

# Loan Modifications

December 8, 2020

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# Today's Session

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# Meet your Presenters



**Todd Sprang**

Todd is a principal in the firm's Oak Brook, Illinois office and has more than 20 years of principal-level experience performing audit and consulting services for a variety of clients in the financial services industry. His clients in this dynamic industry include banks, credit unions, mutual funds, hedge funds, trust companies, mortgage companies and unit investment trusts.



**Scott Klitsch**

Scott is a principal in the firm's national assurance technical group and responsible for the quality of the financial institutions group. Scott has over 15 years of experience with auditing and accounting services of financial institutions of all sizes.



**Brittany Stern**

Brittany is a manager in the firm's Baltimore, Maryland office. With more than ten years of experience providing audit and accounting services to financial institutions. In addition for performing financial statement audits for institutions ranging in total assets from \$10 million to \$40 billion, she has also performed engagements designed to test the adequacy of loan documentation and reserves and outsourced internal audits.



# Learning Objectives

- Outline the interagency guidance and CARES Act Section 4013 guidance
- Describe the impact of multiple loan modifications
- State the considerations for credit risk ratings, the ALLL, and problem loan management



# Polling Question



**Which guidance did your institution follow for to COVID-19 related loan modifications or deferments?**

- Section 4013 of the CARES Act
- Interagency Guidance
- Both
- Unsure



# Loan Modifications

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# Section 4013 of CARES Act vs. Interagency Guidance

	Section 4013 of the Cares Act	Revised Interagency Guidance
<b>Modifications terms allowed (safety and soundness principles still apply)</b>	Applies only to the following modifications: forbearance agreements, interest rate modifications, repayment plans, or other arrangements that defer/delay principal and interest payments	Applies only to the following modifications made due to the COVID-19 pandemic: short-term modifications, such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant under ASC 310-40, government-mandated programs
<b>Evaluation date of whether borrower was current (&lt; 30 days past due)**</b>	May apply to borrowers not more than 30 days past due at December 31, 2019	Applies on the date that a financial institution implemented a modification program for borrowers less than 30 days past due
<b>Time period when the modification occurs**</b>	Applicable period began on March 1, 2020, and ends on the earlier of December 31, 2020, or 60 days after the termination date of the presidential national emergency	Applicable period not specified but is expected to be temporary
<b>Duration of non-TDR designation</b>	Remaining life of the loan — subsequent modifications must be evaluated if they are not also eligible under the criteria	Remaining life of the loan — subsequent modifications must be re-evaluated

**\*\* Monitor for potential extensions and revisions**





# For Example...

- Borrower A has a commercial loan and has never missed a payment
- In April 2020, Borrower A's business experienced a disruption of income due to COVID-19
  - Institution granted a 6 month payment deferral, stating on May 1, 2020.
  - Initially, the institution considered this modified under the interagency guidance
- Fast forward to November 1, 2020
  - Borrower A is still experiencing financial difficulty related to COVID-19
  - Borrower A requests an additional 6-month deferral



# Polling Question

Should the institution consider this loan a TDR?



# It Depends on the Guidance Followed

## Under Section 4013

- Granted prior to December 31, 2020
- NOT A TDR

## Under Interagency Guidance

- Exceeded 6 Month Deferral Window
- The institution should assess the loan under the TDR guidance in Current U.S. GAAP, including assessing for a valuation impairment

# Multiple Loan Modifications



- Institutions can change the guidance used between modifications
- Use the additional communication for borrowers to gain updated financial information, including cash flow
- Update risk ratings, if applicable



## Other Considerations

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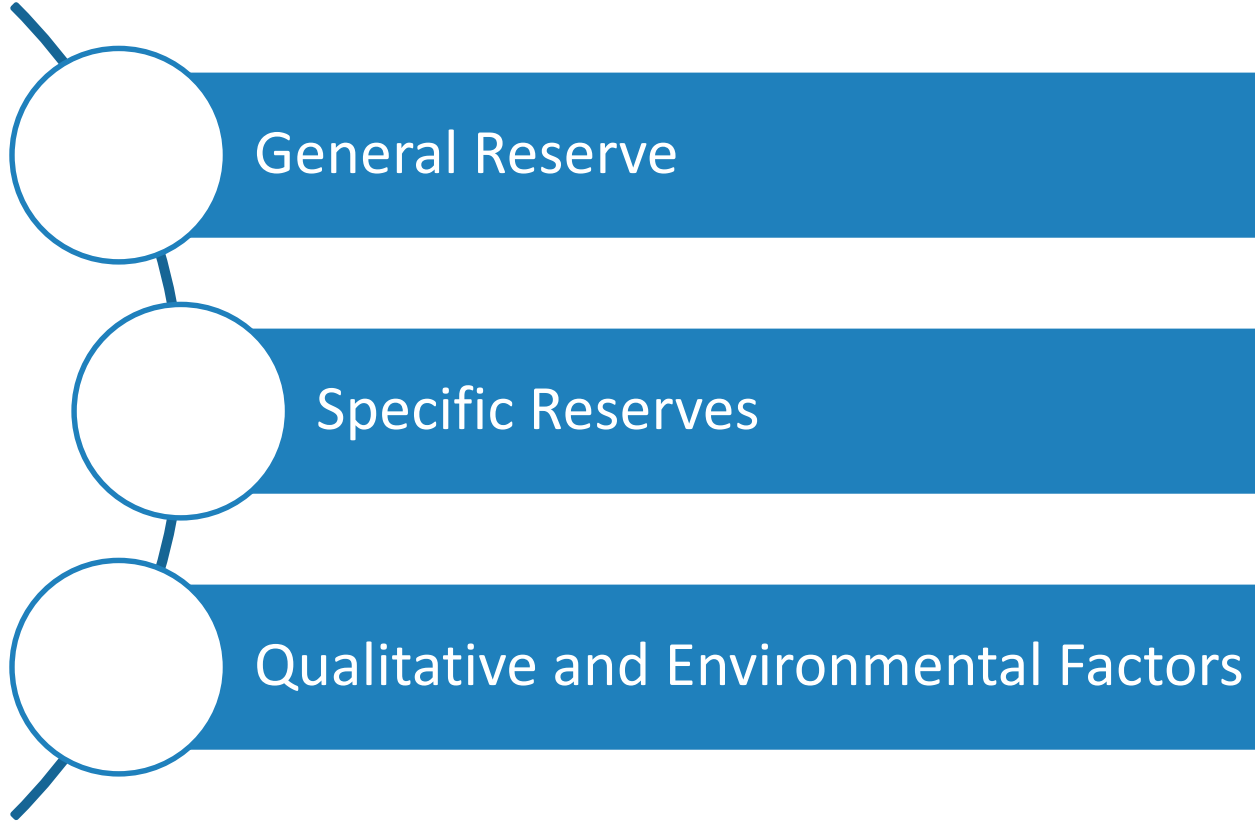
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## Polling Question

Has your institution applied additional loan loss reserves related to COVID-19?



# Allowance for Loan Losses





# ALLL – Qualitative and Environmental Factors

## Related to Loan Modifications

- Options
  - Pool loans currently under modification and apply an ALLL factor
  - Q&E Factor added based on modifications made
- Consider – number of modifications (% of portfolio), loan types, default rate on return.

## Economic Factors

- Document considerations of other economic factors
  - Unemployment rates in the local area in which it operates
  - Real estate values, including both residential and commercial
  - Local government mandates, such as capacity limits for businesses or executive orders halting repossession or foreclosure
  - Ongoing shutdowns of certain businesses or reductions in capacity



# Accrued Interest

- FASB Requirements for Non-Accrual Status
  - 90 days delinquent OR
  - When it is determined the outstanding principal and accrued interest will not be fully collectible
- Use updated financial information to determine this collectability, including cash flow



# Key Insights

- Consider providing additional loan accommodations to borrowers before December 31, 2020, if the modification qualifies under Section 4013 of the CARES Act.
- Continue to monitor and manage credit risk in a prudent manner and in accordance with applicable laws and safety and soundness principles.
- Even if the loan accommodations granted are not considered troubled debt restructuring, the allowance for loan and lease losses should still document your evaluation of these accommodations and the associated risk.





# How can we help?

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# Thank you!

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