

asset range. In order to gather information and to monitor IRR exposure at larger credit unions as it relates to the share insurance fund, NCUA will use this as the criterion for definition of large credit unions for purposes of this section of the guidance. Given the increased exposure to the share insurance fund, NCUA encourages the responsible officials at large credit unions that are complex or high risk to fully understand all aspects of interest rate risk, including but not limited to the credit union's IRR assessment and potential directional changes in IRR exposures. For example, the credit union should consider the following:

- A policy which provides for the use of outside parties to validate the tests and limits commensurate with the risk exposure and complexity of the credit union;
- IRR measurement systems that report compliance with policy limits as shown both by risks to earnings and net economic value of equity under a variety of defined and reasonable interest rate scenarios;
- The effect of changes in assumptions on IRR exposure results (*e.g.* the impact of slower or faster prepayments on earnings and economic value); and,
- Enhanced levels of separation between risk taking and risk assessment (*e.g.* assignment of resources to separate the investments function from IRR measurement, and IRR monitoring and oversight).

#### IX. DEFINITIONS

*Basis risk:* The risk to earnings and/or value due to a financial institution's holdings of multiple instruments, based on different indices that are imperfectly correlated.

*Interest rate risk:* The risk that changes in market rates will adversely affect a credit union's net economic value and/or earnings. Interest rate risk generally arises from a mismatch between the timing of cash flows from fixed rate instruments, and interest rate resets of variable rate instruments, on either side of the balance sheet. Thus, as interest rates change, earnings or net economic value may decline.

*Option risk:* The risk to earnings and/or value due to the effect on financial instruments of options associated with these instruments. Options are embedded when they are contractual within, or directly associated with, the instrument. An example of a contractual embedded option is a call option on an agency bond. An example of a behavioral embedded option is the right of a residential mortgage holder to vary prepayments on the mortgage through time, either by making additional premium payments, or by paying off the mortgage prior to maturity.

*Repricing risk:* The repricing of assets or liabilities following market changes can occur

in different amounts and/or at different times. This risk can cause returns to vary.

*Spread risk:* The risk to earnings and/or value resulting from variations through time of the spread between assets or liabilities to an underlying index such as the Treasury curve.

*Yield curve risk:* The risk to earnings and/or value due to changes in the level or slope of underlying yield curves. Financial instruments can be sensitive to different points on the curve. This can cause returns to vary as yield curves change.

[77 FR 5162, Feb. 2, 2012, as amended at 77 FR 57990, Sept. 19, 2012. Redesignated at 83 FR 7964, Feb. 23, 2018]

#### APPENDIX B TO PART 741—LOAN WORKOUTS, NONACCRUAL POLICY, AND REGULATORY REPORTING OF TROUBLED DEBT RESTRUCTURED LOANS

This Appendix establishes requirements for the management of loan *workout*<sup>1</sup> arrangements, loan nonaccrual, and regulatory reporting of *troubled debt restructured loans* (herein after referred to as TDR or TDRs). This Appendix applies to all federally insured credit unions.

Under this Appendix, TDRs are as defined in *generally accepted accounting principles (GAAP)*, and the Board does not intend to change the Financial Accounting Standards Board's (FASB) definition of TDR in any way through this policy. In addition to existing agency policy, this Appendix sets the NCUA's supervisory expectations governing loan workout policies and practices and loan accruals.

##### WRITTEN LOAN WORKOUT POLICY AND MONITORING REQUIREMENTS<sup>2</sup>

For purposes of this Appendix, types of workout loans to borrowers in financial difficulties include *re-agings*, *extensions*, *deferrals*, *renewals*, or *rewrites*. See the Glossary entry on workouts for further descriptions of each term. Borrower retention programs or *new loans* are not encompassed within this policy nor considered by the Board to be workout loans.

A credit union can use loan workouts to help borrowers overcome temporary financial difficulties such as loss of job, medical

<sup>1</sup>Terms defined in the Glossary will be italicized on their first use in the body of this Appendix.

<sup>2</sup>For additional guidance on commercial and member business lending extension, deferral, renewal, and rewrite policies, see *Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts* (October 30, 2009) transmitted by Letter to Credit Unions No. 10-CU-07, and available at <http://www.ncua.gov>.

emergency, or change in family circumstances such as the loss of a family member. Loan workout arrangements must consider and balance the best interests of both the borrower and the credit union.

The lack of a sound written policy on workouts can mask the true performance and *past due* status of the loan portfolio. Accordingly, the credit union board and management must adopt and adhere to an explicit written policy and standards that control the use of loan workouts, and establish controls to ensure the policy is consistently applied. The loan workout policy and practices should be commensurate with a credit union's size and complexity, and must conform with a credit union's broader risk mitigation strategies. The policy must define eligibility requirements (that is, under what conditions the credit union will consider a loan workout), including establishing limits on the number of times an individual loan may be modified.<sup>3</sup> The policy must also ensure credit unions make loan workout decisions based on a borrower's renewed willingness and ability to repay the loan. If a credit union restructures a loan more frequently than once a year or twice in five years, examiners will have higher expectations for the documentation of the borrower's renewed willingness and ability to repay the loan. The NCUA is concerned about restructuring activity that pushes existing losses into future reporting periods without improving a loan's collectability. One way a credit union can provide convincing evidence that multiple restructurings improve collectability is to validate completed multiple restructurings that substantiate the claim. Examiners will ask for such validation documentation if a credit union engages in multiple restructurings of a loan.

In addition, the policy must establish sound controls to ensure loan workout actions are appropriately structured.<sup>4</sup> The pol-

<sup>3</sup>Broad based credit union programs commonly used as a member benefit and implemented in a safe and sound manner limited to only accounts in good standing, such as Skip-a-Pay programs, are not intended to count toward these limits.

<sup>4</sup>In developing a written policy, the credit union board and management may wish to consider similar parameters as those established in the FFIEC's "Uniform Retail Credit Classification and Account Management Policy" (FFIEC Policy). 65 FR 36903 (June 12, 2000) (<https://www.govinfo.gov/content/pkg/FR-2000-06-12/pdf/00-14704.pdf>). The FFIEC Policy sets forth specific limitations on the number of times a loan can be re-aged (for open-end accounts) or extended, deferred, renewed or rewritten (for closed-end accounts). NCUA Letter to Credit Unions (LCU) 09-CU-19, "Evaluating Residential Real Estate Mort-

gage Loan Modification Programs," also outlines policy best practices for real estate modifications (<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/evaluating-residential-real-estate-mortgage-loan-modification-programs>). Those best practices remain applicable to real estate loan modifications (with the exception to the capitalization of credit union fees) but could be adapted in part by the credit union in their written loan workout policy for other loans.

ity must explicitly prohibit the authorization of additional advances to finance credit union fees and commissions. The credit union may, however, make advances to cover third-party fees, such as force-placed insurance or property taxes. For loan workouts granted, a credit union must document the determination that the borrower is willing and able to repay the loan.

Modifications of loans that result in capitalization of unpaid interest are appropriate only when a borrower has the ability to repay the debt. At a minimum, if a FICU's loan modification policy permits capitalization of unpaid interest, the policy must require:

1. Compliance with all applicable federal and state consumer protection laws and regulations, including, but not limited to, the Equal Credit Opportunity Act, the Fair Housing Act, the Truth In Lending Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, and the prohibitions against the use of unfair, deceptive or abusive acts or practices in the Consumer Financial Protection Act of 2010.

2. Documentation that reflects a borrower's ability to repay, a borrower's source(s) of repayment, and when appropriate, compliance with the FICU's valuation policies at the time the modification is approved.

3. Providing borrowers with written disclosures that are accurate, clear and conspicuous and that are consistent with Federal and state consumer protection laws.

4. Appropriate reporting of loan status for modified loans in accordance with applicable law and accounting practices. The FICU shall not report a modified loan as past due if the loan was current prior to modification and the borrower is complying with the terms of the modification.

5. Prudent policies and procedures to help borrowers resume affordable and sustainable repayments that are appropriately structured, while at the same time minimizing losses to the credit union. The prudent policies and procedures must consider

1. Whether the loan modifications are well-designed, consistently applied, and provide a favorable outcome for borrowers.

gage Loan Modification Programs," also outlines policy best practices for real estate modifications (<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/evaluating-residential-real-estate-mortgage-loan-modification-programs>). Those best practices remain applicable to real estate loan modifications (with the exception to the capitalization of credit union fees) but could be adapted in part by the credit union in their written loan workout policy for other loans.

ii. The available options for borrowers to repay any missed payments at the end of their modifications to avoid delinquencies or other adverse consequences.

6. Appropriate safety and soundness safeguards to prevent the following:

- i. Masking deteriorations in loan portfolio quality and understating charge-off levels;<sup>5</sup>
- ii. Delaying loss recognition resulting in an understated allowance for loan and lease losses account or inaccurate loan valuations;
- iii. Overstating net income and net worth (regulatory capital) levels; and
- iv. Circumventing internal controls.

The credit union's risk management framework must include thresholds, based on aggregate volume of loan workout activity, which trigger enhanced reporting to the board of directors. This reporting will enable the credit union's board of directors to evaluate the effectiveness of the credit union's loan workout program, understand any implications to the organization's financial condition, and make any compensating adjustments to the overall business strategy. This information will also be available to examiners upon request.

To be effective, management information systems need to track the principal reductions and *charge-off* history of loans in workout programs by type of program. Any decision to re-age, extend, defer, renew, or rewrite a loan, like any other revision to contractual terms, must be supported by the credit union's management information systems. Sound management information systems identify and document any loan that is re-aged, extended, deferred, renewed, or rewritten, including the frequency and extent

<sup>5</sup>Refer to NCUA guidance on charge-offs set forth in LCU 03-CU-01, "Loan Charge-off Guidance," dated January 2003 (<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/loan-charge-guidance>). Examiners will require that a reasonable written charge-off policy is in place and that it is consistently applied. Additionally, credit unions need to adjust historical loss factors when calculating ALLL needs for pooled loans to account for any loans with protracted charge-off timeframes (for example, 12 months or more). See discussions on the latter point in the 2006 Interagency ALLL Policy Statement transmitted by Accounting Bulletin 06-1 (December 2006) (<https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/inter-agency-advisory-addressing-all-key-concepts-and-requirements>). Upon implementation of ASC 326—Financial Instruments—Credit Losses, credit unions will use the guidance in Interagency Policy Statement on Allowances for Credit Losses (May 2020) (<https://www.ncua.gov/files/press-releases-news/policy-statement-allowances-credit-losses.pdf>).

of such action. Documentation normally shows that credit union personnel communicated with the borrower, the borrower agreed to pay the loan in full under any new terms, and the borrower has the ability to repay the loan under any new terms.

#### REGULATORY REPORTING OF WORKOUT LOANS INCLUDING TDR PAST DUE STATUS

Credit unions will calculate the past due status of all loans consistent with loan contract terms, including amendments made to loan terms through a formal restructure. Credit unions will report delinquency on the Call Report consistent with this policy.<sup>6</sup>

#### LOAN NONACCRUAL POLICY

Credit unions must recognize interest income appropriately. Credit unions must place loans in nonaccrual status when doubt exists as to full collection of principal and interest or the loan has been in default for a period of 90 days or more. Upon placing a loan in nonaccrual, a credit union must reverse or charge-off previously accrued but uncollected interest. A nonaccrual loan may be returned to accrual status when a credit union expects repayment of the remaining contractual principal and interest or it is well secured and in process of collection.<sup>7</sup> This policy on loan accrual is consistent with longstanding credit union industry practice as implemented by the NCUA over the last several decades. The balance of the policy relates to *commercial* and *member business loan* workouts and is similar to the policies adopted by the federal banking agencies<sup>8</sup> as set forth in the FFIEC Call Report

<sup>6</sup>Subsequent Call Reports and accompanying instructions will reflect this policy, including focusing data collection on loans meeting the definition of TDR under GAAP. In reporting TDRs on regulatory reports, the data collections will include all TDRs that meet the GAAP criteria for TDR reporting, without the application of materiality threshold exclusions based on scoping or reporting policy elections of credit union preparers or their auditors. Credit unions should also refer to ASC Subtopic 310-40 when determining if a restructuring of a debt constitutes a TDR.

<sup>7</sup>Placing a loan in nonaccrual status does not change the loan agreement or the obligations between the borrower and the credit union. Only the parties can effect a restructuring of the original loan terms or otherwise settle the debt.

<sup>8</sup>The federal banking agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

for banking institutions and its instructions.<sup>9</sup>

#### *Nonaccrual Status*

Credit unions may not accrue interest<sup>10</sup> on any loan where principal or interest has been in default for a period of 90 days or more unless the loan is both “*well secured*” and “*in the process of collection*.”<sup>11</sup> For purposes of applying the “*well secured*” and “*in process of collection*” test for nonaccrual status listed above, the date on which a loan reaches nonaccrual status is determined by its contractual terms.

While a loan is in nonaccrual status, a credit union may treat some or all of the cash payments received as interest income on a cash basis provided no doubt exists about the collectability of the remaining *recorded investment in the loan*. A credit union must handle the reversal of previously accrued, but uncollected, interest applicable to any loan placed in nonaccrual status in accordance with GAAP.<sup>12</sup>

<sup>9</sup>FFIEC Report of Condition and Income Forms, Instructions and Supplemental Instructions, <https://www.ffiec.gov/forms041.htm>.

<sup>10</sup>Nonaccrual of interest also includes the amortization of deferred net loan fees or costs, or the accretion of discount. Nonaccrual of interest on loans past due 90 days or more is a longstanding agency policy and credit union practice.

<sup>11</sup>A purchased credit impaired loan asset need not be placed in nonaccrual status as long as the criteria for accrual of income under the interest method in GAAP is met. Also, the accrual of interest on workout loans is covered in a later section of this Appendix.

<sup>12</sup>Acceptable accounting treatment includes a reversal of all previously accrued, but uncollected, interest applicable to loans placed in a nonaccrual status against appropriate income and balance sheet accounts. For example, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is to reverse all of the unpaid interest by crediting the “*accrued interest receivable*” account on the balance sheet; to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate “*interest and fee income on loans*” account on the income statement, and to reverse any uncollected interest that had been accrued during previous calendar years by debiting the “*allowance for loan and lease losses*” account on the balance sheet. The use of this method presumes that credit union management’s additions to the allowance through charges to the “*provision for loan and lease losses*” on the income statement have been based on an evaluation of the collectability of the loan and lease port-

#### RESTORATION TO ACCRUAL STATUS FOR ALL LOANS EXCEPT COMMERCIAL AND MEMBER BUSINESS LOAN WORKOUTS

A nonaccrual loan may be restored to accrual status when:

- Its past due status is less than 90 days and the credit union expects repayment of the remaining contractual principal and interest within a reasonable period;
- It otherwise becomes both *well secured* and *in the process of collection*; or
- The asset is a purchased impaired loan and it meets the criteria under GAAP for accrual of interest income under the accretable yield method. See ASC 310-30.

In restoring all loans to accrual status, if the credit union applied any interest payments received while the loan was in nonaccrual status to reduce the recorded investment in the loan, the credit union must not reverse the application of these payments to the loan’s recorded investment (and must not credit interest income). Likewise, a credit union cannot restore the accrued but uncollected interest reversed or charged-off at the point the loan was placed on nonaccrual status to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

#### RESTORATION TO ACCRUAL STATUS ON COMMERCIAL AND MEMBER BUSINESS LOAN WORKOUTS<sup>13</sup>

A formally restructured commercial or member business loan workout need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the loan are supported by a current, well-documented credit evaluation of the borrower’s financial condition and prospects for repayment under the revised terms. Otherwise, the restructured loan must remain in nonaccrual status.

The credit union’s evaluation must include consideration of the borrower’s sustained historical repayment performance for a reasonable period prior to the date on which the loan is returned to accrual status. A sustained period of repayment performance is a minimum of six consecutive payments, and includes timely payments under the restructured loan’s terms of principal and interest in cash or cash equivalents. In returning the commercial or member business workout loan to accrual status, a credit union may consider sustained historical repayment performance for a reasonable time prior to the

folios and the “*accrued interest receivable*” account.

<sup>13</sup>This policy is derived from the “Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts” the NCUA and the other financial regulators issued on October 30, 2009.

restructuring. Such a restructuring must improve the collectability of the loan in accordance with a reasonable repayment schedule and does not relieve the credit union from the responsibility to promptly charge off all identified losses.

The following graph provides an example of a schedule of repayment performance to demonstrate a determination of six consecutive payments. If the original loan terms required a monthly payment of \$1,500, and the credit union lowered the borrower’s payment to \$1,000 through formal commercial or member business loan restructure, then based on the first row of the graph, the “sustained historical repayment performance for a reasonable time prior to the restructuring” would encom-

pass five of the pre-workout consecutive payments that were at least \$1,000 (months 1 through 5). In total, the six consecutive repayment burden would be met by the first month post workout (month 6).

In the second row, only one of the pre-workout payments would count toward the six consecutive repayment requirement (month 5), because it is the first month in which the borrower made a payment of at least \$1,000 after failing to pay at least that amount. Therefore, the loan would remain on nonaccrual for at least five post-workout consecutive payments (months 6 through 10) provided the borrower continues to make payments consistent with the restructured terms.

Pre-workout					Post-workout				
Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
\$1,500 1,500	\$1,200 1,200	\$1,200 900	\$1,000 875	\$1,000 1,000	\$1,000 1,000	\$1,000 1,000	\$1,000 1,000	\$1,000 1,000	\$1,000 1,000

After a formal restructure of a commercial or member business loan, if the restructured loan has been returned to accrual status, the loan otherwise remains subject to the nonaccrual standards of this policy. If any interest payments received while the commercial or member business loan was in nonaccrual status were applied to reduce the recorded investment in the loan the application of these payments to the loan’s recorded investment must not be reversed (and interest

income must not be credited). Likewise, accrued but uncollected interest reversed or charged-off at the point the commercial or member business workout loan was placed on nonaccrual status cannot be restored to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

The following tables summarize nonaccrual and restoration to accrual requirements previously discussed:

TABLE 1—NONACCRUAL CRITERIA

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

TABLE 2—RESTORE TO ACCRUAL

Action	Condition identified	Additional consideration
Restore to Accrual on All Loans except Commercial or Member Business Loan Workouts.	When a loan is less than 90 days past due and the credit union expects repayment of the remaining contractual principal and interest within a reasonable period, or When it otherwise becomes both “well secured” and “in the process of collection”; or The asset is a purchased impaired loan and it meets the criteria under GAAP (see ASC 310–30) for accrual of interest income under the accretable yield method.	See Glossary definitions for “well secured” and “in the process of collection.” Interest payments received while the loan was in nonaccrual status and applied to reduce the recorded investment in the loan must not be reversed and income credited. Likewise, accrued but uncollected interest reversed or charged-off at the point the loan was placed on nonaccrual status cannot be restored to accrual.

TABLE 2—RESTORE TO ACCRUAL—Continued

Action	Condition identified	Additional consideration
Restore to Accrual on Commercial or Member Business Loan Work-outs.	Formal restructure with a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms.	The evaluation must include consideration of the borrower's sustained historical repayment performance for a minimum of six timely consecutive payments comprised of principal and interest. In returning a loan to accrual status, a credit union may take into account sustained historical repayment performance for a reasonable time prior to the restructured terms. Interest payments received while the commercial or member business loan was in nonaccrual status and applied to reduce the recorded investment in the loan must not be reversed and income credited. Accrued but uncollected interest reversed or charged-off at the point the commercial or member business loan was placed on nonaccrual status cannot be restored to accrual.

GLOSSARY<sup>14</sup>

“*Capitalization of Interest*” constitutes the addition of accrued but unpaid interest to the principal balance of a loan.

“*Cash Basis*” method of income recognition is set forth in GAAP and means while a loan is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis provided no doubt exists about the collectability of the remaining recorded investment in the loan.<sup>15</sup>

“*Charge-off*” means a direct reduction (credit) to the carrying amount of a loan carried at amortized cost resulting from uncollectability with a corresponding reduction (debit) of the ALLL. Recoveries of loans previously charged off must be recorded when received.

“*Commercial Loan*” is defined consistent with Section 723.2 of the NCUA’s MEMBER BUSINESS LOANS; COMMERCIAL LENDING Rule, 12 CFR 723.2.

<sup>14</sup>Terms defined in the Glossary will be italicized on their first use in the body of this guidance.

<sup>15</sup>Acceptable accounting practices include allocating contractual interest payments among interest income, reduction of the recorded investment in the asset, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the loan’s remaining recorded investment at the contractual rate; and, accounting for the contractual interest in its entirety either as income, reduction of the recorded investment in the asset, or recovery of prior charge-offs, depending on the condition of the asset, consistent with its accounting policies for other financial reporting purposes.

“*Generally accepted accounting principles (GAAP)*” means official pronouncements of the FASB as memorialized in the FASB Accounting Standards Codification® as the source of authoritative principles and standards recognized to be applied in the preparation of financial statements by federally insured credit unions in the United States with assets of \$10 million or more.

“*In the process of collection*” means collection of the loan is proceeding in due course either:

(1) Through legal action, including judgment enforcement procedures, or

(2) In appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future, *i.e.*, generally within the next 90 days.

“*Member Business Loan*” is defined consistent with §723.8 of the NCUA’s MEMBER BUSINESS LOANS; COMMERCIAL LENDING Rule, 12 CFR 723.8.

“*New Loan*” means the terms of the revised loan are at least as favorable to the credit union (*i.e.*, terms are market-based, and profit driven) as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the credit union, and the revisions to the original debt are more than minor.

“*Past Due*” means a loan is determined to be delinquent in relation to its contractual repayment terms including formal restructures, and must consider the time value of money. Credit unions may use the following method to recognize partial payments on “consumer credit,” *i.e.*, credit extended to individuals for household, family, and other personal expenditures, including credit cards, and loans to individuals secured by

their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing past due status.

“*Recorded Investment in a Loan*” means the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

“*Troubled Debt Restructuring*” is as defined in GAAP and means a restructuring in which a credit union, for economic or legal reasons related to a member borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider.<sup>16</sup> The restructuring of a loan may include, but is not necessarily limited to:

(1) The transfer from the borrower to the credit union of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan,

(2) A modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or

(3) A combination of the above.

A loan extended or renewed at a stated interest rate equal to the current market interest rate for new debt with similar risk is not to be reported as a restructured troubled loan.

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

“*Workout Loan*” means a loan to a borrower in financial difficulty that has been formally restructured so as to be reasonably assured of repayment (of principal and interest) and of performance according to its restructured terms. A workout loan typically involves a *re-aging, extension, deferral, renewal, or rewrite* of a loan.<sup>17</sup> For purposes of this policy statement, workouts do not include loans made to market rates and terms such as refinances, borrower retention actions, or new loans.<sup>18</sup>

<sup>16</sup>FASB ASC 310-40, “Troubled Debt Restructuring by Creditors.”

<sup>17</sup>“*Re-Age*” means returning a past due account to current status without collecting the total amount of principal, interest, and fees that are contractually due.

<sup>18</sup>There may be instances where a workout loan is not a TDR even though the borrower is experiencing financial hardship. For exam-

“*Extension*” means extending monthly payments on a closed-end loan and rolling back the maturity by the number of months extended. The account is shown current upon granting the extension. If extension fees are assessed, they must be collected at the time of the extension and not added to the balance of the loan.

“*Deferral*” means deferring a contractually due payment on a closed-end loan without affecting the other terms, including maturity, of the loan. The account is shown current upon granting the deferral.

“*Renewal*” means underwriting a matured, closed-end loan generally at its outstanding principal amount and on similar terms.

“*Rewrite*” means significantly changing the terms of an existing loan, including payment amounts, interest rates, amortization schedules, or its final maturity.

[86 FR 34617, June 30, 2021]

## PART 745—SHARE INSURANCE AND APPENDIX

### Subpart A—Clarification and Definition of Account Insurance Coverage

Sec.

745.0 Scope.

745.1 Definitions.

745.2 General principles applicable in determining insurance of accounts.

745.3 Single ownership accounts.

745.4 Revocable trust accounts.

745.5 Accounts held by executors or administrators.

745.6 Accounts held by a corporation, partnership, or unincorporated association.

745.7 Shares accepted in a foreign currency.

745.8 Joint ownership accounts.

745.9-1 Trust accounts.

745.9-2 Retirement and other employee benefit plan accounts.

745.10 Accounts held by government depositors.

745.11 Accounts evidenced by negotiable instruments.

745.12 Account obligations for payment of items forwarded for collection by depository institution acting as agent.

745.13 Notification to members/shareholders.

745.14 Interest on lawyers trust accounts and other similar escrow accounts.

ple, a workout loan would not be a TDR if the fair value of cash or other assets accepted by a credit union from a borrower in full satisfaction of its receivable is at least equal to the credit union’s recorded investment in the loan, *e.g.*, due to charge-offs.