DCU BULLETIN

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Assets in the Process of Liquidation

The purpose of this bulletin is to set guidelines for how examiners will evaluate assets in the process of liquidation during examinations. Specifically, if an auto loan is in default and a credit union repossesses the car, how timely should the accounting entries be to transfer the loan account balance to a credit union owned asset account and to record the appropriate loan charge-off? [1]

The NCUA 5300 CALL Report Instructions[2] state that credit unions must,

> "…Initially record the assets at fair value (less costs to sell) *at the date of foreclosure or repossession* (emphasis added). This fair value (less cost to sell) becomes the "cost" of the foreclosed or repossessed asset. The amount, if any, by which the recorded amount of the loan exceeds the fair value (less costs to sell) of the asset is a loss which must be charged off to the ALLL *at the time of the foreclosure or repossession*..."

The Washington State Attorney General's Office (AGO) issued guidance regarding Safeguarding Consumers, stating that the consumer has the right to redeem the repossessed item up until it is sold or within 21 days of receiving notice that the creditor is going to keep it. [3]

To strike a balance between the CALL Report Instructions and the AGO (i.e., accounting for repossessions at the time of repossession versus after a redemption period), we recommend that within 30 days after repossession, the auto loan balance should be recorded in accordance with Generally Accepted Accounting Principles (GAAP) and the CALL Report Instructions.

Examiners will exercise their judgment in determining how material a safety and soundness concern this is for credit unions. For example, if a credit union usually sells its auto/truck repossessions within 30 days after repossession, but sometimes holds a repossessed car or truck for 45 to 60 days without making the necessary accounting entry from a loan to owned asset – then this normally would not be an Examiner's Finding.

However, if there are material amounts of loan balances on the credit union's books after collateral repossession in which the write-down (charge-off) loss has not been realized within 30 days – then examiners would typically cite this as an Examiner's Finding.

Credit unions must ensure their financial statements are prepared in accordance with Generally Accepted Accounting Principles, see RCW 31.12.569.

If you have any questions about this bulletin, please contact Keith Schuster, Program Manager, at Keith.Schuster@dfi.wa.gov or (360)-902-8717.

[1] This assumes that the borrower has not voluntarily agreed to pay the deficiency balance of the loan. In this instance, a deficiency balance loan would remain on the credit union's books as a loan asset and the market value of the collateral would be booked as an owned asset. There would be no loan loss.

[2] NCUA 5300 CALL Report Instructions – Effective September 30, 2016 "…After foreclosure or repossession, re-value the assets periodically to the lower of carrying amount or fair value (less costs to sell) through a separate valuation account…"

[3]The borrower would still remain obligated for the deficiency balance of the loan and payments made on the deficiency balance will be accounted for as a recovery on a charged-off loan.
See: http://www.atg.wa.gov/REPOSSESSIONS