

A photograph of the Chicago skyline, featuring the Willis Tower (formerly Sears Tower) as the central focus. The city is viewed from across Lake Michigan, with the water in the foreground. The sky is clear and blue.

*Interagency Minority Depository Institutions
National Conference
“Got Debt?”
Chicago, IL
July 17, 2008*

Presented by: Chris Salvato, OCC Central District Accountant

Agenda

- **Troubled Debt Restructuring Refresher**
- **Nonaccrual Guidance**
- **Impairment**
- **OREO**
- **Loan Modification Open Issues**



Troubled Debt Restructuring

- **FAS 15**

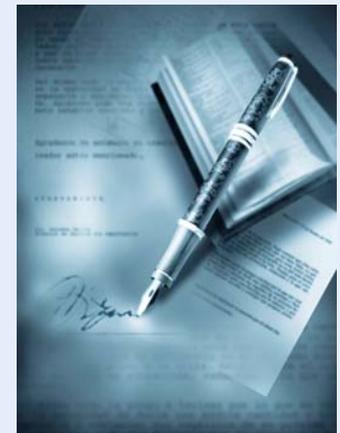
- **Modification is a TDR if:**



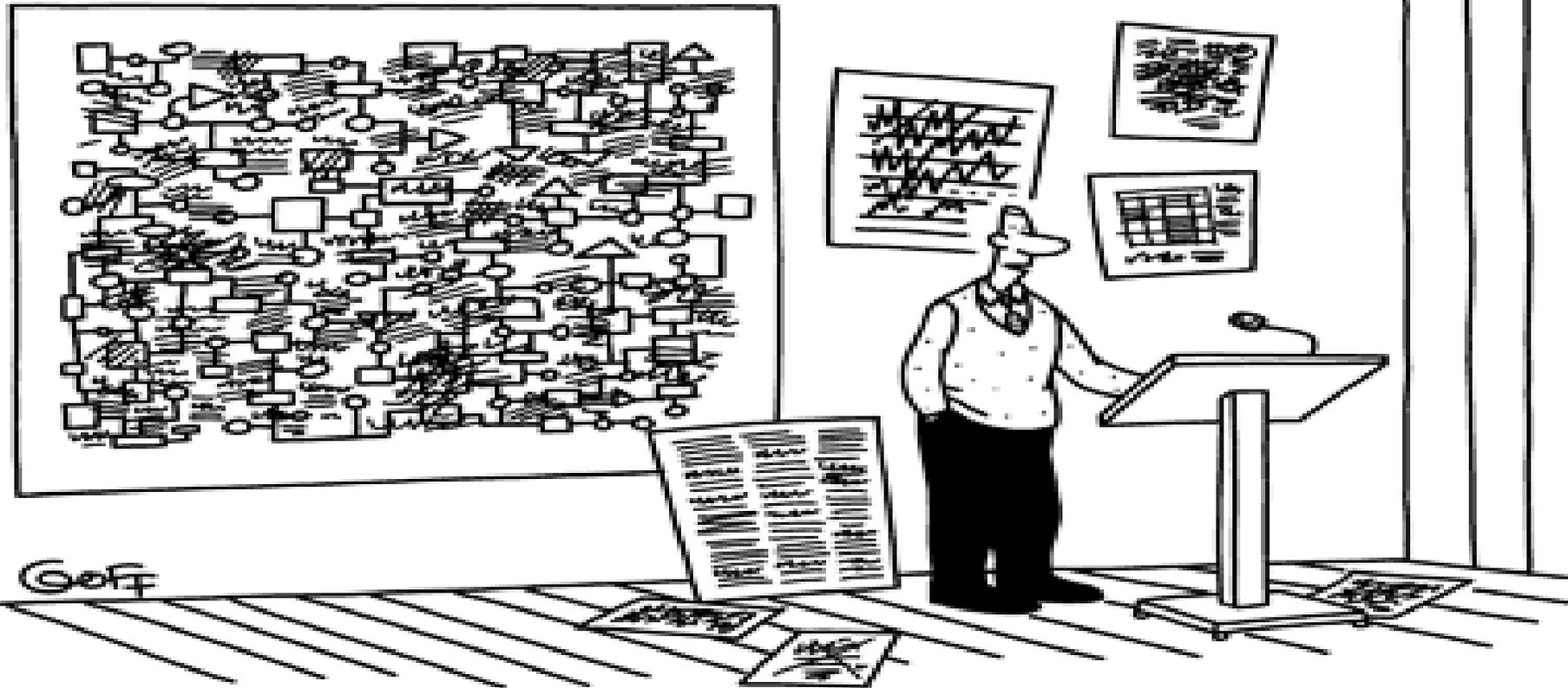
- **Borrower had financial difficulty**
 - **Bank grants a concession**
 - **Terms would not otherwise be considered**
 - **Similar financing not available at another bank**

Troubled Debt Restructuring

- **Types of modifications**
 - Reduction of interest rate
 - Extension of the maturity date
 - Debt forgiveness
 - Reduction of accrued interest
 - Interest-only for extended period



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**“What this all means is,
it depends.”**

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Nonaccrual

- **Applies to commercial credits**
- **May apply to consumer credits**
 - **Choose an alternative to nonaccrual**
 - **Ensure interest income is not overstated**

APR %

Nonaccrual Guidelines

- **Doubt about collectibility (P & I)**
- **Loan is cash basis due to borrower deterioration**
- **Loan is 90 days past due unless:**
 - **Well secured**
 - **In the process of collection**



Impairment

Impairment definition under FAS 114:

1. it is probable
2. creditor will not collect
3. all amounts due
 - principal
 - interest
4. according to the contractual terms



Impairment

FAS 114 measurement methods

1. present value of expected future cash flows
2. loan's observable market price
3. fair value of collateral **IF** loan is collateral dependent



Troubled Debt Restructuring

Impairment evaluation using FAS 114

- All TDRs are impaired loans
 - Commercial credits
 - Retail products
- Present value of expected cash flows
- Discount at “original” effective interest rate
- Carrying value > discounted cash flows =
FAS 114 ALLL



OREO



- **OREO initially recorded at fair value net of selling costs**
- **Maintain at LOCOM**
- **Holding period income/expense recognized in earnings**
- **OREO sale – apply FAS 66 guidance**



Loan Modifications

Open Issues

Credit Card Modifications = TDRs?

- **As material for credit cards as for residential loans?**

Deficiency Notes

- **Capacity for repayment and borrower's willingness to repay**
 - **Bankable asset?**
- 
- 



Regulatory Issuances

- **Call report requirements for disclosure**
 - Reporting of 1-4 Family TDRs in 1Q08
 - RC-C Memo 1b
- **OCC Q&As on loan modifications**
 - Internal guidance for examiners
 - Clarifies “teaser” rate is not used to discount cash flows





114



AUCTION



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