Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)

Speakers:

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Welcome, Everyone

• Today’s session
• Questions:
  – Email your question to: asktheregulators@stls.frb.org or
  – Use the “Ask Question” button in the webinar tool.
• This call is being recorded and will be available immediately following the session.
  – The archived recording can be accessed using the same link as today’s webinar.
• A survey will be delivered via email following the call. Let us know your thoughts or ideas for future sessions.
Goals of Today’s Session

• Raise awareness of the April 7, 2020, revised interagency statement (interagency statement)
• Clarify the interaction between current accounting rules and Section 4013 of the CARES Act
• Demonstrate the consistency of views across the agencies
• Answer your questions
Background

• On March 22, 2020, the agencies issued a statement that:
  – Encourages institutions to work prudently with borrowers affected by COVID-19
  – Describes the agencies’ interpretation of how accounting rules apply to certain COVID-19-related loan modifications

• On March 27, 2020, the CARES Act was signed into law.
  – Section 4013 of the CARES Act provides financial institutions the option to suspend the requirements to categorize certain loan modifications as troubled debt restructurings (TDRs).

• On April 7, 2020, the agencies issued a revised statement that:
  – Describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and the temporary relief provided by Section 4013 of the CARES Act
  – Provides the agencies’ views on consumer protection considerations
Highlights from Interagency Statement (April 7, 2020)

- Encourages institutions to work constructively with borrowers affected by COVID-19 and states that the agencies will not criticize supervised institutions for prudent loan modifications
- Describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and Section 4013 of the CARES Act
- Provides supervisory views on past-due and nonaccrual regulatory reporting and regulatory capital implications
- Provides the agencies’ views on consumer protection considerations
Accounting for Loan Modifications

Financial institutions may elect to account for an eligible loan modification under

Section 4013 of the CARES Act

Related to COVID-19

Current as of 12/31/19

Executed during applicable period*

Or

Interagency Statement**

Related to COVID-19

Current at time of modification program implementation

Short term (e.g., six months)

*Applicable period: Between March 1, 2020, and earlier of 1) 60 days after the date of termination of the National Emergency or 2) December 31, 2020.

Section 4013 – Accounting for Loan Modifications

• Under Section 4013, financial institutions:
  – Are not required to apply ASC Subtopic 310-40 to the loan modification
  – Do not have to report such loans as TDRs in regulatory reports
  – Do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, and loan extensions)
  – Should maintain records of the volume of Section 4013 loans; data may be collected for supervisory purposes
  – Should continue to maintain an appropriate allowance for loan and lease losses or allowance for credit losses, as applicable

• For most recent information on reporting requirements for Section 4013 loans, refer to Supplemental Instructions to the Call Report available on the Federal Financial Institutions Examination Council’s website.
Interagency Statement – Accounting for Loan Modifications

• Under the interagency statement:
  – Institutions may presume that short-term modifications made to borrowers affected by COVID-19 that are current on payments are NOT experiencing financial difficulties for purposes of determining TDR status.
  – If modification is performed as part of a program, no further TDR analysis is required for each loan modification in the program.

• Criteria:
  – Short-term (e.g., six months) modifications made on a good-faith basis in response to COVID-19.
  – Borrowers were current prior to any relief, i.e., less than 30 days past due on their contractual payments at the time a modification program was implemented.
Risk Management and Regulatory Risk Rating

• Regulatory risk rating or classification is a separate and distinct decision from the TDR determination.
• Regulatory risk ratings remain governed by all existing guidance and policies for determining creditworthiness of borrowers.
• The agencies’ examiners will exercise judgment in reviewing loan modifications and will not automatically adversely risk rate credits that are affected by COVID-19.
• Regardless of whether modifications result in loans that are considered TDRs, Section 4013 loans, or are adversely classified, agency examiners will not criticize prudent efforts to modify the terms on existing loans to affected customers.
Polling Question

Does your financial institution plan to elect to account for an eligible loan modification under Section 4013 of the CARES Act?

1. Yes
2. No
3. Have not decided
Questions and Answers (Q&A)
CARES Act

1. Application: Does the institution have to elect Section 4013 on an entity-wide basis, or may an institution elect Section 4013 on a loan-by-loan basis?

2. Accounting and regulatory reporting: If elected, how should the institution treat Section 4013 loans for accounting and regulatory reporting purposes?
Accounting for loan modifications not under Section 4013

3. **Application:** Is the TDR guidance provided in the interagency statement limited to COVID-19?

4. **Short-term modifications:** The interagency statement refers to short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment as insignificant. Is this meant to provide guidance on what delays in payments the agencies consider “insignificant” as used in ASC Subtopic 310-40?
Accounting for loan modifications not under Section 4013

5. **Short-term modification:** Six months is provided as an example of a short-term modification. Is six months considered short-term for all loan products, assuming the borrower was current at the time of loan modification and the modification is due to COVID-19?

6. **Modification program:** How should the institution determine whether a borrower is current for purposes of applying the interagency guidance (i.e., what is the definition of the term “at the time a modification program is implemented”)?
General

7. **Modification program:** If a borrower is granted a six-month payment deferral, may an institution add six months to the maturity date of the loan, or must the borrower have to catch up on missed payments over any specific period (e.g., the contractual life of the loan)?

8. **Modification program:** Can the institution create a blanket loan modification program for an entire portfolio of loans?
Q&A (Continued)

General

9. **Credit risk rating:** Are loans with loan modifications accounted for under Section 4013 or the interagency statement subject to credit risk rating requirements?

10. **Related to COVID-19:** Certain industry sectors may be adversely impacted by COVID-19, as well as other market or industry events. For example, in the energy sector, the impact of lower oil and gas prices may be exacerbated by the broader effects of COVID-19. Is it necessary to determine whether loan modifications are made predominantly in response to COVID-19?
General

11. **TDR determination:** For a loan modification in which the borrower is current on payments but the loan has a substandard risk rating, may the institution presume the borrower is not experiencing financial difficulty and, therefore, is not required to evaluate whether the modification is a TDR?
General

12. **Subsequent modifications:** Would a second modification executed during the applicable period on a Section 4013 loan continue to be eligible under Section 4013?

13. **Subsequent modifications:** An institution modifies a loan by offering a short-term modification that is not accounted for as a TDR as it meets the criteria in the interagency statement. After the modification period ends the borrower is unable to resume repayment of the loan. A second loan modification is offered to the borrower. May the institution continue to apply the guidance in the interagency statement to the loan and exclude the second modification from evaluation as a TDR?
14. **Allowance:** Should institutions maintain an appropriate allowance for loan and lease losses or allowance for credit losses, as applicable, on modified loans that are not accounted for as TDRs as a result of Section 4013 or the interagency statement?

15. **New funds:** An institution extends a short-term loan modification to a borrower that is current on payments and affected by COVID-19. Concurrent with the short-term modification, the institution also lends funds to the borrower under the Paycheck Protection Program. May the institution apply the guidance in the interagency statement and conclude that the modification is not a TDR?
General

16. **Interest income:** How should institutions account for interest income on a modified loan that is not accounted for as a TDR as a result of Section 4013 of the CARES Act or the interagency statement if the interest due on payments has been deferred?

17. **Capitalization of interest:** What is the position of the regulators on capitalizing interest on deferred payments offered to the borrower?
Q&A (Continued)

General

18. **Nonaccrual status:** Should the modified loans that are not accounted as TDRs as a result of Section 4013 or the interagency statement be reported on nonaccrual status in regulatory reports?
Available Resources

- 4/7/2020 Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)
- FASB Statement on Prudential Regulator Guidance Concerning Troubled Debt Restructurings
- Coronavirus (COVID-19): Information for Federally Insured Credit Unions and Members
- Federal Reserve COVID-19 Supervisory and Regulatory FAQs
- FDIC Frequently Asked Questions for Financial Institutions Affected by the Coronavirus Disease 2019
Available Resources (Continued)

- Consolidated Report of Condition and Income (Call Report) Instructions
- Quarterly Call Report Supplemental Instructions
- March 2020 FR Y-9C Supplemental Instructions Combined with CARES Act
- ASC 310-40 Receivables – Troubled Debt Restructurings by Creditor
- ASC 326-20 Financial Instruments – Credit Losses - Measured at Amortized Costs (For those who have adopted ASU 2016-13)
Acronyms/Abbreviations

- ASC: Accounting Standards Codification
- CARES Act: Coronavirus Aid, Relief, and Economic Security Act
- Interagency statement: April 7, 2020 Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)
- National Emergency: presidentially declared emergency declared on March 13, 2020
- Section 4013: Section 4013 of the CARES Act, Temporary Relief from Troubled Debt Restructurings
- TDR: troubled debt restructuring
To Ask a Question

- Email your question to: asktheregulators@stls.frb.org.
- Use the “Ask Question” button in the webinar tool.

Thanks for joining us.