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National Association of Federally-Insured Credit Unions

December 23, 2021

Mr. Richard R. Jones
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

RE: Proposed Accounting Standards Update: Troubled Debt Restructurings by Creditors

Dear Chairman Jones:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Proposed Accounting Standards Update (Update) issued by the Financial Accounting Standards Board (FASB) eliminating accounting guidance for Troubled Debt Restructurings (TDRs) and enhancing certain disclosure requirements. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products. NAFCU is generally supportive of the FASB's proposal to eliminate accounting guidance for TDRs, however NAFCU strongly urges the FASB to accelerate the effective date of TDR elimination as optional for non-public entities as early as the annual period beginning after December 15, 2021. Non-public entities have maintained sufficient loan loss allowance levels absent TDR accounting guidance and are entirely capable of continuing to do so until January 2023. Furthermore, the current TDR accounting guidance has shown itself to be redundant due to the relatively low impact of TDRs on allowances for credit losses and the outsized burden imposed by high preparer costs.

NAFCU also generally supports the introduction of enhanced disclosure requirements for loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. However, the FASB should ensure that the proposed disclosure requirements are narrowly tailored to the dual purposes of providing meaningful information to users of financial statements and ensuring the safety and soundness of institution capital without introducing unnecessary cost and complexity to accounting processes.

General Comments

The amendments in the FASB's accounting standards update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* introduced the Current Expected Credit Losses (CECL) accounting methodology and eliminated specific impairment guidance included in Subtopic 310-40, *Receivables—Troubled Debt Restructuring for Creditors* but retained the TDR designation and measurement principles as well as some of the disclosure requirements. NAFCU and its member credit unions continue to have

serious concerns with the impacts of the adoption of CECL as well as the dearth of resources that the FASB has made available to credit unions, including the lack of roundtables or gatherings specifically focused on smaller institutions that have not yet adopted CECL. NAFCU has consistently called on the FASB to exempt credit unions since the adoption of the CECL standard. On October 14, 2021, NAFCU wrote to the FASB requesting that FASB exempt all non-public entities from compliance with CECL in 2023.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), which provides relief from certain requirements under Generally Accepted Accounting Principles (GAAP). Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for TDRs under ASC 310-40¹ in certain situations. In addition, on April 7, 2020, a group of banking agencies (the “Agencies”)² issued an interagency statement that offers some practical expedients for evaluating whether loan modifications that occur in response to the coronavirus disease 2019 (“COVID-19”) pandemic are TDRs. Credit unions and other financial institutions quickly adapted to the suspension of TDR accounting requirements. In the absence of TDR requirements, entities voluntarily disclosed meaningful information regarding modifications made to accommodate borrowers and were able to leverage the regulatory qualitative framework³ to ensure safety and soundness of institution capital through appropriate loan loss allowance levels.

Notably, the relief related to TDRs under the CARES Act was extended by the *Consolidated Appropriations Act, 2021* (CAA), which was signed into law on December 27, 2020. Under the CAA, such relief will continue until to the earlier of (1) 60 days after the date the COVID-19 national emergency comes to an end or (2) January 1, 2022. As the TDR relief under the CARES Act rapidly approaches its end date, the FASB should be cognizant of the strong potential for millions of borrowers, many of whom received modifications that would have qualified as TDRs but for the CARES Act, to require modifications in 2022. Current FASB guidance in paragraph 310-40-15-18 requires entities to look at prior modifications over the life of the loan in determining whether the modification is for an “insignificant” amount of time to avoid TDR classification. Those borrowers requiring modifications during the pandemic and again in 2022 would be much more likely to have their modifications classified as a TDR, and financial institutions could be poised to see a significant influx of TDRs, less than a year before CECL adoption.

At the July 14, 2021, Board meeting, the Board added a project to its technical agenda to address the accounting for TDRs by creditors for entities that have adopted CECL and to enhance disclosure requirements for certain modifications, specifically those that are considered to be loss mitigating. As the FASB considers the proposal to eliminate TDR accounting guidance it should bear in mind that the overwhelming evidence and feedback from stakeholders all point toward the

¹ FASB Accounting Standards Codification (ASC) Subtopic 310-40, Receivables: Troubled Debt Restructurings by Creditors.

² The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Banking Regulators.

³ Interagency Policy Statement on the Allowance for Loan and Lease Losses (pre-CECL adoption) or Interagency Policy Statement on Allowances for Credit Losses (post-CECL adoption)

conclusion that the costs of TDR accounting far outweigh the insignificant benefit TDR designation provides, and that elimination of TDR guidance need not be predicated on adoption of CECL.

Elimination of TDR Accounting Guidance

Notwithstanding its opposition to the imposition of CECL on non-public filers, NAFCU supports the Update's proposal to eliminate accounting guidance for TDRs. The FASB has posited that the designation of TDRs would be made redundant by CECL. Stakeholders have reported that TDR designation and disclosure may no longer be meaningful after the adoption of CECL because lifetime credit losses have already been captured under the CECL method and overlap with certain disclosure requirements in Topic 326.

Furthermore, financial statement preparers cited a high cost and complexity associated with determining whether a modification represents a TDR and further measuring the effect of the TDR on an allowance for credit losses. Specifically, preparers indicated that the effect of certain TDRs could be captured only through a discounted cash flow model, which can be labor-intensive and result in having to utilize a different allowance method for loans that had been modified as a TDR as compared with other similar loans in their portfolios. Preparers also acknowledged that after a loan has been modified as a TDR, the TDR designation remains with it throughout the remaining life of the loan because of the measurement requirements. Additionally, those preparers noted that the effect of performing a discounted cash flow model for those loans does not result in a significant adjustment to the allowance for credit losses following the expected lifetime loss estimate required by the amendments in CECL, suggesting that the cost does not justify the benefits.

Although TDR accounting under CECL is no doubt unnecessary and costly, the more compelling argument for the elimination of TDRs was borne out by the conditions of the COVID-19 pandemic. TDR recognition and measurement requirements were not needed for preparers to adequately respond to the crisis to be able to produce sound, decision-useful financial information to users. In fact, users of financial statements have indicated preference for the voluntary disclosures stemming from the response to the COVID-19 emergency as compared to existing TDR designation, measurement, and disclosure requirements. The existing TDR accounting requirements are therefore not meaningful and can be justifiably eliminated immediately for both public and non-public entities.

The FASB has requested feedback on whether it would be operable, in the absence of TDR accounting, to use paragraphs 310-20-35-9 through 35-11 of Subtopic 310-20 to determine whether a modification results in a new loan or a continuation of an existing loan. NAFCU and its member credit unions support the proposed alternative determination process as it would be operable using existing credit union resources and processes. Credit unions must already have systems, data, and processes in place to maintain compliance with GAAP and would be capable of applying the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Paragraphs 310-20-35-9 through 35-11 currently provide credit unions with the framework to determine the treatment of fees or costs

associated with refinanced or restructured loans that are not TDRs and would be equally operable in the absence of TDRs.

This guidance could, however, benefit from clarification regarding the accounting for legal fees and other direct costs associated with modifications concerning foreclosures or repossession of collateral. Paragraph 310-20-35-12C discusses receipt of assets resulting in partial satisfaction of receivables in connection with a refinance or restructuring. Paragraph 310-40-25-1 addresses costs incurred by entities associated with obtaining assets in connection with foreclosure or repossession of the original loan's collateral, indicating that these costs be expensed as incurred. In order to ensure consistent treatment of the fees incurred when there is a partial satisfaction of receivables related to a refinance or restructuring resulting from foreclosure or repossession of collateral, the FASB should include paragraph 310-40-25-1 in the proposed amendments, revised as follows:

“Legal fees and other direct costs incurred by a creditor to effect a troubled debt modification of a receivable in which a borrower is facing financial difficulty shall be included in expense when incurred.”

Enhanced Disclosures

The proposed amendments related to recognition and measurement changes on loan modifications would produce meaningful information for financial statement users even without the designation of certain modifications as TDRs. The FASB should not amend the guidance to increase the likelihood that TDRs are accounted for as new loans. Supplementing the proposed amendments to ensure more modified loans are accounted for as new, as opposed to existing loans, would likely result in additional costs to financial institutions without a corresponding benefit to financial statement users.

Although supportive of portions of the amendments, NAFCU member credit unions have expressed concern regarding operability and auditing in certain disclosures. Existing requirements to disclose defaults of TDRs within the previous 12 months and for which there is a default during the period (paragraph 310-10-50-34) have been revised and included in the proposed amendment in paragraph 310-10-50-42. However, we believe the revision to proposed paragraph 310-10-50-42 below will both (a) enhance information furnished to users of the financial statements through providing a greater time frame over which performance is monitored and disclosed; and (b) result in substantial reduction in reporting complexity for preparers, including simplification of processes and controls:

“For each period for which a statement of income is presented, an entity shall disclose the following information about financing receivables that had a payment default during the period and has been modified during the period(s) because the debtor was experiencing financial difficulty.”.

The FASB has requested feedback on whether there are certain modification types that should not be included in the disclosures in the proposed amendments. NAFCU agrees with the decision in the Update to exclude several categories of modification disclosures, including the disclosure of

modifications of receivables measured at fair value through earnings, receivables measured at the lower of amortized cost basis or fair value, short-term trade accounts receivable recognized in accordance with Topic 606, and participant loans in defined contribution plans. However, NAFCU's member credit unions support the inclusion of disclosures for all modifications associated with borrowers facing financial difficulty. This uniform approach will help to further ensure comparability of financial information between entities. If the FASB were to exclude certain modification types from its disclosure requirements, it could result in distorting the financial information available to users regarding the magnitude, financial effect, and degree of success the modifications have had on the entity.

Transition

The FASB should accelerate the effective date of elimination of TDR accounting guidance as optional for non-public entities as early as the annual period beginning after December 15, 2021, and revise paragraphs 326-10-65-5(a) through 65-5(b) to effectuate that change. NAFCU supports the prospective approach to transition to the pending disclosures required by paragraphs 310-10-50-38 through 50-42. NAFCU's member credit unions have reported that preparers may struggle with the costs associated with reporting information required by the proposed amendment related to retrospective modifications executed prior to the effective date.

NAFCU agrees with the prospective transition, with the option to apply a modified retrospective transition method, noted in paragraph 326-10-65-5(c)(2) of the proposed amendment. Many credit unions are likely to elect to apply the modified retrospective transition method to avoid costs to maintain and report a separate portfolio of loans subject to alternative impairment measurement criteria. For entities choosing this election, the FASB should issue transition guidance to clarify that the unwinding of any prior TDR designation in the year of adoption does not require reassessment of any restructurings occurring in a period prior to adoption in accordance with paragraphs 310-20-35-9 through 35-11. Absent additional guidance, entities may determine restructurings that occurred in a period prior to adoption may need to be accounted for as a new loan as of adoption of this proposed amendment, thereby introducing substantial complexity in determining the cumulative effect adjustment. Additional transition guidance is needed when maintaining the use of a discounted cash flow method when determining loan loss reserves for any previously designated TDR as the effective interest rate may prove overly complex and burdensome to determine for many preparers.

Effective Date

NAFCU recommends the acceleration of the effective date of elimination of TDR accounting guidance as optional for non-public entities as early as the annual period beginning after December 15, 2021. As an alternative to the aforementioned recommendation, due to the expected expiration of the TDR accounting suspension noted in Section 4013 of the CARES Act, as well as the accommodations noted in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised), we recommend the FASB provide guidance to non-public entities regarding application of paragraph 310-40-15-18, which states:

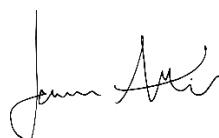
“If the debt has been previously restructured, an entity shall consider the cumulative effect of the past restructurings when determining whether a delay in payment resulting from the most recent restructuring is insignificant.”

NAFCU’s members have raised concerns that significant operational cost and complexity will be faced by credit unions in identifying and measuring TDRs in 2022. Given the expiring government relief measures, a significant number of borrowers will exit forbearance or other assistance plans, many of which may require further assistance through loan modifications. Therefore, FASB should provide guidance that any modification of a receivable that has occurred as a result of the COVID-19 national emergency be excluded from the definition of a “past restructuring” when assessing for TDR qualification.

Conclusion

NAFCU urges the FASB to proceed with the elimination of TDR guidance while recognizing the ability of credit unions and non-public entities to voluntarily disclose meaningful information regarding modifications in its absence. The FASB should accelerate the effective date of elimination of TDR accounting guidance as optional for non-public entities as early as the annual period beginning after December 15, 2021. The FASB should also narrowly tailor the proposed enhanced disclosure requirements to those that will provide decision-useful information to users of financial statements and avoid disproportionate burdens on credit unions and other non-public entities. All of the recommendations within this response letter are made within the context of the Private Company Decision-Making Framework, as we have demonstrated existing TDR accounting and disclosure requirements result in both diminished relevance to users and unnecessary cost and complexity. NAFCU appreciates the opportunity to provide comments on this Update. If we can answer any questions or provide you with additional information, please do not hesitate to contact me at 703-615-5109 or jakin@nafcu.org.

Sincerely,



James Akin
Regulatory Affairs Counsel