

# NCUA Accounting Bulletin



NO. 13-1

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## SENT VIA ELECTRONIC MAIL

**PURPOSE.** This Bulletin transmits the enclosed, *Interagency Supervisory Guidance Addressing Certain Issues Related To Troubled Debt Restructurings* (the Interagency Guidance). NCUA encourages credit unions to work constructively with borrowers and view prudent restructurings as positive actions when they mitigate credit risk. When conducted in a prudent manner, the restructuring of loans in the best interests of both the credit union and the borrower can lead to improved loan performance and reduced credit risk.

This guidance complements and is consistent with recently revised 12 CFR Part 741 and new Appendix C; as well as Letter to Credit Unions No. 13-CU-03 (April 2013) which transmitted Supervisory Letter No. 13-02 (March 2013), *Examiner Review of Loan Workouts and Nonaccrual*.

**APPLICABILITY.** This guidance applies to all federally-insured credit unions.

**POLICY.** Please refer to the enclosed Interagency Guidance. Key policy messages reiterated from previously issued regulatory guidance:

- Recaps nonaccrual guidance set forth in 12 CFR 741.3(b)(2) and Appendix C to Part 741).
- Describes sound credit risk grading practices.
- Revisits the GAAP definition of collateral-dependent and the related impairment measurement principles.
- Describes permissible capitalized costs.
- Discusses the timing of restructurings, e.g., before a payment reset date.

**BACKGROUND.** The Interagency Guidance reiterates key aspects of previously issued regulatory guidance related to the accounting and accrual treatment of member business and residential real estate loans that have undergone troubled debt restructurings (TDR). It provides clarification of the definition of collateral-dependent loans and the circumstances under which impairment and a charge-off is required for TDRs to ensure consistent treatment across financial institutions.

This guidance is consistent with the October 2009 interagency *Policy Statement on Prudent Commercial Real Estate Loan Workouts* and U.S. generally accepted accounting principles (GAAP). The principal source of guidance on accounting for TDRs under GAAP is Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*. The 5300 Call Report includes revised schedules and instructions, including guidance related to TDRs, beginning with the quarter that ended December 31, 2012.

**EFFECTIVE DATE.** This Accounting Bulletin is effective upon issuance.

**EXPIRATION DATE.** This Bulletin will expire when superseded or when the guidance is incorporated in agency Manuals.



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Enclosure

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