Troubled Debt Restructurings

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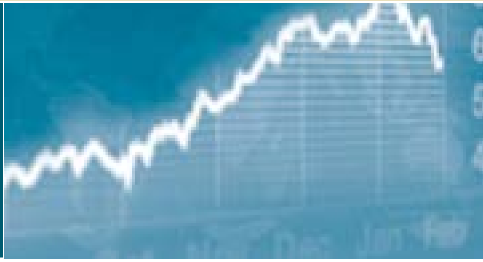

THE FEDERAL RESERVE BANK OF RICHMOND
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Assessing TDRs Is Highly Judgmental

- **Is the Borrower Experiencing Financial Difficulty?**
  - *Things to consider……*
    - Insufficient cash flows to service debt
    - Loan is in default or default on the credit in question, or other debt, is probable without a modification
    - Bankruptcy filing (or in the process of)
    - Doubts surrounding "going concern"
    - Inability to obtain takeout financing

Documentation of the TDR Assessment is Very Important

Assessing TDRs Is Highly Judgmental

- **Has the Bank Granted a Concession it Would Not Have Otherwise Granted?**

  - *Things to consider……*

    - Increase in amortization period
    - Extension of interest only terms
    - Forgiveness of principal or interest

Documentation of the TDR Assessment is Very Important

FASB Clarification – April 2011

- Consider whether it's probable the borrower will default in the foreseeable future
- An increase (not just a decrease) in interest rate at time of the modification *could* be considered a concession
- Insignificant delays might not rise to TDR status - - - is the delay significant or is it insignificant?
- Additional collateral and guarantees in exchange for a modification *could* be considered concessions
- Does the borrower have access to funds from other creditors at a market rate of interest for a loan with similar risk characteristics? If not, the rate is not a market rate and it is likely a concession.

Documentation of the TDR Assessment is Very Important

TDR Treatment

- ALLL Considerations:
  - All TDRs are considered “impaired” under GAAP and must be measured for specific impairment under ASC 310.

- Interest Accrual Considerations:
  - Many TDRs involve loans that have been in default and placed on non-accrual. A goal of restructuring is to return a non-accrual loan to interest accrual.
  - A loan that has been placed on non-accrual may be returned to accrual status after a period of sustained performance under the new terms (generally 6 months) so long as all principal and interest are reasonably assured of collection.

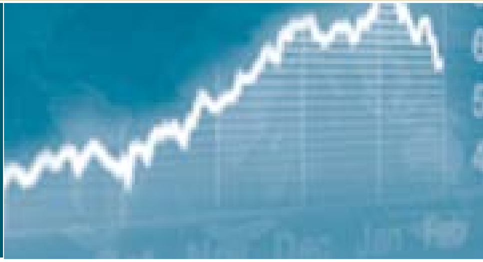
TDR Reporting

- Call Reporting
  - All TDRs are reported in the Call Report for the calendar year of the restructuring and ongoing for the life of the loan *unless* it is in compliance with its modified terms *and* the modification was at a market rate of interest.
- Financial Disclosures: ASC 310-40-50-2
  - Information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by paragraphs 310-10-50-15(a) and 310-10-50-15(c) in years after the restructuring if both of the following conditions exist:
    1. *The restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk.*
    2. *The loan is not impaired based on the terms specified by the restructuring agreement.*

Application of A/B Notes

- A/B Notes:
  - Not all credit types are suited for an A/B Note split
    - Acquisition and Development loans are generally not restructured to an A/B Note split due to the inability to demonstrate reliable cash flow when underwriting the A portion.
    - Income producing CRE is better suited to bifurcation given the ongoing income stream
  - Two new notes are signed by the borrower
  - The B Note is charged off from an operational standpoint but it remains a legal obligation of the borrower.
  - The A Note can be returned to accrual status after a sustained period of performance under the new terms (generally six months) if all principal and interest are reasonably assured of collection.

Questions?



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