

# **NCUA 12 CFR 741.3**

## **Loan Workouts and Nonaccrual Policy**

Jim Vilker, NCCO

VP of Professional Services, CMS

Audit Link, A Division of CU\*Answers

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## *Why the Change*

- Consistency with FFIEC requirements
- Obama's, "Making Home Affordable Program"
- Reduce Regulatory Burden

## ***Four Major Components***

1. Must have written policies addressing loan workouts
2. Adopt “industry wide” practice of to cease to accrue interest on loans at 90 days or more
3. Maintain work out MBL’s in a nonaccrual status until they have made 6 consecutive payments
4. Calculate TDR’s based on restructured agreement not the original terms

## *Loan Policies*

- Must control the use of loan workouts
- Establish controls to ensure policy is consistently applied
- In line with credit unions risk mitigation strategy
- Must define eligibility requirements including number of times a loan can be modified
- Prohibit advances to pay interest or fees (not including forced place insurance or taxes)

## *Loan Policies Continued*

- Must be supported by credit union management information system for monitoring purposes
- Warns against restructuring more than once a year or more than twice in five years
- Utilize FFIEC “Uniform Retail Credit Classification and Account Management Policy” 65 FR 36903 (June 12, 2000)

## *Regulatory Reporting Requirements*

- Reporting TDR's in accordance with the restructured terms not original loan contract terms
- Institutes revised call report data elements
- New data is intended to give field staff the information to monitor if loans are being excessively restructured and income is recognized appropriately (see handout)

## ***Non-Accrual***

- Adopt policies that specifically address the discontinuance of interest accrual on loans 90 days or more past due

*Jury is out on this one as some credit unions have opinions from their CPA that the existing general ledger entry at the end of month remains consistent with FASB and the regulation.....others not so lucky*

## *NonAccrual Continued (1)*

- IRPS specifies when FICU's must reverse existing interest and discontinue accruing
- Default 90 days or more unless loan is "well secured" and "in process of collection."

*"Well secured"* means the loan is collateralized by: (1) A perfected security interest in, or pledges of, real or personal property, including securities with an estimable value, less cost to sell, sufficient to recover the recorded investment in the loan, as well as a reasonable return on that amount, or (2) by the guarantee of a financially responsible party.

*"In the process of collection"* means collection of the loan is proceeding in due course either: (1) Through legal action, including judgment enforcement procedure; or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future, i.e., generally within the next 90 days.



## *Non-Accrual Continued (2)*

- IRPS also addresses treatment of cash interest payments during nonaccrual period and prohibits restoration of previously reversed or charged off accrued, but uncollected, interest applicable to any loan placed in a non-accrual status.

*So what are they saying?*

## Restoration to Accrual

**TABLE 1—NONACCRUAL CRITERIA**

Action	Condition identified	Additional consideration
Nonaccrual on All Loans .....	90 days or more past due unless loan is both well secured and in the process of collection; or If the loan must be maintained on the Cash or Cost Recovery basis because there is a deterioration in the financial condition of the borrower, or for which payment in full of principal or interest is not expected.	See Glossary descriptors for “well secured” and “in the process of collection.” Consult GAAP for Cash or Cost Recovery basis income recognition guidance. See also Glossary Descriptors.
Nonaccrual on Member Business Loan Workouts.	Continue on nonaccrual at workout point and until restore to accrual criteria are met.	See Table 2—Restore to Accrual.

**TABLE 2—RESTORE TO ACCRUAL**

Action	Condition identified	Additional consideration
Restore to Accrual on All Loans except Member Business Loan Workouts.	When the loan is past due less than 90 days, GAAP does not require it to be maintained on the Cash or Cost Recovery basis, and the credit union is plausibly assured of repayment of the remaining contractual principal and interest within a reasonable period. When it otherwise becomes both “well secured” and “in the process of collection”; or The asset is a purchased impaired loan and it meets the criteria under GAAP for accrual of income under the interest method.	See Glossary descriptors for “well secured” and “in the process of collection.” Interest payments received while the loan was in nonaccrual status and applied to reduce the recorded investment in the loan must not be reversed and income credited. Likewise, accrued but uncollected interest reversed or charged-off at the point the loan was placed on nonaccrual status cannot be restored to accrual.
Restore to Accrual on Member Business Loan Workouts.	Formal restructure with a current, well documented credit evaluation of the borrower’s financial condition and prospects for repayment under the revised terms.	The evaluation must include consideration of the borrower’s sustained historical repayment performance for a minimum of six timely consecutive payments comprised of principal and interest. In returning the loan to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account. Interest payments received while the member business loan was in nonaccrual status and applied to reduce the recorded investment in the loan must not be reversed and income credited. Likewise, accrued but uncollected interest reversed or charged-off at the point the member business loan was placed on nonaccrual status cannot be restored to accrual.

## ***Business Loans***

- Business loans must remain at a nonaccrual status until
  - *CU can document a current credit evaluation of borrowers financial condition and....*
  - *Prospects for repayment under revised terms*
  - *Sustainability means six consecutive months prior to returning the account to an accrual status.*

## *Using CU\*BASE*

- Loan Classification
- Security Codes
- Loan report generator MNRPTE #2
- Refinance field
- Upcoming changes in spring

# *Questions?*



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