

FIBA Panel Discusses Best Practices on Credit Administration

May 12, 2010

Dear clients and friends:

Frank Gonzalez, CPA/CFF, the MBAF partner who leads the firm's financial institutions and SEC practice, was a panelist at a May 6 seminar on credit administration. The seminar in Miami was sponsored by the Florida International Bankers Association (FIBA).

Panelists discussed the best practices that banks should take regarding the monitoring of real estate portfolios, the accounting treatment of problem real estate loans and the accounting and legal considerations for foreclosures and other real estate owned (OREO). Panelists also reviewed the circumstances under which impaired loans and other problem loans at agency and branch offices of foreign banks should require additions to loan loss reserves at those offices, as well as at their parent companies.

Other panelists were: Scott Smith, director of safety and soundness for examination of community banks, Federal Reserve Bank of Atlanta; Alcides Avila, partner in the law firm Avila Rodriguez Hernandez Mena & Ferri in Coral Gables; and Joseph Hill, president of CEIS Review, with offices in New York, N.Y., and in Miami. The discussion was moderated by Juan Aguerrebere, Jr., partner in the accounting and consulting firm Perez-Abreu, Aguerrebere, Sueiro, Torres in Coral Gables.

Topics included:

Accounting rules: Gonzalez reviewed the Financial Accounting Standards Board's rules for determining contingencies and impairment on real estate loans and other loans.

Statement of Accounting Standards No. 5 (FASB 5) Accounting for Contingencies is Subtopic 450-10-05 under the FASB's Accounting Standards Codification.

Statement of Accounting Standards No. 114 (FASB 114) Accounting by Creditors for Impairment of a Loan is Subtopic 310-10-35 under the FASB's Accounting Standards Codification.

Gonzalez said he anticipates that the FASB will issue additional requirements on the determination of loan impairment.

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Other real estate owned: Panelists discussed the process for determining when to foreclose on properties and the processes for managing and determining when to sell a property that has become an OREO. Topics included the legal and accounting factors in the foreclosure process and establishment of special purpose vehicles in which banks place OREOs.

Portfolio review, appraisals: The Federal Reserve's Smith recommended that banks should obtain more frequent external reviews of their real estate portfolios, in some cases on a quarterly basis or even more frequently. He also recommended that banks should lower their threshold sizes for the land development loans they include in reviews. He noted that Florida is among states where many banks have large numbers of those loans that are scheduled to mature over the next several years.

Panelists suggested that banks should consider having a new appraisal every six months on a property where the loan is impaired or is under consideration for that classification.

Foreign agencies and branches: Smith noted that the Federal Reserve in Letter SR-95-4 provided details of how foreign banks and their agencies and branches should add to allowances for loan and lease losses (ALLL) for impaired loans. He said, and other panelists agreed, that in general those loans should require a general reserve on the parent's financial statement and a specific reserve on the financial statement of the agency or branch that has the impaired loan on its books.

If you would like additional information on the issues discussed at the FIBA seminar on credit administration, do not hesitate to contact us at (305) 373-5500.

Sincerely,



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