

# TECHNICAL GUIDE

## **Allowance for Credit Losses Disclosure Changes**

*A Publication of Nearman, Maynard, Vallez, CPAs*

Financial Accounting Standards Board (FASB) Update 2010-20 “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” requires revised and new disclosures for the allowance for loan losses account. The main objective of the Update is to provide financial statement users with greater transparency about an entity’s allowance for loan losses and the credit quality of its loans receivable. In the aftermath of the global economic crisis, effective financial reporting has become the subject of worldwide attention, with a focus on the urgent need for improved accounting standards in a number of areas, including financial instruments. This Update is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for loan losses.

The objective of the amendments in this Update is for an entity to provide disclosures that facilitate financial statement users’ evaluation of the following:

1. The nature of credit risk inherent in the entity’s portfolio of loans receivable.
2. How that risk is analyzed and assessed in arriving at the allowance for loan losses.
3. The changes and reasons for those changes in the allowance for loan losses.

To achieve the above objective, an entity should provide disclosures on a disaggregated basis. The amendments in this Update define two levels of disaggregation; portfolio segment and class of loan receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. Classes of loan receivable generally are a disaggregation of portfolio segment. The amendments in this Update provide additional implementation guidance to determine the appropriate level of disaggregation of information.

Existing disclosures are amended to require an entity to provide the following disclosures about its loans receivable on a disaggregated basis:

1. A roll forward schedule of the allowance for loan losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method.
2. For each disaggregated ending balance in item (1) above, the related recorded investment in loans receivable.
3. The nonaccrual status of loans receivable by class of loan receivable.
4. Impaired loans receivable by class of loan receivable.

The amendments in this Update require an entity to provide the following additional disclosures about its loans receivable:

1. Credit quality indicators of loans receivable at the end of the reporting period by class of loan receivable.
2. The aging of past due loan receivables at the end of the reporting period by class of loan receivable.
3. The nature and extent of troubled debt restructurings that occurred during the period by class of loan receivable and their effect on the allowance for loan losses.
4. The nature and extent of loans receivable modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of loan receivable and their effect on the allowance for loan losses.
5. Significant purchases and sales of loans receivable during the reporting period disaggregated by portfolio segment.

For credit unions, the disclosures are effective for annual reporting periods ending on or after December 15, 2011.

The amendments in this Update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption.

As your auditors, we will need your help in obtaining the information to satisfy these disclosures noted above. Much of this info will be captured in the allowance for loan losses analysis and in the Call Report filed with the National Credit Union Administration (NCUA). However, some detail, such as charge-offs and recoveries by certain loan portfolio segmentation may require additional work to obtain. Credit Union management should look at the current methods used to capture this information in light of the revised and additional disclosures and consider the level of disaggregation to report as described above.

For many credit unions the level of portfolio segmentation may be commercial, consumer, and residential real estate. Classes of loan receivable would be a further breakdown of the portfolio segmentation.

See the following pages for one example of the revised and new disclosures for the allowance for credit losses and credit quality of loans receivable depending on a credit union's loan portfolio, additional disclosures could be needed.



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**NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES**

**Loans receivable consist of the following:**

	<b>December 31, 2011</b>
Residential first mortgage real estate loans	\$ -
Residential second mortgage real estate loans	
Consumer secured loans	
Consumer unsecured loans	
Business real estate loans	
Other business loans	
Loan origination fees/costs, net	-
Allowance for loan losses	
Loans receivable, net	\$ -

**The following summarizes the activity in the allowance for loan losses account:**

	<b>For the year ended December 31, 2011</b>			
	<b>Business</b>	<b>Residential Real Estate</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>				
Beginning balance	\$ -	\$ -	\$ -	\$ -
Provision for loan losses	-	-	-	-
Recoveries	-	-	-	-
Loans receivable charged off	-	-	-	-
Ending balance	\$ -	\$ -	\$ -	\$ -
Ending allowance for loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Ending allowance for loans collectively evaluated for impairment	\$ -	\$ -	\$ -	\$ -
<b>Loans receivables:</b>				
Ending balance	\$ -	\$ -	\$ -	\$ -
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated for impairment	\$ -	\$ -	\$ -	\$ -

The following is a summary of information pertaining to impaired loans:

	December 31, 2011			
	Unpaid Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized
<b>With a related allowance recorded:</b>				
Residential first mortgage real estate loans	\$ -	\$ -	\$ -	\$ -
Residential second mortgage real estate loans	-	-	-	-
Consumer secured loans	-	-	-	-
Consumer unsecured loans	-	-	-	-
Business real estate loans	-	-	-	-
Other business loans	-	-	-	-
<b>With no related allowance recorded:</b>				
Residential first mortgage real estate loans	-	-	-	-
Residential second mortgage real estate loans	-	-	-	-
Consumer secured loans	-	-	-	-
Consumer unsecured loans	-	-	-	-
Business real estate loans	-	-	-	-
Other business loans	-	-	-	-
<b>Total:</b>				
Residential real estate	\$ -	\$ -	\$ -	\$ -
Consumer	\$ -	\$ -	\$ -	\$ -
Business	\$ -	\$ -	\$ -	\$ -

The following is a summary age analysis of past due loans:

	As of December 31, 2011				
	2 to < 6 months Past Due	6 to < 12 months Past Due	Greater Than 12 months	Total	Nonaccrual Loans
Residential first mortgage real estate loans	\$ -	\$ -	\$ -	\$ -	\$ -
Residential second mortgage real estate loans	-	-	-	-	-
Consumer secured loans	-	-	-	-	-
Consumer unsecured loans	-	-	-	-	-
Business real estate loans	-	-	-	-	-
Other business loans	-	-	-	-	-
<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -

Credit exposure based upon payment activity:	As of December 31, 2011					
	Residential Real Estate		Business		Consumer	
	First	Second	Real Estate	Other	Secured	Unsecured
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonperforming	-	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Internally assigned loan grades are defined as follows:

**Performing** - A **performing** loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

**Nonperforming** - A loan classified as **nonperforming** is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

The following is a summary of information pertaining to trouble debt restructurings:

Trouble debt restructurings	Year ending December 31, 2011		
	# of Loans	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
Residential real estate	\$	-	\$ -
Consumer	\$	-	\$ -
Business	\$	-	\$ -

Trouble debt restructurings that subsequently defaulted:	Year ending December 31, 2011	
	# of Loans	Balance
Residential real estate		\$ -
Consumer		\$ -
Business		\$ -