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Superintendent Guidance
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Current Expected Credit Losses (CECL) Accounting Standards Codification (ASC) 326 and Iowa Code Legal Lending Limit

To: State Chartered Banks

As more Iowa banks have adopted ASC 326, the new Current Expected Credit Losses accounting standards (CECL), in 2023, the Iowa Division of Banking has begun receiving questions regarding the impact of the Allowance for Credit Losses (ACL) for purposes of calculating the applicable legal limits on lending and investments.

Iowa Code section 524.904(2) establishes the legal lending limit for Iowa banks as fifteen percent of the bank's aggregate capital, and section 524.901(2) similarly limits permissible investments in certain categories to no more than fifteen percent of the bank's aggregate capital. Iowa Code section 524.103(4) defines the term aggregate capital to include the "sum of capital, surplus, undivided profits, and reserves." Finally, Iowa Code section 524.103(39) defines the term reserves to mean the amount of an Iowa bank's "allowance for loan and lease losses."

The new CECL accounting standard establishes the ACL account which requires banks to establish reserves for Loans and Leases Held for Investment, expected credit losses for off-balance sheet credit exposures, and Held-to-Maturity (HTM) securities. Upon review of CECL, the category on the Call Report that best aligns with the definition of "reserves" in Iowa Code Section 524.103(39) is the Allowance for Credit Losses on Loans and Leases Held for Investment. Iowa banks should therefore use Call Report Schedule RC Item 4.c to calculate aggregate capital when determining the applicable fifteen percent legal lending limit and investment limit.

Thank you for your patience as industry and regulators alike transition to the new CECL standards, and please contact the Division with any additional questions.

Sincerely,

Jeff Plagge
Iowa Superintendent of Banking