



TDR Accounting Not Required for CECL

Released April 2022

On March 31, 2022, FASB eliminated the accounting guidance for Troubled Debt Restructurings (TDRs) for those institutions that have adopted Current Expected Credit Loss (CECL).¹ It also enhanced the disclosure requirements for loan refinancings when a borrower is experiencing financial difficulty. Rather than accounting for the restructuring or refinancing as a TDR, an institution must determine whether the modification results in a new loan or the continuation of an existing loan.²

“If the terms of the new loan resulting from a loan refinancing or restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.”

If the refinancing or restructuring does not meet terms of the paragraph above, or if only minor modifications are made, then any unamortized fees or costs are carried forward as part of the net investment in the new loan. A modification that changes the present value cash flows by more than 10 percent would be considered more than minor.

The updated accounting is effective for fiscal years beginning after December 15, 2022, for institutions that have adopted CECL. For entities that have yet to adopt CECL, the accounting change is effective the same date the institution adopts CECL.

¹ FASB Accounting Standards Update No. 2022-02, March 2022

² FAS ASC 310-20-35-9 through 35-11