Hot Topic: Coronavirus

Lender accounting for COVID-19 loan modifications

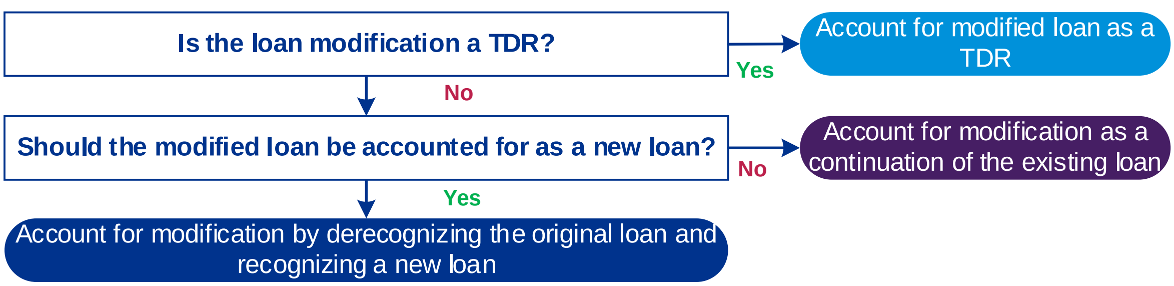
April 2, 2020 (updated June 18, 2020[1])

KPMG highlights lender considerations related to accounting for loan modifications made as a result of COVID-19.

Background and impacts

In consideration of the economic disruption caused by COVID-19, many lenders are providing relief to borrowers through loan modifications. The CARES Act includes an option for financial institutions to suspend the requirements of US GAAP for certain loan modifications. In addition, federal banking regulators issued a joint statement (the Interagency Statement)[2] that includes guidance on determining whether a loan modification is a TDR; that guidance was developed in consultation with the FASB staff, who concurred with the approach.

This Hot Topic summarizes a lender's accounting for modified loans during the COVID-19 pandemic, including consideration of both the CARES Act provisions and the Interagency Statement. The following decision tree summarizes key steps for determining the appropriate accounting treatment for a loan modification.



1 New guidance or significant updates are indicated with **

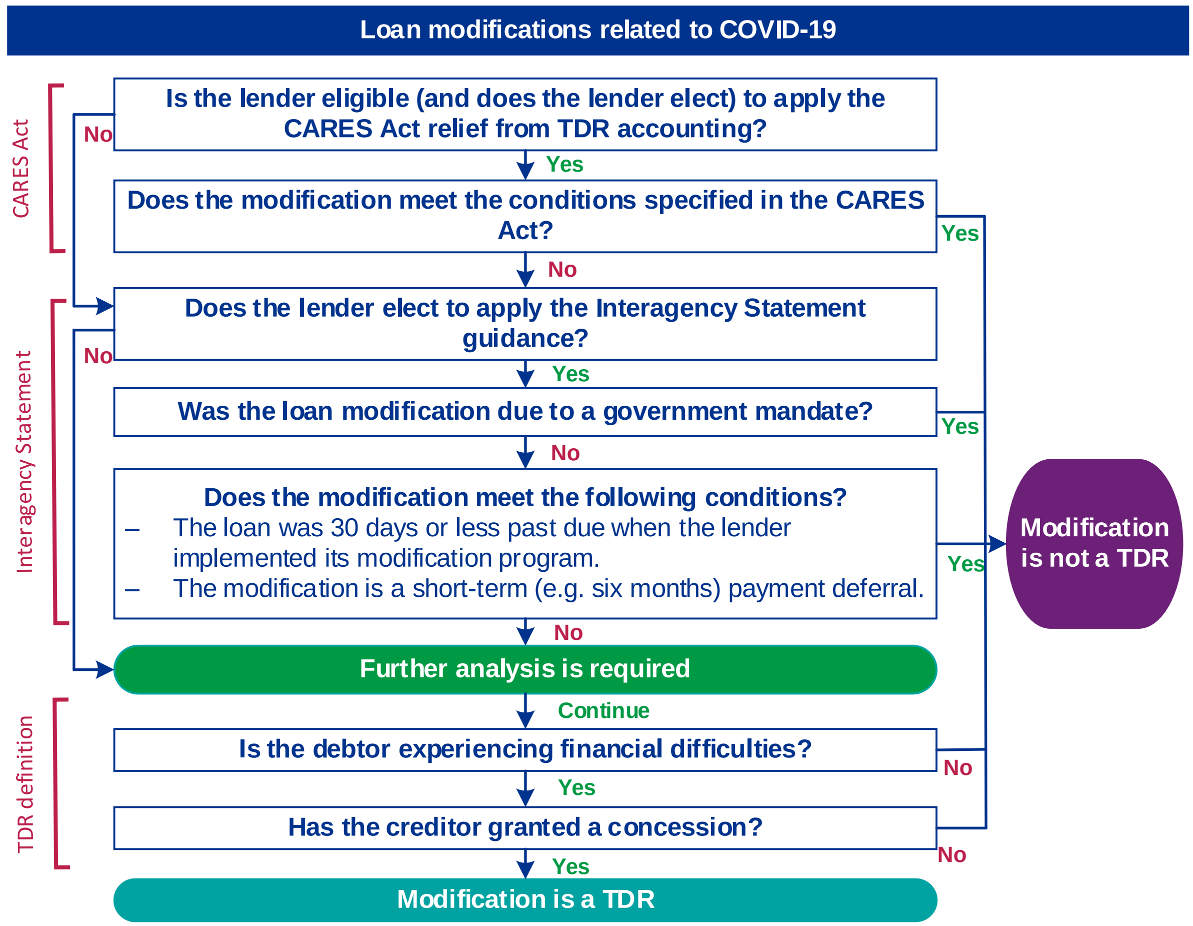
2 The Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus was issued jointly by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB). The Interagency Statement was initially issued on March 22, 2020 and was revised on April 7, 2020.

Whether to account for a loan modification as a TDR

A modification is a TDR when a lender (creditor) grants a concession to a borrower (debtor) for economic or legal reasons related to the borrower's financial difficulties. The following table summarizes considerations for each of these conditions.

Condition	Summary of considerations
Borrower is experiencing financial difficulty	Subtopic 310-40 (receivables – troubled debt restructurings by creditors) provides a list of indicators that a borrower is experiencing financial difficulties. The following are some examples. — The borrower is currently in payment default on any of its debt, or it is probable that – without the modification – the borrower would be in default in the foreseeable future. — The borrower has declared or is in the process of declaring bankruptcy. — Based on the borrower's current capabilities, the lender forecasts that the borrower's cash flows will be insufficient to service any of its debt. — The borrower would be unable to obtain funds from sources other than existing creditors at an effective interest rate (EIR) equal to the current market interest rate for similar debt for a nontroubled borrower.
Lender has granted a concession	A lender considers all changes to the financial asset to determine whether it is granting a concession, including modifying terms to reduce or defer cash payments in the near future. Subtopic 310-40 provides factors to consider, which include, but are not limited to, the following. — As a result of the modification, the lender does not expect to collect all amounts due, including interest accrued at the original contractual rate. — The borrower does not otherwise have access to funds at a market rate for debt with similar characteristics as the restructured loan. A delay in payment that is insignificant is not a concession. Subtopic 310-40 provides the following indicators that a delay in payment is insignificant. — The amount of the restructured payments relative to the loan's unpaid principal or collateral value is insignificant and will result in an insignificant shortfall in the contractual amount due. — The delay in timing of the restructured payments is insignificant relative to the frequency of payments due under the loan, the loan's original contractual maturity, or the loan's original expected duration.

As further explained in the following sections, the CARES Act includes an option for financial institutions to suspend the requirements of US GAAP for certain loan modifications that would otherwise be categorized as a TDR. Additionally, the Interagency Statement guidance allows lenders to conclude that loan modifications meeting certain conditions are not TDRs. The following decision tree summarizes one way a lender might sequence its considerations in determining whether a loan modification related to COVID-19 is a TDR.



CARES Act relief from TDR accounting

The CARES Act includes an option for financial institutions to suspend the requirements of US GAAP for certain loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR. In response, on April 3, 2020, the SEC's Chief Accountant issued a statement that financial statements prepared in accordance with this election would be considered to be prepared in accordance with US GAAP.

Under the CARES Act, a financial institution may elect not to apply TDR accounting to modifications, including forbearance arrangements, interest rate modifications, repayment plans, and any other similar arrangements that defer or delay the payment of principal or interest, that meet the following conditions:

— the modification is related to COVID-19 (i.e. the relief does not apply to any adverse impact on the credit of a borrower that is not related to the COVID-19 pandemic);
— the modified loan was not more than 30 days past due on December 31, 2019; and
— the modification was executed between March 1, 2020 and the earlier of (a) 60 days after the date the COVID-19 national emergency comes to an end or (b) December 31, 2020.

Interagency Statement guidance on certain loan modifications

The Interagency Statement includes the following guidance on loan modifications for borrowers affected by COVID-19, which was developed in consultation with the FASB staff. We believe the guidance is an acceptable interpretation of Subtopic 310-40. As a result, it may be applied by all lenders, including those not subject to regulation by the banking regulators that jointly issued the Interagency Statement.

Type of programs	Guidance	Observations**
Bank program for short-term modifications	Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This specifically includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms or other delays in payment that are insignificant. Under the guidance, borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.	**Other facts and circumstances.** We believe this guidance should not be applied to facts and circumstances other than those described in the Interagency Statement. For example, it should not be applied by analogy to: — a loan modification that was not in response to COVID-19; — a loan that was not current when the modification program was implemented; — a loan modification that involved forgiveness of principal; — a loan modification that involved a payment delay or reduction of interest that is not short-term (e.g. six months or less). In those examples, additional analysis would be required to determine whether the modification is a TDR. **Multiple modifications****. When evaluating whether a modification is short-term, a lender collectively evaluates the length of all modifications made to that loan. For example, assume a lender agreed in April 2020 to defer payments on a loan for 3 months for a borrower affected by COVID-19. If the lender agrees in July 2020 to defer payments for an additional 6 months, the combined length of deferrals is 9 months. As a result, the second modification would not be within the Interagency Statement guidance because the deferral would not be considered short-term; rather, additional analysis of the guidance in Subtopic 310-40 would be required to determine whether the modification is a TDR.
Government-mandated program	Modification or deferral programs mandated by the federal or a state government related to COVID-19 are not in the scope of Subtopic 310-40 – e.g. a state program that requires all institutions within that state to suspend	We believe a lender is not required to evaluate whether a modification or deferral made in response to a government mandate related to COVID-19 represents a TDR regardless of the extent or terms of the modification.

Type of programs	Guidance	Observations**
	mortgage payments for a specified period.	

Individual (rather than program-based) loan modifications. Some lenders have engaged in broad programs or strategies that, by design, provide specific types of modifications to borrowers under defined conditions. Historically, these programs have been more common for mortgage and consumer loan modifications, although not all lenders have engaged in broad programs. Further, it has historically been more common for commercial loan modifications to be evaluated on an individual basis rather than on a program basis.

When a loan modification related to COVID-19 is made based on an individual evaluation rather than under a broad modification program, we believe the lender that applies the guidance in the Interagency Statement would evaluate whether the loan was current on the modification date. That is, if a loan modification is not part of a broader modification program, but is related to COVID-19 and is short-term, and the loan is current on the modification date, the lender may conclude the modification is not a TDR.

However, we believe that this guidance should not be used to circumvent the requirement in the Interagency Statement that the loan be current on the date that a modification program is implemented. For example, if a lender has implemented a broad modification program, and the loan was not current as of the date that the modification program was implemented, we believe it would be ineligible to apply the guidance in the Interagency Statement even if the loan was current at the date of modification.

Comparison of CARES Act relief and Interagency Statement guidance

The following table compares the provisions of the CARES Act to the guidance in the Interagency Statement.

CARES Act relief	Interagency Statement – Bank programs for short-term modifications that are not government-mandated[3]
Eligible entities	
Applies only to financial institutions. The CARES Act does not provide a definition of financial institution.	Not addressed. However, as indicated in *Interagency Statement guidance for certain modifications* section above, we believe all lenders may apply the guidance.
Loan modification conditions (all must be met)	
The borrower has been adversely impacted by COVID-19.	Modification is made in response to COVID-19.
The loan was not more than 30 days past due on December 31, 2019.	The loan was 30 days or less past due when the modification program was implemented by the lender.
The modification was executed between March 1, 2020 and the earlier of (a) 60 days after the date the COVID-19 national emergency comes to an end or (b) December 31, 2020.	Not addressed. However, as the impact of the pandemic decreases, it will become increasingly more difficult for a lender to assert a modification was related to COVID-19.

[3] In addition to bank programs for short-term modifications, the Interagency Guidance states that modification or deferral programs mandated by the federal or a state government related to COVID-19 are not in the scope of Subtopic 310-40.

Applies to any modification, including a forbearance arrangement, an interest rate modification, a repayment plan and any other similar arrangement that defers or delays the payment of principal or interest. It is not clear whether a modification that includes provisions other than those that defer or delay the payment of principal or interest would be eligible. For example, it is not clear whether a modification that reduces interest payments beyond a payment deferral period would be eligible.	Applies to modifications that include a payment deferral, fee waiver, extension of repayment terms or other delay in payment that is insignificant. We believe the guidance would not apply to a modification that includes provisions other than those that defer or delay the payment of principal and/or interest or provide for a short-term waiver of fees. For example, it would not apply to a modification that reduces interest payments beyond a short-term payment deferral period or that includes forgiveness of principal.
There is no limit on the length of the deferral period.	Applies to short-term (e.g. six months) modifications.

Example: Determining whether a loan modification is a TDR

In response to the COVID-19 pandemic, on March 20, 2020, Bank implements a program permitting certain borrowers of single-family residential loans – which have an original contractual maturity of 15 to 30 years – to defer monthly payments for six months. Only borrowers that were adversely impacted by COVID-19 are eligible for the program. Under the program, the maturity date of each loan is extended by six months and the amount of the monthly payment does not change. That is, borrowers will not be charged interest on the unpaid principal during the six-month deferral period.

Bank agrees to modify its loan to John and Jane Smith under the program. The loan had an original term of 15 years, maturing on March 31, 2023, and required equal monthly payments. The Smiths did not make the payment due on March 31, 2020, due to the effects of the COVID-19 national emergency. The loan had not been delinquent before that time (including that it was not more than 30 days past due on December 31, 2019). The loan is modified on April 15, 2020. Under the modification, the Smiths are not required to make the payments due on the last day of each month from March through August 2020. Instead, the Smiths are required to make equal monthly payments (in the same amount as the monthly payments under the original loan) starting on September 30, 2020, with the loan's contractual maturity extended by six months.

Scenario A: Bank elects to apply CARES Act relief from TDR accounting

Bank is eligible to apply the CARES Act because it is financial institution. Based on the provisions of the CARES Act, the loan modification is not accounted for as a TDR because:

— the borrower has been adversely impacted by COVID-19;
— the loan was not more than 30 days past due as of December 31, 2019;
— the modification defers or delays the payment of principal and interest;
— the loan modification was executed on April 15, 2020, which is during the applicable period of the CARES Act.

Scenario B: Bank elects to apply Interagency Statement guidance

Bank evaluates whether the loan modification represents a TDR. Based on the Interagency Statement guidance, the loan modification is not a TDR because:

— the borrower has been adversely impacted by COVID-19; and
— the loan was current on March 20, 2020, the date the Bank's program was implemented; and
— the delay in payments as a result of the modification did not exceed 6 months.

Accounting for a TDR

A TDR is a continuation of an existing loan. Unamortized deferred fees and costs from the original loan are carried forward in the amortized cost basis of the modified loan. Any costs related to the modification are expensed as incurred. The EIR after the modification is based on the original contractual rate rather than the modified contractual rate (if modified); recognition of interest income is subject to the lender's nonaccrual policy. Additionally, Topic 326 (credit losses) provides specific guidance on how credit losses are measured for TDRs. See further guidance about estimating credit losses in KPMG's Handbook, Credit impairment.

Determining whether a modification results in a new loan

The accounting for a modified loan that is not a TDR depends on whether the modification results in recognition of a new loan (with derecognition of the original loan) or continuation of the existing loan based on the guidance in Subtopic 310-20 (receivables – nonrefundable fees and costs).

- **Recognition of new loan:** Unamortized deferred fees and costs associated with the original loan are derecognized. A new loan is recognized and a new EIR is determined for recognizing interest income.
- **Continuation of existing loan:** Unamortized deferred fees and costs are carried forward in the amortized cost basis of the modified loan, along with any new fees received and direct costs associated with the restructuring. The modification results in a prospective adjustment to the EIR used for recognizing interest income; recognition of interest income is subject to the lender's nonaccrual policy.

When the terms of the restructured loan are at least as favorable to the lender as the terms for comparable loans to the lender's other new customers with similar collection risks, the lender accounts for the restructured loan as a new loan. For a restructured loan to be accounted for as a new loan, both of the following conditions must be met.

Condition	Observations
The restructured loan's EIR is at least equal to the EIR for comparable loans to the lender's other new customers with similar collection risks.	In many cases, a lender may be able to determine qualitatively that this condition is not met because of an increase in credit spreads associated with COVID-19. In these cases, the modification is treated as a continuation of the existing loan.
Modifications of the original debt instrument are more than minor, including consideration of: — whether the present value of cash flows has changed by at least 10 percent (the '10% cash flow test'); and — the specific facts and circumstances	In applying the 10% cash flow test, a lender applies the guidance in Subtopic 470-50 (debt – modifications and extinguishments). When either the original or modified loan are prepayable, separate analyses should be performed assuming exercise and nonexercise of the prepayment feature. The analysis that generates the *smallest* change in the present value of cash flows is used for purposes of the 10% cash flow test; if that change is less than 10%, the modification is treated as a continuation of the existing loan. — We believe these analyses should be performed based on the loan's contractual terms (i.e. without consideration of the borrower's financial wherewithal to prepay).

Condition	Observations
surrounding the modification.	— When the terms of *both* the original and modified loan allow a borrower to prepay the loan, the analysis that compares cash flows assuming prepayment generally results in the smallest change in cash flows, and also frequently results in the change in present value being less than 10%. As a result, in practice, many lenders perform this analysis first because they will not need to perform other analyses to conclude that the modification will be accounted for as a continuation of the existing loan.

Recognizing interest income during a payment holiday

As discussed above, a lender determines a new EIR based on the revised contractual terms following a modification that is not accounted for as a TDR, with interest income recognition subject to the lender's nonaccrual policy.

A specific issue arises when the revised contractual terms include a contractual interest rate during the deferral period that is lower than the interest rate charged during the remainder of the loan term, including when no interest is charged during the deferral period. Subtopic 310-20 includes guidance for recognizing interest income when a loan's stated interest rate increases during the loan's term. In that situation, interest income should be recognized only to the extent the loan's carrying amount would not exceed the amount at which the borrower could settle the obligation, including consideration of prepayment penalties. However, it was not clear whether this guidance applies to a loan that, as a result of a modification, charges lower (including no) interest during a payment deferral period.

At its April 8, 2020 meeting, the FASB discussed a technical inquiry received by the FASB staff related to this issue. That inquiry involved a loan modification in which the lender does not charge contractual interest during a 'payment holiday' but that otherwise did not have an increasing rate. The FASB staff indicated that either of the approaches (which are described in the table below) for recognizing interest income during a payment holiday is appropriate. We believe the approach selected should be consistently applied.

	Guidance	Observations
Approach 1	Interest income is not recognized to the extent that the carrying amount of the loan would increase to an amount greater than the amount at which the borrower could settle the loan. If the carrying amount of the loan at the modification date equals or exceeds the amount at which the borrower could settle the loan, no interest income would be recognized during the loan payment holiday. Bank would resume recognizing interest income when the payment holiday ends and the accrual of contractual interest resumes. See Example 1, Scenario A below.	We believe this approach may have the practical effect of accelerating amortization of unamortized fees (or other discounts) during the holiday period. See Example 1, Scenario B, below.

	Guidance	Observations
Approach 2	On modification, a new EIR is calculated in accordance with Subtopic 310-20 and used to recognize interest income prospectively for the entire remaining term, even if that results in the carrying amount of the loan exceeding the amount at which the borrower could settle the loan. As a result, in contrast to Approach 1, interest income is always recognized during the loan payment holiday. See Example 1, Scenario C below.	We believe the lender would generally determine the EIR for a variable rate loan using the effective interest method based on the variable index (e.g. LIBOR) as it changes over the loan's life. Under this approach, a new EIR would be determined each reporting period using an assumption that the variable index in effect at each measurement date (the spot rate) continues for the remaining life of the loan. We believe a lender may not use a forward curve in calculating the EIR for variable rate loans because Subtopic 310-20 does not contemplate using an index other than the spot rate when recognizing interest income.

Example: Recognizing interest income during a payment holiday

Bank has a $1,000,000 prepayable loan that requires monthly interest-only payments at a fixed rate of 5% until it matures on September 30, 2020. In April 2020, Bank agrees to provide a 3-month payment holiday to the borrower during which no interest is charged. The deferred payments are added to the end of the loan term and the maturity date is extended to December 31, 2020. During the payment holiday, the loan is prepayable at its principal amount. Assume in all scenarios that the loan meets the conditions for accruing interest income under Bank's policy, other than consideration of whether interest income should be recognized if that would cause the loan's carrying amount to exceed its principal amount.

Scenario A: Bank applies Approach 1 and the loan's carrying amount at the modification date equals its principal amount

Assume the loan's carrying amount at the modification date is equal to its principal amount (i.e. there are no deferred fees or costs, or discounts or premiums, associated with the loan). In this scenario, Bank does not recognize interest income during the payment holiday. Because the borrower can prepay the loan for its principal amount during the payment holiday, and there are no deferred fees or other discounts included in the loan's carrying amount, any recognition of interest income would cause the loan's carrying amount to exceed the amount at which the borrower could settle it. Therefore, no interest income is recognized during the payment holiday. Instead, Bank commences recognizing interest income at the loan's 5% contractual rate once the payment holiday has ended.

— **April – June (payment holiday)**: Interest income recognized is $0.
— **July – December:** Interest income of $4,167 per month is recognized, equal to the contractual amount due (i.e. $1,000,000 × 5% ÷ 12 months).

Scenario B: Bank applies Approach 1 and the loan's carrying amount at the modification date is less than its principal amount

Assume the loan's carrying amount at the date of the modification is $992,000 due to $8,000 of net unamortized deferred fees; prior to the modification, the loan's EIR was 6.63%. In this scenario, Bank recalculates a new EIR for the modified loan of 5.19% and recognizes interest income prospectively using that EIR. However, the amount of interest income is limited to the amount that would cause the carrying amount to equal the principal amount. Because no contractual interest is being charged on the loan, interest income recognized at the new EIR consists solely of amortization of the deferred fees during the holiday period. In this scenario, this results in amortization of the entire remaining amount of deferred fees during the holiday period after which no interest income is recognized until contractual interest resumes. Further, this results in interest being recognized at the contractual rate once contractual interest resumes.

The following amortization table reflects interest income recognized in each remaining month of the modified loan.

Month	Carrying amount beginning balance	Interest income recognized[1]	Interest payments	Principal payment	Carrying amount ending balance[2]
April	$ 992,000	$4,288	$ 0	$ 0	$ 996,288
May	996,288	3,712	0	0	1,000,000
June	1,000,000	0	0	0	1,000,000
July	1,000,000	4,167	4,167	0	1,000,000
Aug	1,000,000	4,167	4,167	0	1,000,000
Sept	1,000,000	4,167	4,167	0	1,000,000
Oct	1,000,000	4,167	4,167	0	1,000,000
Nov	1,000,000	4,167	4,167	0	1,000,000
Dec	1,000,000	4,167	4,167	1,000,000	$ 0

Notes:

1. Calculated as:

— **April – May:** Carrying amount beginning balance × 5.19% EIR ÷ 12 months; however, this amount is reduced to the extent needed to limit Carrying amount ending balance to $1,000,000.

— **June:** No interest income is recognized because the loan's carrying amount equals its principal amount (i.e. the amount at which the borrower could settle the loan).

— **July – December:** $1,000,000 × 5% contractual rate ÷ 12 months.

2. Carrying amount beginning balance + Interest income recognized – Interest payments – Principal payment.

Scenario C: Bank applies Approach 2 and the loan's carrying amount at the modification date equals its principal amount

Bank recognizes interest income over the remaining term of the loan (as modified) based on a new EIR for the loan of 3.32%, which is the rate that equates the loan's carrying amount at the date of modification ($1,000,000) to contractual amounts due under the loan (as modified). The following amortization table reflects interest income recognized in each remaining month of the modified loan.

Month	Carrying amount beginning balance	Interest income recognized[1]	Interest payments	Principal payment	Carrying amount ending balance[2]
April	$1,000,000	$2,767	$ 0	$ 0	$1,002,767
May	1,002,767	2,774	0	0	1,005,541
June	1,005,541	2,782	0	0	1,008,323
July	1,008,323	2,789	4,167	0	1,006,945
Aug	1,006,945	2,786	4,167	0	1,005,564

Month	Carrying amount beginning balance	Interest income recognized[1]	Interest payments	Principal payment	Carrying amount ending balance[2]
Sept	1,005,564	2,782	4,167	0	1,004,179
Oct	1,004,179	2,778	4,167	0	1,002,790
Nov	1,002,790	2,774	4,167	0	1,001,397
Dec	1,001,397	2,770	4,167	1,000,000	$ 0

Notes:

1. Calculated as Carrying amount beginning balance × 3.32% EIR ÷ 12 months.
2. Carrying amount beginning balance + Interest income recognized – Interest payments – Principal payment.

Expected credit losses[4]

Topic 326 (credit losses) requires lenders to include in the allowance for expected credit losses an estimate of the effects of TDRs that are reasonably expected to occur in the future. The assessment of whether a TDR is reasonably expected is made at the individual loan level, as opposed to the portfolio level. As a result, the effects of expected future TDRs are included in the allowance for expected credit losses under Topic 326 only when a lender concludes that it reasonably expects a specific loan to be modified in a TDR.

If a loan is modified, but the modification is not accounted for as a TDR, the lender does not include the impact of payment deferrals or interest rate concessions in estimating its allowance for expected credit losses under Topic 326 (credit losses). However, the lender evaluates whether there is additional credit risk associated with borrowers that received COVID-19-related modifications that should be reflected in that estimate, which may require making adjustments to the assumptions or methodology used. For example, a lender might determine that modified loans do not share similar risk characteristics with loans that have not been modified and, therefore, collectively assess those loans separately.

See further guidance about estimating credit losses in KPMG's Handbook, Credit impairment.

Accrued interest receivable

Topic 326 defines a loan's amortized cost basis as including accrued interest receivable (AIR). However, Topic 326 allows a lender to elect not to measure an allowance for expected credit losses for AIR when the lender writes off AIR in a timely manner. We believe that in many cases, a lender that recognizes interest income during a payment holiday will not be able to conclude that it has a timely writeoff policy and therefore should measure an allowance for expected credit losses related to AIR for the modified loans (i.e. the lender should recognize an allowance for the portion of the AIR balance it does not expect to collect).

For example, assume a lender elects not to measure an allowance for expected credit losses when it writes off AIR in a timely manner, and that the lender considers an AIR writeoff to be timely if uncollectible AIR is written off within 90 days of recognition. Additionally, the lender's policy is to write

[4] This Hot Topic assumes that a lender has adopted Topic 326 (credit losses). Lenders that have not yet adopted Topic 326 should consult the unamended Codification paragraphs. Under the CARES Act, insured depository institutions, bank holding companies and affiliates of either can elect to defer Topic 326. For further information on the CARES Act, see KPMG's Hot Topic, Accounting and reporting impacts of the CARES Act.

off uncollectible AIR (through a reversal of interest income) when a loan is 90 days past due. If the lender grants a 6-month payment deferral on a loan and recognizes interest income during the deferral period, the length of time between interest recognition and the writeoff of uncollectible interest could be up to nine months (i.e. 6-month payment deferral + 90 days). Because the lender only considers an AIR writeoff to be timely if it is taken within 90 days of the interest being recognized, the lender would establish an allowance for expected credit losses for the modified loan's AIR.

When a lender records an allowance for expected credit losses on AIR, Topic 326 allows the lender to estimate expected credit losses either as part of the loan's amortized cost basis or separately from other components of the amortized cost basis.

See further guidance about estimating credit losses for AIR in section 4.2.20 of KPMG's Handbook, Credit impairment.

Disclosure considerations

Topic 310 requires disclosures about certain financing receivables modified in TDRs for each period for which an income statement is presented, including:

- qualitative and quantitative information about how the financing receivables were modified and the effects of the modifications;
- qualitative information about how the modifications are factored into the allowance;
- additional disclosures for financing receivables modified as TDRs within the previous 12 months and for which there was a payment default (after the restructuring) during the period; and
- the amount of commitments, if any, to lend additional funds to borrowers owing receivables whose terms have been modified in TDRs.

Topic 326 requires disclosure of both qualitative and quantitative information about a lender's financial assets and the allowance for credit losses. For financial assets measured at amortized cost (other than trade receivables due in one year or less), these include disclosures about past-due status. A lender also discloses its policy for determining past-due or delinquency status.

In addition, the SEC staff has encouraged registrants to provide additional disclosures about their loan modification programs, including suggested disclosures for modifications that were accounted for as TDRs and those that were not accounted for as TDRs.[5] The SEC staff has indicated that these disclosures might be relevant in the current environment due to the economic disruption of COVID-19. The SEC staff's public remarks do not address placement of the suggested disclosures within a registrant's filings. We believe that many of the incremental disclosures suggested by the SEC staff may be most appropriately included in a registrant's Management's Discussion and Analysis of Financial Condition and Results of Operations (SEC Regulation S-K, Item 303) (MD&A).

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[5] See, for example, suggested disclosures included in a 2010 speech addressing areas of frequent SEC staff comment for financial institutions.

The following table summarizes certain of the SEC staff's suggested disclosures:

Disclosures relevant to all modifications	**Related disclosures about TDRs**	**Related disclosures about modifications not accounted for as TDRs**
Adequate explanation of the lender's types of modification programs, including: — key features of the programs — significant terms modified	— Whether the programs are government sponsored or lender-specific — Whether the modifications are short-term or long-term	— Triggers or factors reviewed to identify loans for modification — The typical length of each of the modified terms — Explanation of why the modifications are not accounted for as TDRs
Quantification of the modified loans, including quantification by loan type (e.g. residential, home equity, commercial, credit cards)	— Quantification by accrual and non-accrual — Quantification by type of concession made (e.g. reduction in interest rate, payment extensions, forgiveness of principal)	— Quantification for each workout strategy
Success rates of the modification programs	— Discussion of lender's success with the different types of concessions	— Whether 'short-term' modifications often result in more permanent or longer term modifications being made in the future
Nonaccrual policy for restructured loans and effects on past due statistics	— Policy for number of payments the borrower needs to make on the restructured loans before returning the loan to accrual status — Factors considered at the time of restructuring – and on an ongoing basis – to determine whether the loan should accrue interest, including how any partial charge-off is considered	— How the loans are classified (performing vs. non-performing) and whether they continue to accrue interest
How the modified loans affect the lender's allowance for credit losses	If a TDR results in two (or more) loan agreements, the impact of the multiple loan structures on impairment disclosures.	

The CARES Act requires lenders to maintain records of the volume of loans involved for which the lender elected the CARES Act's optional exemption from TDR accounting. We believe that information may be useful to support the disclosures suggested by the SEC staff.

Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly, and companies should monitor the situation. Companies are encouraged to maintain close communications with their board of directors, external auditors, legal counsel and other service providers as the circumstances progress. Stay informed at read.kpmg.us/coronavirus

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