

TPA # 2130.36 Impact on Cash Flows on a Group of Loans Accounted for as a Pool in Accordance with SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, If There is a Confirming Event, and One Loan is Removed as Expected

Inquiry: Paragraph 12 of Statement of Position SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, states that investors may aggregate loans acquired in the same fiscal quarter that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the pool. Paragraph 13 states that once the pool is assembled, the integrity of the pool should be maintained. What is the impact on the accounting for a group of loans accounted for as a pool, if there is a confirming event, and one loan is removed from the pool as expected?

Reply: The following is an example of the impact on the accounting for a pool of loans, if there is a confirming event, and one loan is removed as expected.

SOP 03-3 Example

Group of Loans

Example 1

Confirming event, one loan is removed from pool, as expected

Facts: The investor purchases 10 loans that individually meet the scope definition of SOP 03-3 for \$800. Based on the aggregation criteria, the investor assembles the loans into a pool. The investor initially expects to collect \$929.29 in cash flows (which generates a yield of approximately 5.387% over 3 years). The investor recognizes one month of yield income. The investor then receives notification that one obligor has become bankrupt and that it will make no further payments on its loan. The investor concludes that event is in accordance with the original expectation of cash flows. That is, the investor continues to expect that it will collect \$929.29 from the pool of loans. The investor removes the contractual cash flows from that loan and an equal amount of nonaccretable difference, in the amount of \$117.42, from the pool such that the yield is unaffected. This TPA does not address charge-offs.

	Original Purchase	Accrue Income	Receive Payment	Balance	Removal of Loan	Balance
Contractual Cash Flows	1,200.00		(25.81)	1,174.19	(117.42)	1,056.77
Nonaccretable Difference	(270.71)			(270.71)	117.42	(153.29)
Expected Cash Flows	929.29		(25.81)	903.48	0.00	903.48
Accretable Yield	(129.29)	6.67		(122.62)	0.00	(122.62)
Recorded Amount	800.00	6.67	(25.81)	780.86	0.00	780.86
Bad Debt Expense/ ALLL	0.00			0.00	0.00	0.00
Carrying Amount	800.00	6.67	(25.81)	780.86	0.00	780.86
Yield (computed on carrying amount)*	5.387%			5.384%		5.384%
Principal Balance	1,000.00		(19.14)	980.86	(98.09)	882.77
Delinquent Accrued Interest Rec.	50.00			50.00	(5.00)	45.00
Balance	1,050.00		(19.14)	1,030.86	(103.09)	927.77
Remaining Interest Due Under Contract	150.00		(6.67)	143.33	(14.33)	129.00
Nonaccretable Difference	(270.71)			(270.71)	117.42	(153.29)
Expected Cash Flows	929.29		(25.81)	903.48	0.00	903.48
Accretable Yield	(129.29)	6.67		(122.62)	0.00	(122.62)
Recorded Amount	800.00	6.67	(25.81)	780.86	0.00	780.86
Bad Debt Expense/ ALLL	0.00			0.00	0.00	0.00
Carrying Amount	800.00	6.67	(25.81)	780.86	0.00	780.86

* Yield = Accretable yield divided by the carrying amount divided by 36 times 12

TPA # 2130.37 Impact on Cash Flows on a Group of Loans Accounted for as a Pool in Accordance with SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, If There is a Confirming Event, One Loan is Removed from the Pool, and the Investor Decreases Its Estimate of Expected Cash Flows

Inquiry: Paragraph 12 of Statement of Position SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, states that investors may aggregate loans acquired in the same fiscal quarter that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the pool. Paragraph 13 states that once the pool is assembled, the integrity of the pool should be maintained. What is the impact on the on the accounting for a group of loans accounted for as a pool, if there is a confirming event, one loan is removed from the pool, and the investor decreases its estimate of expected cash flows?

Reply: The following is an example of the impact on the accounting for a group of loans accounted for as a pool, if there is a confirming event, one loan is removed from the pool, and the investor decreases its estimate of expected cash flows:

SOP 03-3 Example

Group of Loans

Example 2

Confirming event, one loan is removed from pool, and Investor decreases estimate of expected cash flows from pool

Facts: The investor purchases 10 loans that individually meet the scope definition of SOP 03-3 for \$800. Based on the aggregation criteria, the investor assembles the loans into a pool. The investor initially expects to collect \$929.29 in cash flows (which generates a yield of approximately 5.387% over 3 years). The investor recognizes one month of yield income. The investor then receives notification that one that one obligor has become bankrupt and that it will make no further payments on its loan. The investor concludes that the expected cash flows from the pool are decreased by \$90.35, which has a present value at 5.387% of \$78.09. The investor records a provision of \$78.09, increasing the loan loss allowance by \$78.09. In addition, the investor removes the contractual cash flows from that loan and an equal amount of non-accretable discount, in the amount of \$117.42, from the pool such that the yield is unaffected. This TPA does not address charge-offs.

	Original Purchase	Accrue Income	Receive Payment	Balance	Decrease in Expected Cash Flows	Balance	Removal of Loan	Balance
Contractual Cash Flows	1,200.00		(25.81)	1,174.19		1,174.19	(117.42)	1,056.77
Nonaccretable Difference	(270.71)			(270.71)	(12.26)	(282.97)	117.42	(165.55)
Expected Cash Flows	929.29		(25.81)	903.48	(12.26)	891.22	0.00	891.22
Accretable Yield	(129.29)	6.67		(122.62)	12.26	(110.36)	0.00	(110.36)
Recorded Amount	800.00	6.67	(25.81)	780.86	0.00	780.86	0.00	780.86
Bad Debt Expense / ALLL	0.00			0.00	(78.09)	(78.09)		(78.09)
Carrying Amount	800.00	6.67	(25.81)	780.86	(78.09)	702.77	0.00	702.77



Yield (computed on carrying amount)*	5.387%		5.384%		5.384%		5.384%	
Principal Balance	1,000.00		(19.14)	980.86	0.00	980.86	(98.09)	882.77
Delinquent Accrued Interest Rec.	50.00			50.00	0.00	50.00	(5.00)	45.00
Balance	1,050.00		(19.14)	1,030.86	0.00	1,030.86	(103.09)	927.77
Remaining Interest Due Under Contract	150.00		(6.67)	143.33	0.00	143.33	(14.33)	129.00
Nonaccretable Difference	(270.71)			(270.71)	(12.26)	(282.97)	117.42	(165.55)
Expected Cash Flows	929.29		(25.81)	903.48	(12.26)	891.22	0.00	891.22
Accretable Yield	(129.29)	6.67		(122.62)	12.26	(110.36)	0.00	(110.36)
Recorded Amount	800.00	6.67	(25.81)	780.86	0.00	780.86	0.00	780.86
Bad Debt Expense / ALLL	0.00			0.00	(78.09)	(78.09)	0.00	(78.09)
Carrying Amount	800.00	6.67	(25.81)	780.86	(78.09)	702.77	0.00	702.77

*Yield=Accretable yield divided by the carrying amount divided by 36 times 12

