SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A&A Update – Extension of TDR Relief for Borrowers Impacted by COVID-19

In response to the concerns related to the expiration of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Section 4013, lawmakers extended troubled debt restructuring (TDR) relief, which provides banks the ability to continue to fulfil their role as financial first responders in the communities they serve. This comes in addition to clarifications from bank regulators regarding the application of the interagency statement issued on April 7, 2020.

Extension of CARES Act Section 4013

On December 27, 2020, the president signed into law the Consolidated Appropriations Act, 2021, which amended CARES Act Section 4013. The amendment extends the applicable period for which a financial institution is able to (a) suspend the requirements under United States generally accepted accounting principles for loan modifications related to the coronavirus disease (COVID-19) pandemic that would otherwise be categorized as a troubled debt restructuring and (b) any determination of a loan modified as a result of the effects of the COVID-19 pandemic as being a TDR, including impairment for accounting purposes.

The amended end date for the relief related to a financial institution, including an insurance company, electing to suspend TDR and loan impairment accounting for qualifying modifications was extended from the earlier of December 31, 2020, or 60 days after the national emergency concerning COVID-19 declared by the president terminates to the earlier of January 1, 2022, or 60 days after the national emergency concerning COVID-19 declared by the president terminates.

Interagency Guidance

On December 1, 2020, representatives of the Chief Accountant's offices of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation presented at the American Institute of Certified Public Accountants Online Update on Banks & Savings Institutions. Their presentation provided clarification as to the application of the revised interagency statement issued on April 7, 2020, that provided financial reporting information to financial institutions that are working with borrowers affected by COVID-19.

During the December 1, 2020, presentation, the representatives confirmed that this guidance may be applied into calendar year 2021. Additionally, they discussed that the time the modification program was implemented may be measured as either the date of the modification of an individual loan or a specific program's implementation date. This interpretation also aligns with the August 2020 *Joint Statement on Additional Loan Modifications Related to COVID-19*.

The chart below summarizes the applicability of CARES Act Section 4013 and the interagency guidance.

	CARES Act Section 4013 (as extended)	Interagency Guidance
Types of modifications	Any modification	**Short-term** (e.g., six months) modifications
Evaluation date on which to determine borrower's payment status (< 30 days delinquent)	December 31, 2019	The date on which a modification program is implemented
Applicable period	Beginning March 1, 2020, and ending on the earlier of **January 1, 2022**, or the date that is 60 days after the termination date of the national emergency declared by the president on March 13, 2020, under the National Emergencies Act related to the outbreak of COVID-19	**Does not specify** the period to which the TDR guidance applies; however, because its application depends on COVID-19-related modifications, the **guidance is expected to be temporary in nature**
Duration of non-TDR designation	Remaining life of the loan	Remaining life of the loan. Subsequent modifications must be reevaluated
Why is it not a TDR?	By law, banks are not required to designate the loan as a TDR	Banks may presume that the borrower is not experiencing financial difficulty as a practical expedient