Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of Thrift Supervision

Questions and Answers on Accounting for Loan and Lease Losses

Purpose

The staffs of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (collectively, the "agencies") are providing interpretive answers to frequently asked questions regarding the accounting for loan and lease losses and troubled loans for regulatory reporting purposes by federally insured depository institutions ("institutions"). The agencies are issuing these questions and answers in conjunction with the issuance of a revised "Interagency Policy Statement on the Allowance for Loan and Lease Losses" (2006 Policy Statement). These questions and answers focus on topics about which examiners, institutions, and accountants frequently inquire concerning the allowance for loan and lease losses (ALLL). The questions and answers are grouped into subject areas that are presented in the same order as the sections in the 2006 Policy Statement as follows.

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The staffs' interpretive answers are based on existing sources of generally accepted accounting principles (GAAP) and related supervisory policies. The answers are not intended to establish new accounting guidance. Readers should refer to the accounting literature and supervisory policies cited in the responses for complete guidance and information. As mentioned in the 2006 Policy Statement, the principal sources of guidance on accounting for impairment in a loan portfolio under GAAP are Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114), and Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (FAS 5) as well as the Financial Accounting Standards Board (FASB) *Viewpoints* article included in Emerging Issues Task Force (EITF) Topic D-80, *Application of FASB Statements No. 5 and No. 114 to a Loan Portfolio* (EITF D-80).

Nature and Purpose of the ALLL

Question # 1
May institutions project or forecast changes in facts and circumstances that arise after the balance sheet date when estimating the amount of loss under FAS 5 in a group of loans with similar risk characteristics at the balance sheet date?

Answer:
No. In developing loss measurements for groups of loans with similar risk characteristics, an institution should consider the impact of current qualitative or environmental factors that exist as of the balance sheet date, and should document how those factors were used in the analysis and how they affect the loss measurements. For any adjustments to the historical loss rate reflecting current environmental factors, an institution should support and reasonably document the amount of its adjustments and how the adjustments reflect current information, events, circumstances, and conditions.

For example, assume an institution's borrowers depend upon revenues and personal incomes generated from a local military base. If a public announcement was made prior to the balance sheet date that the base would be closed within the next six to eight months, the event of the impending closure changes the collectibility of, and the estimated credit losses within, the loan portfolio in the current period. Therefore, the ALLL level would likely require adjustment based upon the event of the announcement. As the institution is able to obtain additional information about its loans to borrowers affected by the impending military base closure, the estimated credit losses would likely change over time. The institution should not, however, wait until the actual closure to estimate the credit losses resulting from this event.

In contrast, suppose there is a rumor circulating that a local military base *may* close. However, the institution has not been able to substantiate the rumor as of the balance sheet date. Since the rumor is unsubstantiated, it is not an event that would likely require adjustments to the ALLL level.

Responsibilities of the Board of Directors and Management

<u>Appropriate ALLL Level</u>

Question # 2
How should an institution identify loans that should be individually evaluated for impairment under FAS 114?

Answer:
An institution should apply its normal review procedures when identifying which loans should be individually evaluated under FAS 114. Footnote 1 of FAS 114 identifies sources of information that are useful in identifying loans for individual evaluation as follows:

> Sources of information useful in identifying loans for evaluation … include a specific materiality criterion; regulatory reports of examination; internally generated listings such

as “watch lists,” past due reports, overdraft listings, and listings of loans to insiders; management reports of total loan amounts by borrower; historical loss experience by type of loan; loan files lacking current financial data related to borrowers and guarantors; borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow, or business interruptions; loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value; loans to borrowers in industries or countries experiencing economic instability; and loan documentation and compliance exception reports.

Large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment are not included in the scope of FAS 114. Such groups of loans may include, but are not limited to, “smaller” commercial loans, credit card loans, residential mortgages, and consumer installment loans. FAS 114 would apply, however, if the terms of any of such loans are modified in a troubled debt restructuring as defined by Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring* (FAS 15). Otherwise, the relevant accounting guidance for these groups of smaller-balance homogeneous loans is contained in FAS 5.

Many examiners and institutions have sought guidance on how to quantify “larger” versus “smaller” balance loans in order to identify which loans should be evaluated for impairment under FAS 114. A single-size test for all loans is impractical because a loan that may be relatively large for one institution may be relatively small for another. Deciding whether to individually evaluate a loan is subjective and requires an institution to consider individual facts and circumstances along with its normal review procedures in making that judgment. In addition, the institution should appropriately document the method and process for identifying loans to be evaluated under FAS 114.

Question # 3
If an institution concludes that an individual loan specifically identified for evaluation is *not* impaired under FAS 114, should that loan be included in the assessment of the ALLL under FAS 5?

Answer:
Yes, generally, that loan should be evaluated under FAS 5. If the specific characteristics of the individually evaluated loan that is not impaired indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics, then the loan should be included in the assessment of the ALLL for that group of loans under FAS 5. Institutions should measure estimated credit losses under FAS 114 only for loans individually evaluated and determined to be impaired.

Under FAS 5, a loss is recognized if characteristics of a loan indicate that it is probable that a group of similar loans includes some estimated credit losses even though the loss cannot be identified to a specific loan. Such a loss would be recognized if it is probable that the loss has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. (EITF D-80, Question 10).

Question # 4
If an institution assesses an individual loan under FAS 114 and determines that it is impaired, but it measures the amount of impairment as zero, may it include that loan in a group of loans collectively assessed under FAS 5 for estimation of the ALLL?

Answer:
No. For a loan that is impaired, no additional loss recognition is appropriate under FAS 5 even if the measurement of impairment under FAS 114 results in no allowance. One example would be when the recorded investment in an impaired loan has been written down to a level where no allowance is required. (EITF Topic D-80, Question 12).

However, before concluding that an impaired FAS 114 loan needs no associated loss allowance, an institution should determine and document that its measurement process was appropriate and that it considered all available and relevant information. For example, for a collateral-dependent loan, the following factors should be considered in the measurement of impairment under the fair value of collateral method: volatility of the fair value of the collateral, timing and reliability of the appraisal or other valuation, timing of the institution's or third party's inspection of the collateral, confidence in the institution's lien on the collateral, historical losses on similar loans, and other factors as appropriate for the loan type. For further information, refer to the banking agencies' 2001 *Policy Statement on the Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions* (2001 Policy Statement), Q&A #3, which is consistent with the Securities and Exchange Commission's Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* (SAB 102), Question 7. For credit unions, see the NCUA's May 2002 Interpretive Ruling and Policy Statement 02-3, *Allowance For Loan and Lease Losses Methodologies and Documentation for Federally-Insured Credit Unions* (NCUA's 2002 IRPS), Q&A #3.

Question # 5
Is the practice of "layering" an institution's loan loss allowance appropriate?

Answer:
No. Layering is the inappropriate practice of recording in the ALLL more than one amount for the same estimated credit loss. When measuring and documenting estimated credit losses, institutions should take steps to prevent the layering of loan loss allowances. One situation in which layering inappropriately occurs is when an institution includes a loan in one group of loans, determines its best estimate of loss for that loan group (after taking into account all appropriate environmental factors, conditions, and events), and then includes the loan in another group, which receives an additional ALLL amount. Another example of inappropriate layering occurs when an allowance has been measured for a loan under FAS 114 after the loan has been individually evaluated for impairment and determined to be impaired, but the loan is then included in a group of loans with similar risk characteristics for which an ALLL is estimated under FAS 5. The allowance provided for a specific individually impaired loan under FAS 114 must not be supplemented by an additional allowance under FAS 5. (2001 Policy Statement, Appendix B; and NCUA's 2002 IRPS, p. 37450).

Question # 6
What documentation should an institution maintain to support its measurement of impairment on an individually impaired loan under FAS 114?

Answer:
The 2001 Policy Statement and the NCUA's 2002 IRPS discuss the supporting documentation needed. In general, the institution should document the analysis that resulted in the impairment decision for each loan and the determination of the impairment measurement method used. Additional documentation would depend on which of the three impairment measurement methods is used. For example, for collateral-dependent loans for which an institution must use the fair value of collateral method, the institution should document: (1) how fair value was determined including the use of appraisals, valuation assumptions, and calculations; (2) the supporting rationale for adjustments to appraised values, if any; (3) the determination of costs to sell, if applicable; and (4) appraisal quality and the expertise and independence of the appraiser.

Question # 7
How should an institution evaluate and account for impairment on loans that are within the scope of FAS 15 as "troubled debt restructurings"?

Answer:
Loans that are within the scope of FAS 15 as "troubled debt restructurings" should be evaluated for impairment under FAS 114. This includes loans that were originally not subject to FAS 114 prior to the restructuring, such as individual loans that were included in a large group of smaller-balance homogeneous loans collectively evaluated for impairment. A loan is impaired when, based on current information and events, it is probable that an institution will be unable to collect all amounts due according to the contractual terms of the loan agreement. Usually, a restructured troubled loan that had been individually evaluated under FAS 114 would already have been identified as impaired because the borrower's financial difficulties existed before the formal restructuring. For a restructured troubled loan *all amounts due according to the contractual terms* means the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. Therefore, if impairment is measured using an estimate of the expected future cash flows, the interest rate used to calculate the present value of those cash flows is based on the original effective interest rate on the loan (the original contractual interest rate adjusted for any net deferred loan fees or cost or any premium or discount existing at the origination or acquisition of the loan) and not the rate specified in the restructuring agreement.

Question # 8
If a borrower is current under the modified terms of a restructured troubled loan, how should the loan be reported in the bank Reports of Condition and Income (Call Report), the Thrift Financial Report (TFR) and the NCUA 5300 Call Report (5300)?

Answer:
Call Report
For regulatory reporting purposes on the bank Call Report, a loan that has been formally restructured so as to be reasonably assured of repayment and of performance according to its

modified terms need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the loan are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured loan must remain in nonaccrual status.

The evaluation of the borrower's financial condition and prospects must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan is returned to accrual status. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents. Each loan that has undergone a troubled debt restructuring (except a loan secured by a 1-4 family residential property and a loan to an individual for household, family, and other personal expenditures) must be reported as a restructured loan in Schedule RC-C or Schedule RC-N, as appropriate, depending on whether the borrower is in compliance with the loan's modified terms. However, a restructured loan that yields a market rate and on which the borrower is in compliance with the loan's modified terms need not continue to be reported as a troubled debt restructuring in calendar years after the year in which the restructuring took place.

TFR

For regulatory reporting purposes on the TFR, a savings association may remove a restructured troubled loan from nonaccrual status when it is (1) reasonably assured of repayment and is performing according to the modified terms, and (2) the restructured loan is well secured and collection of principal and interest under the revised terms is probable. To determine probability of collection, the savings association must consider the borrower's sustained historical repayment performance for a reasonable period of time. This determination may take into account performance prior to restructuring the loan. A sustained period of repayment performance generally would equal a minimum of six months and would involve payments of cash or cash equivalents.

Loans that have undergone troubled debt restructurings (TDRs) should generally be reported as a TDR (on Schedule VA if in compliance with the restructured terms or on Schedule PD if past due or nonaccrual) until the loans are paid off. However, a restructured loan that is in compliance with its modified terms and yields a market rate at the time of restructuring need not continue to be reported as a TDR beyond the first year after the restructuring.

5300

For regulatory reporting purposes on the 5300, credit unions should report troubled debt restructured loans (as defined in GAAP) as delinquent consistent with the original loan contract terms until the borrower/member has demonstrated an ability to make timely and consecutive monthly payments over a six-month period consistent with the restructured terms. Likewise, such loans may not be returned to full accrual status until the six-month consecutive payment requirement is met.

Factors to Consider in the Estimation of Credit Losses

Question # 9
If an institution measures impairment based on the present value of expected future cash flows for FAS 114 purposes, what factors should be considered when estimating the cash flows?

Answer:
An institution should consider all available information reflecting past events and current conditions when developing its estimate of expected future cash flows. All available information would include a best estimate of future cash flows taking into account existing "environmental" factors (e.g., existing industry, geographical, economic, and political factors) that are relevant to the collectibility of that loan. (EITF D-80, Question 16)

Question # 10
When an institution writes down an individually impaired loan to the appraised value of the collateral because that portion of the loan has been identified as uncollectible, and therefore is deemed to be a confirmed loss, will there be a loan loss allowance under FAS 114 associated with the remaining recorded investment in the loan?

Answer:
Generally, yes. Typically, the most recent appraised value will differ from fair value (less costs to sell) as of the balance sheet date. For an impaired collateral-dependent loan, the agencies generally require an institution to charge off any portion of the recorded investment in excess of the fair value of the collateral that can be identified as uncollectible. Estimated costs to sell also must be considered in the measure of the ALLL under FAS 114 if these costs are expected to reduce the cash flows available to satisfy the loan.

Although an institution should consider the appraised value of the collateral as the starting point for determining its fair value, the institution should also consider other factors and events in the environment that may affect the current fair value of the collateral since the appraisal was performed. The institution's experience with whether the appraised values of impaired collateral-dependent loans are actually realized should also be taken into account. In addition, the timing of when the cash flows are expected to be received from the underlying collateral could affect the fair value of the collateral if the timing was not contemplated in the appraisal. This generally results in the appraised value of the collateral being greater than the institution's estimate of the collateral's fair value (less costs to sell).

As a consequence, if the institution's allowance for the impaired collateral-dependent loan under FAS 114 is based on fair value (less costs to sell), but its charge-off is based on the higher appraised value, the remaining recorded investment in the loan after the charge-off will have a loan loss allowance for the amount by which the estimated fair value of the collateral (less costs to sell) is less than its appraised value.

Appendix B of the 2001 Policy Statement and Appendix A of the NCUA's 2002 IRPS provide the following illustration of this concept:

> An institution determined that a collateral-dependent loan, which it identified for evaluation, was impaired. In accordance with FAS 114, the institution established an ALLL for the amount that the recorded investment in the loan exceeded the fair value of the underlying collateral, less costs to sell. Consistent with relevant regulatory guidance, the institution classified as "Loss" the portion of the recorded investment deemed to be the confirmed loss, and classified the remaining recorded investment as "Substandard." For this loan, the amount classified "Loss" was less than the impairment amount (as determined under FAS 114). The institution charged off the "Loss" portion of the loan. After the charge-off, the portion of the ALLL related to this "Substandard" loan (1) reflects an appropriate measure of impairment under FAS 114, and (2) is included in the aggregate FAS 114 ALLL for all loans that were identified for evaluation and individually considered impaired. The aggregate FAS 114 ALLL is included in the institution's overall ALLL.

<u>Measurement of Estimated Credit Losses</u>

Question # 11
Under the banking agencies' regulatory classification guidelines, "Substandard" assets are defined as assets that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. How should an allowance be established for a commercial loan adversely classified as "Substandard" based on this regulatory classification framework?

Answer:
Given the definition, a "Substandard" loan that is individually evaluated for impairment under FAS 114 (and that is not the remaining recorded investment in a loan that has been partially charged off) would not automatically meet the definition of impaired. However, if a "Substandard" loan is significantly past due or is in nonaccrual status, the borrower's performance and condition provide evidence that the loan is impaired, i.e., that it is probable that the institution will be unable to collect all amounts due according to the contractual terms of the loan agreement. An individually evaluated "Substandard" loan that is determined to be impaired must have its allowance measured in accordance with FAS 114.

For "Substandard" loans that are not determined to be impaired in accordance with FAS 114, experience has shown that there are probable incurred losses associated with a group of "Substandard" loans that must be provided for in the ALLL under FAS 5. Many institutions maintain records of their historical loss experience for loans that fall into the regulatory "Substandard" category. A group analysis based on historical experience, adjusted for qualitative or environmental factors, is useful for such credits.

For an institution whose groups of loans with similar risk characteristics include both loans classified "Substandard" (and not determined to be impaired) and loans that are not adversely classified, the institution should separately track and analyze the "Substandard" loans in the group. This analysis will aid in determining whether the volume and severity of these adversely classified loans differs from the volume and severity of such loans during the period over which the institution's historical loss experience was developed and, if so, the extent and direction of a qualitative adjustment to the historical loss experience used to estimate the ALLL for the group of loans under FAS 5.

Question # 12
Is it appropriate for banks and savings associations to estimate an allowance for "pass" loans and for credit unions to estimate an allowance for loans that do not raise supervisory concern? (The banking agencies define "pass" loans as loans that are not adversely classified as "Substandard," "Doubtful," or "Loss" nor designated as "Special Mention.")

Answer:
Yes. To determine an appropriate level for the allowance, an institution must analyze the entire loan and lease portfolio for probable losses that have already been incurred that can be reasonably estimated. A loan designated as "pass" or not raising supervisory concern generally would not be found to be impaired if it were individually evaluated for impairment under FAS 114. If the specific characteristics of such a loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics, then the loan should be included in the assessment of the ALLL for that group of loans under FAS 5. Under FAS 5, the determination of probable incurred losses that can be reasonably estimated may be considered for individual loans or in relation to groups of similar types of loans. This determination should be made on a group basis even though the particular loans that are uncollectible in the group may not be individually identifiable. Accordingly, the ALLL for a group of loans with similar risk characteristics, which includes loans designated as "pass" or not raising supervisory concern, should be measured under FAS 5.

As noted in the 2006 Policy Statement, some institutions remove loans that become adversely classified or graded from a group of "pass" loans with similar risk characteristics in order to evaluate the removed loans individually under FAS 114 (if deemed impaired) or collectively in a group of adversely classified or graded loans with similar risk characteristics under FAS 5. In this situation, the net charge-off experience on the adversely classified or graded loans that have been removed from the group of "pass" loans should be included in the historical loss rates for that group of loans. Even though the net charge-off experience on the adversely classified or graded loans is included in the estimation of the historical loss rates that will be applied to the group of "pass" loans, the adversely classified or graded loans themselves are no longer included in that group for purposes of estimating credit losses on the group.

Question # 13
May an institution include amounts designated as "unallocated" in its ALLL?

Answer:
Yes, the ALLL may include an amount labeled as "unallocated" as long as it reflects estimated credit losses determined in accordance with GAAP and is properly supported.

The term "unallocated" is not defined in GAAP, but is used in practice with various meanings. For example, some institutions refer to the ALLL resulting from the adjustments they make to their historical loss rates for groups of loans for qualitative or environmental factors as "unallocated." Others believe that the ALLL resulting from those adjustments is an element of the "allocated" ALLL under FAS 5. Still other institutions believe "unallocated" refers to any ALLL amounts that are not attributable to or were not measured on any particular groups of loans. Economic developments that surface between the time management estimates credit losses and the date of the financial statements, as well as certain other factors such as natural disasters that occur before the date of the financial statements, are examples of environmental factors that may cause losses that apply to the portfolio as a whole and are difficult to attribute to individual impaired loans or to specific groups of loans and, as a consequence, result in an "unallocated" amount.

An "unallocated" portion of the ALLL may or may not be consistent with GAAP. If an institution includes an amount labeled "unallocated" within its ALLL that reflects an amount of estimated credit losses that is appropriately supported and documented, that amount would be acceptable as part of management's best estimate of credit losses. The label "unallocated," by itself, does not indicate whether an amount so labeled is acceptable or unacceptable within management's estimate of credit losses. Rather, it is management's objective evidence, analysis, and documentation that determine whether an "unallocated" amount is an acceptable part of the ALLL under GAAP.

Appropriate support for any amount labeled "unallocated" within the ALLL should include an explanation for each component of the "unallocated" amount, including how the component has changed over time based upon changes in the environmental factor that gave rise to the component. In general, each component of any "unallocated" portion of the ALLL should fluctuate from period to period in a manner consistent with the factors giving rise to that component (i.e., directional consistency).

Question # 14
Is there a specific period of time that should be used when developing historical experience for groups of loans with similar risk characteristics for purposes of estimating the FAS 5 portions of the ALLL?

Answer:
There is no fixed period of time that institutions should use to determine historical loss experience. During periods of economic stability in an institution's market, a relatively long period of time may be appropriate. However, during periods of significant economic expansion or contraction, the relevance of data that are several years old may be limited. The period used to develop a historic loss rate should be long enough to capture sufficient loss data. At some institutions, the length of time the institution uses varies by product; high-volume consumer loan products generally use a shorter time period than more specialized commercial loan products.

An institution should maintain supporting documentation for the techniques used to develop its loss rates. Such documentation includes evidence of the average and range of historical loss rates (including gross charge-offs and recoveries) by common risk characteristics (e.g., type of loan, loan grade, and past due status) over the historical period of time used. At larger institutions, this information is often further segmented by originating branch office or geographic area. An institution's supporting documentation should include an analysis of how the current conditions compare to conditions during the time period used to develop historical loss rates for each group of loans assessed under FAS 5. An institution should review the range of historical losses over the time period it uses, rather than relying solely on the average historical loss rate over that period, and should identify the appropriate historical loss rate from within that range to use in estimating credit losses for the groups of loans. This would ensure that the appropriate historical experience is captured and is relevant to the institution's current portfolio of loans.

Question # 15
An institution has had very low or zero historical losses in the past several years. How should the institution take this historical loss experience into account in calculating its ALLL?

Answer:
Judgment is important in these situations because each institution's ALLL should be based on an institution-specific analysis of the loans in its portfolio. Management should perform individual loan reviews under FAS 114 to determine whether any individually reviewed loans are impaired and, if impaired, measure its FAS 114 allowance allocations in accordance with that standard.

Individually evaluated loans that are not determined to be impaired that have specific characteristics that indicate it is probable that there would be an incurred loss in a group of loans with those characteristics and all other loans should be evaluated under FAS 5. As noted in the 2006 Policy Statement, historical loss experience provides a reasonable starting point for the institution's analysis. However, historical losses, or even recent trends in losses, are not by themselves a sufficient basis to determine the appropriate level for the ALLL. Because the institution's historical loss experience is minimal, the FAS 5 allowances must be supported based on qualitative or environmental factors. Management should consider such factors as changes in lending policies, changes in the trend and volume of past due and adversely classified or graded loans, changes in local and national economic conditions, and effects of changes in loan concentrations. This will ensure that the ALLL reflects probable incurred losses in the current portfolio.

Question # 16
How should an institution document and support the qualitative or environmental factors used to adjust historical loss experience to reflect current conditions as of the financial statement date?

Answer:
As noted in the 2006 Policy Statement, institutions should support adjustments to historical loss rates and explain how the adjustments reflect current information, events, circumstances, and conditions in the loss measurements. Management should maintain reasonable documentation to support which factors affected the analysis and the impact of those factors on the loss measurement. Support and documentation includes descriptions of each factor, management's analysis of how each factor has changed over time, which loan groups' loss rates have been adjusted, the amount by which loss estimates have been adjusted for changes in conditions, an explanation of how management estimated the impact, and other available data that supports the reasonableness of the adjustments. Examples of underlying supporting evidence could include, but are not limited to, relevant articles from newspapers and other publications that describe

economic events affecting a particular geographic area, economic reports and data, and notes from discussions with borrowers.

Management must exercise significant judgment when evaluating the effect of qualitative factors on the amount of the ALLL because data may not be reasonably available or directly applicable for management to determine the precise impact of a factor on the collectibility of the institution's loan portfolio as of the evaluation date. For example, the institution may have economic data that shows commercial real estate vacancy rates have increased in a portion of its lending area. Management should determine an appropriate adjustment for the effect of that factor on its current portfolio that may differ from the adjustment made for the effect of that factor on its loan portfolio in the past. It is management's responsibility to use its judgment to determine the best estimate of the impact of that factor and document its rationale for its best estimate. This rationale should be reasonable and directionally consistent with changes that have occurred in that factor based on the underlying supporting evidence previously discussed.