310 - Receivables

310-10 - Overall

310-10-00 - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

310-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Amortized Cost Basis	Added	Accounting Standards Update No. 2016-13	06/16/2016
Class of Financing Receivable	Amended	Accounting Standards Update No. 2016-13	06/16/2016
Class of Financing Receivable	Added	Accounting Standards Update No. 2010-20	07/21/2010
Collateral-Dependent Loan	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Commencement Date of the Lease (Commencement Date)	Added	Accounting Standards Update No. 2016-02	02/25/2016
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Credit Quality Indicator	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Credit Quality Indicator	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Credit Quality Indicator	Added	Accounting Standards Update No. 2010-20	07/21/2010
Direct Financing Lease	Amended	Accounting Standards Update No. 2021-05	07/19/2021
Direct Financing Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Debt Security (1st def.)	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Superseded	Accounting	06/16/2016

		Standards Update No. 2016-13	
Financial Asset (1st def.)	Superseded	Accounting Standards Update No. 2016-19	12/14/2016
Financial Asset (1st def.)	Added	Accounting Standards Update No. 2016-13	06/16/2016
Financial Asset (2nd def.)	Added	Accounting Standards Update No. 2016-19	12/14/2016
Financing Receivable	Added	Accounting Standards Update No. 2010-20	07/21/2010
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Payments	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Receivable	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Term	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Leveraged Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Portfolio Segment	Amended	Accounting Standards Update No. 2016-13	06/16/2016
Portfolio Segment	Added	Accounting Standards Update No. 2010-20	07/21/2010
Purchased Financial Assets with Credit Deterioration	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Purchased Financial Assets with Credit Deterioration	Added	Accounting Standards Update No. 2016-13	06/16/2016
Recorded Investment	Amended	Accounting Standards Update No. 2015-10	06/12/2015
Related Parties	Superseded	Accounting	06/16/2016

		Standards Update No. 2016-13	
Related Parties	Added	Accounting Standards Update No. 2010-20	07/21/2010
Sales-Type Lease	Amended	Accounting Standards Update No. 2021-05	07/19/2021
Sales-Type Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Troubled Debt Restructuring	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Troubled Debt Restructuring	Added	Accounting Standards Update No. 2010-20	07/21/2010
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
310-10-05-1	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-10-05-1	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-15-2	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-30-4 through 30-6	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-10-35-1 through 35-43	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-2	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-4 through 35-7	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-11	Amended	Accounting Standards Update No. 2014-09	05/28/2014
310-10-35-11	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-35-12 through 35-14	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-13	Amended	Accounting	02/25/2016

		Standards Update No. 2016-02	
310-10-35-16	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-20	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-22	Amended	Accounting Standards Update No. 2011-04	05/12/2011
310-10-35-31 through 35-33	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-31A	Added	Accounting Standards Update No. 2022-01	03/28/2022
310-10-35-37	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-35-44	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-45	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-10-35-46 through 35-48	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-47	Amended	Accounting Standards Update No. 2019-04	04/25/2019
310-10-35-47	Amended	Maintenance Update 2017-06	04/07/2017
310-10-35-47A	Added	Accounting Standards Update No. 2019-04	04/25/2019
310-10-35-48	Amended	Accounting Standards Update No. 2019-04	04/25/2019
310-10-35-48A	Added	Accounting Standards Update No. 2019-04	04/25/2019
310-10-35-48B	Added	Accounting Standards Update No. 2019-04	04/25/2019
310-10-35-49	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-53A through 35-53C	Added	Accounting Standards	06/16/2016

		Update No. 2016-13	
310-10-40-1A	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-10-40-1A	Added	Accounting Standards Update No. 2014-14	08/08/2014
310-10-40-4	Amended	Accounting Standards Update No. 2017-05	02/22/2017
310-10-40-4	Amended	Accounting Standards Update No. 2014-09	05/28/2014
310-10-40-5	Amended	Accounting Standards Update No. 2016-02	02/25/2016
310-10-40-5	Amended	Accounting Standards Update No. 2014-09	05/28/2014
310-10-45-1	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-45-2	Amended	Accounting Standards Update No. 2019-04	04/25/2019
310-10-45-4	Superseded	Accounting Standards Update No. 2012-04	10/01/2012
310-10-45-4A through 45-6	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-45-4A	Added	Accounting Standards Update No. 2012-04	10/01/2012
310-10-45-11	Amended	Accounting Standards Update No. 2016-01	01/05/2016
310-10-45-14	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-10-50-1	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-1	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-1A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-2	Amended	Accounting Standards	06/16/2016

		Update No. 2016-13	
310-10-50-2	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-3	Amended	Maintenance Update 2015-11	06/19/2015
310-10-50-4	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-4	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-4A	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-4A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-5A through 50-10	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-5	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-10-50-5A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-5B	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-5B	Amended	Accounting Standards Update No. 2010-25	09/28/2010
310-10-50-6	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-7	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-7A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-7B	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-7B	Amended	Accounting Standards Update No. 2010-25	09/28/2010
310-10-50-9	Amended	Accounting Standards Update No.	07/21/2010

		2010-20	
310-10-50-10	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-11	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-10-50-11	Amended	Accounting Standards Update No. 2014-04	01/17/2014
310-10-50-11A through 50-11C	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-11A through 50-11C	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-12	Superseded	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-13	Superseded	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-14 through 50-21	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-14	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-10-50-14A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-15	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-17	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-20	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-21	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-22	Superseded	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-23	Superseded	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-24	Superseded	Accounting Standards Update No.	06/16/2016

		2016-13	
310-10-50-25	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-26	Amended	Accounting Standards Update No. 2016-01	01/05/2016
310-10-50-26	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-27 through 50-30	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-27 through 50-34	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-50-31 through 50-34	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-10-50-31 through 50-34	Amended	Accounting Standards Update No. 2011-01	01/19/2011
310-10-50-31 through 50-34	Amended	Accounting Standards Update No. 2011-02	04/05/2011
310-10-50-32 through 50-34	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-10-50-35	Added	Accounting Standards Update No. 2014-04	01/17/2014
310-10-50-36 through 50-48 310-10-50-37 310-10-50-38 310-10-50-39 310-10-50-40 310-10-50-41 310-10-50-42 310-10-50-43 310-10-50-44 310-10-50-45 310-10-50-46 310-10-50-47 310-10-50-48	Added	Accounting Standards Update No. 2022-02	03/31/2022
310-10-55-1 through 55-11	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-55-2	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-55-3	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-10-55-7 through 55-22	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-55-12	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-10-55-12A through 55-12K 310-10-55-12B 310-10-55-12C 310-10-55-12D 310-10-	Added	Accounting Standards	03/31/2022

55-12E 310-10-55-12F 310-10-55-12G 310-10-55-12H 310-10-55-12I 310-10-55-12J 310-10-55-12K		Update No. 2022-02	
310-10-55-16 through 55-22	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-55-14	Amended	Accounting Standards Update No. 2016-02	02/25/2016
310-10-60-4	Amended	Accounting Standards Update No. 2016-20	12/21/2016
310-10-60-4	Amended	Accounting Standards Update No. 2014-09	05/28/2014
310-10-60-5	Amended	Accounting Standards Update No. 2020-10	10/29/2020
310-10-65-1	Added	Accounting Standards Update No. 2010-18	04/29/2010
310-10-65-2	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-10-65-3	Added	Accounting Standards Update No. 2011-01	01/19/2011

310-10-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

310-10-05-**1** The Receivables Topic includes the following Subtopics:

a. Overall

b. Nonrefundable Fees and Other Costs

c. Subparagraph superseded by Accounting Standards Update No. 2016-13.

d. Subparagraph superseded by Accounting Standards Update No. 2022-02.

310-10-05-**2** The Overall Subtopic establishes general guidance for receivables. The guidance is presented in the following two Subsections:

a. General

b. Acquisition, Development, and Construction Arrangements.

310-10-05-**3** The General Subsections provide guidance on a variety of accounting issues related to receivables. The following paragraphs provide background information on types of receivables addressed in the General Subsections.

Receivables in General

310-10-05-**4** Receivables may arise from credit sales, loans, or other transactions. Receivables may be in the form of loans, notes, and other types of financial instruments and may be originated by an entity or purchased from another entity.

Standby Commitments to Purchase Loans

310-10-05-**5** Entities sometimes enter into forward standby commitments to purchase loans at a stated price in return for a standby commitment fee. In such an arrangement, settlement of the standby commitment is at the option of the seller of the loans and would result in delivery to the entity only if the contract price equals or exceeds the market price of the underlying loan or security on the settlement date. A standby commitment differs from a mandatory commitment in that the entity assumes all the market risks of ownership but shares in none of the rewards. A standby commitment is, in substance, a written put option that will be exercised only if the value of the loans is less than or equal to the strike price.

Factoring Arrangements

310-10-05-**6** Factoring arrangements are a means of discounting accounts receivable on a nonrecourse, notification basis. Accounts receivable are sold outright, usually to a transferee (the factor) that assumes the full risk of collection, without recourse to the transferor in the event of a loss. Debtors are directed to send payments to the transferee.

Rebates

310-10-05-**7** Rebates represent refunds of portions of the precomputed finance charges on installment loans or trade receivables, if applicable, that occur when payments are made ahead of schedule. Rebate calculations generally are governed by state laws and may differ from unamortized finance charges on installment loans or trade receivables because many states require rebate calculations to be based on the Rule of 78s or other methods instead of the interest method.

Acquisition, Development, and Construction Arrangements

310-10-05-**8** The Acquisition, Development, and Construction Arrangements Subsections provide guidance for determining whether a lender should account for an acquisition, development, and construction arrangement as a loan or as an investment in real estate or a joint venture.

310-10-05-**9** Lenders may enter into acquisition, development, and construction arrangements in which they have virtually the same risks and potential rewards as those of owners or joint venturers. Loans granted to acquire operating properties sometimes grant the lender a right to participate in expected residual profit from the sale or refinancing of the property. The expected residual profit may take the form of a percentage of the appreciation of the property determined at the maturity of the loan.

310-10-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

Entities

310-10-15-**1** The guidance in the General Subsections applies to all entities.

Transactions

310-10-15-**2** The guidance in the General Subsections applies to a variety of instruments and transactions, including the following:

a. Trade accounts receivable

b. Loans

c. Loan syndications

d. Factoring arrangements

e. Standby letters of credit

f. Financing receivables.

310-10-15-**3** The guidance in the General Subsections does not apply to the following transactions and activities:

a. Mortgage banking activities (as described in paragraph 948-10-05-4)

b. A contract that is required to be accounted for as a derivative instrument under Subtopic 815-10. For example, paragraph 815-10-15-70 states that commitments to purchase or sell mortgage loans or other types of loans at a future date shall be evaluated under the definition of a derivative instrument to determine whether Subtopic 815-10 applies.

Acquisition, Development, and Construction Arrangements

Entities

310-10-15-**4** The guidance in the Acquisition, Development, and Construction Arrangements Subsections applies to all entities.

Transactions

310-10-15-**5** The guidance in the Acquisition, Development, and Construction Arrangements Subsections applies only to those acquisition, development, and construction arrangements in which the lender participates in expected residual profit, as further described in the Acquisition, Development, and Construction Subsection of Section 310-10-25.

310-10-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Acquisition, Development, and Construction Arrangements

Acquisition, development, or construction arrangements, in which a lender, usually a financial institution, participates in expected residual profit from the sale or refinancing of property.

Amortized Cost Basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

Class of Financing Receivable

A group of financing receivables determined on the basis of both of the following:

a. Risk characteristics of the financing receivable

b. An entity's method for monitoring and assessing credit risk.

See paragraphs 326-20-55-11 through 55-14 and 326-20-50-3.

Commencement Date of the Lease (Commencement Date)

The date on which a 842-10-55-19 through 55-21 for implementation guidance on the commencement date.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Credit Quality Indicator

A statistic about the credit quality of a financial asset.

Current Assets

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

Debt Security

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position

c. U.S. Treasury securities

d. U.S. government agency securities

e. Municipal securities

f. Corporate bonds

g. Convertible debt

h. Commercial paper

i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits

j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

a. Option contracts

b. Financial futures contracts

c. Forward contracts

d. Lease contracts

e. Receivables that do not meet the definition of security and, so, are not debt securities, for example:

   1. Trade accounts receivable arising from sales on credit by industrial or commercial entities

   2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

Direct Financing Lease

From the perspective of a 842-10-25-2but meets the criteria in paragraph 842-10-25-3(b)and is not an operating lease in accordance with paragraph 842-10-25-3A.

Effective Interest Rate

The rate of return implicit in the financial asset, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For purchased financial assets with credit deterioration, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

Expected Residual Profit

The amount of profit, whether called interest or another name, such as equity kicker, above a reasonable amount of interest and fees expected to be earned by a lender.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an market participants at the measurement date.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

Financing Receivable

A financing arrangement that has both of the following characteristics:

a. It represents a contractual right to receive money in either of the following ways:

   1. On demand

   2. On fixed or determinable dates.

b. It is recognized as an asset in the entity's statement of financial position.

See paragraphs 310-10-55-13 through 55-15 for more information on the definition of financing receivable, including a list of items that are excluded from the definition (for example, debt securities).

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Payments

See paragraph 842-10-30-5 for what constitutes lease payments from the perspective of a lessor.

Lease Receivable

A direct financing lease plus any amount that a lessor expects to derive from the underlying asset following the end of the lessee or any other third party unrelated to the lessor, measured on a discounted basis.

Lease Term

The noncancellable period for which a underlying asset, together with all of the following:

a. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option

b. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

c. Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

An entity that enters into a underlying asset for a period of time in exchange for consideration.

Leveraged Lease

From the perspective of a lease that was classified as a leveraged lease in accordance with the leases guidance in effect before the effective date and for which the commencement date is before the effective date.

Loan

A contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

Loan Syndication

A transaction in which several lenders share in lending to a single borrower. Each lender loans a specific amount to the borrower and has the right to repayment from the borrower. It is common for groups of lenders to jointly fund those loans when the amount borrowed is greater than any one lender is willing to lend.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Portfolio Segment

The level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. See paragraphs 326-20-50-3 and 326-20-55-10.

Probable

The future event or events are likely to occur.

Purchased Financial Assets with Credit Deterioration

Acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

Recorded Investment

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment. However, if a loan is a hedged item in a fair value hedge, the amount of that loan's recorded investment should include the unamortized amount of the cumulative fair value hedge adjustments.

Recourse

The right of a transferee of receivables to receive payment from the transferor of those receivables for any of the following:

a. Failure of debtors to pay when due

b. The effects of prepayments

c. Adjustments resulting from defects in the eligibility of the transferred receivables.

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Sales-Type Lease

From the perspective of a lease that meets one or more of the criteria in paragraph 842-10-25-2 and is not an operating lease in accordance with paragraph 842-10-25-3A.

Standby Letter of Credit

A letter of credit (or similar arrangement however named or designated) that represents an obligation to the beneficiary on the part of the issuer for any of the following:

a. To repay money borrowed by or advanced to or for the account of the account party

b. To make payment on account of any evidence of indebtedness undertaken by the account party

c. To make payment on account of any default by the account party in the performance of an obligation.

A standby letter of credit would not include the following:

a. Commercial letters of credit and similar instruments where the issuing bank expects the beneficiary to draw upon the issuer and which do not guarantee payment of a money obligation

b. A guarantee or similar obligation issued by a foreign branch in accordance with and subject to the limitations of Regulation M of the Federal Reserve Board.

Troubled Debt Restructuring

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

310-10-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

> **General Note for Fair Value Option:** Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

310-10-25-**1** The General Subsections provide recognition guidance organized as follows:

a. Recognition of certain types of receivables

b. Recognition of interest and fees for certain types of receivables.

Recognition of Certain Types of Receivables

310-10-25-**2** The following guidance addresses issues related to recognition of various types of receivables, specifically:

a. Factoring arrangements

b. Loan syndications and loan participations

c. Standby commitments

d. Credit card portfolio purchased

e. Secured loans.

Such receivables may be originated by an entity or purchased from a third party.

Factoring Arrangements

310-10-25-**3** Transfers of receivables under factoring arrangements meeting the sale criteria of paragraph 860-10-40-5 shall be accounted for by the factor as purchases of receivables. The acquisition of receivables and accounting for purchase discounts such as factoring commissions shall be recognized in accordance with Subtopic 310-20. Factoring commissions under these arrangements shall be recognized over the period of the loan contract in accordance with that Subtopic. That period begins when a finance company or an entity with financing activities including trade receivables funds a customer's credit and ends when the customer's account is settled.

Loan Syndications and Loan Participations

310-10-25-**4** Each lender in a syndication shall account for the amounts it is owed by the borrower. Repayments by the borrower may be made to a lead lender that then distributes the collections to the other lenders of the syndicate. In those circumstances, the lead lender is simply functioning as a servicer and, therefore, shall not recognize the aggregate loan as an asset.

310-10-25-**5** See paragraph 860-10-55-61 for guidance on accounting for loan participations.

Standby Commitments to Purchase Loans

310-10-25-**6** Paragraph 815-10-15-70 states that commitments to purchase or sell mortgage loans or other types of loans at a future date must be evaluated under the definition of a derivative instrument to determine whether Subtopic 815-10 applies. This paragraph applies only to a standby commitment to purchase loans and only if that commitment is within the scope of this Subtopic. It does not apply to other customary kinds of commitments to purchase loans, nor does it apply to commitments to originate loans. If the settlement date is within a reasonable period, for example, a normal loan commitment period, and the entity has the intent and ability to accept delivery without selling assets, a standby commitment within the scope of this Subtopic shall be viewed as part of the normal production of loans. However, if the settlement date is not within a reasonable period, or the entity does not have the intent and ability to accept delivery without selling assets, the standby commitment shall be accounted for as a written put option.

Credit Card Portfolio Purchased

310-10-25-**7** When an entity purchases a credit card portfolio that includes the cardholder relationships at an amount that exceeds the sum of the amounts due under the credit card receivables, the difference between the amount paid and the sum of the balances of the credit card loans at the date of purchase (the premium) shall be allocated between the cardholder relationships acquired and the loans acquired. The premium relating to the cardholder relationships represents an identifiable intangible asset that shall be accounted for in accordance with Topic 350.

Secured Loans

310-10-25-**8** Transfers not meeting the sale criteria in paragraph 860-10-40-5 shall be accounted for as secured loans, that is, loans collateralized by customer accounts or receivables. Paragraph 860-30-25-5 provides additional guidance in those situations.

Recognition of Interest and Fees for Certain Types of Receivables

310-10-25-**9** The following guidance addresses the recognition of interest income and certain fees for various types of receivables, specifically:

a. Interest income on receivables

b. Impact of rebates on accrued interest income

c. Prepayment fees

d. Delinquency fees.

Such interest or fees may relate to receivables that are originated by the entity or purchased from a third party.

Interest Income on Receivables

310-10-25-**10** See Subtopic 835-30 for guidance on the imputation of interest for receivables that represent contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates, whether or not there is any stated provision for interest.

Impact of Rebates on Accrued Interest Income

310-10-25-**11** Accrual of interest income on installment loans or trade receivables shall not be affected by the possibility that rebates may be calculated on a method different from the interest method, except that the possibility of rebates affects the accounting resulting from the application of paragraph 310-20-35-18(a). Differences between rebate calculations and accrual of interest income merely adjust original estimates of interest income and shall be recognized in income when loans or trade receivables are prepaid or renewed.

Prepayment Fees

310-10-25-**12** Prepayment penalties shall not be recognized in income until loans or trade receivables, if applicable, are prepaid, except that the existence of prepayment penalties may affect the accounting resulting from the application of paragraph 310-20-35-18(a).

Delinquency Fees

310-10-25-**13** Delinquency fees shall be recognized in income when chargeable, assuming collectibility is reasonably assured.

Acquisition, Development, and Construction Arrangements

310-10-25-**14** This Subsection provides recognition guidance for acquisition, development, and construction arrangements, specifically:

a. Expected residual profit

b. Characteristics implying investment in real estate or joint ventures

c. Characteristics implying loans

d. Accounting for an arrangement as a loan or an investment in real estate

e. Participations in acquisition, development, and construction arrangements.

Expected Residual Profit

310-10-25-**15** The extent of participation in expected residual profit and its forms may vary. An example of a simple form might be one in which the contractual interest and fees, if any, on a condominium project are considered to be at fair market rates. The expected sales prices are sufficient to cover at least principal, interest, and fees, and the lender shares in an agreed proportion, for example, 20 percent, 50 percent, or 90 percent, of any profit on sale of the units.

310-10-25-**16** A slightly different form of arrangement may produce approximately the same result. For example, the interest rate and/or fees may be set at a level higher than in the preceding example, and the lender may receive a smaller percentage of any profit on sale of the units. Thus, a greater portion of the expected sales price is required to cover the contractual interest and/or fees, leaving a smaller amount to be allocated between the lender and the borrower. The lender's share of expected residual profit in such an arrangement may be approximately the same as in the preceding example.

310-10-25-**17** A different arrangement may cause the same result if the interest rate and/or fees are set at a sufficiently high level and the lender does not share in any proportion of profit on sale of the units. Another variation in these arrangements is one in which the lender shares in gross rents or net cash flow from a commercial project, for example, an office building or an apartment complex.

310-10-25-**18** The profit participation agreement may or may not be part of the mortgage loan agreement.

Characteristics Implying Investment in Real Estate or Joint Ventures

310-10-25-**19** In an acquisition, development, and construction arrangement in which the lender participates in expected residual profit, in addition to the lender's participation in expected residual profit, the following characteristics suggest that the risks and rewards of the arrangement are similar to those associated with an investment in real estate or joint venture:

a. The lender agrees to provide all or substantially all necessary funds to acquire, develop, or construct the property. The borrower has title to but little or no equity in the underlying property.

b. The lender funds the commitment or origination fees or both by including them in the amount of the loan.

c. The lender funds all or substantially all interest and fees during the term of the loan by adding them to the loan balance.

d. The lender's only security is the acquisition, development, and construction project. The lender has no recourse to other assets of the borrower, and the borrower does not guarantee the debt.

e. In order for the lender to recover the investment in the project, the property must be sold to independent third parties, the borrower must obtain refinancing from another source, or the property must be placed in service and generate sufficient net cash flow to service debt principal and interest.

f. The arrangement is structured so that foreclosure during the project's development as a result of delinquency is unlikely because the borrower is not required to make any payments until the project is complete, and, therefore, the loan normally cannot become delinquent.

Characteristics Implying Loans

310-10-25-**20** Even though the lender participates in expected residual profit, the following characteristics suggest that the risks and rewards of an acquisition, development, and construction arrangement are similar to those associated with a loan:

a. The lender participates in less than a majority of the expected residual profit.

b. The borrower has an equity investment, substantial to the project, not funded by the lender. The investment may be in the form of cash payments by the borrower or contribution by the borrower of land (without considering value expected to be added by future development or construction) or other assets. The value attributed to the land or other assets should be net of encumbrances. There may be little value to assets with substantial prior liens that make foreclosure to collect less likely. Recently acquired property generally shall be valued at no higher than cost.

c. The lender has either of the following:

   1. Recourse to substantial tangible, saleable assets of the borrower, with a determinable sales value, other than the acquisition, development, and construction project that are not pledged as collateral under other loans

   2. An irrevocable letter of credit from a creditworthy, independent third party provided by the borrower to the lender for a substantial amount of the loan over the entire term of the loan.

d. A take-out commitment for the full amount of the lender's loans has been obtained from a creditworthy, independent third party. Take-out commitments often are conditional. If so, the conditions should be reasonable and their attainment probable.

e. Noncancelable sales contracts or lease commitments from creditworthy, independent third parties are currently in effect that will provide sufficient net cash flow on completion of the project to service normal loan amortization, that is, principal and interest. Any associated conditions should be probable of attainment.

310-10-25-**21** Some acquisition, development, and construction arrangements include personal guarantees of the borrower and/or a third party. The existence of a personal guarantee alone rarely provides a sufficient basis for concluding that an acquisition, development, and construction arrangement should be accounted for as a loan. In instances where the substance of the guarantee and the ability of the guarantor to perform can be reliably measured, and the guarantee covers a substantial amount of the loan, concluding that an acquisition, development, and construction arrangement supported by a personal guarantee should be accounted for as a loan may be justified.

310-10-25-**22** The substance of a personal guarantee depends on all of the following:

a. The ability of the guarantor to perform under the guarantee

b. The practicality of enforcing the guarantee in the applicable jurisdiction

c. A demonstrated intent to enforce the guarantee.

310-10-25-**23** Examples of personal guarantees that have the ability to perform would include those supported by liquid assets placed in escrow, pledged marketable securities, or irrevocable letters of credit from a creditworthy, independent third party in amounts sufficient to provide necessary equity support for an acquisition, development, and construction arrangement to be considered a loan. In the absence of such support for the guarantee, the financial statements and other information of the guarantor may be considered to determine the guarantor's ability to perform.

310-10-25-**24** Particular emphasis should be placed on the following factors when considering the financial statements of the guarantor:

a. Liquidity and net worth of the guarantor. There should be evidence of sufficient liquidity to perform under the guarantee. There may be little substance to a personal guarantee if the guarantor's net worth consists primarily of assets pledged to secure other debt.

b. Guarantees provided by the guarantor to other projects. If the financial statements do not disclose and quantify such information, inquiries should be made as to other guarantees. Also, it may be appropriate to obtain written representation from the guarantor regarding other contingent liabilities.

310-10-25-**25** The enforceability of the guarantee in the applicable jurisdiction should also be determined. Even if the guarantee is legally enforceable, business reasons that might preclude the lender from pursuing the guarantee shall be assessed. Those business reasons could include the length of time required to enforce a personal guarantee, whether it is normal business practice in that jurisdiction to enforce guarantees on similar transactions, and whether the lender must choose between pursuing the guarantee or the project's assets, but cannot pursue both.

310-10-25-**26** Some acquisition, development, and construction arrangements recognize value, not funded by the lender, for the builder's efforts after inception of the arrangement, sometimes referred to as sweat equity. Sweat equity is not at risk by the borrower at the inception of an acquisition, development, and construction project. Consequently, sweat equity shall not be considered a substantial equity investment on the part of the borrower in determining whether the acquisition, development, and construction arrangement should be treated as a loan.

Accounting for an Arrangement as a Loan or an Investment in Real Estate

310-10-25-**27** An acquisition, development, and construction arrangement shall be accounted for as follows:

a. If the lender is expected to receive over 50 percent of the expected residual profit from the project, the lender shall account for income or loss from the arrangement as a real estate investment as specified by Topic 970.

b. If the lender is expected to receive 50 percent or less of the expected residual profit, the entire arrangement shall be accounted for either as a loan or as a real estate joint venture, depending on the circumstances. At least one of the characteristics identified in paragraph 310-10-25-20(b) through (e) or a qualifying personal guarantee shall be present for the arrangement to be accounted for as a loan. Otherwise, real estate joint venture accounting would be appropriate.

310-10-25-**28** If the arrangement is accounted for as a loan, interest and fees shall be recognized as income subject to recoverability. Topic 974 provides guidance that may be relevant in assessing the recoverability of such loan amounts and accrued interest.

310-10-25-**29** If the arrangement is accounted for as a real estate joint venture, the provisions of Subtopics 970-323 and 835-20 provide guidance for such accounting. In particular, paragraph 970-835-35-1 provides guidance on the circumstances under which interest income shall not be recognized.

Participations in Acquisition, Development, and Construction Arrangements

310-10-25-**30** Many participations in loans or whole loans are bought and sold. The accounting treatment for a purchase that involves acquisition, development, and construction arrangements shall be based on a review of the transaction at the time of purchase in accordance with this guidance. In applying this guidance, a participant would look to its individual percentage of expected residual profit. For example, a participant who will not share in any of the expected residual profit is not subject to this guidance. However, the responsibility to review collectibility and provide allowances applies equally to purchased acquisition, development, and construction arrangements. Any reciprocal transactions between institutions, including multiparty transactions, shall be viewed in their entirety and accounted for in accordance with their combined effects.

310-10-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Certain Receivables

310-10-30-**1** The following provides initial measurement guidance for certain notes receivable, specifically those exchanged for cash and those exchanged for property, goods, or services. Such notes may be originated by an entity or purchased from a third party.

Notes Exchanged for Cash

310-10-30-**2** As indicated in paragraph 835-30-25-4, when a note is received solely for cash and no other right or privilege is exchanged, it is presumed to have a present value at issuance measured by the cash proceeds exchanged. If cash and some other rights or privileges are exchanged for a note, the value of the rights or privileges shall be given accounting recognition as described in paragraph 835-30-25-6.

Notes Exchanged for Property, Goods, or Services

310-10-30-**3** As indicated in paragraph 835-30-25-8, notes exchanged for property, goods, or services are valued and accounted for at the present value of the consideration exchanged between the contracting parties at the date of the transaction in a manner similar to that followed for a cash transaction.

310-10-30-**4** As indicated in paragraph 835-30-25-2, if determinable, the established exchange price (which, presumably, is the same as the price for a cash sale) of property, goods, or services acquired or sold in consideration for a note may be used to establish the present value of the note. That paragraph explains that, when notes are traded in an open market, the market rate of interest and quoted prices of the notes provide the evidence of the present value. That paragraph notes that these methods are preferable means of establishing the present value of the note.

310-10-30-**5** As indicated in paragraph 835-30-25-10, in circumstances where interest is not stated, the stated amount is unreasonable, or the stated face amount of the note is materially different from the current cash sales price for the same or similar items or from the fair value of the note at the date of the transaction, the note, the sales price, and the cost of the property, goods, or services exchanged for the note shall be recorded at the fair value of the property, goods, or services or at an amount that reasonably approximates the fair value of the note, whichever is the more clearly determinable.

310-10-30-**6** Paragraph 835-30-25-11 explains that, in the absence of established exchange prices for the related property, goods, or services or evidence of the fair value of the note (as described in paragraph 835-30-25-2), the present value of a note that stipulates either no interest or a rate of interest that is clearly unreasonable shall be determined by discounting all future payments on the notes using an imputed rate of interest as described in Subtopic 835-30. Paragraph 835-30-25-11 explains that this determination shall be made at the time the note is acquired; any subsequent changes in prevailing interest rates shall be ignored.

Standby Commitments to Purchase Loans

310-10-30-**7** If a standby commitment to purchase loans is viewed under paragraph 310-10-25-6 as part of the normal production of loans, an entity shall record loans purchased under the standby commitment at cost on the settlement date, net of the standby commitment fee received, in conformity with Subtopic 310-20. If a standby commitment is accounted for as a written option as discussed in paragraph 310-10-25-6, the option premium received (standby commitment fee) shall be recorded as a liability representing the fair value of the standby commitment on the trade date.

310-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

310-10-35-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**4** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**11** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**12** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**13** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**14** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**15** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**16** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**17** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**18** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**19** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**20** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**21** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**22** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**23** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**24** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**25** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**26** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**27** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**28** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**29** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**30** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**31** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**31A**

PENDING CONTENT

Transition Date: (P) December 16, 2022; (N) December 16, 2023 **- Transition Guidance :** 815-20-65-6

Paragraph 815-25-35-11 also explains that an entity shall not adjust the recorded investment or the discount rate of the individual assets or individual beneficial interest included in the closed portfolio for a basis adjustment that is maintained on the closed portfolio basis in accordance with paragraph 815-25-35-1(c).

310-10-35-**32** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**33** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**34** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**35** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**36** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**37** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**38** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**39** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**40** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**41** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**42** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-**43** Paragraph superseded by Accounting Standards Update No. 2016-13.

Subsequent Measurement of Specific Types of Receivables

310-10-35-**44** The following provides guidance on aspects of subsequent measurement for various types of receivables, specifically:

a. Financial assets subject to prepayment

b. Standby commitments to purchase loans

c. Loans and trade receivables not held for sale

d. Nonmortgage loans held for sale

e. Loans not previously held for sale

f. Amortization of discount or premium on notes

g. Premium allocated to loans purchased in a credit card portfolio

h. Hedged portfolios of loans

i. Interest income.

Financial Assets Subject to Prepayment

310-10-35-**45** Paragraph 860-20-35-2 requires that financial assets, except for instruments that are within the scope of Subtopic 815-10, that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment be subsequently measured like investments in debt securities classified as available for sale or trading under Topic 320.

Standby Commitments to Purchase Loans

310-10-35-**46** This paragraph applies only to standby commitments to purchase loans. It does not apply to other customary kinds of commitments to purchase loans, nor does it apply to commitments to originate loans. If a standby commitment is recorded at the amount of the option as discussed in paragraph 310-10-25-6, the liability recorded at the amount of the option premium received (representing the fair value of the standby commitment on the trade date) shall thereafter be accounted for at the greater of the initial standby commitment fee or the fair value of the written put option. Unrealized gains (that is, recoveries of unrealized losses) or losses shall be credited or charged to current operations. However, see Subtopic 815-10 for guidance on accounting for written put options that are within the scope of that Subtopic.

Nonmortgage Loans and Trade Receivables Not Held for Sale

310-10-35-**47** Trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at amortized cost basis. (Discounts offered as a result of the pricing of a sale or a product or service may be termed sales discounts. This Subsection does not address these discounts.) For financial instruments measured at amortized cost basis, see Subtopic 326-20 for additional guidance on credit losses.

310-10-35-**47A** Nonmortgage loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at their amortized cost bases. See Subtopic 326-20 for guidance on the measurement of credit losses for financial instruments measured at amortized cost basis. See Topic 948 for guidance on mortgage loans classified as held-for-long-term-investment.

Nonmortgage Loans Held for Sale

310-10-35-**48** Nonmortgage loans held for sale shall be reported at the lower of amortized cost basis or fair value. The amount by which amortized cost basis exceeds fair value shall be accounted for as a valuation allowance. Changes in the valuation allowance shall be included in the determination of net income of the period in which the change occurs. This paragraph applies only to nonmortgage loans. See Topic 948 for guidance related to mortgage loans classified as held for sale.

Transfers of Nonmortgage Loans between Classifications

310-10-35-**48A** For a nonmortgage loan that is transferred into the held-for-sale classification from the nonmortgage loan not-held-for-sale classification, an entity shall reverse in earnings any allowance for credit losses previously recorded on the nonmortgage loan not held for sale at the transfer date. An entity shall then reclassify and transfer the nonmortgage loan into the held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses). An entity shall then determine if a valuation allowance is necessary by following the guidance in Subtopic 310-10.

310-10-35-**48B** For a nonmortgage loan that is transferred into the not-held-for-sale classification from the nonmortgage loans held-for-sale classification, an entity shall reverse in earnings any valuation allowance previously recorded on the nonmortgage loan held for sale at the transfer date. An entity shall then reclassify and transfer the nonmortgage loan into the not-held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any valuation allowance). An entity shall then determine if an allowance for credit losses is necessary by following the guidance in Subtopic 326-20.

310-10-35-**49** Paragraph superseded by Accounting Standards Update No. 2016-13.

Amortization of Discount or Premium on Notes

310-10-35-**50** See paragraph 835-30-35-2 for guidance related to amortization of discounts or premiums.

310-10-35-**51** See Subtopic 835-30 for further guidance on situations in which interest shall be imputed.

Premium Allocated to Loans Purchased in a Credit Card Portfolio

310-10-35-**52** When an entity purchases a credit card portfolio that includes the cardholder relationships as discussed in paragraph 310-10-25-7, at an amount that exceeds the sum of the amounts due under the credit card receivables, the premium allocated to the loans shall be amortized over the life of the loans in accordance with Subtopic 310-20. If the credit card agreement provides for a repayment period beyond expiration of the card if the card is not renewed, that period shall be considered in determining the life of the credit card loan.

Hedged Portfolios of Loans

310-10-35-**53** Entities sometimes wish to hedge risk associated with portfolios of loans or specific loan cash flows. See Section 815-20-55 for implementation guidance in such situations.

Interest Income

310-10-35-**53A** Except as noted in paragraphs 310-10-35-53B through 35-53C, this Subsection does not address how a creditor should recognize, measure, or display interest income on a financial asset with a credit loss. Some accounting methods for recognizing income may result in an amortized cost basis of a financial asset that is less than the amount expected to be collected (or, alternatively, the fair value of the collateral). Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods.

310-10-35-**53B** When recognizing interest income on purchased financial assets with credit deterioration within the scope of Topic 326, an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. The entity shall accrete or amortize as interest income the non-credit-related discount or premium of a purchased financial asset with credit deterioration in accordance with existing applicable guidance in Section 310-20-35 or 325-40-35.

310-10-35-**53C** Recognition of income on purchased financial assets with credit deterioration is dependent on having a reasonable expectation about the amount expected to be collected. Subsequent to purchase, this Subtopic does not prohibit placing financial assets on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, when appropriate. For example, if the timing of either a sale of the financial asset into the secondary market or a sale of collateral in essentially the same condition as received upon foreclosure is indeterminate, the creditor likely does not have the information necessary to reasonably estimate cash flows expected and shall cease recognizing income on the financial asset. However, the ability to place a financial asset on nonaccrual shall not be used to circumvent recognition of a credit loss. If the financial asset is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate. Such rewards of ownership would include use of the collateral in operations of the entity or improving the collateral for resale. Consistent with paragraph 310-20-35-18, interest income shall not be recognized to the extent that the net investment in the financial asset would increase to an amount greater than the payoff amount.

Acquisition, Development, and Construction Arrangements

310-10-35-**54** This Subsection provides the following subsequent measurement guidance:

a. Lender interest in expected residual profit

b. Changes in initial determination factors

c. Other matters.

Changes in Initial Determination Factors

310-10-35-**55** The factors that were evaluated in determining the accounting treatment at inception subsequently change for some acquisition, development, and construction arrangements, for example, as a result of a renegotiation of the terms. Consequently, the accounting treatment for an acquisition, development, and construction arrangement shall be periodically reassessed.

310-10-35-**56** An acquisition, development, and construction arrangement originally classified as an investment or joint venture could subsequently be treated as a loan if the risk to the lender diminishes significantly, and the lender will not be receiving over 50 percent of the expected residual profit in the project. The lender shall demonstrate a change in the facts relied upon when initially making the accounting decision, not just the absence of, or reduced participation in, the expected residual profit. For instance, risk may be reduced if a valid take-out commitment from another lender who has the capability to perform under the commitment is obtained and all conditions affecting the take-out commitment have been met, thus assuring the primary lender recovery of its funds.

310-10-35-**57** Conversely, if the lender assumes further risks or rewards in an acquisition, development, and construction arrangement by, for example, releasing collateral supporting a guarantee or increasing its percentage of profit participation to over 50 percent, the lender's position may change to that of an investor in real estate.

310-10-35-**58** Neither an improvement in the economic prospects for the project or successful, ongoing development of the project nor a deterioration in the economic prospects for the project justifies a change in classification of an acquisition, development, and construction arrangement.

310-10-35-**59** A change in classification is expected to occur infrequently and shall be supported by appropriate documentation. The change in factors in an acquisition, development, and construction arrangement shall be evaluated based on the guidance in this Subsection and accounted for prospectively.

310-10-35-**60** If an acquisition, development, and construction arrangement accounted for as a real estate joint venture continues into a permanent phase with the project generating a positive cash flow and paying debt service currently, income shall be recognized in accordance with Topic 970.

Other Matters

310-10-35-**61** Regardless of the accounting treatment for an acquisition, development, and construction arrangement, management shall on a continuing basis review the collectibility of uncollected principal, accrued interest, and fees and provide for appropriate allowances.

310-10-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

Transfers of Receivables

310-10-40-**1** See Topic 860 for guidance on a transferor's accounting for transfers of receivables. Subtopic 860-10 establishes criteria that are required to be satisfied for derecognition of a transferred asset. Subtopic 860-20 provides guidance for accounting for transfers of assets, including accounting for transfers of receivables in securitization transactions, transfers of receivables with recourse, and factoring arrangements.

Classification and Measurement of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

310-10-40-**1A** For guidance on the classification and measurement of certain government-guaranteed mortgage loans upon foreclosure by a creditor, see paragraphs 310-20-40-7 through 40-8310-20-40-8.

Acquisition, Development, and Construction Arrangements

310-10-40-**2** This Subsection provides derecognition guidance related to the sale of a lender's interest in expected residual profit.

310-10-40-**3** The lender's share of the expected residual profit in a project may be sold to the borrower or a third party for cash or other consideration. If the expected residual profit in an acquisition, development, and construction arrangement accounted for as a loan is sold, the proceeds from the sale shall be recognized prospectively as additional interest over the remaining term of the loan. The expected residual profit is considered additional compensation to the lender, and the sale results in a quantification of the profit.

310-10-40-**4** If an acquisition, development, and construction arrangement is accounted for as an investment in real estate or joint venture and the expected residual profit is sold, the entity shall apply the guidance in Topic 860 on transfers and servicing.

310-10-40-**5** If a financial institution was the seller of the property at the initiation of the project, the entity shall apply the guidance in paragraphs 360-10-40-3A through 40-3B. However, if the sale is part of a sale and leaseback transaction, gain recognition, if any, should be determined by reference to Subtopic 842-40.

310-10-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the

> Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

310-10-45-**1** This Subsection provides guidance on presentation matters for receivables, specifically:

a. Loans or trade receivables
b. Foreclosed and repossessed assets
c. Subparagraph superseded by Accounting Standards Update No. 2016-13.
d. Subparagraph superseded by Accounting Standards Update No. 2016-13.
e. Discount and premium
f. Unearned discounts
g. Receivables classified as current assets
h. Cash flows
i. Receivables from officers, employees, or affiliates
j. Note received as an equity contribution.

Nonmortgage Loans or Trade Receivables

310-10-45-**2** Nonmortgage loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, such receivables held for sale shall be a separate balance sheet category. Major categories of nonmortgage loans or trade receivables shall be presented separately either in the balance sheet or in the notes to financial statements. An entity shall present the amounts reversed or established for the valuation allowance and the allowance for credit losses, as applicable, related to the transfer of nonmortgage loans (see paragraphs 310-10-35-48A through 35-48B) on a gross basis in the income statement. An entity may present those amounts on the income statement or in the notes to financial statements.

Foreclosed or Repossessed Assets

310-10-45-**3** Foreclosed and repossessed assets shall be classified as a separate balance sheet amount or included in other assets on the balance sheet with separate disclosures in the notes to financial statements. Certain returned or repossessed assets, such as inventory, shall not be classified separately if the assets subsequently are to be utilized by the entity in operations.

310-10-45-**4** Paragraph superseded by Accounting Standards Update No. 2012-04.

310-10-45-**4A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-45-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-45-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

Discount and Premium

310-10-45-**7** See paragraphs 835-30-45-1A through 45-4 for guidance on presentation matters related to the discount or premium on a note.

Unearned Discounts

310-10-45-**8** Unearned discounts (other than cash or quantity discounts and similar items), finance charges, and interest included in the face amount of receivables shall be shown as a deduction from the related receivables.

Receivables Classified as Current Assets

310-10-45-**9** As indicated in its definition for accounting purposes, the term current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Paragraph 210-10-45-1 notes that the term current assets comprehends the following types of receivables:

a. Trade accounts, notes, and acceptances receivable

b. Receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year

c. Installment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business.

See Section 210-10-45 for further guidance on the required presentation of current assets in the balance sheet.

Cash Flows

310-10-45-**10** Paragraph 230-10-45-16 states that cash receipts from returns on loans, other debt instruments of other entities, and equity securities-interest and dividends shall be classified in the statement of cash flows as cash inflows from operating activities.

310-10-45-**11** Paragraph 230-10-45-11 states that cash flows from purchases, sales, and maturities of available-for-sale debt securities shall be classified as cash flows from investing activities and reported gross in the statement of cash flows. Paragraph 230-10-45-21 states that some loans are similar to debt securities in a trading account in that they are originated or purchased specifically for resale and are held for short periods of time.

310-10-45-**12** See Topic 230 for further guidance on the classification of cash flows from receivables in the cash flow statement.

Receivables from Officers, Employees, or Affiliates

310-10-45-**13** As indicated in paragraph 850-10-50-2, notes or accounts receivable due from officers, employees, or affiliated companies shall be shown separately and not included under a general heading such as notes receivable or accounts receivable.

Note Received as an Equity Contribution

310-10-45-**14** For guidance on a note received as a contribution to an entity's equity, see paragraph 505-10-45-2.

Acquisition, Development, and Construction Arrangements

310-10-45-**15** Acquisition, development, and construction arrangements accounted for as investments in real estate or joint ventures shall be combined and reported in the balance sheet separately from those acquisition, development, and construction arrangements accounted for as loans.

310-10-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

310-10-50-**1** This Subsection provides the following disclosure guidance for receivables, off-balance-sheet credit exposures, and foreclosed and repossessed assets:

a. Accounting policies for loans and trade receivables

b. Assets serving as collateral

c. Subparagraph superseded by Accounting Standards Update No. 2016-13.

d. Subparagraph superseded by Accounting Standards Update No. 2016-13.

e. Foreclosed and repossessed assets

f. Subparagraph superseded by Accounting Standards Update No. 2016-13.

g. Subparagraph superseded by Accounting Standards Update No. 2016-13.

h. Subparagraph superseded by Accounting Standards Update No. 2016-13.

i. Risks and uncertainties

j. Fair value disclosures

k. Subparagraph superseded by Accounting Standards Update No. 2016-13.

l. Modifications.

Accounting Policies for Loans and Trade Receivables

310-10-50-**1A** The guidance in paragraphs [310-10-50-2 through 50-4A] applies only to the following financing receivables:

a. Loans

b. Trade receivables.

310-10-50-**2** The summary of significant accounting policies shall include the following:

a. The basis for accounting for loans and trade receivables

b. The method used in determining the lower of amortized cost basis or fair value of nonmortgage loans held for sale (that is, aggregate or individual asset basis)

c. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment

d. The method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs.

310-10-50-**3** If major categories of loans or trade receivables are not presented separately in the balance sheet (see paragraph 310-10-45-2), they shall be disclosed in the notes to the financial statements.

310-10-50-**4** The allowance for credit losses and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements.

310-10-50-**4A** Paragraph superseded by Accounting Standards Update No. 2016-13.

Assets Serving as Collateral

310-10-50-**5** For required disclosures of the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings, see paragraph 860-30-50-1A.

310-10-50-**5A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**5B** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**7A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**7B** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

Foreclosed and Repossessed Assets

310-10-50-**11** Paragraph 310-10-45-3 states that foreclosed and repossessed assets included in other assets on the statement of financial position shall have separate disclosures in the notes to financial statements. An entity shall also disclose the carrying amount of foreclosed residential real estate properties held at the reporting date as a result of obtaining physical possession in accordance with paragraphs 310-20-40-6 and 310-20-55-18F.

310-10-50-**11A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**11B** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**11C** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**12** Paragraph superseded by Accounting Standards Update No. 2010-20.

310-10-50-**13** Paragraph superseded by Accounting Standards Update No. 2010-20.

310-10-50-**14** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**14A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**15** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**16** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**17** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**18** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**19** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**20** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**21** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**22** Paragraph superseded by Accounting Standards Update No. 2010-20.

310-10-50-**23** Paragraph superseded by Accounting Standards Update No. 2010-20.

310-10-50-**24** Paragraph superseded by Accounting Standards Update No. 2016-13.

Risks and Uncertainties

310-10-50-**25** Certain loans and trade receivables have contractual terms that expose entities to risks and uncertainties that fall into one or more categories, as discussed in paragraph 275-10-50-1. See Section 275-10-50 for disclosure guidance related to those products.

Fair Value Disclosures

310-10-50-**26** Section 825-10-50 provides guidance on the required disclosure of fair values of certain assets and liabilities. Paragraph 825-10-50-8 explains that, for trade receivables and payables, no disclosure is required under that Subtopic if the trade receivable or payable is due in one year or less.

310-10-50-**27** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**28** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**29** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**30** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-50-**31** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-10-50-**32** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-10-50-**33** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-10-50-**34** Paragraph superseded by Accounting Standards Update No. 2022-02.

Loans in Process of Foreclosure

310-10-50-**35** An entity shall disclose the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction.

Modifications

310-10-50-**36** As of the date of each balance sheet presented, a creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the amount of commitments, if any, to lend additional funds to debtors experiencing financial difficulty for which the creditor has modified the terms of the receivables in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension in the current reporting period. For purposes of this disclosure, covenant waivers and modifications of contingent acceleration clauses would not be considered term extensions.

Loans Restructured into Two (or More) Loan Agreements

310-10-50-**37** When a loan is restructured into two (or more) loan agreements, the restructured loans shall be considered separately when assessing the applicability of the disclosures in Section 326-20-50 in years after the restructuring because they are legally distinct from the original loan.

Modifications to Debtors Experiencing Financial Difficulty

310-10-50-**38** The objective of the disclosures in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44 is to provide financial statement users with information about the type and magnitude of certain modifications of receivables made to debtors experiencing financial difficulty, the financial effect of those modifications, and the degree of success of the modifications in mitigating potential credit losses. In addition to the disclosures in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44, an entity shall consider providing information that helps financial statement users understand significant changes in the type or magnitude of modifications, including those modifications that, for example, were caused by a major credit event, even if the modifications otherwise would not require the disclosures in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44.

310-10-50-**39** The disclosures in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44 shall be provided for modifications of receivables to borrowers experiencing financial difficulty in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension made within the scope of this Topic. For purposes of those disclosures, covenant waivers and modifications of contingent acceleration clauses would not be considered term extensions.

310-10-50-**40** The guidance in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44 does not apply to the following financing receivables:

a. Receivables measured at fair value with changes in fair value reported in earnings

b. Receivables measured at lower of amortized cost basis or fair value

c. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:

    1. They have a contractual maturity of one year or less.

    2. They arose from the sale of goods or services.

d. Participant loans in defined contribution pension plans.

310-10-50-**41** The disclosures required in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44 are applicable regardless of whether a modification of a receivable to a debtor experiencing financial difficulty results in a new loan in accordance with paragraphs 310-20-35-9 through 35-11310-20-35-10310-20-35-11. As a practical expedient, an entity may exclude the accrued interest receivable balance that is included in the amortized cost basis of financing receivables for the purposes of the disclosure requirements in Subtopic 326-20. If an entity has applied that practical expedient, an entity may do the same for the disclosures in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44 and shall disclose the total amount of accrued interest excluded from the disclosed amortized cost basis.

310-10-50-**42** For each period for which a statement of income is presented, an entity shall disclose the following information related to modifications of receivables that are in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) made to debtors experiencing financial difficulty during the reporting period:

a. By class of financing receivable, qualitative and quantitative information about:

    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.

b. By portfolio segment, qualitative information about how those modifications and the debtors' subsequent performance are factored into determining the allowance for credit losses.

310-10-50-**43** Receivables may be modified in more than one manner. An entity that modifies the same receivable in more than one manner shall provide disclosures sufficient for users to understand the different types of combinations of modifications provided to borrowers. For example, a receivable may be modified to provide both principal forgiveness and an interest rate reduction. In that case, an entity shall disclose the period-end amortized cost basis of that receivable in a separate category that reflects that a combination of modification types has been granted. If another receivable was modified to provide both an interest rate reduction and a term extension, the period-end amortized cost basis of that receivable shall be presented in a different category. Multiple separate combination categories may be necessary if significant. The same receivable's period-end amortized cost basis shall not be presented in multiple categories.

310-10-50-**44** 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 had been modified in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) within the previous 12 months preceding the payment default when the debtor was experiencing financial difficulty at the time of the modification:

a. By class of financing receivable, qualitative and quantitative information about those defaulted financing receivables, including the following:
    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.
b. By portfolio segment, qualitative information about how those defaults are factored into determining the allowance for credit losses.

Determining Whether a Debtor Is Experiencing Financial Difficulties

310-10-50-**45** In evaluating whether the debtor is experiencing financial difficulties for the purpose of the disclosure requirements in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44, a creditor shall consider the following indicators:

a. The debtor is currently in payment default on any of its debt. In addition, a creditor shall evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification. That is, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default.
b. The debtor has declared or is in the process of declaring bankruptcy.
c. There is substantial doubt as to whether the debtor will continue to be a going concern.
d. The debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.
e. On the basis of estimates and projections that only encompass the debtor's current capabilities, the creditor forecasts that the debtor's entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
f. Without the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor.

The above list of indicators is not intended to include all indicators of a debtor's financial difficulties.

Evaluating Whether a Restructuring Results in a Delay in Payment That Is Insignificant

310-10-50-**46** In the case of a restructuring that results in only a delay in payment that is insignificant, an entity is not required to include the modification made to receivables for debtors experiencing financial difficulty in the disclosure requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44310-10-50-43310-10-50-44. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:

a. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due.
b. The delay in timing of the restructured payment period is insignificant relative to any one of the following:
    1. The frequency of payments due under the debt
    2. The debt's original contractual maturity

3. The debt's original expected duration.

310-10-50-**47** If the debt has been previously restructured, an entity shall consider the cumulative effect of past restructurings made within the 12-month period before the current restructuring when determining whether a delay in payment resulting from the current restructuring is insignificant.

310-10-50-**48** Examples 4, 5, and 6 in paragraphs 310-10-55-12B through 55-12K310-10-55-12C310-10-55-12D310-10-55-12E310-10-55-12F310-10-55-12G310-10-55-12H310-10-55-12I310-10-55-12J310-10-55-12K illustrate a creditor's evaluation about whether a delay in payment resulting from a restructuring is insignificant.

310-10-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

310-10-55-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

Illustrations

310-10-55-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**4** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**11** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**12** Paragraph superseded by Accounting Standards Update No. 2022-02.

Example 3: Disclosures for Debtors Experiencing Financial Difficulty

310-10-55-**12A** The following Example illustrates the disclosures required by paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44. For ease of illustration, comparative periods are excluded.

Entity B

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. Entity B uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, Entity B modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, Entity B will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted (numbers in thousands):

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	Interest Rate Reduction	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ 40,000	2.0%
Real Estate—Residential	-	0.0
Consumer	10,000	0.2
Total	**$ 50,000**	

	Term Extension	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	-	0.0
Consumer	22,000	0.4
Total	**$ 22,000**	

	Principal Forgiveness	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ 20,000	1.0%
Real Estate—Residential	-	0.0
Consumer	-	0.0
Total	**$ 20,000**	

	Combination—Term Extension and Principal Forgiveness	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	5,000	0.8
Consumer	-	0.0
Total	**$ 5,000**	

	Combination—Term Extension and Interest Rate Reduction	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	5,000	0.8
Consumer	-	0.0
Total	**$ 5,000**	

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Interest Rate Reduction	
Loan Type	**Financial Effect**
Real Estate—Commercial	Reduced weighted-average contractual interest rate from 6% to 3%.
Real Estate—Residential	Reduced weighted-average contractual interest rate from 8% to 5%.
Consumer	Reduced weighted-average contractual interest rate from 4% to 1.5%.

Term Extension	
Loan Type	**Financial Effect**
Real Estate—Residential	Added a weighted-average 2.4 years to the life of loans, which reduced monthly payment amounts for the borrowers.
Consumer	Provided six-month payment deferrals to borrowers through our standard deferral program. The six monthly payments were added to the end of the original loan terms of these borrowers.

Principal Forgiveness	
Loan Type	**Financial Effect**
Real Estate—Commercial	Reduced the amortized cost basis of the loans by $20 million.
Real Estate—Residential	Reduced the amortized cost basis of the loans by $5 million.

Upon Entity B's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The following table provides the amortized cost basis of financing receivables that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty (numbers in thousands):

	Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted				
	Interest Rate Reduction	**Term Extension**	**Principal Forgiveness**	**Combination-Term Extension and Principal Forgiveness**	**Combination-Term Extension and Interest Rate Reduction**
Loan Type					
Real Estate—Commercial	$ 1,500	$ -	$ -	$ -	$ -
Real Estate—Residential	-	-	-	-	-
Consumer	500	1,000	-	-	-
Total	**$ 2,000**	**$ 1,000**	**$ -**	**$ -**	**$ -**

Entity B closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months (numbers in thousands):

	Payment Status (Amortized Cost Basis)		
	Current	**30–89 Days Past Due**	**90+ Days Past Due**
Loan Type			
Real Estate—Commercial	$ 55,000	$ 3,500	$ 1,500
Real Estate—Residential	6,000	4,000	-
Consumer	29,000	1,500	1,500
Total	**$ 90,000**	**$ 9,000**	**$ 3,000**

Example 4: Commercial Real Estate Debt with Balloon Payment

310-10-55-**12B** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44310-10-50-43310-10-50-44. This Example illustrates the guidance in paragraphs 310-10-50-46 through 50-47310-10-50-47 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-10-55-**12C** A creditor originates a seven-year loan to a debtor. The debt:

a. Has a fixed interest rate

b. Is collateralized by commercial real estate

c. Requires monthly interest payments

d. Requires a balloon principal payment at maturity.

310-10-55-**12D** At origination, the debtor expects to repay the principal by refinancing the debt with the real estate held as collateral. That is, the collateral is the primary source of payment of the debt's principal balance, whether through a refinancing of the debt or a sale of the property. However, before maturity, the fair value of the collateral was less than the principal amount due at maturity, and as a result of market conditions, the debtor is unable to refinance the debt. The debtor plans to sell the property to repay the debt and requests an extension of the debt's maturity date to allow time to liquidate the property. In response to the debtor's financial difficulties, the creditor grants the debtor a three-month extension of the debt maturity date. At the time that this extension was granted, the debtor had not yet identified a buyer for the collateral.

310-10-55-**12E** The restructuring results in a delay in payment that is not insignificant. Although the delay in timing of payment is insignificant (relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration), the creditor expects a significant shortfall in cash flows relative to the contractual amount due when the property is sold because the property is the sole source of repayment.

Example 5: Residential Mortgage Debt-Temporary Payment Deferral

310-10-55-**12F** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed based on the requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44310-10-50-43310-10-50-44. This Example illustrates the guidance in paragraphs 310-10-50-46 through 50-47310-10-50-47 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-10-55-**12G** A debtor obtains a 30-year mortgage loan that requires monthly principal and interest payments. In year 4, the debtor experiences financial difficulties and misses two payments. On the basis of the debtor's financial hardship, the debtor and the creditor agree on a forbearance arrangement and repayment plan. Under the terms of the forbearance arrangement and repayment plan, the creditor agrees not to take any foreclosure action if the debtor increases its next four monthly payments such that each payment includes one fourth of the delinquent amount plus interest. The agreement does not result in the creditor charging the debtor interest on past due interest. At the end of the forbearance arrangement, the debtor will:

a. Have repaid all past due amounts

b. Be considered current in relation to the debt's original terms

c. Have resumed making monthly payments set out under the debt's original terms.

310-10-55-**12H** The restructuring results in a delay in payment that is insignificant. At the time of the forbearance arrangement, the creditor expects to collect all amounts due for the periods of delay. Furthermore, the length of delay resulting from the forbearance arrangement is considered insignificant in relation to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration.

Example 6: Commercial Line of Credit-Short-Term Extension before the Finalization of Renegotiated Terms

310-10-55-**12I** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-42 through 50-44310-10-50-43310-10-50-44. This Example illustrates the guidance in paragraphs 310-10-50-46 through 50-47310-10-50-47 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-10-55-**12J** A commercial debtor has a revolving line of credit with a creditor with an original term of five years. The terms of the line of credit require interest payments every 90 days on the average daily balance of the line. As the line of credit nears maturity, the debtor and creditor begin renegotiating the terms of a new line of credit. Because of a temporary cash shortfall due to a delay in collections from two key customers, the debtor is unable to make the final interest payment before the two parties finish renegotiating the terms of the new line of credit. The terms of the renegotiated line of credit are expected to be similar to the current line of credit, which are comparable to terms available to debtors with similar risk characteristics. The creditor expects the debtor to recover quickly from this temporary cash flow shortage. Accordingly, the creditor extends a 3-month payment deferral by adding the missed interest payment to the balance of the line and requiring the debtor to make its first interest payment 90 days after the new line of credit is finalized, or 180 days after the due date of the missed interest payment.

310-10-55-**12K** The restructuring results in a delay in payment that is insignificant. Although the debtor is unable to make the contractual payment at the time it is due, thereby resulting in the three-month deferral, the creditor still expects to collect all amounts due, including interest at the contractual rate. Furthermore, the delay in timing of payment represents only one payment cycle under the terms of the line, which is insignificant relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration.

Meaning of Financing Receivable

310-10-55-**13** This implementation guidance addresses the meaning of the term financing receivable.

310-10-55-**14** All of the following are examples of financing receivables:

a. Loans

b. Trade accounts receivable

c. Notes receivable

d. Credit cards

e. Receivables relating to a lessor's right(s) to payment(s) from a leveraged lease that should be recognized as an asset in accordance with paragraphs 842-10-65-1(z)

1. Subparagraph superseded by Accounting Standards Update No. 2016-02.

2. Subparagraph superseded by Accounting Standards Update No. 2016-02.

3. Subparagraph superseded by Accounting Standards Update No. 2016-02.

f. Lease receivables arising from sales-type leases or direct financing leases.

310-10-55-**15** None of the following meet the definition of financing receivables:

a. Debt securities within the scope of Topic 320 (see the guidance beginning in paragraph 320-10-15-5)

b. Unconditional promises to give (for example, contributions receivable) that should be recognized as an asset in accordance with paragraphs 958-605-25-7 through 25-15

c. Both of the following instruments, which are within the scope of Subtopic 325-40:

1. A transferor's interests in securitization transactions that are accounted for as sales under Topic 860

2. Purchased beneficial interests in securitized financial assets.

For related guidance, see paragraph 325-40-15.

310-10-55-**16** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**17** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**18** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**19** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**20** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**21** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-55-**22** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-**60 - Relationships**

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the

Codification.

General

Liabilities

310-10-60-**1** For receivables related to recovery of insurance-related assessments, see paragraph 405-30-25-8.

Contingencies

310-10-60-**2** For accounting guidance for loss contingencies, including guidance on accrual of an estimated loss from a loss contingency, see Subtopic 450-20.

Guarantees

310-10-60-**3** For guidance related to the accounting by a guarantor at the inception of a guarantee issued, see Topic 460.

310-10-60-**4** For guidance on loan guarantees, in which an entity (guarantor) lends its creditworthiness to another party (borrower) for a fee, thereby enhancing that other party's ability to borrow funds, see Topic 460 on guarantees. See Topic 815 on derivatives and hedging for guarantees accounted for as a derivative.

Transfers and Servicing

310-10-60-**5** For guidance on accounting for transfers of financial assets, including receivables, see Subtopic 860-20.

310-10-60-**6** For guidance on the accounting for servicing assets and liabilities related to loans and other receivables, see Subtopic 860-50.

310-10-**65 - Transition and Open Effective Date Information**

General Note: The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

310-10-65-**1** Paragraph superseded on 03/15/2011 after the end of the transition period stated in Accounting Standards Update No. 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset.

310-10-65-**2** Paragraph superseded on 06/18/2012 after the end of the transition period stated in Accounting Standards Update No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

310-10-65-**3** Paragraph superseded on 06/18/2012 after the end of the transition period stated in Accounting Standards Update No. 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.

310-10-**S00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

310-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
310-10-S50-2	Amended	Accounting Standards Update No. 2009-07	09/15/2009
310-10-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012
310-10-S99-4	Amended	Accounting Standards Update No. 2012-03	08/27/2012
310-10-S99-4	Amended	Accounting Standards Update No. 2009-03	08/24/2009

310-10-**S35 - Subsequent Measurement**

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Accounting for Loan Losses by Registrants Engaged in Lending Activities

310-10-S35-**1** See paragraph 310-10-S99-4, SAB Topic 6.L., for SEC Staff views on accounting for loan losses by registrants engaged in lending activities.

310-10-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Receivables Arising from the Issuance of Capital Stock to Officers or Other Employees

310-10-S45-**1** See paragraph 310-10-S99-2, SAB Topic 4.E, for SEC Staff views on the presentation of receivables for capital stock from officers or other employees.

Notes or Other Receivables from a Parent or Another Affiliate

310-10-S45-**2** See paragraph 310-10-S99-3, SAB Topic 4.G, for SEC Staff views on the presentation of notes or other receivables from a parent or another affiliate.

310-10-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Disclosure Requirements for Accounts and Notes Receivable

310-10-S50-**1** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.3, for disclosure requirements for accounts and notes receivable.

310-10-S50-**2** See paragraph 235-10-S99-4, Regulation S-X Rule 12-09, for the required disclosure for the schedule of valuation and qualifying accounts, which would include reserves on receivables.

Acquisition, Development, and Construction Arrangements

Disclosures Related to Acquisition, Development, and Construction Arrangements

310-10-S50-**3** See paragraph 310-10-S99-1, SAB Topic 1.I, Questions 5, 6 and 7, for SEC Staff views on disclosures related to acquisition, development, and construction arrangements.

310-10-**S55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

Acquisition, Development, and Construction Arrangements

Criteria for Loan Accounting

310-10-S55-**1** See paragraph 310-10-S99-1, SAB Topic 1.I, Question 3, for SEC Staff views on criteria supporting accounting for a transaction as a mortgage loan.

310-10-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 1.I, Financial Statements of Properties Securing Mortgage Loans

310-10-S99-**1** The following is the text of SAB Topic 1.I, Financial Statements of Properties Securing Mortgage Loans.

Facts: A registrant files a Securities Act registration statement covering a maximum of $100 million of securities. Proceeds of the offering will be used to make mortgage loans on operating residential or commercial property. Proceeds of the offering will be placed in escrow until $1 million of securities are sold at which point escrow may be broken, making the proceeds immediately available for lending, while the selling of securities would continue.

Question 1: Under what circumstances are the financial statements of a property on which the registrant makes or expects to make a loan required to be included in a filing?

Interpretive Response: Rule 3-14 of Regulation S-X specifies the requirements for financial statements when the registrant has acquired one or more properties which in the aggregate are significant, or since the date of the latest balance sheet required has acquired or proposes to acquire one or more properties which in the aggregate are significant.

Included in the category of properties acquired or to be acquired under Rule 3-14 are operating properties underlying certain mortgage loans, which in economic substance represent an investment in real estate or a joint venture rather than a loan. Certain characteristics of a lending arrangement indicate that the "lender" has the same risks and potential rewards as an owner or joint venturer. Those characteristics are set forth in the Acquisition, Development, and Construction Arrangements (ADC Arrangements) Subsections of FASB ASC Subtopic 310-10, Receivables-Overall FN6FN7. In September 1986 the EITF FN8 reached a consensus on this issue FN9 to the effect that, although the guidance in the ADC Arrangements Subsections of FASB ASC Subtopic 310-10 was issued to address the real estate ADC arrangements of financial institutions, preparers and auditors should consider that guidance in accounting for shared appreciation mortgages, loans on operating real estate and real estate ADC arrangements entered into by enterprises other than financial institutions.

FN6 [Original footnote removed by SAB 114.]

FN7 [Original footnote removed by SAB 114.]

FN8 The Emerging Issues Task Force ("EITF") was formed in 1984 to assist the Financial Accounting Standards Board in the early identification and resolution of emerging accounting issues. Topics to be discussed by the EITF are publicly announced prior to its meetings and minutes of all EITF meetings are available to the public.

FN9 FASB ASC paragraph 310-10-05-9.

FASB ASC Topic 815, Derivatives and Hedging-Embedded Derivatives, generally requires that embedded instruments meeting the definition of a derivative and not clearly and closely related to the host contract be accounted for separately from the host instrument. If the embedded expected residual profit component of an ADC arrangement need not be separately accounted for as a derivative under FASB ASC Topic 815, then the disclosure requirements discussed below for ADC loans and similar arrangements should be followed. FN10

FN10 The equity kicker (the expected residual profit) would typically not be separated from the host contract and accounted for as a derivative because FASB ASC subparagraph 815-15-25-1(c) exempts a hybrid contract from bifurcation if a separate instrument with the same terms as the embedded equity kicker is not a derivative instrument subject to the requirements of FASB ASC Topic 815.

In certain cases the "lender" has virtually the same potential rewards as those of an owner or a joint venturer by virtue of participating in expected residual profit. FN11 In addition, the ADC Arrangements Subsections of FASB ASC Subtopic 310-10 include a number of other characteristics which, when considered individually or in combination, would suggest that the risks of an ADC arrangement are similar to those associated with an investment in real estate or a joint venture or, conversely, that they are similar to those associated with a loan. Among those other characteristics is whether the lender agrees to provide all or substantially all necessary funds to acquire the property, resulting in the borrower having title to, but little or no equity in, the underlying property. The staff believes that the borrower's equity in the property is adequate to support accounting for the transaction as a mortgage loan when the borrower's initial investment meets the criteria in FASB ASC paragraph 360-20-40-18 (Property, Plant, and Equipment Topic) FN12 and the borrower's payments of principal and interest on the loan are adequate to maintain a continuing investment in the property which meets the criteria in FASB ASC paragraph 360-20-40-19. FN13

FN11 Expected residual profit is defined in the ADC Arrangements Subsections of FASB ASC Subtopic 310-10 as the amount of profit, whether called interest or another name, such as equity kicker, above a reasonable amount of interest and fees expected to be earned by the "lender."

FN12 FASB ASC Subtopic 360-20 establishes standards for the recognition of profit on real estate sales transactions. FASB ASC paragraph 360-20-40-18 states that the buyer's initial investment shall be adequate to demonstrate the buyer's commitment to pay for the property and shall indicate a reasonable likelihood that the seller will collect the receivable. Guidance on minimum initial investments in various types of real estate is provided in FASB ASC paragraphs 360-20-55-1 and 360-20-55-2.

FN13 FASB ASC paragraph 360-20-40-19 states that the buyer's continuing investment in a real estate transaction shall not qualify unless the buyer is contractually required to pay each year on its total debt for the purchase price of the property an amount at least equal to the level annual payment that would be needed to pay that debt and interest on the unpaid balance over not more than (a) 20 years for debt for land and (b) the customary amortization term of a first mortgage loan by an independent established lending institution for other real estate.

The financial statements of properties which will secure mortgage loans made or to be made from the proceeds of the offering which have the characteristics of real estate investments or joint ventures should be included as required by Rule 3-14 in the registration statement when such properties secure loans previously made, or have been identified as security for probable loans prior to effectiveness, and in filings made pursuant to the undertaking in Item 20D of Securities Act Industry Guide 5.

Rule 1-02(w) of Regulation S-X includes the conditions used in determining whether an acquisition is significant. The separate financial statements of an individual property should be provided when a property would meet the requirements for a significant subsidiary under this rule using the amount of the "loan" as a substitute for the "investment in the subsidiary" in computing the specified conditions. The combined financial statements of properties which are not individually significant should also be provided. However, the staff will not object if the combined financial statements of such properties are not included if none of the conditions specified in Rule 1-02(w), with respect to all such properties combined, exceeds 20% in the aggregate.

Under certain circumstances, information may also be required regarding operating properties underlying mortgage loans where the terms do not result in the lender having virtually the same risks and potential rewards as those of owners or joint venturers. Generally, the staff believes that, where investment risks exist due to substantial asset concentration, financial and other information should be included regarding operating properties underlying a mortgage loan that represents a significant amount of the registrant's assets. Such presentation is consistent with Rule 3-13 of Regulation S-X and Rule 408 under the Securities Act of 1933.

Where the amount of a loan exceeds 20% of the amount in good faith expected to be raised in the offering, disclosures would be expected to consist of financial statements for the underlying operating properties for the periods contemplated by Rule 3-14. Further, where loans on related properties are made to a single person or group of affiliated persons which in the aggregate amount to more than 20% of the amount expected to be raised, the staff believes that such lending arrangements result in a sufficient concentration of assets so as to warrant the inclusion of financial and other information regarding the underlying properties.

Question 2: Will the financial statements of the mortgaged properties be required in filings made under the 1934 Act?

Interpretive Response: Rule 3-09 of Regulation S-X specifies the requirement for significant, as defined, investments in operating entities, the operations of which are not included in the registrant's consolidated financial statements. FN14 Accordingly, the staff believes that the financial statements of properties securing significant loans which have the characteristics of real estate investments or joint ventures should be included in subsequent filings as required by Rule 3-09. The materiality threshold for determining whether such an investment is significant is the same as set forth in paragraph (a) of that Rule. FN15

FN14 Rule 3-14 states that the financial statements of an acquired property should be furnished if the acquisition took place during the period for which the registrant's income statements are required. Paragraph (b) of the Rule states that the information required by the Rule is not required to be included in a filing on Form 10-K. That exception is consistent with Item 8 of Form 10-K which excludes acquired company financial statements, which would otherwise be required by Rule 3-05 of Regulation S-X, from inclusion in filings on that Form. Those exceptions are based, in part, on the fact that acquired properties and acquired companies will generally be included in the registrant's consolidated financial statements from the acquisition date.

FN15 Rule 3-09(a) states, in part, that "[i]f any of the conditions set forth in [Rule] 1-02(w), substituting 20 percent for 10 percent in the tests used therein to determine significant subsidiary, are met... separate financial statements... shall be filed."

Likewise, the staff believes that filings made under the 1934 Act should include the same financial and other information relating to properties underlying any loans which are significant as discussed in the last paragraph of Question 1, except that in the determination of significance the 20% disclosure threshold should be measured using total assets. The staff believes that this presentation would be consistent with Rule 12b-20 under the Securities Exchange Act of 1934.

Question 3: The interpretive response to question 1 indicates that the staff believes that the borrower's equity in an operating property is adequate to support accounting for the transaction as a mortgage loan when the borrower's initial investment meets the criteria in FASB ASC paragraph 360-20-40-18 and the borrower's payments of principal and interest on the loan are adequate to maintain a continuing investment in the property which meets the criteria in FASB ASC paragraph 360-20-40-19. Is it the staff's view that meeting these criteria is the only way the borrower's equity in the property is considered adequate to support accounting for the transaction as a mortgage loan?

Interpretive Response: No. It is the staff's position that the determination of whether loan accounting is appropriate for these arrangements should be made by the registrant and its independent accountants based on the facts and circumstances of the individual arrangements, using the guidance provided in the ADC Arrangements Subsections of FASB ASC Subtopic 310-10. As stated in those Subsections, loan accounting may not be appropriate when the lender participates in expected residual profit and has virtually the same risks as those of an owner, or joint venturer. In assessing the question of whether the lender has virtually the same risks as an owner, or joint venturer, the essential test that needs to be addressed is whether the borrower has and is expected to continue to have a substantial amount at risk in the project. FN16 The criteria described in FASB ASC Subtopic 360-20, Property, Plant, and Equipment-Real Estate Sales, provide a "safe harbor" for determining whether the borrower has a substantial amount at risk in the form of a substantial equity investment. The borrower may have a substantial amount at risk without meeting the criteria described in FASB ASC Subtopic 360-20.

FN16 Regarding the composition of the borrower's investment, FASB ASC paragraph 310-10-25-20 indicates that the borrower's investment may include the value of land or other assets contributed by the borrower, net of encumbrances. The staff emphasizes that such paragraph indicates, "...recently acquired property generally should be valued at no higher than cost.. " Thus, for such recently acquired property, appraisals will not be sufficient to justify the use of a value in excess of cost.

Question 4: What financial statements should be included in filings made under the Securities Act regarding investment-type arrangements that individually amount to 10% or more of total assets?

Interpretive Response: In the staff's view, separate audited financial statements should be provided for any investment-type arrangement that constitutes 10% or more of the greater of (i) the amount of minimum proceeds or (ii) the total assets of the registrant, including the amount of proceeds raised, as of the date the filing is required to be made. Of course, the narrative information required by items 14 and 15 of Form S-11 should also be included with respect to these investment-type arrangements.

Question 5: What information must be provided under the Securities Act for investment-type arrangements that individually amount to less than 10%?

Interpretive Response: No specific financial information need be presented for investment-type arrangements that amount to less than 10%. However, where such arrangements aggregate more than 20%, a narrative description of the general character of the properties and arrangements should be included that gives an investor an understanding of the risks and rewards associated with these arrangements. Such information may, for example, include a description of the terms of the arrangements, participation by the registrant in expected residual profits, and property types and locations.

Question 6: What financial statements should be included in annual reports filed under the Exchange Act with respect to investment-type arrangements that constitute 10% or more of the registrant's total assets?

Interpretive Response: In annual reports filed with the Commission, the staff has advised registrants that separate audited financial statements should be provided for each nonconsolidated investment-type arrangement that is 20% or more of the registrant's total assets. While the distribution is on-going, however, the percentage may be calculated using the greater of (i) the amount of the minimum proceeds or (ii) the total assets of the registrant, including the amount of proceeds raised, as of the date the filing is required to be made. In annual reports to shareholders registrants may either include the separate audited financial statements for 20% or more nonconsolidated investment-type arrangements or, if those financial statements are not included, present summarized financial information for those arrangements in the notes to the registrant's financial statements.

The staff has also indicated that separate summarized financial information (as defined in Rule 1-02(bb) of Regulation S-X) should be provided in the footnotes to the registrant's financial statements for each nonconsolidated investment-type arrangement that is 10% or more but less than 20%. Of course, registrants should also make appropriate textural disclosure with respect to material investment-type arrangements in the "business" and "property" sections of their annual reports to the Commission. FN17

FN17 Registrants are reminded that in filings on Form 8-K that are triggered in connection with an acquisition of an investment-type arrangement, separate audited financial statements are required for any such arrangement that individually constitutes 10% or more.

Question 7: What information should be provided in annual reports filed under the Exchange Act with respect to investment-type arrangements that do not meet the 10% threshold?

Interpretive Response: The staff believes it will not be necessary to provide any financial information (full or summarized) for investment-type arrangements that do not meet the 10% threshold. However, in the staff's view, where such arrangements aggregate more than 20%, a narrative description of the general character of the properties and arrangements would be necessary. The staff believes that information should be included that would give an investor an understanding of the risks and rewards associated with these arrangements. Such information may, for example, include a description of the terms of the arrangements, participation by the registrant in expected residual profits, and property types and locations. Of course, disclosure regarding the operations of such components should be included as part of the Management's Discussion and Analysis where there is a known trend or uncertainty in the operations of such properties, either individually or in the aggregate, which would be reasonably likely to result in a material impact on the registrant's future operations, liquidity or capital resources.

SAB Topic 4.E, Receivables from Sale of Stock

310-10-S99-**2** The following is the text of SAB Topic 4.E, Receivables from Sale of Stock.

(Replaced by SAB 107)

Facts: Capital stock is sometimes issued to officers or other employees before the cash payment is received.

Question: How should the receivables from the officers or other employees be presented in the balance sheet?

Interpretive Response: The amount recorded as a receivable should be presented in the balance sheet as a deduction from stockholders' equity. This is generally consistent with Rule 5-02.30 of Regulation S-X which states that accounts or notes receivable arising from transactions involving the registrant's capital stock should be presented as deductions from stockholders' equity and not as assets.

It should be noted generally that all amounts receivable from officers and directors resulting from sales of stock or from other transactions (other than expense advances or sales on normal trade terms) should be separately stated in the balance sheet irrespective of whether such amounts may be shown as assets or are required to be reported as deductions from stockholders' equity.

The staff will not suggest that a receivable from an officer or director be deducted from stockholders' equity if the receivable was paid in cash prior to the publication of the financial statements and the payment date is stated in a note to the financial statements. However, the staff would consider the subsequent return of such cash payment to the officer or director to be part of a scheme or plan to evade the registration or reporting requirements of the securities laws.

SAB Topic 4.G, Notes and Other Receivables from Affiliates

310-10-S99-**3** The following is the text of SAB Topic 4.G, Notes and Other Receivables from Affiliates.

Facts: The balance sheet of a corporate general partner is often presented in a registration statement. Frequently, the balance sheet of the general partner discloses that it holds notes or other receivables from a parent or another affiliate. Often the notes or other receivables were created in order to meet the "substantial assets" test which the Internal Revenue Service utilizes in applying its "Safe Harbor" doctrine in the classification of organizations for income tax purposes.

Question: How should such notes and other receivables be reported in the balance sheet of the general partner?

Interpretive Response: While these notes and other receivables evidencing a promise to contribute capital are often legally enforceable, they seldom are actually paid. In substance, these receivables are equivalent to unpaid subscriptions receivable for capital shares which Rule 5-02.30 of Regulation S-X requires to be deducted from the dollar amount of capital shares subscribed.

The balance sheet display of these or similar items is not determined by the quality or actual value of the receivable or other asset "contributed" to the capital of the affiliated general partner, but rather by the relationship of the parties and the control inherent in that relationship. Accordingly, in these situations, the receivable must be treated as a deduction from stockholders' equity in the balance sheet of the corporate general partner.

SAB Topic 6.L, Financial Reporting Release 28-Accounting for Loan Losses by Registrants Engaged in Lending Activities

310-10-S99-**4** The following is the text of SAB Topic 6.L, Financial Reporting Release 28-Accounting for Loan Losses by Registrants Engaged in Lending Activities.

1. Accounting for loan losses

General: GAAP for recognition of loan losses is provided by FASB ASC Subtopic 450-20, Contingencies-

Loss Contingencies, and FASB ASC Subtopic 310-10, Receivables-Overall. FN6 An estimated loss from a loss contingency, such as the collectibility of receivables, should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. FN7 FASB ASC Subtopic 310-10 provides more specific guidance on measurement of loan impairment and related disclosures but does not change the fundamental recognition criteria for loan losses provided by FASB ASC 450-20.

FN6 [Original footnote removed by SAB 114.]

FN7 FASB ASC paragraph 450-20-25-2.

Further guidance for SEC registrants is provided by FRR 28, which added subsection (b), Procedural Discipline in Determining the Allowance and Provision for Loan Losses to be Reported, of Section 401.09, Accounting for Loan Losses by Registrants Engaged in Lending Activities, to the Codification of Financial Reporting Policies (hereafter referred to as FRR 28). Additionally, public companies are required to comply with the books and records provisions of the Securities Exchange Act of 1934 (Exchange Act). Under Sections 13(b)(2) - (7) of the Exchange Act, registrants must make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the registrant. Registrants also must maintain internal accounting controls that are sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP.

This staff interpretation applies to all registrants that are creditors in loan transactions that, individually or in the aggregate, have a material effect on the registrant's financial statements. FN8.

FN8 For purposes of this interpretation, a loan is defined (consistent with the FASB ASC Master Glossary) as a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. For purposes of this interpretation, loans do not include trade accounts receivable or notes receivable with terms less than one year or debt securities subject to the provisions of FASB ASC Topic 320, Investments-Debt and Equity Securities.

2. Developing and documenting a systematic methodology

a. Developing a systematic methodology.

Facts: Registrant A, or one of its consolidated subsidiaries, engages in lending activities and is developing or performing a review of its loan loss allowance methodology.

Question: What are some of the factors or elements that the staff normally would expect Registrant A to consider when developing (or subsequently performing an assessment of) its methodology for determining its loan loss allowance under GAAP?

Interpretive Response: The staff normally would expect a registrant that engages in lending activities to develop and document a systematic methodology FN9 to determine its provision for loan losses and allowance for loan losses as of each financial reporting date. It is critical that loan loss allowance methodologies incorporate management's current judgments about the credit quality of the loan portfolio through a disciplined and consistently applied process. A registrant's loan loss allowance methodology is influenced by entity-specific factors, such as an entity's size, organizational structure, business environment and strategy, management style, loan portfolio characteristics, loan administration procedures, and management information systems.

FN9 FRR 28 states that " the Commission's staff normally would expect to find that the books and records of registrants engaged in lending activities include documentation of [the]: (a) systematic methodology to be employed each period in determining the amount of the loan losses to be reported, and (b) rationale supporting each period's determination that the amounts reported were adequate."

However, as indicated in the AICPA Audit and Accounting Guide, Depository and Lending Institutions with Conforming Changes as of June 1, 2009 (Audit Guide), while different institutions may use different methods, there are certain common elements that should be included in any [loan loss allowance] methodology for it to be effective. FN10 A registrant's loan loss allowance methodology generally should: FN11.

FN10 See paragraph 9.05 of the Audit Guide.

FN11 Ibid.

Include a detailed analysis of the loan portfolio, performed on a regular basis;

Consider all loans (whether on an individual or group basis);

Identify loans to be evaluated for impairment on an individual basis under FASB ASC Subtopic 310-10 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under FASB ASC Subtopic 450-20;

Consider all known relevant internal and external factors that may affect loan collectibility;

Be applied consistently but, when appropriate, be modified for new factors affecting collectibility;

Consider the particular risks inherent in different kinds of lending;

Consider current collateral values (less costs to sell), where applicable;

Require that analyses, estimates, reviews and other loan loss allowance methodology functions be performed by competent and well-trained personnel;

Be based on current and reliable data;

Be well documented, in writing, with clear explanations of the supporting analyses and rationale (see Question 2 below for staff views on documenting a loan loss allowance methodology); and

Include a systematic and logical method to consolidate the loss estimates and ensure the loan loss allowance balance is recorded in accordance with GAAP.

For many entities engaged in lending activities, the allowance and provision for loan losses are significant elements of the financial statements.

Therefore, the staff believes it is appropriate for an entity's management to review, on a periodic basis, its methodology for determining its allowance for loan losses. FN12 Additionally, for registrants that have audit committees, the staff believes that oversight of the financial reporting and auditing of the loan loss allowance by the audit committee can strengthen the registrant's control system and process for determining its allowance for loan losses. FN13

FN12 For federally insured depository institutions, the December 21, 1993 "Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL)" (the 1993 Interagency Policy Statement) indicates that boards of directors and management have certain responsibilities for the ALLL process and amounts reported. For example, as indicated on page 4 of that statement, "the board of directors and management are expected to: Ensure that the institution has an effective loan review system and controls[;] Ensure the prompt charge-off of loans, or portions of loans, that available information confirms to be uncollectible[; and] Ensure that the institution's process for determining an adequate level for the ALLL is based on a comprehensive, adequately documented, and consistently applied analysis of the institution's loan and lease portfolio."

FN13 SAS 61 (as amended by SAS 90) states, in part: "In connection with each SEC engagement the auditor should discuss with the audit committee the auditor's judgments about the quality, not just the acceptability, of the entity's accounting principles as applied in its financial reporting. The discussion should include items that have a significant impact on the representational faithfulness, verifiability, and neutrality of the accounting information included in the financial statements. [Footnote omitted.] Examples of items that may have such an impact are the following: Selection of new or changes to accounting policies. Estimates, judgments, and uncertainties. Unusual transactions. Accounting policies relating to significant financial statement items, including the timing or transactions and the period in which they are recorded."

Selection of new or changes to accounting policies

Estimates, judgments, and uncertainties

Unusual transactions.

Accounting policies relating to significant financial statement items, including the timing or transactions and the period in which they are recorded."

A systematic methodology that is properly designed and implemented should result in a registrant's best estimate of its allowance for loan losses. FN14 Accordingly, the staff normally would expect registrants to adjust their loan loss allowance balance, either upward or downward, in each period for differences between the results of the systematic determination process and the unadjusted loan loss allowance balance in the general ledger. FN15

FN14 Registrants should also refer to FASB ASC Section 450-20-30, Contingencies-Loss Contingencies-Initial Measurement, which provides accounting and disclosure guidance for situations in which a range of loss can be reasonably estimated but no single amount within the range appears to be a better estimate than any other amount within the range.

FN15 Registrants should refer to the guidance on materiality in SAB Topic 1.M.

b. Documenting a systematic methodology.

Question 1: Assume the same facts as in the previous question in Section 2(a). What would the staff normally expect Registrant A to include in its documentation of its loan loss allowance methodology?

Interpretive Response: In FRR 28, the Commission provided guidance for documentation of loan loss provisions and allowances for registrants engaged in lending activities. The staff believes that appropriate written supporting documentation for the loan loss provision and allowance facilitates review of the loan loss allowance process and reported amounts, builds discipline and consistency into the loan loss allowance determination process, and improves the process for estimating loan losses by helping to ensure that all relevant factors are appropriately considered in the allowance analysis.

The staff, therefore, normally would expect a registrant to document the relationship between the findings of its detailed review of the loan portfolio and the amount of the loan loss allowance and the provision for loan losses reported in each period. FN16

FN16 FRR 28 states: "The specific rationale upon which the [loan loss allowance and provision] amount actually reported is based - i. e., the bridge between the findings of the detailed review [of the loan portfolio] and the amount actually reported in each period-would be documented to help ensure the adequacy of the reported amount, to improve auditability, and to serve as a benchmark for exercise of prudent judgment in future periods."

The staff normally would expect to find that registrants maintain written supporting documentation for the following decisions, strategies, and processes: FN17

FN17 Paragraph 9.64 in the Audit Guide outlines specific aspects of effective internal control related to the allowance for loan losses. These specific aspects include the control environment ("management communication of the need for proper reporting of the allowance"); management reports that summarize loan activity and the institution's procedures and controls ("accumulation of relevant, sufficient, and reliable data on which to base management's estimate of the allowance"); "independent loan review;" review of information and assumptions ("adequate review and approval of the allowance estimates by the individuals specified in management's written policy"); and assessment of the process ("comparison of prior estimates related to the allowance with subsequent results to assess the reliability of the process used to develop the allowance").

Policies and procedures:

Over the systems and controls that maintain an appropriate loan loss allowance, and

Over the loan loss allowance methodology;

Loan grading system or process;

Summary or consolidation of the loan loss allowance balance;

Validation of the loan loss allowance methodology; and

Periodic adjustments to the loan loss allowance process.

Question 2: The Interpretive Response to Question 2 indicates that the staff normally would expect to find that registrants maintain written supporting documentation for their loan loss allowance policies and procedures. In the staff's view, what aspects of a registrant's loan loss allowance internal accounting control systems and processes would appropriately be addressed in its written policies and procedures?

Interpretive Response: The staff is aware that registrants utilize a wide range of policies, procedures, and control systems in their loan loss allowance processes, and these policies, procedures, and systems are tailored to the size and complexity of the registrant and its loan portfolio. However, the staff believes that, in order for a registrant's loan loss allowance methodology to be effective, the registrant's written policies and procedures for the systems and controls that maintain an appropriate loan loss allowance would likely address the following:

The roles and responsibilities of the registrant's departments and personnel (including the lending function, credit review, financial reporting, internal audit, senior management, audit committee, board of directors, and others, as applicable) who determine or review, as applicable, the loan loss allowance to be reported in the financial statements; FN18

FN18 Paragraph 9.64 of the Audit Guide discusses "management communication of the need for proper reporting of the allowance." As indicated in that paragraph, the "control environment strongly influences the effectiveness of the system of controls and reflects the overall attitude, awareness, and action of the board of directors and management concerning the importance of control."

The registrant's accounting policies for loans and loan losses, including the policies for charge-offs and recoveries and for estimating the fair value of collateral, where applicable; FN19

FN19 Paragraph 9.56 of the Audit Guide refers to the documentation, for disclosure purposes, that an entity should include in the notes to the financial statements describing the accounting policies the entity used to estimate its allowance and related provision for loan losses.

The description of the registrant's systematic methodology, which should be consistent with the registrant's accounting policies for determining its loan loss allowance (see Question 4 below for further discussion); FN20 and

FN20 Ibid. As indicated in paragraph 9.56, "[s]uch a description should identify the factors that influenced management's judgment (for example, historical losses and existing economic conditions) and may also include discussion of risk elements relevant to particular categories of financial instruments."

The system of internal controls used to ensure that the loan loss allowance process is maintained in accordance with GAAP. FN21

FN21 See also paragraph 9.64 in the Audit Guide which provides information about specific aspects of effective internal control related to the allowance for loan losses.

The staff normally would expect an internal control system FN22 for the loan loss allowance estimation process to:

FN22 Ibid. Public companies are required to comply with the books and records provisions of the Exchange Act. Under Sections 13(b)(2) - (7) of the Exchange Act, registrants must make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the registrant. Registrants also must maintain internal accounting controls that are sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP.

Include measures to provide assurance regarding the reliability FN23 and integrity of information and compliance with laws, regulations, and internal policies and procedures; FN24

FN23 Concepts Statement 2, Qualitative Characteristics of Accounting Information, provides guidance on "reliability" as a primary quality of accounting information.

FN24 Section 13(b)(2) - (7) of the Exchange Act.

Reasonably assure that the registrant's financial statements are prepared in accordance with GAAP; and

Include a well-defined loan review process. FN25

FN25 As indicated in paragraph 9.05, item a, in the Audit Guide, a loan loss allowance methodology should "include a detailed and regular analysis of the loan portfolio." Paragraphs 9.06 to 9.13 provide additional information on how creditors traditionally identify and review loans on an individual basis and review or analyze loans on a group or pool basis.

A well-defined loan review process FN26 typically contains:

FN26 Ibid. Additionally, paragraph 9.64 in the Audit Guide provides guidance on the loan review process. As stated in that paragraph, "[m]anagement reports summarizing loan activity, renewals, and delinquencies are vital to the timely identification of problem loans." The paragraph further states: "Loan reviews should be conducted by institution personnel who are independent of the underwriting, supervision, and collections functions. The specific lines of reporting depend on the complexity of the institution's organizational structure, but the loan reviewers should report to a high level of management that is independent from the lending process in the institution."

An effective loan grading system that is consistently applied, identifies differing risk characteristics and loan quality problems accurately and in a timely manner, and prompts appropriate administrative actions; FN27

FN27 Ibid.

Sufficient internal controls to ensure that all relevant loan review information is appropriately considered in estimating losses. This includes maintaining appropriate reports, details of reviews performed, and identification of personnel involved; FN28 and

FN28 Ibid.

Clear formal communication and coordination between a registrant's credit administration function, financial reporting group, management, board of directors, and others who are involved in the loan loss allowance determination or review process, as applicable (e. g., written policies and procedures, management reports, audit programs, and committee minutes). FN29

FN29 Ibid.

Question 3: The Interpretive Response to Question 3 indicates that the staff normally would expect a registrant's written loan loss allowance policies and procedures to include a description of the registrant's systematic allowance methodology, which should be consistent with its accounting policies for determining its loan loss allowance. What elements of a registrant's loan loss allowance methodology would the staff normally expect to be described in the registrant's written policies and procedures?

Interpretive Response: The staff normally would expect a registrant's written policies and procedures to describe the primary elements of its loan loss allowance methodology, including portfolio segmentation and impairment measurement. The staff normally would expect that, in order for a registrant's loan loss allowance methodology to be effective, the registrant's written policies and procedures would describe the methodology:

For segmenting the portfolio:

How the segmentation process is performed (i. e., by loan type, industry, risk rates, etc.); FN30

FN30 Paragraph 9.07 in the Audit Guide states that "creditors have traditionally identified loans that are to be evaluated for collectibility by dividing the loan portfolio into different segments. Loans with similar risk characteristics, such as risk classification, past-due status, and type of loan should be grouped together." Paragraph 9.08 provides additional guidance on classifying individual loans and paragraph 9.13 indicates considerations for groups or pools of loans.

When a loan grading system is used to segment the portfolio:

The definitions of each loan grade;

A reconciliation of the internal loan grades to supervisory loan grades, if applicable; and

The delineation of responsibilities for the loan grading system.

For determining and measuring impairment under FASB ASC Subtopic 310-10: FN31

FN31 See FASB ASC paragraphs 310-10-35-16 through 35-19 on recognition of impairment and FASB ASC paragraphs 310-10-35-20 through 35-37 on measurement of impairment.

The methods used to identify loans to be analyzed individually;

For individually reviewed loans that are impaired, how the amount of any impairment is determined and measured, including:

Procedures describing the impairment measurement techniques available; and

Steps performed to determine which technique is most appropriate in a given situation.

The methods used to determine whether and how loans individually evaluated under FASB ASC Subtopic 310-10, but not considered to be individually impaired, should be grouped with other loans that share common characteristics for impairment evaluation under FASB ASC Subtopic 450-20. FN32

FN32 See FASB ASC paragraph 310-10-35-36.

For determining and measuring impairment under FASB ASC Subtopic 450-20: FN33

FN33 See FASB ASC paragraph 450-20-25-2 on accrual of loss contingencies and FASB ASC paragraphs 310-10-35-5 through 35-11 on collectibility of receivables.

How loans with similar characteristics are grouped to be evaluated for loan collectibility (such as loan type, past-due status, and risk);

How loss rates are determined (e. g., historical loss rates adjusted for environmental factors or migration analysis) and what factors are considered when establishing appropriate time frames over which to evaluate loss experience; and

Descriptions of qualitative factors (e. g., industry, geographical, economic, and political factors) that may affect loss rates or other loss measurements.

3. Applying a systematic methodology - measuring and documenting loan losses under FASB ASC Subtopic 310-10

a. Measuring and documenting loan losses under FASB ASC Subtopic 310-10.

Facts: Approximately one-third of Registrant B's commercial loan portfolio consists of large balance, non-homogeneous loans. Due to their large individual balances, these loans meet the criteria under Registrant B's policies and procedures for individual review for impairment under FASB ASC Subtopic 310-10.

Upon review of the large balance loans, Registrant B determines that certain of the loans are impaired as defined by FASB ASC Subtopic 310-10. FN34

FN34 FASB ASC paragraph 310-10-35-8 provides that a loan is impaired when, based on current information and events, it is probable that all amounts due will not be collected pursuant to the terms of the loan agreement.

Question: For the commercial loans reviewed under FASB ASC Subtopic 310-10 that are individually impaired, how would the staff normally expect Registrant B to measure and document the impairment on those loans? Can it use an impairment measurement method other than the methods allowed by FASB ASC Subtopic 310-10?

Interpretive Response: For those loans that are reviewed individually under FASB ASC Subtopic 310-10 and considered individually impaired, Registrant B must use one of the methods for measuring impairment that is specified by FASB ASC Subtopic 310-10 (that is, the present value of expected future cash flows, the loan's observable market price, or the fair value of collateral). FN35 Accordingly, in the circumstances described above, for the loans considered individually impaired under FASB ASC Subtopic 310-10, it would not be appropriate for Registrant B to choose a measurement method not prescribed by FASB ASC Subtopic 310-10. For example, it would not be appropriate to measure loan impairment by applying a loss rate to each loan based on the average historical loss percentage for all of its commercial loans for the past five years.

FN35 See FASB ASC paragraph 310-10-35-22.

The staff normally would expect Registrant B to maintain as sufficient, objective evidence FN36 written documentation to support its measurement of loan impairment under FASB ASC Subtopic 310-10.

FN37 If Registrant B uses the present value of expected future cash flows to measure impairment of a loan, it should document the amount and timing of cash flows, the effective interest rate used to discount the cash flows, and the basis for the determination of cash flows, including consideration of current environmental factors FN38 and other information reflecting past events and current conditions. If Registrant B uses the fair value of collateral to measure impairment, the staff normally would expect to find that Registrant B had documented how it determined the fair value, including the use of appraisals, valuation assumptions and calculations, the supporting rationale for adjustments to appraised values, if any, and the determination of costs to sell, if applicable, appraisal quality, and the expertise and independence of the appraiser. FN39 Similarly, the staff normally would expect to find that Registrant B had documented the amount, source, and date of the observable market price of a loan, if that method of measuring loan impairment is used.

FN36 Under GAAS, auditors should obtain "sufficient competent evidential matter" to support its audit opinion. See AU Section 326. The staff normally would expect registrants to maintain such evidential matter for its allowances for loan losses for use by the auditors in conducting their annual audit.

FN37 Paragraph 9.74 in the Audit Guide outlines sources of information, available from management, that the independent accountant should consider in identifying loans that contain high credit risk or other significant exposures and concentrations. These sources of information would also likely include documentation of loan impairment under FASB ASC Subtopic 310-10 or FASB ASC Subtopic 450-20. Additionally, as indicated in paragraphs 9.85 to 9.97 of the Audit Guide, the independent accountant, in conducting an audit, may perform a detailed loan file review for selected loans. A registrant's loan files may contain documentation about borrowers' financial resources and cash flows (see paragraph 9.92) or about the collateral securing the loans, if applicable (see paragraphs 9.94 and 9.95).

FN38 FASB ASC paragraph 310-10-35-27 indicates that environmental factors include existing industry, geographical, economic, and political factors.

FN39 See paragraphs 9.94 and 9.95 in the Audit Guide for additional information about documentation of loan collateral.

b. Measuring and documenting loan losses under FASB ASC Subtopic 310-10 for a collateral dependent loan.

Facts: Registrant C has a $10 million loan outstanding to Company X that is secured by real estate, which Registrant C individually evaluates under FASB ASC Subtopic 310-10 due to the loan's size. Company X is delinquent in its loan payments under the terms of the loan agreement. Accordingly, Registrant C determines that its loan to Company X is impaired, as defined by FASB ASC Subtopic 310-10. Because the loan is collateral dependent, Registrant C measures impairment of the loan based on the fair value of the collateral. Registrant C determines that the most recent valuation of the collateral was performed by an appraiser eighteen months ago and, at that time, the estimated value of the collateral (fair value less costs to sell) was $12 million.

Registrant C believes that certain of the assumptions that were used to value the collateral eighteen months ago do not reflect current market conditions and, therefore, the appraiser's valuation does not approximate current fair value of the collateral.

Several buildings, which are comparable to the real estate collateral, were recently completed in the area, increasing vacancy rates, decreasing lease rates, and attracting several tenants away from the borrower. Accordingly, credit review personnel at Registrant C adjust certain of the valuation assumptions to better reflect the current market conditions as they relate to the loan's collateral. FN40 After adjusting the collateral valuation assumptions, the credit review department determines that the current estimated fair value of the collateral, less costs to sell, is $8 million. FN41 Given that the recorded investment in the loan is $10 million, Registrant C concludes that the loan is impaired by $2 million and records an allowance for loan losses of $2 million.

FN40 When reviewing collateral dependent loans, Registrant C may often find it more appropriate to obtain an updated appraisal to estimate the effect of current market conditions on the appraised value instead of internally estimating an adjustment.

FN41 An auditor who uses the work of a specialist, such as an appraiser, in performing an audit in accordance with GAAS should refer to the guidance in SAS 73 (AU Section 336).

Question: What documentation would the staff normally expect Registrant C to maintain to support its determination of the allowance for loan losses of $2 million for the loan to Company X?

Interpretive Response: The staff normally would expect Registrant C to document that it measured impairment of the loan to Company X by using the fair value of the loan's collateral, less costs to sell, which it estimated to be $8 million. FN42 This documentation FN43 should include the registrant's rationale and basis for the $8 million valuation, including the revised valuation assumptions it used, the valuation calculation, and the determination of costs to sell, if applicable.

FN42 See paragraphs 9.94 to 9.95 in the Audit Guide for further information about documentation of loan collateral and associated audit procedures that may be performed by the independent accountant.

FN43 As stated in paragraph 9.14 of the Audit Guide, "[t]he approach for determination of the allowance should be well documented."

Because Registrant C arrived at the valuation of $8 million by modifying an earlier appraisal, it should document its rationale and basis for the changes it made to the valuation assumptions that resulted in the collateral value declining from $12 million eighteen months ago to $8 million in the current period.

c. Measuring and documenting loan losses under FASB ASC Subtopic 310-10 - fully collateralized loans.

Question: In the staff's view, what is an example of an acceptable documentation practice for a registrant to adequately support its determination that no allowance for loan losses should be recorded for a group of loans because the loans are fully collateralized?

Interpretive Response: Consider the following fact pattern: Registrant D has $10 million in loans that are fully collateralized by highly rated debt securities with readily determinable market values. The loan agreement for each of these loans requires the borrower to provide qualifying collateral sufficient to maintain a loan-to-value ratio with sufficient margin to absorb volatility in the securities' market prices. Registrant D's collateral department has physical control of the debt securities through safekeeping arrangements. In addition, Registrant D perfected its security interest in the collateral when the funds were originally distributed. On a quarterly basis, Registrant D's credit administration function determines the market value of the collateral for each loan using two independent market quotes and compares the collateral value to the loan carrying value. If there are any collateral deficiencies, Registrant D notifies the borrower and requests that the borrower immediately remedy the deficiency. Due in part to its efficient operation, Registrant D has historically not incurred any material losses on these loans. Registrant D believes these loans are fully-collateralized and therefore does not maintain any loan loss allowance balance for these loans.

Registrant D's management summary of the loan loss allowance includes documentation indicating that, in accordance with its loan loss allowance policy, the collateral protection on these loans has been verified by the registrant, no probable loss has been incurred, and no loan loss allowance is necessary.

Documentation in Registrant D's loan files includes the two independent market quotes obtained each quarter for each loan's collateral amount, the documents evidencing the perfection of the security interest in the collateral, and other relevant supporting documents. Additionally, Registrant D's loan loss allowance policy includes a discussion of how to determine when a loan is considered "fully collateralized" and does not require a loan loss allowance. Registrant D's policy requires the following factors to be considered and its findings concerning these factors to be fully documented:

Volatility of the market value of the collateral;

Recency and reliability of the appraisal or other valuation;

Recency of the registrant's or third party's inspection of the collateral;

Historical losses on similar loans;

Confidence in the registrant's lien or security position including appropriate:

Type of security perfection (e. g., physical possession of collateral or secured filing);

Filing of security perfection (i. e., correct documents and with the appropriate officials); and

Relationship to other liens; and

Other factors as appropriate for the loan type.

In the staff's view, Registrant D's documentation supporting its determination that certain of its loans are fully collateralized, and no loan loss allowance should be recorded for those loans, is acceptable under FRR 28.

4. Applying a systematic methodology - measuring and documenting loan losses under FASB ASC Subtopic 450-20

a. Measuring and documenting loan losses under FASB ASC Subtopic 450-20.

Question 1: In the staff's view, what are some general considerations for a registrant in applying its systematic methodology to measure and document loan losses under FASB ASC Subtopic 450-20?

Interpretive Response: For loans evaluated on a group basis under FASB ASC Subtopic 450-20, the staff believes that a registrant should segment the loan portfolio by identifying risk characteristics that are common to groups of loans. FN44 Registrants typically decide how to segment their loan portfolios based on many factors, which vary with their business strategies as well as their information system capabilities. Regardless of the segmentation method used, the staff normally would expect a registrant to maintain documentation to support its conclusion that the loans in each segment have similar attributes or characteristics. As economic and other business conditions change, registrants often modify their business strategies, which may result in adjustments to the way in which they segment their loan portfolio for purposes of estimating loan losses. The staff normally would expect registrants to maintain documentation to support these segmentation adjustments. FN45

FN44 Paragraph 9.07 of the Audit Guide indicates that "loans with similar risk characteristics, such as risk classification, past-due status, and type of loan, should be grouped together."

FN45 Segmentation of the loan portfolio is a standard element in a loan loss allowance methodology. As indicated in paragraph 9.05 of the Audit Guide, the loan loss allowance methodology "should be well documented, with clear explanations of the supporting analyses and rationale."

Based on the segmentation of the loan portfolio, a registrant should estimate the FASB ASC Subtopic 450-20 portion of its loan loss allowance. For those segments that require an allowance for loan losses, FN46 the registrant should estimate the loan losses, on at least a quarterly basis, based upon its ongoing loan review process and analysis of loan performance. FN47 The registrant should follow a systematic and consistently applied approach to select the most appropriate loss measurement methods and support its conclusions and rationale with written documentation. FN48

FN46 An example of a loan segment that does not generally require an allowance for loan losses is a group of loans that are fully secured by deposits maintained at the lending institution.

FN47 FRR 28 refers to a "systematic methodology to be employed each period" in determining provisions and allowances for loan losses. As indicated in FRR 28, the staff normally would expect that the systematic methodology would be documented "to help ensure that all matters affecting loan collectibility will consistently be identified in the detailed [loan] review process."

FN48 Ibid. Also, as indicated in paragraph 9.05 of the Audit Guide, the loan loss allowance methodology "should be well documented, with clear explanations of the supporting analyses and rationale." Further, as indicated in paragraph 9.14 of the Audit Guide, "[t]he approach for determination of the allowance should be well documented."

Facts: After identifying certain loans for evaluation under FASB ASC Subtopic 310-10, Registrant E segments its remaining loan portfolio into five pools of loans. For three of the pools, it measures loan impairment under FASB ASC Subtopic 450-20 by applying historical loss rates, adjusted for relevant environmental factors, to the pools' aggregate loan balances. For the remaining two pools of loans, Registrant E uses a loss estimation model that is consistent with GAAP to measure loan impairment under FASB ASC Subtopic 450-20.

Question 2: What documentation would the staff normally expect Registrant E to prepare to support its loan loss allowance for its pools of loans under FASB ASC Subtopic 450-20?

Interpretive Response: Regardless of the method used to determine loan loss measurements under FASB ASC 450-20, Registrant E should demonstrate and document that the loss measurement methods used to estimate the loan loss allowance for each segment of its loan portfolio are determined in accordance with GAAP as of the financial statement date. FN49

FN49 Refer to FASB ASC paragraph 450-20-25-2(b). Also, as indicated in FASB ASC paragraph 310-10-35-4(c), "[t]he approach for determination of the allowance shall be well documented and applied consistently from period to period."

As indicated for Registrant E, one method of estimating loan losses for groups of loans is through the application of loss rates to the groups' aggregate loan balances. Such loss rates typically reflect the registrant's historical loan loss experience for each group of loans, adjusted for relevant environmental factors (e. g., industry, geographical, economic, and political factors) over a defined period of time. If a registrant does not have loss experience of its own, it may be appropriate to reference the loss experience of other companies in the same business, provided that the registrant demonstrates that the attributes of the loans in its portfolio segment are similar to those of the loans included in the portfolio of the registrant providing the loss experience. FN50 Registrants should maintain supporting documentation for the technique used to develop their loss rates, including the period of time over which the losses were incurred. If a range of loss is determined, registrants should maintain documentation to support the identified range and the rationale used for determining which estimate is the best estimate within the range of loan losses. FN51

FN50 Refer to FASB ASC paragraphs 310-10-35-10 through 35-11.

FN51 Registrants should also refer to FASB ASC Subtopic 450-20, which provides guidance for situations in which a range of loss can be reasonably estimated but no single amount within the range appears to be a better estimate than any other amount within the range. Also, paragraph 9.14 of the Audit Guide notes the use of "a method that results in a range of estimates for the allowance," except for impairment measurement under FASB ASC Subtopic 310-10, which is based on a single best estimate and not a range of estimates. Paragraph 9.14 also states that "[t]he approach for determination of the allowance should be well documented."

The staff normally would expect that, before employing a loss estimation model, a registrant would evaluate and modify, as needed, the model's assumptions to ensure that the resulting loss estimate is consistent with GAAP. In order to demonstrate consistency with GAAP, registrants that use loss estimation models should typically document the evaluation, the conclusions regarding the appropriateness of estimating loan losses with a model or other loss estimation tool, and the objective support for adjustments to the model or its results. FN52

FN52 The systematic methodology (including, if applicable, loss estimation models) used to determine loan loss provisions and allowances should be documented in accordance with FRR 28, paragraph 9.05 of the Audit Guide, and FASB ASC Subtopic 310-10.

In developing loss measurements, registrants should consider the impact of current environmental factors and then document which factors were used in the analysis and how those factors affected the loss measurements. Factors that should be considered in developing loss measurements include the following: FN53

FN53 Refer to paragraph 9.13 in the Audit Guide.

Levels of and trends in delinquencies and impaired loans;

Levels of and trends in charge-offs and recoveries;

Trends in volume and terms of loans;

Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices;

Experience, ability, and depth of lending management and other relevant staff;

National and local economic trends and conditions;

Industry conditions; and

Effects of changes in credit concentrations.

For any adjustment of loss measurements for environmental factors, a registrant should maintain sufficient, objective evidence FN54 (a) to support the amount of the adjustment and (b) to explain why the adjustment is necessary to reflect current information, events, circumstances, and conditions in the loss measurements.

FN54 AU 326 describes the "sufficient competent evidential matter" that auditors must consider in accordance with GAAS.

b. Measuring and documenting loan losses under FASB ASC Subtopic 450-20 - adjusting loss rates.

Facts: Registrant F's lending area includes a metropolitan area that is financially dependent upon the profitability of a number of manufacturing businesses. These businesses use highly specialized equipment and significant quantities of rare metals in the manufacturing process. Due to increased low-cost foreign competition, several of the parts suppliers servicing these manufacturing firms declared bankruptcy. The foreign suppliers have subsequently increased prices and the manufacturing firms have suffered from increased equipment maintenance costs and smaller profit margins.

Additionally, the cost of the rare metals used in the manufacturing process increased and has now stabilized at double last year's price. Due to these events, the manufacturing businesses are experiencing financial difficulties and have recently announced downsizing plans.

Although Registrant F has yet to confirm an increase in its loss experience as a result of these events, management knows that it lends to a significant number of businesses and individuals whose repayment ability depends upon the long-term viability of the manufacturing businesses. Registrant F's management has identified particular segments of its commercial and consumer customer bases that include borrowers highly dependent upon sales or salary from the manufacturing businesses. Registrant F's management performs an analysis of the affected portfolio segments to adjust its historical loss rates used to determine the loan loss allowance. In this particular case, Registrant F has experienced similar business and lending conditions in the past that it can compare to current conditions.

Question: How would the staff normally expect Registrant F to document its support for the loss rate adjustments that result from considering these manufacturing firms' financial downturns? FN55

FN55 This question and response would also apply to other registrant fact patterns in which the registrant adjusts loss rates for environmental factors.

Interpretive Response: The staff normally would expect Registrant F to document its identification of the particular segments of its commercial and consumer loan portfolio for which it is probable that the manufacturing business' financial downturn has resulted in loan losses. In addition, the staff normally would expect Registrant F to document its analysis that resulted in the adjustments to the loss rates for the affected portfolio segments. FN56 The staff normally would expect that, as part of its documentation, Registrant F would maintain copies of the documents supporting the analysis, which may include relevant economic reports, economic data, and information from individual borrowers.

FN56 Paragraph 9.56 of the Audit Guide refers to the documentation, for disclosure purposes, that an entity should include in the notes to the financial statements describing the accounting policies and methodology the entity used to estimate its allowance and related provision for loan losses. As indicated in paragraph 9.56, "[s]uch a description should identify the factors that influenced management's judgment (for example, historical losses and existing economic conditions) and may also include discussion of risk elements relevant to particular categories of financial instruments."

Because in this case Registrant F has experienced similar business and lending conditions in the past, it should consider including in its supporting documentation an analysis of how the current conditions compare to its previous loss experiences in similar circumstances. The staff normally would expect that, as part of Registrant F's effective loan loss allowance methodology, it would create a summary of the amount and rationale for the adjustment factor for review by management prior to the issuance of the financial statements. FN57

FN57 Paragraph 9.64 in the Audit Guide indicates that effective internal control related to the allowance for loan losses should include "accumulation of relevant, sufficient, and reliable data on which to base management's estimate of the allowance."

c. Measuring and documenting loan losses under FASB ASC Subtopic 450-20 estimating losses on loans individually reviewed for impairment but not considered individually impaired.

Facts: Registrant G has outstanding loans of $2 million to Company Y and $1 million to Company Z, both of which are paying as agreed upon in the loan documents. The registrant's loan loss allowance policy specifies that all loans greater than $750,000 must be individually reviewed for impairment under FASB ASC Subtopic 310-10. Company Y's financial statements reflect a strong net worth, good profits, and ongoing ability to meet debt service requirements. In contrast, recent information indicates Company Z's profitability is declining and its cash flow is tight. Accordingly, this loan is rated substandard under the registrant's loan grading system. Despite its concern, management believes Company Z will resolve its problems and determines that neither loan is individually impaired as defined by FASB ASC Subtopic 310-10.

Registrant G segments its loan portfolio to estimate loan losses under FASB ASC Subtopic 450-20. Two of its loan portfolio segments are Segment 1 and Segment 2. The loan to Company Y has risk characteristics similar to the loans included in Segment 1 and the loan to Company Z has risk characteristics similar to the loans included in Segment 2. FN58

FN58 These groups of loans do not include any loans that have been individually reviewed for impairment under FASB ASC Section 310-10-35, Receivables-Overall-Subsequent Measurement, and determined to be impaired as defined by FASB ASC Section 310-10-35.

In its determination of its loan loss allowance under FASB ASC Subtopic 450-20, Registrant G includes its loans to Company Y and Company Z in the groups of loans with similar characteristics (i. e., Segment 1 for Company Y's loan and Segment 2 for Company Z's loan). FN59 Management's analyses of Segment 1 and Segment 2 indicate that it is probable that each segment includes some losses, even though the losses cannot be identified to one or more specific loans. Management estimates that the use of its historical loss rates for these two segments, with adjustments for changes in environmental factors, provides a reasonable estimate of the registrant's probable loan losses in these segments.

FN59 FASB ASC paragraph 310-10-35-36 states that if a creditor concludes that an individual loan specifically identified for evaluation is not impaired under FASB ASC Subtopic 310-10, that loan may be included in the assessment of the allowance for loan losses under FASB ASC Subtopic 450-20, but only if specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics.

Question: How would the staff normally expect Registrant G to adequately document a loan loss allowance under FASB ASC Subtopic 450-20 for these loans that were individually reviewed for impairment but are not considered individually impaired?

Interpretive Response: The staff normally would expect that, as part of Registrant G's effective loan loss allowance methodology, it would document its decision to include its loans to Company Y and Company Z in its determination of its loan loss allowance under FASB ASC Subtopic 450-20. FN60 The staff also normally would expect that Registrant G would document the specific characteristics of the loans that were the basis for grouping these loans with other loans in Segment 1 and Segment 2, respectively. FN61 Additionally, the staff normally would expect Registrant G to maintain documentation to support its method of estimating loan losses for Segment 1 and Segment 2, which typically would include the average loss rate used, the analysis of historical losses by loan type and by internal risk rating, and support for any adjustments to its historical loss rates. FN62 The registrant would typically maintain copies of the economic and other reports that provided source data.

FN60 Paragraph 9.05 in the Audit Guide indicates that an entity's method of estimating credit losses should "include a detailed and regular analysis of the loan portfolio," "consider all loans (whether on an individual or pool-of-loans basis)," "be based on current and reliable data," and "be well documented, with clear explanations of the supporting analyses and rationale." FASB ASC paragraph 310-10-35-36 provides guidance as to the analysis to be performed when determining whether a loan that is not individually impaired under FASB ASC Subtopic 310-10 should be included in the assessment of the loan loss allowance under FASB ASC Subtopic 450-20.

FN61 Ibid.

FN62 Ibid.

When measuring and documenting loan losses, Registrant G should take steps to prevent layering loan loss allowances. Layering is the inappropriate practice of recording in the allowance more than one amount for the same probable loan loss. Layering can happen when a registrant includes a loan in one segment, determines its best estimate of loss for that loan either individually or on a group basis (after taking into account all appropriate environmental factors, conditions, and events), and then includes the loan in another group, which receives an additional loan loss allowance amount.

5. Documenting the results of a systematic methodology

a. Documenting the results of a systematic methodology - general.

Facts: Registrant H has completed its estimation of its loan loss allowance for the current reporting period, in accordance with GAAP, using its established systematic methodology.

Question: What summary documentation would the staff normally expect Registrant H to prepare to support the amount of its loan loss allowance to be reported in its financial statements?

Interpretive Response: The staff normally would expect that, to verify that loan loss allowance balances are presented fairly in accordance with GAAP and are auditable, management would prepare a document that summarizes the amount to be reported in the financial statements for the loan loss allowance. FN63 Common elements that the staff normally would expect to find documented in loan loss allowance summaries include: FN64

FN63 FRR 28 states: "[t]he specific rationale upon which the [loan loss allowance and provision] amount actually reported is based-i. e., the bridge between the findings of the detailed review [of the loan portfolio] and the amount actually reported in each period-would be documented to help ensure the adequacy of the reported amount, to improve auditability, and to serve as a benchmark for exercise of prudent judgment in future periods."

FN64 See also paragraph 9.14 of the Audit Guide.

The estimate of the probable loss or range of loss incurred for each category evaluated (e. g., individually evaluated impaired loans, homogeneous pools, and other groups of loans that are collectively evaluated for impairment);

The aggregate probable loss estimated using the registrant's methodology;

A summary of the current loan loss allowance balance;

The amount, if any, by which the loan loss allowance balance is to be adjusted; FN65 and

FN65 Subsequent to adjustments, the staff normally would expect that there would be no material differences between the consolidated loss estimate, as determined by the methodology, and the final loan loss allowance balance reported in the financial statements. Registrants should refer to SAB 99 and SAS 89 and their amendments to AU Section 310.

Depending on the level of detail that supports the loan loss allowance analysis, detailed subschedules of loss estimates that reconcile to the summary schedule.

Generally, a registrant's review and approval process for the loan loss allowance relies upon the data provided in these consolidated summaries. There may be instances in which individuals or committees that review the loan loss allowance methodology and resulting allowance balance identify adjustments that need to be made to the loss estimates to provide a better estimate of loan losses. These changes may be due to information not known at the time of the initial loss estimate (e. g., information that surfaces after determining and adjusting, as necessary, historical loss rates, or a recent decline in the marketability of property after conducting a FASB ASC Subtopic 310-10 valuation based upon the fair value of collateral). It is important that these adjustments are consistent with GAAP and are reviewed and approved by appropriate personnel. FN66 Additionally, it would typically be appropriate for the summary to provide each subsequent reviewer with an understanding of the support behind these adjustments. Therefore, the staff normally would expect management to document the nature of any adjustments and the underlying rationale for making the changes. FN67

FN66 Paragraph 9.64 in the Audit Guide indicates that effective internal control related to the allowance for loan losses should include "adequate review and approval of the allowance estimates by the individuals specified in management's written policy."

FN67 See the guidance in paragraph 9.14 of the Audit Guide ("[t]he approach for determination of the allowance should be well documented") and in FRR 28 ("the specific rationale upon which the amount actually reported in each individual period is based would be documented").

The staff also normally would expect this documentation to be provided to those among management making the final determination of the loan loss allowance amount. FN68

FN68 Ibid.

b. Documenting the results of a systematic methodology allowance adjustments.

Facts: Registrant I determines its loan loss allowance using an established systematic process. At the end of each reporting period, the accounting department prepares a summary schedule that includes the amount of each of the components of the loan loss allowance, as well as the total loan loss allowance amount, for review by senior management, including the Credit Committee. Members of senior management meet to discuss the loan loss allowance. During these discussions, they identify changes that are required by GAAP to be made to certain of the loan loss allowance estimates. As a result of the adjustments made by senior management, the total amount of the loan loss allowance changes. However, senior management (or its designee) does not update the loan loss allowance summary schedule to reflect the adjustments or reasons for the adjustments. When performing their audit of the financial statements, the independent accountants are provided with the original loan loss allowance summary schedule reviewed by senior management, as well as a verbal explanation of the changes made by senior management when they met to discuss the loan loss allowance.

Question: In the staff's view, are Registrant I's documentation practices related to the balance of its loan loss allowance in compliance with existing documentation guidance in this area?

Interpretive Response: No. A registrant should maintain supporting documentation for the loan loss allowance amount reported in its financial statements. FN69 As illustrated above, there may be instances in which loan loss allowance reviewers identify adjustments that need to be made to the loan loss estimates. The staff normally would expect the nature of the adjustments, how they were measured or determined, and the underlying rationale for making the changes to the loan loss allowance balance to be documented. FN70 The staff also normally would expect appropriate documentation of the adjustments to be provided to management for review of the final loan loss allowance amount to be reported in the financial statements. This documentation should also be made available to the independent accountants. If changes frequently occur during management or credit committee reviews of the loan loss allowance, management may find it appropriate to analyze the reasons for the frequent changes and to reassess the methodology the registrant uses. FN71

FN69 Ibid.

FN70 Ibid.

FN71 As outlined in paragraph 9.64 of the Audit Guide, effective internal controls related to the allowance for loan losses should include adequate review and approval of allowance estimates, including review of sources of relevant information, review of development of assumptions, review of reasonableness of assumptions and resulting estimates, and consideration of changes in previously established methods to arrive at the allowance.

6. Validating a systematic methodology

Question: What is the staff's guidance to a registrant on validating, and documenting the validation of, its systematic methodology used to estimate loan loss allowances?

Interpretive Response: The staff believes that a registrant's loan loss allowance methodology is considered valid when it accurately estimates the amount of loss contained in the portfolio. Thus, the staff normally would expect the registrant's methodology to include procedures that adjust loan loss estimation methods to reduce differences between estimated losses and actual subsequent charge-offs, as necessary. To verify that the loan loss allowance methodology is valid and conforms to GAAP, the staff believes it is appropriate for management to establish internal control policies, FN72 appropriate for the size of the registrant and the type and complexity of its loan products. These policies may include procedures for a review, by a party who is independent of the allowance for loan losses estimation process, of the allowance for loan losses methodology and its application in order to confirm its effectiveness.

FN72 Ibid.

In practice, registrants employ numerous procedures when validating the reasonableness of their loan loss allowance methodology and determining whether there may be deficiencies in their overall methodology or loan grading process. Examples are:

A review of trends in loan volume, delinquencies, restructurings, and concentrations.

A review of previous charge-off and recovery history, including an evaluation of the timeliness of the entries to record both the charge-offs and the recoveries.

A review by a party that is independent of the loan loss allowance estimation process. This often involves the independent party reviewing, on a test basis, source documents and underlying assumptions to determine that the established methodology develops reasonable loss estimates.

An evaluation of the appraisal process of the underlying collateral. This may be accomplished by periodically comparing the appraised value to the actual sales price on selected properties sold.

It is the staff's understanding that, in practice, management usually supports the validation process with the workpapers from the loan loss allowance review function. Additional documentation often includes the summary findings of the independent reviewer. The staff normally would expect that, if the methodology is changed based upon the findings of the validation process, documentation that describes and supports the changes would be maintained. FN73

FN73 See paragraph 9.64 of the Audit Guide.

310-**20 - Nonrefundable Fees and Other Costs**

310-20-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

310-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Debt Security (1st def.)	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-13	06/16/2016
Financial Asset (1st def.)	Superseded	Accounting Standards Update No. 2016-19	12/14/2016
Financial Asset (1st def.)	Added	Accounting Standards Update No. 2016-13	06/16/2016
Financial Asset (2nd def.)	Added	Accounting Standards Update No. 2016-19	12/14/2016
Public Business Entity	Added	Accounting Standards Update No. 2017-08	03/30/2017
Purchased Financial Assets with Credit Deterioration	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Purchased Financial Assets with Credit Deterioration	Added	Accounting Standards Update No. 2016-13	06/16/2016
Recorded Investment	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Recorded Investment	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-20-15-1	Amended	Accounting Standards Update No. 2016-02	02/25/2016
310-20-15-3	Amended	Accounting Standards	06/16/2016

		Update No. 2016-13	
310-20-15-3	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-20-15-4	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-20-15-4	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-20-35-2	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-20-35-6	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-20-35-9	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-20-35-9	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-20-35-9	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-20-35-10	Amended	Accounting Standards Update No. 2022-02	03/31/2022
310-20-35-12	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-20-35-12A through 35-12D 310-20-35-12B 310-20-35-12C 310-20-35-12D	Added	Accounting Standards Update No. 2022-02	03/31/2022
310-20-35-33	Amended	Accounting Standards Update No. 2020-08	10/15/2020
310-20-35-33	Amended	Accounting Standards Update No. 2017-08	03/30/2017
310-20-40-2 through 40-12 310-20-40-3 310-20-40-4 310-20-40-5 310-20-40-6 310-20-40-7 310-20-40-8 310-20-40-9 310-20-40-10 310-20-40-11 310-20-40-12	Added	Accounting Standards Update No. 2022-02	03/31/2022
310-20-50-3	Amended	Maintenance Update 2016-11	06/27/2016
310-20-50-4	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-20-55-18A through 55-18F 310-20-55-18B 310-20-55-18C 310-20-55-18D 310-20-55-18E 310-20-55-18F	Added	Accounting Standards Update No.	03/31/2022

310-20-55-51 through 55-56 310-20-55-52 310-20-55-53 310-20-55-54 310-20-55-55 310-20-55-56	Added	2022-02 Accounting Standards Update No. 2022-02	03/31/2022
310-20-60-1	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-20-60-2	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-20-65-1	Added	Accounting Standards Update No. 2017-08	03/30/2017
310-20-65-2	Added	Accounting Standards Update No. 2020-08	10/15/2020

310-20-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

310-20-05-**1** This Subtopic provides guidance on the recognition, measurement, derecognition, and disclosure of nonrefundable fees, origination costs, and acquisition costs associated with lending activities and loan purchases.

Nonrefundable Fees and Costs

310-20-05-**2** An entity may acquire a loan by lending (originating the loan) or by purchasing (acquiring a loan from a party other than the borrower). This Subtopic establishes standards of financial accounting and reporting for nonrefundable fees and costs associated with lending activities and loan purchases. The lender's activities that precede the disbursement of funds can generally be distinguished between the following:

a. Efforts to identify and attract potential borrowers

b. Efforts necessary to originate a loan or loan commitment after a potential borrower requests a loan or loan commitment.

Nonrefundable fees have many different names in practice, such as origination fees, points, placement fees, commitment fees, application fees, management fees, restructuring fees, and syndication fees, but, for purposes of this Subtopic, they are referred to as loan origination fees, commitment fees, or syndication fees.

Credit Card Arrangements

310-20-05-**3** Available lines of credit under credit card and similar charge card arrangements are loan commitments, and fees collected in connection with such cards (credit card fees) are viewed in part as being loan commitment fees. Entities issue credit cards, debit cards, bank charge cards, and other similar cards (collectively, credit cards) with a variety of terms. An issuer may charge an origination fee in connection with the issuance of a credit card and periodic renewal fees for the continued extension of credit card privileges. As part of a promotion to attract new cardholders or retain existing cardholders, some of those issuers may waive the payment of credit card fees for the initial use period or in some cases for a longer period. Other entities issue credit cards that do not require the payment of any fees for the use of the credit card.

310-20-05-**4** An entity (credit card issuer) may acquire credit card accounts by paying an amount to a third party. The credit card accounts typically have no outstanding receivable balances at the time acquired. The credit card accounts are acquired individually (one at a time) by paying an amount for each approved credit card agreement. The third party may be any of the following:

a. A direct marketing specialist

b. An affinity group (a professional, cultural, or other organization)

c. A cobrander (an airline entity, automobile manufacturing entity, hotel entity, or other commercial or retailing entity). Under a cobranding arrangement, the third party's name is included on the credit card, and the third party has a continuing obligation to provide goods or services, such as product discounts, to cardholders for an extended period that directly or indirectly benefits the credit card issuer.

310-20-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

> **General Note for Financial Instruments:** Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

Entities

310-20-15-**1** The guidance in this Subtopic applies to entities as follows:

a. All paragraphs apply to both lenders and purchasers.

b. Subparagraph superseded by Accounting Standards Update No. 2016-02.

Transactions

310-20-15-**2** The guidance in this Subtopic explicitly includes the following transactions:

a. The recognition and the balance sheet classification of nonrefundable fees and costs associated with lending activities

b. The accounting for discounts, premiums, and commitment fees associated with the purchase of loans and other debt securities such as corporate bonds, Treasury notes and bonds, groups of loans, and loan-backed securities (such as pass-through certificates, collateralized mortgage obligations, and other so-called securitized loans)

c. Loans designated as a hedged item in a fair value hedge under Topic 815 (see paragraphs 815-25-35-10 through 35-11).

310-20-15-**3** The guidance in this Subtopic does not apply to the following transactions:

a. Loan origination or commitment fees that are refundable; however, the guidance in this Subtopic does apply when such fees subsequently become nonrefundable.

b. Costs that are incurred by the lender in transactions with independent third parties if the lender bills those costs directly to the borrower.

c. Nonrefundable fees and costs associated with originating or acquiring loans that are carried at fair value if the changes in fair value are included in earnings of a business entity or change in net assets of a not-for-profit entity (NFP). The exclusion provided in this paragraph and the preceding paragraph applies to nonrefundable fees and costs associated with originating loans that are reported at fair value and premiums or discounts associated with acquiring loans that are reported at fair value. Loans that are reported at amortized cost basis or the lower of amortized cost basis or fair value, loans or debt securities reported at fair value with changes in fair value reported in other comprehensive income (includes financial assets subject to prepayment as defined in paragraph 860-20-35-2, and debt securities classified as available-for-sale under Topic 320), and loans that have a market interest rate, or adjust to a market interest rate, are not considered to be loans carried at fair value.

d. Fees and costs related to a commitment to originate, sell, or purchase loans that is accounted for as a derivative instrument under Subtopic 815-10.

e. Fees and costs related to a standby commitment to purchase loans if the settlement date of that commitment is not within a reasonable period or the entity does not have the intent and ability to accept delivery without selling assets. For guidance on fees and costs related to such a commitment, see paragraph 310-10-30-7.

Instruments

310-20-15-**4** The following table outlines the applicability of this Subtopic to various types of assets.

Types of Assets	Basis of Accounting	Applicability of This Subtopic
Loans or debt securities held in an investment portfolio	Historical or amortized cost basis[(b)]	Yes
Loans held for sale	Lower of amortized cost basis or fair value[(b)]	Yes
Loans or debt securities held in trading accounts by certain financial institutions	Fair value, changes in value are included in earnings	No
Loans or debt securities, available-for-sale[(a)]	Fair value, changes in value reported in other comprehensive income	Yes

(a) This includes financial assets subject to prepayment as defined in paragraph 310-10-35-45 and debt securities classified as available for sale under Topic 320.

(b) Entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

Other Considerations

310-20-15-**5** This guidance in this Subtopic shall be applied to individual loan contracts. Aggregation of similar loans for purposes of recognizing net fees or costs and purchase premiums or discounts is permitted if the provisions of paragraph 310-20-35-26 are met or if the resulting recognition does not differ materially from the amount that would have been recognized on an individual loan-by-loan basis.

310-20-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Amortized Cost Basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

Blended-Rate Loans

Blended-rate loans involve lending new funds at market interest rates combined with existing loans at rates currently lower than market rates. (Those funds are not advanced under a line of credit.)

Carrying Amount

For a receivable, the face amount increased or decreased by applicable accrued interest and applicable unamortized premium, discount, finance charges, or issue costs and also an allowance for uncollectible amounts and other valuation accounts. For a payable, the face amount increased or decreased by applicable accrued interest and applicable unamortized premium, discount, finance charges, or issue costs

Commitment Fees

Fees charged for entering into an agreement that obligates the entity to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. Commitment fees include fees for letters of credit and obligations to purchase a loan or group of loans and pass-through certificates.

Control

The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity through ownership, by contract, or otherwise.

Credit Card Fees

The periodic uniform fees that entitle cardholders to use credit cards. The amount of such fees generally is not dependent upon the level of credit available or frequency of usage. Typically the use of credit cards facilitates the cardholder's payment for the purchase of goods and services on a periodic, as-billed basis (usually monthly), involves the extension of credit, and, if payment is not made when billed, involves imposition of interest or finance charges. Credit card fees include fees received in similar arrangements, such as charge card and cash card fees.

Debt Security

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position

c. U.S. Treasury securities

d. U.S. government agency securities

e. Municipal securities

f. Corporate bonds

g. Convertible debt

h. Commercial paper

i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits

j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

a. Option contracts

b. Financial futures contracts

c. Forward contracts

d. Lease contracts

e. Receivables that do not meet the definition of security and, so, are not debt securities, for example:

    1. Trade accounts receivable arising from sales on credit by industrial or commercial entities

    2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

Direct Loan Origination Costs

Direct loan origination costs represent costs associated with originating a loan. Direct loan origination costs of a completed loan shall include only the following:

a. Incremental direct costs of loan origination incurred in transactions with independent third parties for that loan

b. Certain costs directly related to specified activities performed by the lender for that loan. Those activities include all of the following:

    1. Evaluating the prospective borrower's financial condition

    2. Evaluating and recording guarantees, collateral, and other security arrangements

    3. Negotiating loan terms

    4. Preparing and processing loan documents

    5. Closing the transaction.

    The costs directly related to those activities shall include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that loan and other costs related to those activities that would not have been incurred but for that loan. See Section 310-20-55 for examples of items.

Effective Interest Rate

The rate of return implicit in the financial asset, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For purchased financial assets with credit deterioration, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an market participants at the measurement date.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

Idle Time

Idle time represents the time that a lender's employees are not actively involved in performing origination activities for specific loans. Idle time can be caused by many factors, including lack of work, delays in work flow, and equipment failure. Idle time can be measured through the establishment of standard costs, time studies, ratios of productive and nonproductive time, and other methods.

Incremental Direct Costs

Costs to originate a loan that have both of the following characteristics:

a. Result directly from and are essential to the lending transaction

b. Would not have been incurred by the lender had that lending transaction not occurred.

Lending Activities

Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and leasing activities are lending activities.

Loan

A contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable. This definition encompasses loans accounted for as debt securities.

Loan Origination Fees

Origination fees consist of all of the following:

a. Fees that are being charged to the borrower as prepaid interest or to reduce the loan's nominal interest rate, such as interest buy-downs (explicit yield adjustments)

b. Fees to reimburse the lender for origination activities

c. Other fees charged to the borrower that relate directly to making the loan (for example, fees that are paid to the lender as compensation for granting a complex loan or agreeing to lend quickly)

d. Fees that are not conditional on a loan being granted by the lender that receives the fee but are, in substance, implicit yield adjustments because a loan is granted at rates or terms that would not have otherwise been considered absent the fee (for example, certain syndication fees addressed in paragraph 310-20-25-19)

e. Fees charged to the borrower in connection with the process of originating, refinancing, or restructuring a loan. This term includes, but is not limited to, points, management, arrangement, placement, application, underwriting, and other fees pursuant to a lending or leasing transaction and also includes syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender.

Loan Participation

A transaction in which a single lender makes a large loan to a borrower and subsequently transfers undivided interests in the loan to groups of banks or other entities.

Loan Syndication

A transaction in which several lenders share in lending to a single borrower. Each lender loans a specific amount to the borrower and has the right to repayment from the borrower. It is common for groups of lenders to jointly fund those loans when the amount borrowed is greater than any one lender is willing to lend.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Net Investment in an Original Loan

The net investment in an original loan includes the unpaid loan principal, any remaining unamortized net fees or costs, any remaining unamortized purchase premium or discount, and any accrued interest receivable.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Private Label Credit Cards

Private label credit cards are those credit cards that are issued by, or on behalf of, a merchandising entity for the purchase of goods or services that are sold at that entity's place(s) of business.

Probable

The future event or events are likely to occur.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Purchased Financial Assets with Credit Deterioration

Acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

Recorded Investment

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment. However, if a loan is a hedged item in a fair value hedge, the amount of that loan's recorded investment should include the unamortized amount of the cumulative fair value hedge adjustments.

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Time of Restructuring

Troubled debt restructurings may occur before, at, or after the stated maturity of debt, and time may elapse between the agreement, court order, and so forth, and the transfer of assets or equity interest, the effective date of new terms, or the occurrence of another event that constitutes consummation of the restructuring. The date of consummation is the time of the restructuring.

310-20-**25 - Recognition**

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

310-20-25-**1** This Section addresses the recognition of certain lending fees and costs, specifically:

a. Loan origination fees and direct loan origination costs

b. Other lending-related costs

c. Cost determination

d. Commitment fees

e. Credit card fees and costs

f. Loan syndication fees

g. Purchase of a loan or group of loans

h. Independent third parties.

Loan Origination Fees and Direct Loan Origination Costs

310-20-25-**2** Loan origination fees shall be deferred. Likewise, direct loan origination costs shall be deferred.

Other Lending-Related Costs

310-20-25-**3** All other lending-related costs, including costs related to activities performed by the lender for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration, shall be charged to expense as incurred. Employees' compensation and fringe benefits related to those activities, unsuccessful loan origination efforts, and idle time shall be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and shall be charged to expense as incurred.

310-20-25-**4** Costs for software dedicated to loan processing and origination are not eligible for deferral as direct loan origination costs under the definition of that term. Such costs are not other costs related to those activities that would not have been incurred but for that loan as contemplated in the definition of the term.

310-20-25-**5** Fees paid to a service bureau for loan processing are not eligible for deferral as direct loan origination costs under the definition of that term because the services were performed after the loan has already been made; the costs are not origination costs.

310-20-25-**6** Bonuses based on successful production of loans that are paid to employees involved in loan origination activities are partially deferrable as direct loan origination costs under the definition of that term. Bonuses are part of an employee's total compensation. The portion of the employee's total compensation that may be deferred as direct loan origination costs is the portion that is directly related to time spent on the activities contemplated in the definition of that term and results in the origination of a loan.

310-20-25-**7** If compensation for an employee traditionally paid by salary or hourly wage is switched wholly or partially to commissions on successful loan production, such costs would be partially deferrable as direct loan origination costs under the definition of that term. As specified in the preceding paragraph, only the portion of the employee's total compensation directly related to time spent on activities contemplated in the definition of that term for completed loans would be deferred. Commission-based compensation arrangements between a lender and its employees may be similar to arrangements a lender may have with independent third parties such as loan brokers. However, when origination activities are performed by the lender's employees, the lender must allocate compensation costs applicable to the activities contemplated in the definition of direct loan acquisition costs based on the portion of time spent by employees. An allocation of the employees' total compensation between origination and other activities is made so that only those costs associated with those lending activities contemplated in the definition of that term are deferred for completed loans, even if commissions are 100 percent of such compensation and are based solely on completed loan transactions.

Cost Determination

310-20-25-**8** This Subtopic does not specify how costs are to be determined but rather what costs must be deferred. In many instances, standard costing may be used to estimate the costs to be deferred in accordance with the provisions of this Subtopic. For certain loans, the cost of origination may be similar and standard costing may be appropriate for those loans, while other loans may be of such a nature that costs must be identified separately. Lenders may use any one or a combination of methods that will provide adequate information to report financial results in accordance with this Subtopic. Development of a standard costing system will require periodic analysis of variances and, if necessary, adjustment of standard costing estimates. Possible standard cost methods that may be used to measure costs applicable to transactions that have occurred include standard costs, actual costs, job process (for example, homogeneous loans), or job order (for example, specific loans).

310-20-25-**9** The successful-efforts accounting notion utilized at an entity-wide level may result in a standard cost system that does not accurately reflect the amount of costs that may be deferred and amortized under the provisions of this Subtopic. Successful loan efforts can be determined as a percentage of each function (for example, application, verification, underwriting, appraisal, closing) and may be based on the percentage, adjusted for idle time and time spent on activities for which the related costs cannot be deferred, of successful and unsuccessful efforts determined for each function.

310-20-25-**10** In accounting for costs associated with loan originations on loans that have not yet been closed , judgment is required to estimate the number of loans in process that will result in a successful loan origination. Origination costs on a loan in process may be deferred until the loan is either closed or considered an unsuccessful effort. If a loan in process is determined to be unsuccessful after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), costs that have been deferred through the balance sheet date shall be charged to expense in the period ending with the balance sheet date.

Commitment Fees

310-20-25-**11** Except as set forth in paragraph 310-20-35-3, fees received for a commitment to originate or purchase a loan or group of loans shall be deferred.

310-20-25-**12** Direct loan origination costs incurred to make a commitment to originate a loan shall be offset against any related commitment fee and the net amount recognized as set forth in paragraph 310-20-35-3.

310-20-25-**13** If qualifying costs associated with commitments exceed commitment fees received (or if no fee is charged), whether or not the resulting net cost may be deferred depends on the likelihood of the commitment being exercised. This Subtopic applies to both nonrefundable fees and costs, and paragraphs 310-20-35-3 and 310-20-25-1 may require that the net of such items be deferred. However, if the likelihood that the commitment will be exercised is remote, any net costs shall be charged to expense immediately rather than deferred and amortized on a straight-line basis over the commitment period.

310-20-25-**14** Fees received for providing commercial letters of credit are covered by this Subtopic. Such fees are considered commitment fees, and the accounting is specified in paragraph 310-20-35-3.

Credit Card Fees and Costs

310-20-25-**15** Credit card fees generally cover many services to cardholders. Accordingly, fees that are periodically charged to cardholders shall be deferred. This accounting shall also apply to other similar card arrangements that involve an extension of credit by the card issuer.

310-20-25-**16** Only the costs of origination that qualify as direct loan origination costs under the definition of that term are eligible for deferral. All other costs shall be charged to expense as incurred. Therefore, costs eligible for deferral would likely exceed fees only when a credit card is first issued.

310-20-25-**17** Credit card origination costs shall be netted against the related credit card fee, if any. In situations where a significant fee is charged, the privilege period is the period that the fee entitles the cardholder to use the credit card. If there is no significant fee, the privilege period shall be one year. Significance for this purpose shall be evaluated based on the amount of the fee relative to the related costs.

310-20-25-**18** Credit card accounts acquired individually shall be accounted for as originations under this Subtopic. Amounts paid to a third party to acquire individual credit card accounts shall be deferred and netted against the related credit card fee, if any.

Loan Syndication Fees

310-20-25-**19** The entity managing a loan syndication (the syndicator) shall recognize loan syndication fees when the syndication is complete unless a portion of the syndication loan is retained. If the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator shall defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.

310-20-25-**20** All transactions that are structured legally as loan syndications shall be accounted for as loan syndications in accordance with the provisions of this Subtopic.

310-20-25-**21** Paragraph not used.

Purchase of a Loan or Group of Loans

310-20-25-**22** Paragraph 310-20-30-5 explains that the initial investment in a purchased loan or group of loans shall include the amount paid to the seller plus any fees paid or less any fees received. The initial investment frequently differs from the related loan's principal amount at the date of purchase. All other costs incurred in connection with acquiring purchased loans or committing to purchase loans shall be charged to expense as incurred.

310-20-25-**23** Designation of a fee or cost as an origination fee or cost for a loan that is purchased is inappropriate because a purchased loan has already been originated by another party. Costs incurred in connection with acquiring loans or committing to purchase loans, including a participation, shall be charged to expense in accordance with paragraph 310-20-35-15.

310-20-25-**24** For the originating lender, net fees and costs associated with a loan participation would become a component of the net loan investment balance to be used in calculating the gain or loss on a subsequent sale as described in paragraph 310-20-35-16.

Independent Third Parties

310-20-25-**25** If an entity utilizes a third party for loan originations and the third party is not considered an independent third party for several reasons but also is not an employee of the entity, the entity shall defer those costs directly related to specified activities that can be determined to meet the criteria for direct loan origination costs under the definition of that term as long as those costs would not have been incurred but for that loan.

310-20-25-**26** Fees paid to independent third parties for advisory services regarding loan origination activities, even if those same activities are performed internally, are not considered to be incurred for the specified activities set forth in the definition of the direct loan acquisition costs term and shall be charged to expense as incurred whether paid to independent third parties or performed internally.

310-20-25-**27** Fees paid to an independent third party, or incurred internally, for portfolio management or investment consultation are considered other costs incurred in connection with acquiring purchased loans or committing to purchase loans because they constitute investment advisory costs, not loan origination costs. Therefore, such costs shall be charged to expense in accordance with paragraph 310-20-35-15 whether the costs are paid to independent third parties or incurred internally. In some circumstances judgment may be necessary to determine if a third party is independent.

310-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

310-20-30-**1** This Section addresses the measurement of certain types of lending fees and costs, specifically:

a. Loan origination fees and costs
b. Syndication fees
c. Purchase of a loan or group of loans.

Loan Origination Fees and Costs

310-20-30-**2** Loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be deferred.

310-20-30-**3** For increasing interest rate loans, the recorded net investment in a loan may exceed the amount by which the borrower could settle the obligation but only if the excess results from a purchase premium (loans purchased) or loan costs that qualify for deferral in excess of loan fees (loans originated).

Syndication Fees

310-20-30-**4** Paragraph 310-20-25-19 explains that, if the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator shall defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.

Purchase of a Loan or Group of Loans

310-20-30-**5** The initial investment in a purchased loan or group of loans shall include the amount paid to the seller plus any fees paid or less any fees received. In applying the provisions of this Subtopic to loans purchased as a group, the purchaser may allocate the initial investment to the individual loans or may account for the initial investment in the aggregate.

310-20-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

310-20-35-**1** This Section addresses measurement issues for certain fees and costs related to various forms of lending, specifically:

a. Loan origination fees and costs
b. Commitment fees and costs
c. Credit card fees and costs
d. Loan refinancing or restructuring
e. Purchase of a loan or group of loans
f. Interest method and other amortization matters
g. Estimating principal prepayments
h. Lending transactions unrelated to the origination of loans
i. Blended-rate loans.

Loan Origination Fees and Costs

310-20-35-**2** Loan origination fees deferred in accordance with paragraph 310-20-25-2 shall be recognized over the life of the loan as an adjustment of yield (interest income). Likewise, direct loan origination costs deferred in accordance with that paragraph shall be recognized as a reduction in the yield of the loan. Paragraph 310-20-30-2 explains that loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be amortized. For loans that are refinanced or restructured, see paragraphs 310-20-35-9 through 35-10310-20-35-10.

Commitment Fees and Costs

310-20-35-**3** Except as set forth in this paragraph, fees received for a commitment to originate or purchase a loan or group of loans shall be, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized in income upon expiration of the commitment:

a. If the entity's experience with similar arrangements indicates that the likelihood that the commitment will be exercised is remote, the commitment fee shall be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise shall be recognized over the life of the loan as an adjustment of yield. The term remote is used here, consistent with its use in Topic 450, to mean that the likelihood is slight that a loan commitment will be exercised before its expiration.

b. If the amount of the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee shall be recognized as service fee income as of the determination date.

Credit Card Fees and Costs

310-20-35-**4** The following guidance addresses the amortization of deferred origination costs of credit cards with fees, without fees, or when the fees have been waived for a limited period of time.

310-20-35-**5** Fees deferred in accordance with paragraph 310-20-25-15 shall be recognized on a straight-line basis over the period the fee entitles the cardholder to use the card. This accounting shall also apply to other similar card arrangements that involve an extension of credit by the card issuer.

310-20-35-**6** In connection with the issuance of a credit card that is not a private label credit card, an issuer may incur certain credit card origination costs that qualify as direct loan origination costs pursuant to this Topic. Paragraph 310-20-25-16 explains that only the costs of origination that qualify as direct loan origination costs under the definition of that term are eligible for deferral. That definition explains that all other costs shall be charged to expense as incurred. That definition explains that, therefore, costs eligible for deferral would likely exceed fees only when a credit card is first issued.

310-20-35-**7** The net amount of credit card origination costs netted against the related credit card fee, if any, and recognized in accordance with paragraph 310-20-25-17 shall be amortized on a straight-line basis over the privilege period. That paragraph states that significance for this purpose shall be evaluated based on the amount of the fee relative to the related costs and provides related guidance.

310-20-35-**8** Any net amount deferred in accordance with paragraph 310-20-25-18 shall be amortized on a straight-line basis over the privilege period.

Loan Refinancing or Restructuring

310-20-35-**9** If the terms of the new loan resulting from a loan refinancing or restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.

310-20-35-**10** If the refinancing or restructuring does not meet the condition set forth in paragraph 310-20-35-9 or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. In this case, the investment in the new loan shall consist of the remaining net investment in the original loan, any additional funds advanced to the borrower, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

310-20-35-**11** A modification of a debt instrument shall be considered more than minor under paragraph 310-20-35-10 if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. If the difference between the present value of the cash flows under the terms of the new debt instrument and the present value of the remaining cash flows under the terms of the original debt instrument is less than 10 percent, a creditor shall evaluate whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. The guidance in Topic 470 shall be used to calculate the present value of the cash flows for purposes of applying the 10 percent test.

310-20-35-**12** Paragraph superseded by Accounting Standards Update No. 2022-02.

Substitution or Addition of Debtors

310-20-35-**12A** A loan refinancing or restructuring may involve substituting debt of another business entity, individual, or government entity for that of the debtor or adding another debtor (for example, as a joint debtor). Government entities include, but are not limited to, states, counties, townships, municipalities, school districts, authorities, and commissions. That kind of restructuring should be accounted for according to its substance. For example, a restructuring in which, after the restructuring, the substitute or additional debtor controls, is controlled by (as defined in paragraphs 810-10-15-8 through 15-8A), or is under common control with the original debtor is an example of one that shall be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs 310-20-35-9 through 35-11310-20-35-10310-20-35-11. Similarly, a restructuring in which the substitute or additional debtor and original debtor are related after the restructuring by an agency, trust, or other relationship that in substance earmarks certain of the original debtor's funds or funds flows for the creditor although payments to the creditor may be made by the substitute or additional debtor should be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs 310-20-35-9 through 35-11310-20-35-10310-20-35-11. In contrast, a restructuring in which the substitute or additional debtor and the original debtor do not have any of the relationships described above after the restructuring shall be accounted for by the creditor according to the provisions of paragraphs 310-20-40-2310-20-40-3310-20-40-4310-20-40-5.

Partial Satisfaction of a Receivable

310-20-35-**12B** In a partial satisfaction of a receivable (see paragraph 310-20-35-12C), the fair value of the assets received shall be used in all cases to avoid the need to allocate the fair value of the receivable between the part satisfied and the part still outstanding.

310-20-35-**12C** A loan refinancing or restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a loan refinancing or restructuring involving a partial satisfaction and modification of terms as prescribed in paragraphs 310-20-35-9 through 35-11310-20-35-10310-20-35-11 except that, first, the assets received shall be accounted for as prescribed in paragraphs 310-20-40-2 through 40-4310-20-40-3310-20-40-4 and the amortized cost basis shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the amortized cost basis shall be reduced by the amount of cash received.

Impairment

310-20-35-**12D** The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 do not allow the lender to look-back to credit losses measured and recorded under Topic 326 for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph 360-10-35-40.

Mortgage Loan Payment Modifications

310-20-35-**13** The borrower and lender may enter into an agreement whereby the borrower increases his mortgage payments for a specified period, at the conclusion of which the lender forgives a portion of the remaining principal on the loan. The borrower may terminate the arrangement at any time but receives no principal reduction if he makes less than 12 consecutive increased payments. The guidance in paragraph 310-20-35-11 shall first be used to determine whether the modification is considered more than minor under paragraph 310-20-35-10. If not, and assuming it is probable that the borrower will continue to make the increased payments for the specified period, the expense relating to the partial forgiveness shall be accrued over the period of increased payments.

310-20-35-**14** Because of a decline in general interest rates, a lender may reduce the interest rate on an existing loan and collect a loan fee. Because the interest rate modification does not require another loan closing, the borrower is not charged many of the standard closing costs. The effective yield on the new loan shall be compared with the effective yield of comparable loans to the lender's other new customers to determine whether the yield on the new loan is at least as favorable as the effective yield for such loans. If so, the guidance in paragraph 310-20-35-11 shall be used to determine whether the modification is considered more than minor under paragraph 310-20-35-10. If not, the unamortized net fees and costs from the original loan and any prepayment penalties shall be carried forward as part of the net investment in the new loan. However, if the interest rate modification is provided for in the original loan contract, the change in the interest rate shall be accounted for in accordance with paragraph 310-20-35-18 and not considered a refinancing for purposes of paragraphs 310-20-35-9 through 35-10.

Purchase of a Loan or Group of Loans

310-20-35-**15** Paragraph 310-20-30-5 explains that the initial investment in a purchased loan or group of loans shall include the amount paid to the seller plus any fees paid or less any fees received. Paragraph 310-20-25-22 explains that the initial investment frequently differs from the related loan's principal amount at the date of purchase. This difference shall be recognized as an adjustment of yield over the life of the loan.

310-20-35-**16** Paragraph 310-20-30-5 explains that, in applying the provisions of this Subtopic to loans purchased as a group, the purchaser may allocate the initial investment to the individual loans or may account for the initial investment in the aggregate. The cash flows provided by the underlying loan contracts shall be used to apply the interest method, except as set forth in paragraph 310-20-35-26. If prepayments are not anticipated pursuant to that paragraph and prepayments occur or a portion of the purchased loans is sold, a proportionate amount of the related deferred fees and purchase premium or discount shall be recognized in income so that the effective interest rate on the remaining portion of loans continues unchanged.

Interest Method and Other Amortization Matters

310-20-35-**17** Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns about the realization of loan principal or interest.

310-20-35-**18** Net fees or costs that are required to be recognized as yield adjustments over the life of the related loan(s) shall be recognized by the interest method except as set forth in paragraphs 310-20-35-21 through 35-24. The objective of the interest method is to arrive at periodic interest income (including recognition of fees and costs) at a constant effective yield on the net investment in the receivable (that is, the principal amount of the receivable adjusted by unamortized fees or costs and purchase premium or discount). The difference between the periodic interest income so determined and the stated interest on the outstanding principal amount of the receivable is the amount of periodic amortization. See paragraphs 835-30-35-2 through 35-5 for guidance concerning the interest method. Under the provisions of this Subtopic, the interest method shall be applied as follows when the stated interest rate is not constant throughout the term of the loan:

a. If the loan's stated interest rate increases during the term of the loan (so that interest accrued under the interest method in early periods would exceed interest at the stated rate), interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Prepayment penalties shall be considered in determining the amount at which the borrower could settle the obligation only to the extent that such penalties are imposed throughout the loan term. (See Section 310-20-55.) Accordingly, a limit is imposed on the amount of periodic amortization that can be recognized. However, that limitation does not apply to the capitalization of costs incurred (such as direct loan origination costs and purchase premiums) that cause the investment in the loan to be in excess of the amount at which the borrower could settle the obligation. The capitalization of costs incurred is different from increasing the net investment in a loan through accrual of interest income that is only contingently receivable.

b. If the loan's stated interest rate decreases during the term of the loan, the stated periodic interest received early in the term of the loan would exceed the periodic interest income that is calculated under the interest method. In that circumstance, the excess shall be deferred and recognized in those future periods when the constant effective yield under the interest method exceeds the stated interest rate. (See Section 310-20-55.)

c. If the loan's stated interest rate varies based on future changes in an independent factor, such as an index or rate (for example, the prime rate, the London Interbank Offered Rate [LIBOR], or the U.S. Treasury bill weekly average rate), the calculation of the constant effective yield necessary to recognize fees and costs shall be based either on the factor (the index or rate) that is in effect at the inception of the loan or on the factor as it changes over the life of the loan. (See Section 310-20-55.) A variable rate loan whose initial rate differs from the rate its base factor would produce is also subject to the provisions of (a) and (b).

310-20-35-**19** The preceding paragraph provides that when a loan's stated interest rate varies based on future changes in an independent factor, the lender shall calculate a constant effective yield by using the independent factor in effect at the inception of the loan or the factor as it changes over the life of the loan. In applying the guidance in (c) in the preceding paragraph, the lender may not change from one alternative to the other during the life of the loan. The lender must select one of the two alternatives and apply the method consistently throughout the life of the loan.

310-20-35-**20** In a period in which the independent factor on a variable rate loan changes, the constant effective yield is recalculated not from the inception of the loan but from the time of the change. See Example 9 (paragraph 310-20-55-43) for an illustration.

310-20-35-**21** Certain loan agreements provide no scheduled payment terms (demand loans); others provide the borrower with the option to make multiple borrowings up to a specified maximum amount, to repay portions of previous borrowings, and then reborrow under the same contract (revolving lines of credit).

310-20-35-**22** For a loan that is payable at the lender's demand, any net fees or costs may be recognized as an adjustment of yield on a straight-line basis over a period that is consistent with any of the following:

a. The understanding between the borrower and lender

b. If no understanding exists, the lender's estimate of the period of time over which the loan will remain outstanding; any unamortized amount shall be recognized when the loan is paid in full.

Such estimates should be monitored regularly and revised as appropriate. If, contrary to expectation, a loan remains outstanding beyond the anticipated payment date, no adjustment is required.

310-20-35-**23** For revolving lines of credit (or similar loan arrangements), the net fees or costs shall be recognized in income on a straight-line basis over the period the revolving line of credit is active, assuming that borrowings are outstanding for the maximum term provided in the loan contract. If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees or costs shall be recognized in income upon payment. The interest method shall be applied to recognize net unamortized fees or costs when the loan agreement provides a schedule for payment and no additional borrowings are provided for under the agreement.

310-20-35-**24** For example, if the loan agreement provides the borrower with the option to convert a one-year revolving line of credit to a five-year term loan, during the term of the revolving line of credit the lender would recognize the net fees or costs as income on a straight-line basis using the combined life of the revolving line of credit and term loan. If the borrower elects to convert the line of credit to a term loan, the lender would recognize the unamortized net fees or costs as an adjustment of yield using the interest method. If the revolving line of credit expires and borrowings are extinguished, the unamortized net fees or costs would be recognized in income upon payment.

310-20-35-**25** If the borrower continues to have a contractual right to borrow under the revolving line of credit, net fees and costs associated with revolving lines of credit shall be amortized over the term of the revolver even if the revolver is unused for a period of time.

Estimating Principal Prepayments

310-20-35-**26** Except as stated in the following sentence, the calculation of the constant effective yield necessary to apply the interest method shall use the payment terms required by the loan contract, and prepayments of principal shall not be anticipated to shorten the loan term. If the entity holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the entity may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. If the entity anticipates prepayments in applying the interest method and a difference arises between the prepayments anticipated and actual prepayments received, the entity shall recalculate the effective yield to reflect actual payments to date and anticipated future payments. The net investment in the loans shall be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the loans. The investment in the loans shall be adjusted to the new balance with a corresponding charge or credit to interest income.

310-20-35-**27** Loans grouped together shall have sufficiently similar characteristics that prepayment experience of the loans can be expected to be similar in a variety of interest rate environments. Loans that are grouped together for purposes of applying the preceding paragraph shall have sufficiently similar levels of net fees or costs so that, in the event that an individual loan is sold, recalculation of that loan's carrying amount will be practicable.

310-20-35-**28** For loans that do qualify under paragraph 310-20-35-26, a lender may use either method for different loans and select the most appropriate method for a group of loans based on the characteristics of those loans. (For example, homogeneous mortgage loans might be aggregated while construction loans are accounted for separately.) However, once a lender has selected the appropriate method of accounting for a loan or a group of loans, a lender must continue to use the method throughout the life of the loan or group of loans.

310-20-35-**29** If loan-by-loan accounting is used, net fees and costs shall be amortized over the contract life and adjusted based on actual prepayments.

310-20-35-**30** There are a number of characteristics to be considered in determining whether the lender holds a large number of similar loans for purposes of estimating prepayments in accordance with paragraph 310-20-35-26. The objective is to evaluate all characteristics that would affect the ability of the lender to estimate the behavior of a group of loans. The following are examples of some characteristics that shall be considered when aggregating loans:

a. Loan type

b. Loan size

c. Nature and location of collateral

d. Coupon interest rate

e. Maturity

f. Period of origination

g. Prepayment history of the loans (if seasoned)

h. Level of net fees or costs

i. Prepayment penalties

j. Interest rate type (fixed or variable)

k. Expected prepayment performance in varying interest rate scenarios.

310-20-35-**31** If a lender meets the requirements of paragraph 310-20-35-26 for considering principal prepayments in calculating constant effective yield, several factors shall be considered in estimating those principal prepayments. The lender shall consider historical prepayment data in making its estimate of future prepayments. Also, the lender shall consider external information, including existing and forecasted interest rates and economic conditions and published mortality and prepayment tables for similar loans. If periodic changes in estimates occur or actual prepayments are different from estimated prepayments, an adjustment will be necessary.

310-20-35-**32** If a lender aggregates loans for purposes of estimating prepayments and subsequently sells some of the loans, generally, the loans that are aggregated have lost their individual distinction. A pro rata calculation of net fees and costs based on the ratio of the outstanding principal balances of the loans sold would be appropriate in the gain or loss calculation. If the lender has sufficiently detailed accounting records for the aggregated loans, specific identification may be used in the gain or loss calculation.

310-20-35-**33** For each reporting period, to the extent that the amortized cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the next call date, the excess (that is, the premium) shall be amortized to the next call date, unless the guidance in paragraph 310-20-35-26 is applied to consider estimated prepayments. For purposes of this guidance, the next call date is the first date when a call option at a specified price becomes exercisable. Once that date has passed, the next call date is when the next call option at a specified price becomes exercisable, if applicable. If there is no remaining premium or if there are no further call dates, the entity shall reset the effective yield using the payment terms of the debt security. Securities within the scope of this paragraph are those that have explicit, noncontingent call options that are callable at fixed prices and on preset dates at prices less than the amortized cost basis of the security. Whether a security is subject to this paragraph may change depending on the amortized cost basis of the security and the terms of the next call option.

Lending Transactions Unrelated to the Origination of Loans

310-20-35-**34** A lender may receive fees for lending transactions unrelated to the origination of loans. For example, a borrower may pay a fee to the lender for extending the contractual maturity of an existing loan, for converting an adjustable-rate mortgage to a fixed-rate loan, or for the assumption of an existing loan by a new borrower. The fees shall be recognized over the remaining life of the loan as an adjustment of yield. In each situation, the lender has made some form of concession to the initial or underlying borrower by altering the original terms of the initial underwriting; thus, any fees received shall be recognized as an adjustment of yield over the remaining life of the loan.

Blended-Rate Loans

310-20-35-**35** A blended-rate loan yields an interest rate between the existing loan rate and the market rate. The resulting loan is subject to the same underwriting standards as all other new loans. This arrangement is considered a refinancing but it does not meet the yield criteria prescribed in paragraph 310-20-35-9. Thus, the unamortized net fees and costs on the existing loan as well as the net fees and costs relating to the refinancing shall carry over to the new loan because the blended rate is below the market rate of loans with similar collection risks made to the lender's other customers.

310-20-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

Commitment Fees

310-20-40-**1** Except as set forth in paragraph 310-20-35-3(a) through (b), fees received for a commitment to originate or purchase a loan or group of loans shall be, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

Receipt of Assets in Full Satisfaction of a Receivable

310-20-40-**2** A creditor that receives from a debtor in full satisfaction of a receivable either or both of the following shall account for those assets (including an equity interest) at their fair value at the time of the restructuring:

a. Receivables from third parties, real estate, or other assets

b. Shares of stock or other evidence of an equity interest in the debtor.

310-20-40-**3** A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraph 360-10-35-43. The excess of the amortized cost basis satisfied over the fair value of assets received (less cost to sell, if required above) is a loss that shall be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period. The amortized cost basis is used in paragraphs 310-40-25-1 through 25-2; 310-40-35-7; 310-40-40-2 through 40-8; and 310-40-50-1 instead of carrying amount of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other valuation account, if any, while the former is not.

310-20-40-**4** That guidance is not intended to preclude using the fair value of the receivable satisfied if more clearly evident than the fair value of the assets received in full satisfaction of a receivable.

310-20-40-**5** A creditor shall account for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash.

Foreclosure

310-20-40-**6** A restructuring that is in substance a repossession or foreclosure by the creditor, that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place, or in which the creditor otherwise obtains one or more of the debtor's assets in place of all or part of the receivable, shall be accounted for according to the provisions of paragraphs 310-20-35-12C, 310-20-40-2 through 40-4310-20-40-3310-20-40-4, and, if appropriate, 310-20-40-9. See paragraphs 310-20-40-7 through 40-8310-20-40-8 for the classification and measurement of certain government-guaranteed mortgage loans. For guidance on when a creditor shall be considered to have received physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan, see paragraph 310-20-55-18F.

Classification and Measurement of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

310-20-40-**7** A guaranteed mortgage loan receivable shall be derecognized and a separate other receivable shall be recognized upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan in accordance with the guidance in paragraph 310-20-40-6) if the following conditions are met:

a. The loan has a government guarantee that is not separable from the loan before foreclosure.

b. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. A creditor would be considered to have the ability to recover under the guarantee at the time of foreclosure if the creditor determines that it has maintained compliance with the conditions and procedures required by the guarantee program.

c. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

310-20-40-**8** Upon foreclosure, the separate other receivable shall be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

Sale of Assets from a Loan Refinancing or Restructuring

310-20-40-**9** In the case of a loan refinancing or restructuring deemed to be a new loan in accordance with paragraphs 310-20-35-9 through 35-11310-20-35-10310-20-35-11, a receivable from the sale of assets previously obtained in a loan refinancing or restructuring shall be accounted for according to Subtopic 835-30 regardless of whether the assets were obtained in satisfaction (full or partial) of a receivable to which that Topic was not intended to apply. A difference, if any, between the amount of the new receivable and the carrying amount of the assets sold is a gain or loss on sale of assets.

Cost Basis of Debt Security Received in a Restructuring

310-20-40-**10** The initial cost basis of a debt security of the original debtor received as part of a debt restructuring shall be the security's fair value at the date of the restructuring. Any excess of the fair value of the security received over the net carrying amount of the loan shall be recorded as a recovery on the loan. Any excess of the net carrying amount of the loan over the fair value of the security received shall be recorded as a charge-off to the allowance for credit losses. Subsequent to the restructuring, the security received shall be accounted for according to the provisions of Topic 320.

310-20-40-**11** A security received in a restructuring in settlement of a claim for only the past-due interest on a loan shall be measured at the security's fair value at the date of the restructuring and accounted for in a manner consistent with the entity's policy for recognizing cash received for past-due interest. Subsequent to the restructuring, the security received shall be accounted for according to the provisions of Topic 320.

Cost Basis of a Long-Lived Asset Received in Full Satisfaction of a Receivable

310-20-40-**12** A valuation allowance for a loan collateralized by a long-lived asset shall not be carried over as a separate element of the cost basis for purposes of accounting for the long-lived asset under Topic 360 after foreclosure.

310-20-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Balance Sheet Classification

310-20-45-**1** The unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield pursuant to this Subtopic shall be reported on the entity's balance sheet as part of the loan balance to which it relates.

310-20-45-**2** Commitment fees that meet the criteria of paragraph 310-20-35-3 shall be classified as deferred income in the financial statements.

Income Statement Classification

310-20-45-**3** Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield shall be reported as part of interest income. Amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, shall be reported as service fee income.

310-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Net Fees and Costs

310-20-50-**1** This paragraph requires that the summary of significant accounting policies shall include the method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs.

310-20-50-**2** Entities that anticipate prepayments in applying the interest method shall disclose that policy and the significant assumptions underlying the prepayment estimates.

310-20-50-**3** The unamortized net fees and costs shall be reported as a part of each loan category. Additional disclosures such as unamortized net fees and costs may be included in the notes to financial statements if the lender believes that such information is useful to the users of financial statements.

310-20-50-**4** With respect to credit card fees and costs for both purchased and originated credit cards that are not private label credit cards, an entity shall disclose its accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s).

310-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

310-20-55-**1** This Section provides guidance concerning certain fees and costs related to various forms of lending.

Automotive Lending Fees to Dealers

310-20-55-**2** In automotive lending, it is common practice for a lending institution to pay a fee to an auto dealer for introducing a customer that requires financing for a completed auto sale. Generally, the lender pays the dealer up front an amount equal to the present value of the interest rate differential between the lender's standard loan rate and the rate charged to the auto dealer's customer with the expectation of recovering this amount from the borrower over time. Although this origination cost is recoverable from the borrower, it is not excluded from the scope of this Topic. This Topic does not apply to costs that are incurred by a lender in transactions with independent third parties if the lender bills those costs directly to the borrower. In this case, however, the payments to the auto dealer are not billed directly to the borrower. Instead, they are recovered from the borrower through the interest rate charged to the borrower, as are the lender's other costs. (See the definition of the term for what constitutes incremental direct costs.)

Line of Credit or Credit Facility

310-20-55-**3** Assume that the amount of a commitment fee for a line of credit or credit facility is determined retrospectively as a percentage of the line of credit or commitment available but unused in a previous period. Also assume that the fee is paid periodically during the life of the facility or commitment, but the costs are incurred when the lender establishes the facility or commitment. How a lender should account for those costs depends on several factors. Costs that meet the criteria for direct loan origination costs under the definition of that term shall be deferred and amortized based on the terms of the line of credit or commitment facility. If the commitment agreement is a revolving line of credit, the qualifying costs shall be recognized in income on a straight-line basis over the period that the revolving line of credit is active. If the loan agreement provides the borrower with the option to convert the revolving line of credit to a term loan, the lender shall recognize the costs on a straight-line basis over the combined life of the revolving line of credit and term loan. If the line of credit or commitment facility is not a revolving line of credit, the costs shall be deferred and amortized on a straight-line basis over the commitment period unless the likelihood that the commitment will be exercised is remote, in which case any net costs shall be charged to expense immediately.

Multioption Facility

310-20-55-**4** Some lenders offer loan commitments known as multioption facilities. Those facilities contain several credit structures that borrowers may use in any combination. The lenders may receive a variety of fees in connection with that type of facility. Some fees may be yield related (for example, fees for providing back-up facilities or revolvers), while others may be labeled as compensation for services rendered (for example, management fees or note placement fees). Generally all fees, in accordance with paragraph 310-20-35-3 should be deferred. For amortization purposes, fees received for a multioption facility shall be allocated to each product in the facility because the amortization of certain fees must be reported as service fee income while the amortization of other fees must be reported as interest income. If a portion of the fee is for a line of credit product, the fee allocated shall be recognized in income on a straight-line basis over the period the revolving line of credit is active. If the likelihood that a commitment provided under a multioption facility will be exercised is remote, paragraph 310-20-35-3(a) requires that the fee be recognized over the commitment period on a straight-line basis as service fee income.

Credit Card Solicitation Costs

310-20-55-**5** In a typical credit card solicitation effort, an issuer engages an independent third party to solicit and obtain new customers. For a fee, the solicitor prepares and mails the promotional offer to a group of preselected consumers (for example, 1 million consumers). The expected response rate for new cardholders is generally 1 to 2 percent. Although only a small percentage of the total solicitation effort is expected to be successful, the portion of the solicitation performed by an independent third party that is allocable to successful efforts should not be deferred as direct loan origination costs under the definition of that term. Incremental direct costs to originate a loan are costs that the lender would not have incurred if that lending transaction had not occurred. In this example, the lender would have incurred all of the solicitation costs regardless of the number of credit cards issued. Accordingly, all costs in this example should be charged to expense.

Loans with Teaser Rates

310-20-55-**6** Loans may be offered for some initial period at an interest rate below the current market rate with the interest rate scheduled to adjust to a market rate after the initial discount period. Amortization of net loan fees and costs is based on the interest method over the life of the loan and limited by the provisions of paragraph 310-20-35-18(a) and 310-20-35-18(c) during the discount period. Thereafter, the provisions of paragraph 310-20-35-18(c) are applicable. See Examples 5 and 6 (paragraphs 310-20-55-33 through 55-37) for illustrations.

310-20-55-**7** Assume that an institution originates adjustable rate mortgages that have a below-market interest rate in the first year that subsequently will be adjusted to a market rate in the second year. Also assume that the adjustable rate mortgages are sold to an independent third party at a discount reflecting the below-market interest rate in Year 1. Paragraph 310-20-35-15 provides that the initial investment frequently differs from the related loan's principal amount at the date of purchase. This difference shall be recognized as an adjustment of yield over the life of the loan. The buyer should recognize the discount as an adjustment of yield over the life of the loan in accordance with paragraph 310-20-35-18(a) and 310-20-35-18(c). The purchase discount should be amortized to create a constant effective yield; thus, the majority of the discount would be recognized as interest income in the first year.

Amortization Methods for Associated Types of Loans

310-20-55-**8** The following amortization methods shall be applied to the associated types of loan arrangements:

a. Negative amortization loans: interest method

b. Biweekly mortgages: interest method

c. Line of credit loans or arrangements with similar characteristics: straight-line method

d. Overdraft protection loans: straight-line method

e. Home equity loans: generally the interest method, but the straight-line method may be used if the arrangement has the characteristics of a revolving line of credit

f. Acquisition, development, and construction arrangements accounted for as loans before completion of funding, as follows:

    1. Single project: interest method (For loan contracts in which the timing and amount of payments are not specified, estimates must be made to apply the interest method.)

    2. Multiple projects with partial drawdowns and payments: generally the interest method, but the straight-line method may be used if the arrangement has the characteristics of a revolving line of credit.

Independent Third Parties

310-20-55-**9** Independent third parties generally possess the following characteristics:

a. They are not employees of the lender.

b. They are not receiving employee benefits of the lender.

c. The party is not under the control of the lender.

d. Generally, the party also would provide similar services to other entities unrelated to the lender and there would not be an agreement between the lender and the party that precludes the party from providing similar services to other entities.

310-20-55-**10** In determining if an entity that provided loan origination-related services on behalf of the lender could be considered an independent third party if the lender has an ownership or equity interest in the entity, such ownership interest shall be evaluated based on the level of ownership and influence that could be imposed. Generally, the existence of an ownership interest indicates a relationship that would not qualify as an independent third party. A nominal passive investment from the standpoint of both the lender and the provider of service probably would not affect the provider's independence.

Other Direct Loan Origination Costs

310-20-55-**11** Examples of other direct loan origination costs that may be deferred as such under the definition of that term for loans that are granted include all of the following:

a. Reimbursement of costs for air travel, hotel accommodations, automobile mileage, and similar costs incurred by personnel relating to the specified activities

b. Costs of itemized long-distance telephone calls related to loan underwriting

c. Reimbursement for mileage and tolls to personnel involved in on-site reviews of collateral before the loan is granted.

310-20-55-**12** Payroll-related fringe benefits include any costs incurred for employees as part of the total compensation and benefits program. Examples of such benefits include all of the following:

a. Payroll taxes

b. Dental and medical insurance

c. Group life insurance

d. Retirement plans

e. 401(k) plans

f. Stock compensation plans, such as stock options and stock appreciation rights

g. Overtime meal allowances.

310-20-55-**13** The portion of total compensation of executive employees that relates directly to the time spent approving successful loans prior to funding may be deferred as direct loan origination costs under the definition of that term. For example, the amount of compensation allocable to time spent by members of a loan approval committee is a component of direct loan origination costs.

310-20-55-**14** Paragraph 310-20-25-3 specifies that equipment costs (for example, a lender's data processing equipment dedicated to originating loans), depreciation, and maintenance must be charged to expense as incurred. Those costs do not meet the criteria for deferral as direct loan origination costs under the definition of that term as they would have been incurred whether or not a loan was originated.

Specified Activities

310-20-55-**15** The following are examples of specified activities contemplated as direct loan origination costs under the definition of that term:

a. Loan counseling, such as discussing alternative borrowing arrangements with borrowers, and negotiating terms

b. Application processing

c. Appraisal

d. Initial credit analysis

e. Initial credit investigation

f. Quality control review performed during the underwriting period

g. Direct approval processing

h. Loan evaluation and approval committees (all activities involved in origination decisions)

i. Loan closing.

Construction Loan with Related Permanent Financing

310-20-55-**16** If a lender has fees and costs on a construction loan (assuming the arrangement does not have the characteristics of a revolving line of credit) when the lender also has made a commitment for the permanent financing that the lender believes has more than a remote probability of being exercised, the fees and costs should be accounted for in the following manner. For loan contracts in which the timing and amount of payments are not specified, estimates must be made by the lender to apply the interest method. The net amount of fees received and costs that qualify as direct loan origination costs under the definition of that term should be deferred and recognized as an adjustment of yield over the combined life of the construction and permanent loans. If the commitment to provide permanent financing expires unused, any unamortized fees and costs should be recognized as income at that time.

Ninety-Day Loan with Possible Extension

310-20-55-**17** Assume that a lender grants a loan that matures in 90 days and collects a nonrefundable fee that approximates market. Assume also that any future extension of credit would be evaluated at maturity of the original loan and would include an extension fee at that time. Based on experience, the lender anticipates that the credit will be extended an additional 90 days, however; the lender is not committed to provide an extension. The fee, net of qualifying origination costs, should be deferred and amortized over the original 90-day loan contract.

Ten-Year Loan with Three-Year Callable Feature

310-20-55-**18** If a lender originates a 10-year loan with a callable feature after 3 years, the fees should be amortized over the 10-year contract life.

Use of Zero Coupon Bonds in a Loan Refinancing or Restructuring

310-20-55-**18A** This implementation guidance addresses the following circumstance: In connection with a loan refinancing or restructuring, a debtor, with the creditor's approval, sells the collateral, which has a fair value less than the creditor's net investment in the related loan, and invests the proceeds in a series of zero coupon bonds that are received and held by the creditor as collateral for the newly restructured loan. The bonds will mature at a value equal to each year's debt service requirement under the newly restructured terms. Specifically, the issue is whether the sale of collateral, the purchase of the zero coupon bonds, and their receipt by the creditor as collateral require the creditor to recognize a loss equal to the amount by which the net investment in the loan exceeds the fair value of the zero coupon bonds.

310-20-55-**18B** The excess of the amortized cost basis satisfied over the fair value less cost to sell (as that term is used in paragraph 360-10-35-43) of assets received is a loss to be recognized.

310-20-55-**18C** Such losses, to the extent they are not offset against allowances for uncollectible accounts or other valuation accounts, shall be included in measuring net income for the period.

310-20-55-**18D** However, if the creditor has the right to sell or pledge the collateral:

a. Paragraph 860-30-45-1 requires that the debtor reclassify the collateral and report it in its statement of financial position separately from other assets not so encumbered.

b. Paragraph 860-30-50-1A requires, in part, that the creditor disclose the fair value of that collateral and of the portion that it has sold or repledged.

310-20-55-**18E** If the creditor does not have the right to sell or pledge the collateral, paragraph 860-30-50-1A requires that the debtor disclose information about that collateral.

Physical Possession of Residential Real Estate Property Collateralizing a Consumer Mortgage Loan

310-20-55-**18F** A creditor is considered to have received physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

a. The creditor obtains legal title to the residential real estate property upon completion of a foreclosure. A creditor may obtain legal title to the residential real estate property even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.

b. The borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.

Illustrations

310-20-55-**19** The following Examples and estimates are illustrative only and are not intended to modify or limit in any way the provisions of this Subtopic. All Examples assume that principal and interest payments are made on the last day of the year.

Example 1: Amortization Based on Contractual Payment Terms

310-20-55-**20** This Example illustrates the guidance in paragraphs 310-20-35-17 through 35-24, displaying amortization under the interest method using the contractual payment terms and assuming no prepayments. This Example has the following assumptions.

310-20-55-**21** On January 1, 19X7, Entity A originates a 10-year $100,000 loan with a 10 percent stated interest rate. The contract specifies equal annual payments of $16,275 through December 31, 19Y6. The contract also specifies that no penalty will be charged for prepayments of the loan. Entity A charges a 3 percent ($3,000) nonrefundable fee to the borrower and incurs $1,000 in direct loan origination costs (attorney fees, appraisal, title insurance, wages and payroll-related fringe benefits of employees performing origination activities, outside broker's fee). The carrying amount of the loan is computed as follows.

Loan principal	$100,000
Origination fees	(3,000)
Direct loan origination costs	1,000
Carrying amount of loan	$ 98,000

310-20-55-**22** Entity A accounts for this loan using contractual payments to apply the interest method of amortization. In calculating the effective rate to apply the interest method, the discount rate necessary to equate 10 annual payments of $16,275 to the initial carrying amount of $98,000 is approximately 10.4736 percent. The amortization if no prepayment occurs is shown in the following table.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$ (98,000)				$ 100,000		$98,000
1	16,275	$10,000	$ 264	$10,264	93,725	$ 1,736	91,989
2	16,275	9,373	262	9,635	86,823	1,474	85,349
3	16,275	8,682	257	8,939	79,230	1,217	78,013
4	16,275	7,923	248	8,171	70,878	969	69,909
5	16,275	7,088	234	7,322	61,691	735	60,956
6	16,275	6,169	215	6,384	51,585	520	51,065
7	16,275	5,159	189	5,348	40,469	331	40,138
8	16,275	4,047	157	4,204	28,241	174	28,067
9	16,275	2,824	116	2,940	14,790	58	14,732
10	16,275	1,485 (a)	58	1,543	-	-	-
Total amortization			$ 2,000				

Computations:

Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (10%)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for prior year × the effective interest rate (10.4736%) (b)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) $6 rounding adjustment.
(b) The effective interest rate is the discount rate that equates the present value of the future cash inflows to the initial net cash outflow of $98,000.

Example 2: Amortization Based on Contractual Payment Terms with Full Prepayment in Year 3

310-20-55-**23** This Example illustrates the guidance in paragraphs 310-20-35-17 through 35-24, displaying amortization under the interest method using contractual payment terms with full prepayment in the third year. This Example has the following assumptions.

310-20-55-**24** On January 1, 19X7, Entity B originates a 10-year $100,000 loan with a 10 percent stated interest rate. The contract specifies equal annual payments of $16,275 through December 31, 19Y6. The contract also specifies that no penalty will be charged for prepayments of the loan. Entity B charges a 3 percent ($3,000) nonrefundable fee to the borrower and incurs $1,000 in direct loan origination costs.

310-20-55-**25** Entity B accounts for this loan using contractual payments to apply the interest method of amortization. The amortization if the borrower prepays the remaining principal at the end of Year 3 is shown in the following table.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$ (98,000)				$ 100,000		$ 98,000
1	16,275	$10,000	$ 264	$ 10,264	93,725	$ 1,736	91,989
2	16,275	9,373	262	9,635	86,823	1,474	85,349
3	95,505	8,682	1,474	10,156	-	-	-
Total amortization			$ 2,000				

Computations:

Column (1)—Contractual payments + prepayments
Column (2)—Column (5) for prior year × the loan's stated interest rate (10%)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for prior year × the effective interest rate (10.4736%) plus in year 3 an adjustment of $1,217 representing the unamortized net fees recognized when the loan is paid in full.
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

Example 3: Amortization Based on Estimated Prepayment Patterns

310-20-55-**26** This Example illustrates the guidance in paragraph 310-20-35-26, displaying amortization under the interest method using the anticipated prepayment patterns for a large number of loans. This Example has the following assumptions.

310-20-55-**27** On January 1, 19X7, Entity C originates 1,000 10-year $10,000 loans with 10 percent stated interest rates. Each contract specifies equal annual payments through December 31, 19Y6. The contracts also specify that no penalty will be charged for prepayments. Entity C charges each borrower a 3 percent ($300) fee and incurs $100 in direct origination costs for each loan. The carrying amount of the loans is computed as follows.

Loan principal amounts	$ 10,000,000
Origination fees	(300,000)
Direct loan origination costs	100,000
Carrying amount of loans	$ 9,800,000

310-20-55-**28** Entity C chooses to account for this large number of loans using anticipated prepayment patterns to apply the interest method of amortization. Entity C estimates a constant prepayment rate of 6 percent per year, which is consistent with Entity C's prior experience with similar loans and Entity C's expectation of ongoing experience. The amortization when prepayments occur as anticipated is shown in the following table.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$(9,800,000)				$ 10,000,000		$ 9,800,000
1	2,227,454	$ 1,000,000	$ 35,141	$ 1,035,141	8,772,546	$ 164,859	8,607,687
2	2,049,623	877,255	31,946	909,201	7,600,178	132,913	7,467,265
3	1,880,619	760,018	28,724	788,742	6,479,577	104,189	6,375,388
4	1,719,716	647,958	25,453	673,411	5,407,819	78,736	5,329,083
5	1,566,144	540,782	22,111	562,893	4,382,457	56,625	4,325,832
6	1,419,028	438,246	18,677	456,923	3,401,675	37,948	3,363,727
7	1,277,230	340,168	15,131	355,299	2,464,613	22,817	2,441,796
8	1,138,934	246,461	11,458	257,919	1,572,140	11,359	1,560,781
9	1,000,180	157,214	7,646	164,860	729,174	3,713	725,461
10	802,091	72,917	3,713	76,630	-	-	-
Total amortization			$ 200,000				

Computations:

Column (1)—Contractual payments + 6% of Column (5) for the prior year (except in year 10)
Column (2)—Column (5) for prior year × the loan's stated interest rate (10%)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × the effective interest rate (10.5627%)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

Example 4: Amortization Based on Estimated Prepayment Patterns Adjusted for Change in Estimate

310-20-55-**29** This Example illustrates the guidance in paragraph 310-20-35-26, displaying amortization under the interest method using anticipated prepayment patterns with actual prepayment experience that differs from the anticipated amounts. This Example has the following assumptions.

310-20-55-**30** On January 1, 19X7, Entity D originates 1,000 10-year $10,000 loans with 10 percent stated interest rates. Each contract specifies equal annual payments through December 31, 19Y6. The contracts also specify that no penalty will be charged for prepayments. Entity D charges each borrower a 3 percent ($300) fee and incurs $100 in direct origination costs for each loan.

310-20-55-**31** Entity D chooses to account for this portfolio of loans using anticipated prepayment patterns to apply the interest method of amortization. Entity D estimates a constant prepayment rate of 6 percent per year, which is consistent with Entity D's prior experience with similar loans and Entity D's expectation of ongoing experience.

310-20-55-**32** The following table illustrates the adjustment required by paragraph 310-20-35-26 of this Subtopic when an entity's actual prepayment experience differs from the amounts anticipated. The loans have actually prepaid at a rate of 6 percent in Years 1 and 2 and 20 percent in Year 3, and based on the new information at the end of Year 3, Entity D revises its estimate of prepayment experience to anticipate that 10 percent of the loans will prepay in Year 4 and 6 percent of the loans will prepay in remaining years. The carrying amount of the loans at the end of Year 3 is adjusted to the amount that would have existed had the new effective yield been applied since January 1, 19X7. Included in amortization in Year 3 is an adjustment for the difference in the prior effective yield and the new effective yield applied to amounts outstanding in Years 1 and 2. Amortization in Years 4-10 assumes the new estimates of prepayment experience occur as anticipated.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$(9,800,000)				$ 10,000,000		$ 9,800,000
1	2,227,454	$ 1,000,000	$ 35,141	$ 1,035,141	8,772,546	$ 164,859	8,607,687
2	2,049,623	877,255	31,946	909,201	7,600,178	132,913	7,467,265
3	2,944,644	760,018	41,951	801,969	5,415,552	90,962	5,324,590
4	1,653,939	541,555	23,294	564,849	4,303,168	67,668	4,235,500
5	1,246,229	430,317	18,998	449,315	3,487,256	48,670	3,438,586
6	1,129,164	348,726	16,050	364,776	2,706,818	32,620	2,674,198
7	1,016,331	270,682	13,005	283,687	1,961,169	19,615	1,941,554
8	906,285	196,117	9,849	205,966	1,251,001	9,766	1,241,235
9	795,875	125,100	6,574	131,674	580,226	3,192	577,034
10	638,249	58,023	3,192	61,215	-	-	-
Total amortization			$ 200,000				

Computations:

Column (1)—Contractual payments + prepayments
Column (2)—Column (5) for prior year × the loan's stated interest rate (10%)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × the effective rate (10.5627% for years 1 and 2, and 10.6083% for years 3–10, + an adjustment of $8,876 in year 3 representing the cumulative effect [(a)] applicable to years 1 and 2 of changing the estimated effective rate)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) An adjustment would also be required if the level of prepayments realized was less than anticipated.

Example 5: Application of Paragraph 310-20-35-18(a)-When the Loan's Prepayment Penalty Is Effective Throughout the Entire Term

310-20-55-**33** This Example illustrates the guidance in paragraph 310-20-35-18(a), displaying amortization under the interest method. The effective yield is used to recognize an amount in excess of net fees for the loan with an increasing stated rate. The excess recognized is permissible only to the extent that the loan agreement provides for a prepayment penalty that is effective through the loan term. This Example has the following assumptions.

310-20-55-**34** Entity E grants a 10-year $100,000 loan with an 8 percent stated interest rate in Year 1 and 10 percent in Years 2-10. Entity E receives net fees of $1,000 related to this loan. The contract specifies that the borrower must pay a penalty equal to 1 percent of any principal prepaid. Application of the effective yield to recognize an amount in excess of net fees is appropriate for a loan with an increasing stated interest rate only to the extent that the loan agreement provides for a prepayment penalty that is effective throughout the loan term. The loan would be accounted for as follows.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees [(a)]	(7) Carrying Amount	(8) Settlement Amount
	$ (99,000)				$ 100,000		$99,000	
1	14,903	$8,000	$ 1,710	$9,710	93,097	$ (710)	93,807	$ 94,028
2	16,165	9,310	(108)	9,202	86,242	(602)	86,844	87,104
3	16,165	8,624	(106)	8,518	78,701	(496)	79,197	79,488
4	16,165	7,870	(102)	7,768	70,406	(394)	70,800	71,110
5	16,165	7,041	(97)	6,944	61,282	(297)	61,579	61,895
6	16,165	6,128	(88)	6,040	51,245	(209)	51,454	51,757
7	16,165	5,124	(78)	5,046	40,204	(131)	40,335	40,606
8	16,165	4,021	(65)	3,956	28,060	(66)	28,126	28,340
9	16,165	2,806	(47)	2,759	14,701	(19)	14,720	14,848
10	16,165	1,464 [(b)]	(19)	1,445	-	-	-	-
Total amortization			$ 1,000					

Computations:

Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (8% in year 1, 10% in years 2–10)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × the effective interest rate (9.8085%)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)
Column (8)—Column (5) × 1.01 (to calculate the settlement amount including prepayment penalty)

(a) Unamortized net fee and accrued interest.
(b) $6 rounding adjustment.

Example 6: Application of Paragraph 310-20-35-18(a)-With No Prepayment Penalty

310-20-55-**35** This Example illustrates the guidance in paragraph 310-20-35-18(a) for the application of the interest method of amortization with an increasing rate loan and with no penalty charged for prepayment of principal. This Example has the following assumptions.

310-20-55-**36** Entity F grants a 10-year $100,000 loan. The contract provides for 8 percent interest in Year 1 and 10 percent interest in Years 2-10. Entity F receives net fees of $1,000 related to this loan. The contract specifies that no penalty will be charged for prepayment of principal.

310-20-55-**37** The discount factor that equates the present value of the cash inflows in Column 1 with the initial cash outflow of $99,000 is 9.8085 percent. In Year 1, recognition of interest income on the investment of $99,000 at a rate of 9.8085 percent would cause the investment to be $93,807, or $710 greater than the amount at which the borrower could settle the obligation. Because the condition set forth in paragraph 310-20-35-18(a) is not met, recognition of an amount greater than the net fee is not permitted. The loan would be accounted for as follows.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$ (99,000)				$ 100,000		$99,000
1	14,903	$ 8,000	$ 1,000	$9,000	93,097	$ -	93,097
2	16,165	9,310	-	9,310	86,242	-	86,242
3	16,165	8,624	-	8,624	78,701	-	78,701
4	16,165	7,870	-	7,870	70,406	-	70,406
5	16,165	7,041	-	7,041	61,282	-	61,282
6	16,165	6,128	-	6,128	51,245	-	51,245
7	16,165	5,124	-	5,124	40,204	-	40,204
8	16,165	4,021	-	4,021	28,060	-	28,060
9	16,165	2,806	-	2,806	14,701	-	14,701
10	16,165	1,464 (a)	-	1,464	-	-	-
Total amortization			$ 1,000				

Computations:

Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (8% in year 1, 10% in Years 2–10)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × the effective interest rate (9.8085%) as limited by paragraph 310-20-35-18(a)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) $6 rounding adjustment.

Example 7: Application of Paragraph 310-20-35-18(b)

310-20-55-**38** This Example illustrates the guidance in paragraph 310-20-35-18(b) for the application of the interest method for a loan with a decreasing interest rate. This Example has the following assumptions.

310-20-55-**39** Entity G grants a 10-year $100,000 mortgage. Entity G receives net fees of $1,000 related to this loan. The contract provides for an interest rate of 12 percent in Year 1, 11 percent in Year 2, and 10 percent thereafter. The loan would be accounted for as follows.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees (a)	(7) Carrying Amount
	$ (99,000)				$ 100,000		$ 99,000
1	17,698	$12,000	$ (1,259)	$10,741	94,302	$ 2,259	92,043
2	17,031	10,373	(388)	9,985	87,644	2,647	84,997
3	16,428	8,764	458	9,222	79,980	2,189	77,791
4	16,428	7,998	441	8,439	71,550	1,748	69,802
5	16,428	7,155	418	7,573	62,277	1,330	60,947
6	16,428	6,228	385	6,613	52,077	945	51,132
7	16,428	5,208	339	5,547	40,857	606	40,251
8	16,428	4,086	281	4,367	28,515	325	28,190
9	16,428	2,852	206	3,058	14,939	119	14,820
10	16,428	1,489 (b)	119	1,608	-	-	-
Total amortization			$ 1,000				

Computations:

Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (12% in year 1, 11%for Year 2, and 10% in Years 3–10)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × effective interest rate (10.8491%)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) Unamortized net fee and deferred interest.
(b) $5 rounding adjustment.

Example 8: Application of Paragraph 310-20-35-18(c)-Amortization Based on Factor at Inception

310-20-55-**40** This Example illustrates the guidance in paragraph 310-20-35-18(c) for the application of the interest rate method for a variable rate loan with the amortization based on the index at the date the loan is granted ignoring subsequent changes in the factor. This Example has the following assumptions.

310-20-55-**41** Entity H grants a 10-year variable rate mortgage. The loan's interest rate and payment are adjusted annually based on the weekly Treasury bill index plus 1 percent. At the date the loan is granted, this index is 7 percent and does not change until the end of Year 3. The first year loan interest rate is 8 percent (equal to the Treasury bill index plus 1 percent). Entity H receives net fees of $3,000. At the end of Year 3 the index changes to 9 percent and does not change again. Therefore, the loan's stated interest rate is 8 percent for Years 1-3 and 10 percent for Years 4-10. Entity H chooses to determine the amortization based on the index at the date the loan is granted and to ignore subsequent changes in the factor. The loan would be accounted for as follows.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$ (97,000)				$ 100,000		$ 97,000
1	14,903	$8,000	$ 420	$8,420	93,097	$ 2,580	90,517
2	14,903	7,448	410	7,858	85,642	2,170	83,472
3	14,903	6,851	395	7,246	77,590	1,775	75,815
4	15,937	7,759	375	8,134	69,412	1,400	68,012
5	15,937	6,941	347	7,288	60,416	1,053	59,363
6	15,937	6,042	314	6,356	50,521	739	49,782
7	15,937	5,052	272	5,324	39,636	467	39,169
8	15,937	3,964	221	4,185	27,663	246	27,417
9	15,937	2,766	160	2,926	14,492	86	14,406
10	15,937	1,445 (a)	86	1,531	-	-	-
Total amortization			$ 3,000				

Computations:

Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (8% in years 1–3, and 10% in years 4–10)
Column (3)—Calculated as if the index did not change—that is, the amount that would have been recognized for an 8%, 10-year $100,000 mortgage with no prepayments and a $3,000 net fee
Column (4)—Column (2) + Column (3)
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) $4 rounding adjustment.

Example 9: Application of Paragraph 310-20-35-18(c)-Amortization Recalculated for Subsequent Changes in Factor

310-20-55-**42** This Example illustrates the guidance in paragraph 310-20-35-18(c) for the application of the interest method to a variable rate loan with amortization recalculated for subsequent changes in loan's index. This Example has the following assumptions.

310-20-55-**43** Entity I grants a 10-year variable rate mortgage. The loan's interest rate and payment are adjusted annually based on the weekly Treasury bill index plus 1 percent. At the date the loan is granted, this index is 7 percent and does not change until the end of Year 3. The first year loan interest rate is 8 percent (equal to the Treasury bill index plus 1 percent). Entity I receives net fees of $3,000. At the end of Year 3 the index changes to 9 percent and does not change again. Therefore, the loan's stated interest rate is 8 percent for Years 1-3 and 10 percent for Years 4-10. Entity I chooses to recalculate a new amortization schedule each time the loan's index changes. The loan would be accounted for as follows.

Year	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Income	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	$ (97,000)				$ 100,000		$97,000
1	14,903	$8,000	$ 420	$8,420	93,097	$ 2,580	90,517
2	14,903	7,448	410	7,858	85,642	2,170	83,472
3	14,903	6,851	395	7,246	77,590	1,775	75,815
4	15,937	7,759	358	8,117	69,412	1,417	67,995
5	15,937	6,941	340	7,281	60,416	1,077	59,339
6	15,937	6,042	311	6,353	50,521	766	49,755
7	15,937	5,052	275	5,327	39,636	491	39,145
8	15,937	3,964	227	4,191	27,663	264	27,399
9	15,937	2,766	168	2,934	14,492	96	14,396
10	15,937	1,445 (a)	96	1,541	-	-	-
Total amortization			$ 3,000				

Computations:
Column (1)—Contractual payments
Column (2)—Column (5) for prior year × the loan's stated interest rate (8% in Year 1–3, and 10% in Years 4–10)
Column (3)—Column (4) – Column (2)
Column (4)—Column (7) for the prior year × the effective interest rate (8.6809%) for years 1–3 and Column (7) for the prior year × the effective interest rate (10.7068%) for Years 4–10
Column (5)—Column (5) for prior year – (Column [1] – Column [2])
Column (6)—Initial net fees – amortization to date
Column (7)—Column (5) – Column (6)

(a) $4 rounding adjustment.

Example 10: Amortization Using the Contract Life with a Partial Prepayment in Year Three

310-20-55-**44** The following Cases illustrate the guidance in paragraph 310-20-35-16 for the application of the interest method of amortization using the contract life with a partial prepayment in Year 3.

310-20-55-**45** Example 2 (paragraph 310-20-55-23) illustrates the application of the guidance in paragraphs 310-20-35-17 through 35-24 by a lender that is using contract life to amortize net deferred fees and costs for a group of loans with a full prepayment in Year 3. If the lender receives a partial prepayment in Year 3 rather than a full prepayment, the lender has two options to calculate the adjustment to unamortized net fees as required in paragraph 310-20-35-26 , which states that a lender using contract life to amortize net fees and costs must adjust the unamortized amount if, and when, loan prepayments occur. Such prepayments should not result in a change in the effective interest rate of the loan. The lender should calculate the adjustment to unamortized net fees under either of the following Cases depending on the terms of the loan contract:

a. The lender will determine a new annual payment assuming the borrower will continue to make the payments through the original term of the loan contract (Case A).

b. The borrower will continue to make the original annual payment, however, over a shorter period than the term specified in the loan contract (Case B).

Case A: New Annual Payment, Original Term

310-20-55-**46** The following tables illustrate how the lender should calculate the adjustment to unamortized net fees assuming the borrower will continue to make the payments through the original term of the loan contract.

Year	Cash(Out) Inflow	Stated Interest	Amortization	Interest Income	Remaining Principal	Unamortized Net Fees	Carrying Amount
	$ (98,000)				$ 100,000		$ 98,000
1	16,275	$ 10,000	$ 264	$ 10,264	93,725	$ 1,736	91,989
2	16,275	9,373	262	9,635	86,823	1,474	85,349
3	26,275	8,682	407 (4)	9,089	69,230	1,067 (3)	68,163 (2)
4	14,220 (1)	6,923	216	7,139	61,933	851	61,082
5	14,220	6,193	204	6,397	53,906	647	53,259
6	14,220	5,391	187	5,578	45,077	460	44,617
7	14,220	4,508	165	4,673	35,365	295	35,070
8	14,200	3,537	136	3,673	24,682	159	24,523
9	14,220	2,469 (a)	99	2,568	12,931	60	12,871
10	14,220	1,289 (b)	60	1,349 (a)	-	-	-
			$ 2,000				

Step	Calculation	
1. Determine new annual payment	Remaining periods = 7 Remaining principal = $69,230 Stated rate = 10% Calculated payment = $14,220	
2. Determine new carrying amount	Calculated payment (Step 1) = $14,220 Remaining periods = 7 Original effective interest rate = 10.4736% Calculated carrying amount = $68,163	
3. Determine the remaining balance of unamortized net fees	Remaining principal balance (Step 1) Less carrying amount (Step 2)	$ 69,230 68,163 $ 1,067
4. Determine the adjustment to unamortized net fees	Prior year balance of unamortized net fees Less calculated unamortized net fees (Step 3)	$ 1,474 1,067 $ 407

(a) $1.00 rounding adjustment
(b) $4.00 rounding adjustment

Case B: Original Annual Payment, Shorter Term

310-20-55-**47** The following tables illustrate how the lender should calculate the adjustment to unamortized net fees assuming the borrower will continue to make the original annual payment, however, over a shorter period than the term specified in the loan contract.

Year	Cash (Out) Inflow	Stated Interest	Amortization	Interest Income	Remaining Principal	Unamortized Net Fees	Carrying Amount
	$ (98,000)				$ 100,000		$98,000
1	16,275	$10,000	$ 264	$10,264	93,725	$ 1,736	91,989
2	16,275	9,373	262	9,635	86,823	1,474	85,349
3	26,275	8,682	546 (4)	9,228	69,230	928 (3)	68,302 (2)
4	16,275 (1)	6,923	231	7,154	59,878	697	59,181
5	16,275	5,988	210	6,198	49,591	487	49,104
6	16,275	4,959	184	5,143	38,275	303	37,972
7	16,275	3,828	149	3,977	25,828	154	25,674
8	16,275	2,583	106	2,689	12,136	48	12,088
9	13,349	1,214	48	1,262 (a)	- (b)	-	-
10	-	-	-	-	-	-	-
			$ 2,000				

Step	Calculation	
1. Determine new payment period	Remaining principal = $69,230 Stated rate = 10% Annual payment = $16,275 Calculated payment period = 5.813	
2. Determine new carrying amount	Annual payment = $16,275 Calculated payment period (Step 1) = 5.813 Original effective interest rate = 10.4736% Calculated carrying amount = $68,302	
3. Determine the remaining balance of unamortized net fees	Remaining principal balance (Step 1) Less carrying amount (Step 2)	$ 69,230 68,302 $ 928
4. Determine the adjustment to unamortized net fees	Prior year balance of unamortized net fees Less calculated unamortized net fees (Step 3) Adjustment	$ 1,474 928 $ 546

(a) $4.00 rounding adjustment
(b) $1.00 rounding adjustment

Example 11: Line of Credit or Credit Facility with Multiple Unscheduled Drawdowns

310-20-55-**48** This Example illustrates the guidance in paragraphs 310-20-55-49 through 55-50.

310-20-55-**49** Assume that a credit facility provides for the extension of multiple, unscheduled drawdowns (or loans) with varying maturities. Also assume that the facility does not have the characteristics of a revolving line of credit (for example, repayments of amounts borrowed are not available for reborrowing) and drawdowns are anticipated. The commitment fee shall be deferred until the facility is exercised and a drawdown is made. Given the multiple, unscheduled drawdowns intended under the facility, a pro rata portion of the commitment fee (equal to the percentage of the loan drawn down to the total facility) shall be recognized over the life of the applicable drawdown as an adjustment of its yield.

310-20-55-**50** For example, assume that a commitment fee net of deferrable costs of $100,000 is received at the inception of a 2-year facility of $10,000,000 that permits the borrower to make multiple, unscheduled drawdowns of varying maturities during the 2-year commitment period. Assume then that the borrower draws down a $1,000,000 loan due in 3 years in the fourth month of the 2-year commitment period. Assume further that the borrower draws down another $2,000,000 loan due in 5 years in the sixth month of the commitment period. The remainder of the facility expires unused. The commitment fee would be recognized as follows:

a. At inception of the facility. Qualifying costs to establish the credit facility would be deferred, and no fee income would be recognized because the entire fee is deferred until a drawdown occurs.

b. Months 1-3. No net fee income would be recognized because no drawdowns have occurred.

c. Month 4. A pro rata portion of the net commitment fee equal to the ratio of the drawdown to the total facility would be recognized over the life of the drawdown as an adjustment of yield. In this example: Current drawdown/Total facility x Net commitment fee = Amount to be recognized over the life of the drawdown as a yield adjustment. For example: $ 1,000,000/$10,000,000 x $100,000 = $10,000

d. Month 6. Similar to the month 4 illustration, a pro rata portion of the deferred net fee equal to the ratio of the current drawdown to the total facility would be recognized over the life of the drawdown as an adjustment of yield. In this example: $ 2,000,000/$10,000,000 x $100,000 = $20,000

e. Months 7-23. No additional net fee income other than amortization of net commitment fees recognized as yield adjustments would be recognized because no further drawdowns have occurred; thus, the remaining $70,000 net commitment fee would continue to be deferred.

f. Month 24. The remaining deferred net commitment fee of $70,000 would be recognized in income upon expiration of the facility because additional drawdowns are not possible.

Example 12: Fair Value Less Cost to Sell Less Than the Seller's Net Receivable

310-20-55-**51** This Example illustrates the guidance in Subtopic 310-20. The Example has the following assumptions:

a. At December 31, 20X2, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for credit losses due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.

b. Between December 31, 20X2 and March 31, 20X3, the borrower did not make principal payments. On March 31, 20X3, the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.

c. On May 1, 20X3, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.

d. At September 30, 20X3, the fair value of the property was $65,000. The estimated costs to sell were $3,000.

e. At March 31, 20X4, the fair value of the property was $80,000. The estimated costs to sell were $5,000.

310-20-55-**52** On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraphs 326-20-35-4 through 35-5. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of $29,000 ($19,000 incremental amount plus $10,000 recorded previously) measured as the difference between the amortized cost basis ($100,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 20X3, the application of paragraph 310-20-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable.

310-20-55-**53** The fair value less cost to sell decrease to $62,000 as of September 30, 20X3, requires the lender to recognize an impairment of $9,000 ($71,000 - $62,000) under Topic 360. While the long-lived asset's fair value less cost to sell increased $13,000 ($75,000 - $62,000) as of March 31, 20X4, the lender's gain recognition is limited to the cumulative losses recognized and measured under Topic 360, or $9,000. The $29,000 of credit losses recognized previously under Subtopic 326-20 on financial instruments measured at amortized cost are excluded from the measurement of cumulative losses under Topic 360.

Example 13: Application of Loan Modification Guidance

310-20-55-**54** This Example illustrates the guidance in paragraph 310-20-35-9 to determine whether the terms of a modified loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender. This Example has the following assumptions.

310-20-55-**55** On January 1, 20X1, Entity J originates a 10-year $100,000 consumer loan to an individual with a FICO score of 710. The loan's stated interest rate is 7 percent. On June 30, 20X3, Entity J modifies the loan to reduce the effective interest rate to 3 percent. At the time of the modification, the borrower's credit score is 650. Between the loan's origination date and modification date, interest rates have decreased and the at-market interest rate for a borrower with a credit score of 650 is 5 percent at the date of the modification.

310-20-55-**56** On the date of the modification, Entity J compares the effective interest rate on the modified loan with the effective interest rate that it has negotiated for new loans with similar characteristics originated to borrowers with a credit score that approximates 650. Entity J concludes that the effective interest rate on the modified loan (3 percent) is lower than the effective interest rate on a similar new loan (5 percent), and, therefore, Entity J does not have to assess whether the modification is more than minor in accordance with paragraph 310-20-35-11. Instead, the modification would be accounted for as a continuation of the existing loan.

310-20-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

310-20-60-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

Investments-Beneficial Interests in Securitized Financial Assets

310-20-60-**2** For guidance on the determination of whether a credit loss on beneficial interests exists and on interest income recognition on beneficial interests, see Section 325-40-15.

310-20-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

310-20-65-**1** Paragraph superseded on 08/19/2021 after the end of the transition period stated in Accounting Standards Update No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.

310-20-65-**2** Paragraph superseded on 07/10/2023 after the end of the transition period stated in Accounting Standards Update No. 2020-08, Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs.

310-**30 - Loans and Debt Securities Acquired with Deteriorated Credit Quality**

310-30-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

310-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Accretable Yield	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Cash Flows Expected at Acquisition	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Cash Flows Expected at Acquisition	Amended	Accounting Standards Update No. 2012-04	10/01/2012
Common Risk Characteristics	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Completion of a Transfer	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Contractually Required Payments Receivable	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Debt Security (1st def.)	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Debt Security	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Fair Value	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Financial Asset (1st def.)	Superseded	Accounting Standards Update No. 2016-19	12/14/2016
Financial Asset (2nd def.)	Added	Accounting Standards Update No. 2016-19	12/14/2016
Initial Investment	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Loan (1st def.)	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Loan (2nd def.)	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Market Participants	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Nonaccretable Difference	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Orderly Transaction	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Probable	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Purchased Financial Assets with Credit Deterioration	Amended	Accounting Standards Update No. 2016-19	12/14/2016

Related Parties	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Revolving Privileges	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-05-1 through 05-3	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-15-1 through 15-10	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-15-2	Amended	Accounting Standards Update No. 2016-02	02/25/2016
310-30-15-2	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-30-15-6	Amended	Accounting Standards Update No. 2010-18	04/29/2010
310-30-15-9	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-30-25-1	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-30-1	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-30-2	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-1 through 35-3	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-10-35-5 through 35-15	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-35-10	Amended	Accounting Standards Update No. 2015-10	06/12/2015
310-30-35-13	Amended	Accounting Standards Update No. 2010-18	04/29/2010
310-30-40-1	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-40-1	Amended	Accounting Standards Update No. 2010-18	04/29/2010
310-30-40-2	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-40-2	Added	Accounting Standards Update No. 2010-18	04/29/2010
310-30-45-1	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-50-1 through 50-3	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-55-1 through 55-29	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-60-1 through 60-3	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-30-60-1	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-30-60-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012

310-30-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

310-30-05-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-05-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-05-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or

events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

310-30-15-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**4** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-15-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Cash Flows Expected at Acquisition

The investor's estimate, at acquisition, of the amount and timing of undiscounted principal, interest, and other cash flows expected to be collected. This would be the investor's best estimate of cash flows, including the effect of prepayments if considered, that is used in determining the acquisition price, and, in a business combination, the investor's estimate of fair value for purposes of acquisition price assignment in accordance with Subtopic 805-20. One acceptable method of making this estimate is described in paragraphs 820-10-55-3F through 55-3G and 820-10-55-4 through 55-20, which provide guidance on present value techniques.

Debt Security

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position

c. U.S. Treasury securities

d. U.S. government agency securities

e. Municipal securities

f. Corporate bonds

g. Convertible debt

h. Commercial paper

i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits

j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

a. Option contracts

b. Financial futures contracts

c. Forward contracts

d. Lease contracts

e. Receivables that do not meet the definition of security and, so, are not debt securities, for example:

   1. Trade accounts receivable arising from sales on credit by industrial or commercial entities

   2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

Effective Interest Rate

The rate of return implicit in the financial asset, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For purchased financial assets with credit deterioration, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

Purchased Financial Assets with Credit Deterioration

Acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

310-30-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

> **General Note for Fair Value Option:** Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

310-30-25-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-25-**2** Paragraph not used.

310-30-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

310-30-30-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-30-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**35 - Subsequent Measurement**

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

310-30-35-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**4** Paragraph not used.

310-30-35-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**11** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**12** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**13** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**14** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-35-**15** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**40 - Derecognition**

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

310-30-40-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-40-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**45 - Other Presentation Matters**

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

310-30-45-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

310-30-50-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-50-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-50-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

310-30-55-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**4** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**5** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**10** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**10A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**11** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**11A** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**12** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**13** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**14** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**15** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**16** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**17** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**18** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**19** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**20** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**21** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**22** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**23** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**24** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**25** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**26** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**27** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**28** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-55-**29** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-**60 - Relationships**

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

310-30-60-**1** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-60-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-30-60-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-**40 - Troubled Debt Restructurings by Creditors**

310-40-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

310-40-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Amortized Cost Basis	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Amortized Cost Basis	Added	Accounting Standards Update No. 2016-13	06/16/2016
Carrying Amount	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Contract	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Debt	Superseded	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Effective Interest Rate	Amended	Accounting Standards Update No. 2016-13	06/16/2016
Fair Value (2nd def.)	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Financial Asset	Superseded	Accounting Standards Update No. 2022-02	03/31/2022

Financial Asset (1st def.)	Superseded	Accounting Standards Update No. 2016-19	12/14/2016
Financial Asset (1st def.)	Added	Accounting Standards Update No. 2016-13	06/16/2016
Financial Asset (2nd def.)	Added	Accounting Standards Update No. 2016-19	12/14/2016
Financing Receivable	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Financing Receivable	Added	Accounting Standards Update No. 2010-20	07/21/2010
Lease	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Modification	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Lease Modification	Added	Accounting Standards Update No. 2016-02	02/25/2016
Market Participants	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Not-for-Profit Entity	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Not-for-Profit Entity	Added	Accounting Standards Update No. 2014-04	01/17/2014
Orderly Transaction	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Probable (2nd def.)	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Probable	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Public Business Entity	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Public Business Entity	Amended	Maintenance Update 2017-06	04/07/2017
Public Business Entity	Amended	Maintenance	06/27/2016

Public Business Entity	Added	Update 2016-11 Accounting Standards Update No. 2014-04	01/17/2014
Purchased Financial Assets with Credit Deterioration	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Purchased Financial Assets with Credit Deterioration	Amended	Accounting Standards Update No. 2016-19	12/14/2016
Purchased Financial Assets with Credit Deterioration	Added	Accounting Standards Update No. 2016-13	06/16/2016
Recorded Investment	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Recorded Investment	Amended	Accounting Standards Update No. 2015-10	06/12/2015
Recorded Investment in the Receivable	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
Related Parties	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Security (2nd def.)	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Time of Restructuring	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
Troubled Debt Restructuring	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-05-1	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-10-1	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-10-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-10-2	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-15-1 through 15-20 310-40-15-2 310-40-15-3 310-40-15-4 310-40-15-5 310-40-15-6 310-40-15-7 310-40-15-8 310-40-15-8A 310-40-15-9 310-40-15-10 310-40-15-11 310-40-15-12 310-40-15-13 310-40-15-14 310-40-15-15 310-40-15-16 310-40-15-17 310-40-15-	Superseded	Accounting Standards Update No. 2022-02	03/31/2022

18 310-40-15-19 310-40-15-20			
310-40-15-4A	Added	Accounting Standards Update No. 2016-19	12/14/2016
310-40-15-8A	Added	Accounting Standards Update No. 2011-02	04/05/2011
310-40-15-9	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-15-11	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-15-11	Amended	Accounting Standards Update No. 2016-02	02/25/2016
310-40-15-11	Amended	Accounting Standards Update No. 2010-18	04/29/2010
310-40-15-12	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-15-13 through 15-20	Added	Accounting Standards Update No. 2011-02	04/05/2011
310-40-25-1	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-25-2	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-25-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-25-2	Amended	Accounting Standards Update No. 2015-02	02/18/2015
310-40-30-1	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-35-1 through 35-12 310-40-35-2 310-40-35-3 310-40-35-4 310-40-35-5 310-40-35-6 310-40-35-7 310-40-35-8 310-40-35-9 310-40-35-10 310-40-35-11 310-40-35-12	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-35-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-35-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012
310-40-35-6	Amended	Accounting Standards Update No.	10/01/2012

310-40-35-7	Amended	2012-04 Accounting Standards Update No. 2016-13	06/16/2016
310-40-35-8	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-40-35-9	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-40-35-10 through 35-12	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-40-1 through 40-10 310-40-40-2 310-40-40-3 310-40-40-4 310-40-40-5 310-40-40-6 310-40-40-6A 310-40-40-7 310-40-40-7A 310-40-40-7B 310-40-40-8 310-40-40-8A 310-40-40-9 310-40-40-10	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-40-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-40-3	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-40-6	Amended	Accounting Standards Update No. 2014-14	08/08/2014
310-40-40-6	Amended	Accounting Standards Update No. 2014-09	05/28/2014
310-40-40-6	Amended	Accounting Standards Update No. 2014-04	01/17/2014
310-40-40-6A	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
310-40-40-7	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
310-40-40-7A	Added	Accounting Standards Update No. 2014-14	08/08/2014
310-40-40-7B	Added	Accounting Standards Update No. 2014-14	08/08/2014
310-40-50-1 through 50-7 310-40-50-1A 310-40-50-2 310-40-50-3 310-40-50-4 310-40-50-5 310-40-50-6 310-40-50-7	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-50-1A	Added	Accounting Standards Update No. 2010-20	07/21/2010
310-40-50-2 through 50-4	Superseded	Accounting Standards	06/16/2016

		Update No. 2016-13	
310-40-50-5	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-50-5	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-40-50-6	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
310-40-50-6	Amended	Accounting Standards Update No. 2010-20	07/21/2010
310-40-55-1 through 55-25 310-40-55-2 310-40-55-3 310-40-55-4 310-40-55-5 310-40-55-6 310-40-55-7 310-40-55-8 310-40-55-9 310-40-55-10 310-40-55-10A 310-40-55-11 310-40-55-12 310-40-55-13 310-40-55-14 310-40-55-15 310-40-55-16 310-40-55-17 310-40-55-18 310-40-55-19 310-40-55-20 310-40-55-21 310-40-55-22 310-40-55-23 310-40-55-24 310-40-55-25	Superseded	Accounting Standards Update No. 2022-02	03/31/2022
310-40-55-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
310-40-55-1	Amended	Accounting Standards Update No. 2014-04	01/17/2014
310-40-55-7	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-55-9	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-40-55-10	Amended	Accounting Standards Update No. 2009-16	12/23/2009
310-40-55-10A	Added	Accounting Standards Update No. 2014-04	01/17/2014
310-40-55-11	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
310-40-55-12	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
310-40-55-13 through 55-15	Amended	Accounting Standards Update No. 2016-13	06/16/2016
310-40-55-14	Amended	Accounting Standards Update No. 2019-04	04/25/2019
310-40-55-16 through 55-25	Added	Accounting	04/05/2011

		Standards Update No. 2011-02	
310-40-65-1	Added	Accounting Standards Update No. 2011-02	04/05/2011
310-40-65-2	Added	Accounting Standards Update No. 2014-04	01/17/2014
310-40-65-3	Added	Accounting Standards Update No. 2014-14	08/08/2014

310-40-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

310-40-05-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

310-40-10-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-10-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

> **General Note for Financial Instruments:** Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

310-40-15-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**3** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**4** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**4A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**5** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**6** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**7** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**8** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**8A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**9** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**10** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**11** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**12** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**13** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**14** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**15** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**16** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**17** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**18** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**19** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-15-**20** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Amortized Cost Basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Effective Interest Rate

The rate of return implicit in the financial asset, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For purchased financial assets with credit deterioration, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

Financing Receivable

A financing arrangement that has both of the following characteristics:

a. It represents a contractual right to receive money in either of the following ways:
   1. On demand
   2. On fixed or determinable dates.

b. It is recognized as an asset in the entity's statement of financial position.

See paragraphs 310-10-55-13 through 55-15 for more information on the definition of financing receivable, including a list of items that are excluded from the definition (for example, debt securities).

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Modification

A change to the terms and conditions of a contract that results in a change in the scope of or the consideration for a lease (for example, a change to the terms and conditions of the contract that adds or terminates the right to use one or more underlying assets or extends or shortens the contractual lease term).

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Purchased Financial Assets with Credit Deterioration

Acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

Recorded Investment

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment. However, if a loan is a hedged item in a fair value hedge, the amount of that loan's recorded investment should include the unamortized amount of the cumulative fair value hedge adjustments.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

310-40-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

> **General Note for Fair Value Option:** Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

310-40-25-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-25-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

310-40-30-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

310-40-35-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**3** Paragraph not used.

310-40-35-**4** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**5** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**6** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**7** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**8** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-35-**9** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-35-**10** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**11** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-**12** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item

from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

310-40-40-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**3** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**4** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**5** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**6** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**6A** Paragraph superseded by Accounting Standards Update No. 2014-09.

310-40-40-**7** Paragraph superseded by Accounting Standards Update No. 2014-09.

310-40-40-**7A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**7B** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**8** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**8A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**9** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-40-**10** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

310-40-50-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-50-**1A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-50-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-50-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-50-**4** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-50-**5** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-50-**6** Paragraph superseded by Accounting Standards Update No. 2016-13.

310-40-50-**7** Paragraph not used.

310-40-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

310-40-55-**1** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**2** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**3** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**4** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**5** Paragraph not used.

310-40-55-**6** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**7** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**8** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**9** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**10** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**10A** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**11** Paragraph superseded by Accounting Standards Update No. 2014-09.

310-40-55-**12** Paragraph superseded by Accounting Standards Update No. 2014-09.

310-40-55-**13** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**14** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**15** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**16** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**17** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**18** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**19** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**20** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**21** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**22** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**23** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**24** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-55-**25** Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

310-40-65-**1** Paragraph superseded on 06/17/2013 after the end of the transition period stated in Accounting Standards Update No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

310-40-65-**2** Paragraph superseded on 10/26/2017 after the end of the transition period stated in Accounting Standards Update No. 2014-04, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.

310-40-65-**3** Paragraph superseded on 10/26/2017 after the end of the transition period stated in Accounting Standards Update No. 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.

310-40-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Impaired Loans Restructured in a Troubled Debt Restructuring

310-40-S50-**1** See paragraph 310-40-S99-1, SEC Observer Comment: Applicability of the Disclosures Required by Topic 310 when a Loan is Restructured in a Troubled Debt Restructuring into Two or More Loans for SEC Staff views on disclosure related to the impact of restructuring a loan in a troubled debt restructuring into two (or more) loan agreements.

310-40-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Comments Made by SEC Observer at Emerging Issues Task Force (EITF) Meetings

SEC Observer Comment: Applicability of the Disclosures Required by Topic 310 when a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans

310-40-S99-**1** The following is the text of SEC Observer Comment: Applicability of the Disclosures Required by Topic 310 when a Loan is Restructured in a Troubled Debt Restructuring into Two (or More) Loans.

> Paragraph 310-40-50-5 states that when a loan is restructured in a troubled debt restructuring into two (or more) loan agreements, the restructured loans should be considered separately when assessing the applicability of the disclosures in paragraphs 310-10-50-15(a) and (c) in years after the restructuring because they are legally distinct from the original loan. The creditor would continue to base its measure of loan impairment on the contractual terms specified by the original loan agreement in accordance with paragraphs 310-10-35-20 through 35-30. The SEC staff is concerned that disclosures of impaired loans after loans are restructured in troubled debt restructurings into multiple loan structures might, in some circumstances, imply that the quality of the loan portfolio had improved solely as a result of the troubled debt restructurings. Accordingly, the SEC staff believes that registrants should make clear to the users of the financial statements the impact of the multiple loan structures on the impaired loan disclosures.