

# Supplement to the FCA Informational Memorandum Providing Guidance for System Institutions Affected by the COVID-19 Pandemic

## Troubled debt restructurings

The Farm Credit Administration issued an [informational memorandum on May 4 \(PDF\)](#) to provide guidance to Farm Credit System (System) institutions on issues related to the COVID-19 pandemic. The memorandum includes guidance for working with borrowers affected by the pandemic. It also states that we will provide additional guidance in the form of supplements to the informational memorandum.

This is the first supplement to the May 4 informational memorandum. It discusses troubled debt restructurings (TDRs) and replaces the April 1, 2020, informational memorandum titled “Guidance on Reporting Troubled Debt Restructurings for Customers Affected by the National Emergency Declaration for the COVID-19 Outbreak.”

System institutions providing certain loan modifications to borrowers affected by the COVID-19 pandemic may use the following guidance in classifying and reporting those modifications under TDR provisions. The guidance also discusses when a loan modified in response to the COVID-19 pandemic should be considered distressed or nonaccrual.

### **When should a loan modification made in response to COVID-19 be reported as a TDR?**

You should not automatically categorize a loan modification made in response to the COVID-19 outbreak as a TDR.<sup>1</sup> We view loan modifications for borrowers who are or may be temporarily unable to meet their contractual payment obligations as positive actions System institutions can take to mitigate the short-term economic difficulties arising from the COVID-19 outbreak.

We agree with the position of other financial regulatory agencies — and the Financial Accounting Standards Board — that short-term modifications made on a good-faith basis in response to the COVID-19 pandemic are not TDRs.<sup>2</sup> Therefore, institutions generally do not need to categorize COVID-19-related loan modifications as TDRs. The qualifying modifications include the following:

- Payment deferrals
- Fee waivers
- Extensions of repayment terms

---

<sup>1</sup> TDR is an accounting category used by the Financial Accounting Standards Board and codified in this document: [Receivables — Troubled Debt Restructurings by Creditors \(ASC 310-40\)](#).

<sup>2</sup> On April 7, 2020, five federal banking regulators collectively issued the [Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus \(Revised\) \(PDF\)](#).

- Other delays in payment that are insignificant,<sup>3</sup> of short duration (e.g., six months), and either use the same interest rate or the current interest rate in effect for new extensions of credit demonstrating the same risk level

For the period beginning December 31, 2019, and ending December 31, 2020, or 60 days after termination of the COVID-19 national emergency, whichever is earlier, System institutions may make COVID-19-related short-term loan modifications, which might otherwise be considered TDRs, for those borrowers whose payments were not more than 30 days past due on December 31, 2019.<sup>4</sup>

### **Would loans modified in response to the COVID-19 pandemic be considered “distressed loans” under FCA’s borrower rights provisions?**

You should not automatically categorize a current loan as distressed because of the COVID-19 outbreak or any loan modification made in response to the outbreak. Our position is that, when a loan is determined to be distressed (per our definition in [§ 617.7000](#)), you should apply the provisions of part 617 — regardless whether the distress is related to COVID-19.

We will also consider requests to extend servicing relief under FCA’s board policy statement [PS-71](#). As always, we expect System institutions to exercise reasonable and prudent decision making when working with affected borrowers.

### **When should loans affected by COVID-19 be classified as nonaccrual?**

Refer to [§ 621.6](#), as well as your own internal accounting policies, to determine if loans to stressed borrowers should be reported as nonaccrual assets.

We would not expect loans experiencing stress solely because of the economic challenges arising from the COVID-19 outbreak to be reported as nonaccrual. Likewise, we would not expect a loan receiving a deferral because of the COVID-19 pandemic to be classified as past due unless the loan was otherwise reportable as past due.

We will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely classify credits that are affected by the COVID-19 outbreak.

---

<sup>3</sup> According to [ASC 310-40](#), you should consider the following factors in making this determination, which could be qualitative: (1) whether the amount of delayed restructured payments is insignificant relative to the unpaid principal or collateral value of the debt, thereby resulting in an insignificant shortfall in the contractual amount due from the borrower, and (2) whether the delay in timing of the restructured payment period is insignificant relative to the frequency of payments due under the debt, the debt’s original contractual maturity, or the debt’s original expected duration.

<sup>4</sup> Efforts to work with borrowers of residential mortgages, where the loans are prudently underwritten, and not past due or carried in nonaccrual status, will not cause loans to be considered restructured or modified for the purposes of risk-based capital rules.

**Whom do I contact for more information?**

If you have any questions regarding this informational memorandum, please contact Jason Moore, Accountant, Office of Regulatory Policy, at (703) 883-4256 ([mooreja@fca.gov](mailto:mooreja@fca.gov)).