

# RESCINDED

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## Troubled Debt Restructurings: Supervisory Guidance on Accounting and Reporting Requirements

Replaced - For more recent information, refer to the *Bank Accounting Advisory Series* and OCC Bulletin 2023-23, "Credit Administration: Final Interagency Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts"

To

Chief Executive Officers of All National Banks and Federal Savings Associations, Department and Division Heads, and All Examining Personnel

### Purpose

The Office of the Comptroller of the Currency (OCC) is issuing this bulletin to national banks and federal savings associations (collectively, banks) to address many inquiries received from bankers and examiners on the accounting and reporting requirements for troubled debt restructurings (a TDR), especially related to loan renewals and extensions of substandard commercial loans.

The accounting standards for TDRs are set forth in Accounting Standards Codification (ASC) Subtopic 310-40, "Receivables—Troubled Debt Restructurings by Creditors." The following standards are discussed throughout this bulletin with the former references also listed here for your convenience.

Accounting Standards Codification (ASC) Reference	Former Financial Accounting Standard (FAS)
ASC 450-20, <i>Loss Contingencies</i>	FAS 5, <i>Accounting for Contingencies</i>
ASC 310-10, <i>Receivables</i>	FAS 114, <i>Accounting by Creditors for an Impairment of a Loan</i>
ASC 310-40, <i>Troubled Debt Restructurings by Creditors</i>	FAS 15, <i>Accounting by Debtors and Creditors for Troubled Debt Restructurings</i>

Banks are reminded of the clarification issued by the FASB in Accounting Standards Update (ASU) No. 2011-02, "Receivables: A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring."<sup>[1](#)</sup>

The supplemental call report instructions<sup>[2](#)</sup> provide additional guidance on TDRs, including application of the ASU.

## Background

Determining whether a loan renewal, extension, workout, or other modification constitutes a TDR is particularly challenging during times of economic stress. This is especially true for loans classified as substandard<sup>[3](#)</sup> for which the criteria for placement in nonaccrual status had not been met at or before the time of modification. This bulletin focuses on factors to consider when evaluating loans for TDR designation and considerations for the appropriateness of accrual status and impairment analyses. The information contained in this bulletin does not constitute new policy but serves as a refresher of the relevant concepts for evaluating whether a loan modification represents a TDR and the appropriate related reporting for call report purposes.<sup>[4](#)</sup>

**I. All substandard loans on accrual status that are renewed, extended, or otherwise modified are not *automatically* considered to be TDRs.**

There is a strong presumption that a borrower is experiencing financial difficulties if his or her loan is graded substandard because by definition these loans have well-defined weaknesses. When renewing or modifying loans, including substandard, accruing loans, the bank must perform a documented analysis that illustrates whether the borrower is suffering financial difficulties and if the bank granted a concession that it would not otherwise consider as a result of the borrower's financial difficulties. Documentation for renewals, extensions or modifications that are determined not to be TDRs should be robust given the presumption that a substandard borrower is experiencing financial difficulties.

- If a bank does not perform additional underwriting when it renews a substandard, accruing loan, there is no change in the loan pricing,<sup>5</sup> or the pricing has not been adjusted before the renewal to be commensurate with the risk, and the borrower provides no additional consideration to compensate for the increased risk due to the borrower's financial difficulties, the renewal is presumed to be a TDR.
- If, after additional underwriting, a bank modifies the terms of a substandard, accruing loan and takes additional measures at the time of renewal to reduce the risk associated with the loan (such as adding collateral, new guarantors with the ability and willingness to repay the loan balance, or other risk mitigants) or adjusts pricing to compensate for the additional risk, the renewal may not be a TDR. An analysis of all facts and circumstances associated with the loan must be completed to determine whether a renewal or extension is a TDR.

This position is consistent with the TDR guidance in ASU 2011-02. The following paragraphs from that update provide additional perspective.

*310-40-15-14. A creditor may restructure a debt in exchange for additional collateral or guarantees from the debtor. In that situation, a creditor has granted a concession when the nature and amount of that additional collateral or guarantees received as part of a restructuring do not serve as adequate compensation for other terms of the restructuring. When additional guarantees are received in a restructuring, an entity shall evaluate both a guarantor's ability and its willingness to pay the balance owed.*

*310-40-15-15. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession. In that situation, a creditor shall consider all aspects of the restructuring in determining whether it has granted a concession.*

**II. Renewals, extensions, or modifications deemed to be TDRs must be evaluated for the appropriate impairment measurement under ASC Subtopic 310-10 to ensure that the allowance for loan and lease losses (ALLL) and accrual status are appropriate and consistent with call report instructions.**

### **Accrual Status**

When a loan undergoes a TDR, the determination of the loan's accrual versus nonaccrual status following the modification depends on several factors. As with the risk rating process, the accrual status decision for such a loan is a separate and distinct process from the loan's TDR analysis and determination. In accordance with call report instructions, once the loan is restructured, a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment must be performed to assess the likelihood that all principal and interest payments required under the terms of the *modified* agreement will be collected in full. Bank management should consider the following in determining the accrual status of restructured loans:

- If the loan was appropriately on accrual status prior to the restructuring, the borrower has demonstrated performance under the previous terms, and the bank's credit evaluation shows the borrower's capacity to continue to perform under the restructured terms (both principal and interest payments), it is likely that the appropriate conclusion is for the loan to remain on accrual at the time of the restructuring. This evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan was restructured. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents.
- If the loan was on nonaccrual status before the restructuring, but the bank's credit evaluation shows the borrower's capacity to meet the restructured terms, the loan would likely remain as nonaccrual until the borrower has demonstrated a reasonable period of sustained repayment performance. As noted above, this period generally would be at least six months (thereby providing reasonable assurance as to the ultimate collection of principal and interest in full under the modified terms). Sustained performance before the restructuring may be taken into account.

## Impairment Measurement

Loans that have undergone "troubled debt restructurings" are evaluated for impairment under ASC Subtopic 310–10. This includes loans that, before their restructuring, were not individually evaluated under ASC Subtopic 310–10 but were part of a pool evaluated in accordance with ASC Subtopic 450–20 (formerly known as FASB Statement No. 5). Although these loans will likely have an associated ALLL after their restructuring, this does not mean that all TDRs must be placed on or remain on nonaccrual. If a TDR meets the guidance above, it is eligible for accrual status either at the time of the restructuring or at a later date. When a loan not previously considered individually impaired is restructured and determined to be a TDR—absent a partial charge-off<sup>6</sup> for the portion of the loan identified as uncollectible at the time of the restructuring—it generally is not appropriate for the

impairment estimate on the loan to decline as a result of the change from the impairment measurement method prescribed in ASC Subtopic 450–20 to the methods prescribed in ASC Subtopic 310–10.

Following ASC Subtopic 310–10 and the call report instructions, if a loan that has undergone a TDR is not collateral dependent, impairment should be measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate (i.e., the present value method) or the loan's observable market price. For call report purposes, if the loan is collateral dependent (repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment), impairment should be measured using the fair value of the collateral less costs to sell if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan.

Impairment measurement for an individual TDR under ASC Subtopic 310–10 should consider all available information reflecting past events, including the charge-off history for similar types of loans included in the bank's ASC Subtopic 450–20 impairment estimate. Additionally, current conditions should be considered when the bank is developing the impairment estimate using the measurement method appropriate to the individual TDR (present value of expected future cash flows, fair value of collateral or observable market price). All available information would take into account existing "environmental" factors (e.g., industry, geographical, economic, and political factors) that are relevant and affect the collectability of the loan.

When calculating expected future cash flows for individual TDRs, an institution should consider whether it would be appropriate to use default and prepayment assumptions that would be relevant to an aggregated pool of loans with similar risk characteristics when individual cash flows are difficult to forecast. The objective of such a calculation is to provide a best estimate—at the individual loan level—of the expected cash flows. The bank's calculation should reflect that uncertainty about the timing and amount of cash flows of a TDR (due to the financial difficulties of the borrower) continues to exist following the modification.

Consistent with ASC Subtopic 310-10, TDRs may be aggregated and measured for impairment with other impaired loans that share common risk characteristics by using historical statistics, such as average recovery period and average amount recovered, along with a composite effective interest rate. However, the outcome of such an aggregation approach must be consistent with and should result in an impairment measurement similar to that which is prescribed in ASC Subtopic 310-10 for loans that are individually considered impaired.

### III. Once a TDR, always a TDR?

Generally, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported as a TDR. However, the reporting (disclosure) of a loan as a TDR is a separate analysis from whether the modification must continue to be evaluated under ASC Subtopic 310-10.

A loan that is a TDR that has an interest rate consistent with market rates at the time of restructuring (for example, the A note in an A/B note split structure) and is in compliance with its modified terms need not continue to be reported (disclosed) as a TDR in calendar years after the year in which the restructuring took place, in accordance with ASC Subtopics 310-10-50-15(a) and 310-10-50-15(c). To be considered in compliance with its modified terms for call report purposes, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due under the modified repayment terms. While loans meeting these conditions need not continue to be disclosed as TDRs in the call report in years after restructuring, the loans will continue to be deemed an impaired loan and must be evaluated under ASC Subtopic 310-10, as discussed above.

### Additional Considerations

Banks should clearly document their policies and procedures for identifying and reviewing potential TDRs. For example, the procedures should address the process for flagging a modified or renewed loan for review, considering the factors to assess TDR status, and designating responsibility for the TDR decision. Banks should also clearly document and support the facts and circumstances analyzed for each modification or renewal and the conclusion reached.

The "Policy Statement on Prudent Commercial Real Estate Workouts" and the *Bank Accounting Advisory Series* include guidance about TDRs that may be helpful in considering whether a loan modification or renewal is a TDR.<sup>7</sup>

#### **IV. How will loans designated as TDRs be analyzed?**

A common question from examiners, bankers, and other users of financial statements and call reports is how to evaluate the credit risk of loan modifications that are determined to be TDRs (i.e., do all TDRs have higher credit risk than non-TDR loans?) The answer may vary, so it is important not to rely on the TDR designation as the best indicator of the degree of credit risk in a loan. Consideration should be given to the TDR disclosures in the call report, which distinguish between those TDRs on accrual status and in compliance with their modified terms (included in Schedule RC-C, Part I, Memorandum Item 1) and those TDRs on nonaccrual and/or not in compliance with their modified terms (Schedule RC-N, Memorandum Item 1). This latter memorandum item is a subset of the past-due and nonaccrual loans reported in the body of Schedule RC-N and should not be double counted when analyzing the data in this schedule.

#### **Additional Information**



If you have questions, please contact your supervisory office, the Office of the Chief Accountant at (202) 649-6280, or the Credit and Market Risk Department at (202) 649-6360.

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<sup>1</sup> This became effective in the third quarter of 2011 for public banks and in the first quarter of 2012 for calendar year-end nonpublic banks. The ASU provides additional guidance to help creditors determine if the two TDR criteria have been met: (1) whether a concession has been granted to a borrower and (2) whether a borrower is experiencing financial difficulties.

<sup>2</sup> [www.fdic.gov/news/news/financial/2011/fil11077a.pdf](http://www.fdic.gov/news/news/financial/2011/fil11077a.pdf)

<sup>3</sup> Under the agencies' regulatory classification guidelines, "substandard" assets are defined as assets that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

<sup>4</sup> The call report instructions contain certain specific reporting guidance that falls within the range of acceptable practice under generally accepted accounting principles (GAAP). These instructions have been adopted to achieve safety and soundness and other public policy objectives and to ensure comparability. Current call reporting instructions providing such specific reporting guidance related to loans include the nonaccrual rules, the treatment of impaired collateral dependent loans, and the allowance for loan and lease losses (ALLL), which references the 2006 Interagency Policy statement on the ALLL, available at [www.occ.gov/news-issuances/bulletins/2006/bulletin-2006-47a.pdf](http://www.occ.gov/news-issuances/bulletins/2006/bulletin-2006-47a.pdf).

<sup>5</sup> For example, an interest rate of 5 percent recently provided to a good quality borrower is not a market rate of interest for a borrower rated substandard as the rate must be commensurate with the credit risk of the borrower.

<sup>6</sup> In general, any portion of the recorded investment in an impaired collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.

<sup>7</sup> The "Policy Statement on Prudent Commercial Real Estate Loan Workouts" can be found at [www.occ.gov/news-issuances/bulletins/2009/bulletin-2009-128a.pdf](http://www.occ.gov/news-issuances/bulletins/2009/bulletin-2009-128a.pdf). The Bank Accounting Advisory Series can be found at [www.occ.gov/topics/bank-operations/accounting/index-accounting.html](http://www.occ.gov/topics/bank-operations/accounting/index-accounting.html).

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