**Section 1075.585 Asset Reserves**

a) Scope

The classification system described in this Section applies to all assets or portions of assets held by a savings bank.

b) Classifications

1) Substandard – assets classified substandard are inadequately protected by the current paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the savings bank will sustain some loss if the deficiencies are not corrected.

2) Doubtful – assets classified doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that collection of the asset in full, on the basis of currently existing facts, conditions, and values, is highly questionable and improbable.

3) Loss – assets classified loss are considered uncollectible and of such little value that their continuance as assets without establishment of a reserve is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but, rather, that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.

c) Implementation of Classification System

1) In connection with examinations of a savings bank or its affiliates, the examiner shall have authority to identify problem assets and, if appropriate, classify them.

2) Each savings bank shall classify its own assets on a regular basis. In addition to any other remedies available to the Division under applicable statutes and regulations, a savings bank's failure to set aside prudent valuation allowances, or to monitor portfolio risk with an effective self-classification procedure, will be considered by the examiner in determining the amount of valuation allowances to be established by the savings bank.

3) In its reports to the Division , each savings bank shall include aggregate totals of assets that the savings bank has classified in each of the 3 asset classification categories, and the aggregate general and specific valuation allowances established. To the extent a savings bank's specific valuation allowances have decreased from the previous reporting period, the savings bank shall identify the amount of the decrease attributable to a savings bank's between examination upgrading of classifications.

d) Effect of Classification

1) When, pursuant to this Section, a savings bank has classified one or more assets, or portions of assets, substandard or doubtful, the savings bank shall establish prudent general allowances for loan losses. When, pursuant to this Section, an examiner has classified one or more assets or portions of assets substandard or doubtful and has determined that the existing valuation allowances are inadequate, the savings bank shall establish general allowances for loan losses in an appropriate amount as determined by the examiner, subject to approval of the Director.

2) When, pursuant to this Section, either a savings bank or an examiner has classified one or more assets or portions of assets loss, the savings bank shall either establish allowances for losses in the amount of 100% of the portion of the assets classified loss, or charge off that amount against current income.

3) Adequate valuation allowances consistent with generally accepted accounting principles shall be established for classified assets. Asset evaluations (and the corresponding allowances) that are consistent with the practice of the federal banking agencies may be used for supervisory purposes.

e) Assets Deserving "Special Mention"

Assets that do not currently expose a savings bank to a sufficient degree of risk to warrant classification under this Section but do have credit deficiencies or potential weaknesses deserving management's close attention shall be designated "special mention" by either the savings bank or the examiner. Special mention assets have a potential weakness or pose an unwarranted financial risk that, if not corrected, could weaken the asset and increase risk in the future.

f) Delegations and Interpretations

1) The Director or designee may approve, disapprove, or modify any classifications of assets made pursuant to this Section and any amounts of allowances for loan losses established by a savings bank or required by examiners pursuant to this Section.

2) When an appraisal is required or made in connection with any reevaluation of assets, the Director may approve or reject the appraisal and any valuation related to it.

3) The Division shall, from time to time, issue supervisory interpretations and other informational material regarding classification of assets.

(Source: Amended at 30 Ill. Reg. 19068, effective December 1, 2006)