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To: Clients and Friends

From: David F. Dulock

Subject: Federal Agencies Issue Guidance for Home Equity Lines of Credit Nearing End-of-Draw Periods

On July 1, 2014, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA) and the Conference of State Bank Supervisors (CSBS) issued guidance ([click here](#)) to financial institutions regarding home equity lines of credit (HELOCs) nearing their end-of-draw periods.

The guidance describes how financial institutions can effectively manage their potential exposures and describes appropriate responses to HELOC borrowers unable to meet their contractual obligations when the draw period ends and the HELOC resets to full repayment. The appropriate accounting and reporting procedures for HELOCs nearing their end-of-draw periods are also discussed.

The guidance is arranged under the following topics:

- Prudent underwriting for renewals, extensions, and rewrites.
- Compliance with pertinent existing guidance.
- Use of well-structured and sustainable modification terms.
- Appropriate accounting, reporting, and disclosure of troubled debt restructurings.
- Appropriate segmentation and analysis of end-of-draw exposure in allowance for loan and lease losses (ALLL) estimation processes.
- Developing a clear picture of scheduled end-of-draw period exposures.
- Ensuring a full understanding of end-of-draw contract provisions.
- Evaluating near-term risks.
- Contacting borrowers through outreach programs.
- Ensuring that refinancing, renewal, workout, and modification programs are consistent with regulatory guidance and expectations, including consumer protection laws and regulations.
- Establishing clear internal guidelines, criteria, and processes for end-of-draw actions and alternatives (renewals, extensions, and modifications).
- Providing practical information to higher-risk borrowers.
- Establishing end-of-draw reporting that tracks actions taken and subsequent performance.
- Documenting the link between ALLL methodologies and end-of-draw performance.
- Ensuring that control systems provide adequate scope and coverage of the full end-of-draw period exposure.

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