

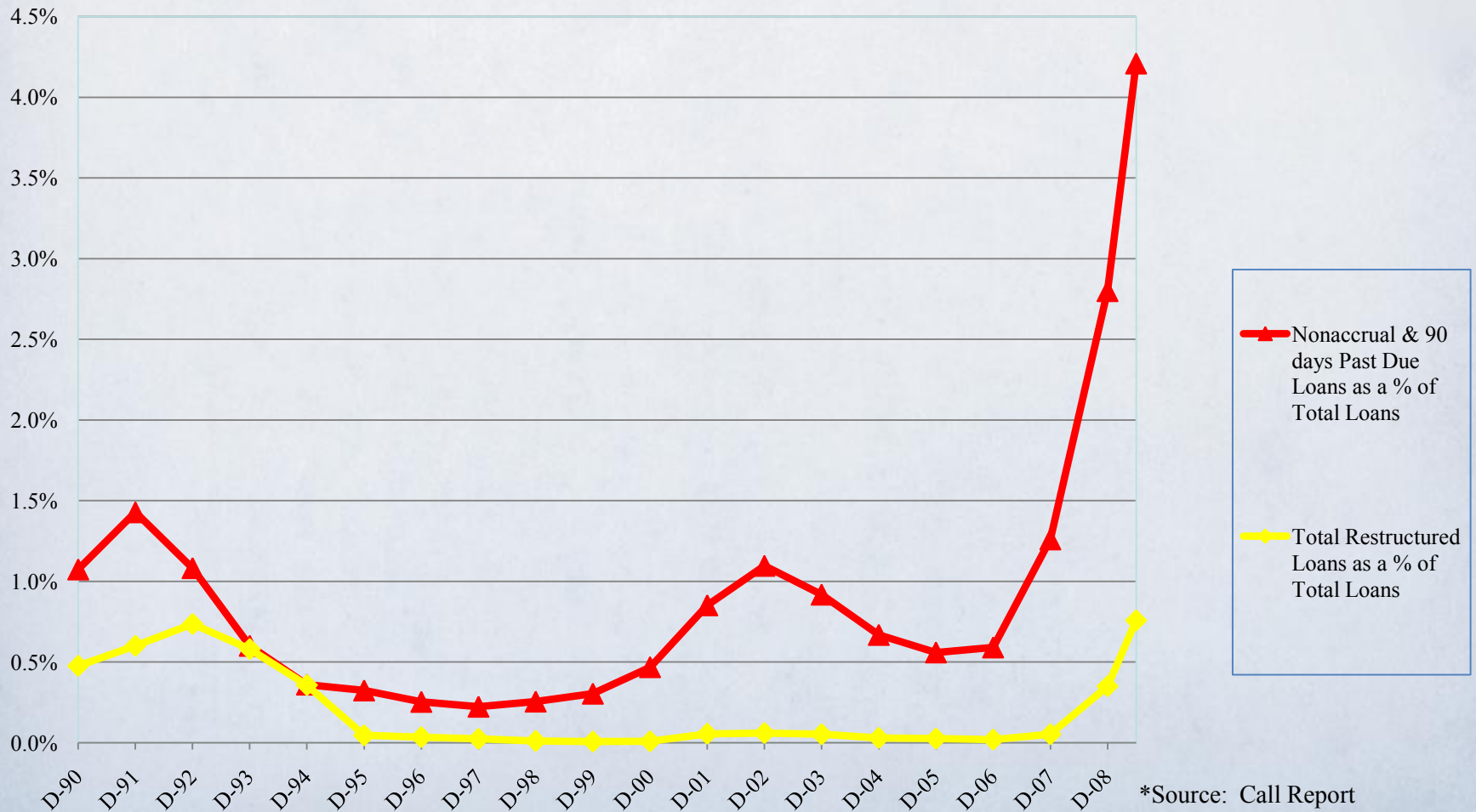
# Troubled Debt

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# Trends: Nonperforming and Restructured Loans



\*Source: Call Report

# Troubled Debt Restructurings\*

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- The creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider
- Measure impairment using FASB's ASC 310-10-35 (Formerly known as FAS No. 114):
  - measurement based on expected cash flows (can use FV of the collateral or market price of loan, if appropriate)
  - cash flow estimates should consider potential for default and environmental factors – should not be optimistic
- Nonaccrual and reporting implications
  - needs a track record before placing on accrual basis
  - can stop reporting after calendar year (if PAA and market rate)

\*Guidance formerly in FAS No. 15, now known as FASB's ASC 310-40, *Receivables-Troubled Debt Restructurings by Lenders*, and FASB's ASC 470-60, *Debt – Troubled Debt Restructurings by Borrowers*

# Recent/New TDR Guidance

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- AICPA's center for audit quality's *Application of SFAS 114 to Modifications of Residential Mortgage Loans that Qualify as Troubled Debt Restructuring*, December 2008  
([http://www.thecaq.org/newsroom/pdfs/FAS114\\_LoanModifications.pdf](http://www.thecaq.org/newsroom/pdfs/FAS114_LoanModifications.pdf))
- Interagency project on commercial real estate loans – guidance related to:
  - classification
  - TDR
  - accrual/nonaccrual



# Common Myths about TDRs

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- Modified consumer loans do not have to be reported as TDRs
- Temporarily modified loans (< 12 months) do not have to be reported as TDRs
- TDR rules not applied to substitute borrowers
- TDR impairment in the ALLL (never a c/o)
- TDRs complying with new terms do not need to be reported after one year – irrespective of effective interest rate