2020-09 (March 2020): Guidance Concerning Treatment of Modifications by Financial Institutions for Borrowers Affected by the Coronavirus

Accounting and Auditing Update (WG&L)

Guidance Concerning Treatment of Modifications by Financial Institutions for Borrowers Affected by the Coronavirus

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SUBJECT: Guidance Concerning Treatment of Modifications by Financial Institutions for Borrowers Affected by the Coronavirus

PRONOUNCEMENT ANALYZED: Joint Interagency Statement on Loan Modifications

SYNOPSIS

The Joint Statement provides guidance to financial institutions for loan modifications made to borrowers relating to the coronavirus. Specifically, under certain conditions, loan modifications should not be accounted for as troubled debt restructurings.

INTRODUCTION

Six government agencies have issued a joint statement, *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus* (the "Joint Statement"), which provides guidance to financial institutions that are working with borrowers affected by the Coronavirus. Among other information, the Joint Statement provides guidance concerning accounting for loan modifications under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors*. The agencies issuing the Joint Statement are (1) the Board of Governors of the Federal Reserve System (FRB), (2) the Federal Deposit Insurance Corporation (FDIC), (3) the National Credit Union Administration (NCUA), (4) the Office of the Comptroller of the Currency (OCC), (5) the Consumer Financial Protection Bureau (CFBP), and (6) the Conference of State Bank Supervisors.

GUIDANCE ON ACCOUNTING FOR LOAN MODIFICATIONS

In the Joint Statement, the participating agencies have announced, based on consultation with the FASB

Staff, that short-term modifications made in good faith in response to the Coronavirus to borrowers that were *current* prior to such relief, should not be considered (and not accounted for as) troubled debt restructurings (TDRs). Specifically:

- Short-term modifications (e.g., for six months) include payment deferrals, fee waivers, extensions of repayment terms, or other insignificant payment delays.
- Borrowers should be deemed current if they are less than 30 days past due on their contractual payments at the time that a modification program is implemented.
- Working with borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers that are experiencing short-term financial or operational problems resulting from the Coronavirus, generally would not be considered TDRs.
- For modification programs designed to provide temporary relief for affected borrowers, financial institutions should presume that borrowers that are current on contractual payments are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and, thus, no further TDR analysis is required for each loan modification within the program.
- Modification or deferral programs mandated by the federal or a state government relating to the Coronavirus are not in the scope of FASB ASC 310-40 (e.g., a state program requiring all institutions within that state to suspend mortgage payments for a specified period).

In addition, in respect of loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal loan documents. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and, thus, such loans are not considered past due during the deferral period.

US GAAP GUIDANCE ON CREDITOR DETERMINATION OF WHETHER A TROUBLED DEBT RESTRUCTURING EXISTS

Generally, under current Unites States generally accepted accounting principles (US GAAP) pursuant to FASB ASC 310-40, a restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons relating to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both of the following conditions exist: (1) the restructuring constitutes a concession; and (2) the debtor is experiencing financial difficulties.

A creditor is deemed to have granted a concession when, as a result of the restructuring, the creditor does not expect to collect all amounts due, including interest accrued at the original contract rate. In determining whether the debtor is experiencing financial difficulties, the following indicators should be taken into account:

- The debtor is currently in default.

- It is probable that the debtor would be in default on any of its debt in the foreseeable future (i.e., the creditor may conclude that the debtor is having financial difficulties even though the debtor is not currently in default).
- The debtor has declared (or is in the process of declaring) bankruptcy.
- Significant doubt exists regarding whether the debtor will continue to be a going concern.
- The debtor's securities (1) have been delisted, (2) are in the process of being delisted, or (3) are under threat of delisting by an exchange.
- Based on estimates and projections encompassing only the debtor's current capabilities, the creditor forecasts that the debtor's entity-specific cash flows will be insufficient to service its debt in accordance with contractual terms for the foreseeable future.

Effectively, if the specific conditions of the agencies' guidance are met, for the short-term at least, such guidance overrides the current US GAAP guidance for determining whether a loan modification qualifies as a TDR.

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