidance would contain more detailed instruction/information for those credit unions with less OREO experience.

Write-up for seller financed OREO will be sent to Lisa Sanborn for review.

Remove the words "and competently" from pg 7, paragraph #2.

Move second sentence on pg 7, paragraph 2 to guidance.

Move paragraph #9 from pg 8 to paragraph #6 on pg 7.

Please forward any additional comments to Joanne Conrad at jconrad@dfi.wa.gov

6. Action Item for next meeting (July 30, 2009) –

Two redacted samples of OREO policies were received at the meeting and will be posted to the DFI Web

7. Next task force Meeting: September 1, 2009 10am-12pm

Meeting Adjourned 3:45pm