

New loan modification disclosure requirements

ASC requirement	BerryDunn examples/commentary
Reference: ASC 310-10-50-42(a)	
<p>Qualitative and quantitative information must be provided by class of financing receivable for each period for which a statement of income is presented. This information should include:</p> <ol style="list-style-type: none"> 1) The types of modifications utilized by an entity, including the total period-end amortized cost basis of the modified receivables, and the percentage of modifications of receivables made to debtors experiencing financial difficulty relative to the total period-end amortized cost basis of receivables in the class of financing receivable. 2) The financial effect of the modification by type of modification, which shall provide information about the changes to the contractual terms as a result of the modification and shall include the incremental effect of principal forgiveness on the amortized cost basis of the modified receivables, as applicable, or the reduction in weighted-average interest rates (versus a range) for interest rate reductions. 3) Receivable performance in the 12 months after a modification of a receivable made to a debtor experiencing financial difficulty. 	<ol style="list-style-type: none"> 1) This information should be broken down by the type of modification – principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or term extension. As an example, on an amortized cost basis, if a commercial loan with a period-end value of \$100 was modified during the period, the \$100 along with its percentage of that asset class would need to be disclosed. So, if total commercial loans are \$1,000 at period-end, the fact that this modification represents 10% of commercial loans would be disclosed. 2) As indicated in the requirement, the type of information disclosed will vary depending on the type of modification. For instance, an interest rate reduction will need to disclose the previous weighted-average interest rate by class of financing receivable and the new weighted-average interest rate after modification. As indicated in ASC 310-10-55-12A, the disclosure could be as follows: “Reduced weighted-average contractual interest rate from 6% to 3%.” 3) We anticipate this looking very similar to past due tables that are currently disclosed in the financial statements. Performance may even be broken down in the same buckets as the past due tables, although not explicitly required by the ASU.
Reference: ASC 310-10-50-42(b)	
<p>By portfolio segment, qualitative information about how those modifications and the debtors’ subsequent performance are factored into determining the allowance for credit losses.</p>	<p>As indicated in ASC 310-10-55-12A, this information can be general and does not need to be specific to each modification disclosed for the period.</p>
Reference: ASC 310-10-50-43	
<p>If receivables are modified in more than one manner, this will establish a new category for disclosure. The same receivable’s period-end amortized cost basis shall not be presented in multiple categories.</p>	<p>As an example, if a receivable is granted a term extension and is then later granted an interest rate reduction, this receivable would be disclosed in its own category, separate from loans that had only been granted a term extension or an interest rate reduction.</p>
Reference: ASC 310-10-50-44	
<p>For such modifications that had a payment default during the 12-month period following the modification, qualitative and quantitative information must be provided by class of financing receivable for each period for which a statement of income is presented. This information should include:</p> <ol style="list-style-type: none"> 1) The type of contractual change that the modification provided. 2) The amount of financing receivables that defaulted, including the period-end amortized cost basis for financing receivables that defaulted. 3) By portfolio segment, qualitative information about how those defaults are factored into determining the allowance for credit losses. 	<ol style="list-style-type: none"> 1) 2) ASC 310-10-55-12A depicts this disclosure in tabular form and the modification categories mirror those used to satisfy the disclosure requirements in ASC 310-10-50-42. 3) Again, this information can be general and does not need to be specific to each modification disclosed for the period.