
Tabletop Exercises: Allowance for Loan and Lease Losses and Troubled Debt Restructurings

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Notes:

The following are intended to be simplified examples to illustrate key concepts in the allowance for loan and lease losses (ALLL) and TDR guidance. The facts and circumstances related to an individual loan are unique and likely will not match the scenarios presented in this document. As each bank evaluates the appropriate reporting and classification treatment of the loans in its loan portfolio, management should refer to the relevant accounting standards and regulatory guidance for details and direction.

In this document, one method for completing a cash flow analysis is demonstrated. The method presented here is not a regulatory mandate. Neither accounting standards nor regulatory guidance prescribe how to estimate future cash flows, but they do specify that the “best estimate” based on reasonable and supportable assumptions and projections should be used. Other methods for determining the best estimate of expected future cash flows are acceptable. Management can use other future cash flow estimation methods, but the method chosen should be consistently applied and the underlying assumptions and projections must be reasonable, supportable, and properly documented.

Some generic terms are used in these tabletop exercises. For example, the terms “loan balance” or “loan amount” are used rather than “recorded investment in the loan” since these are the terms commonly used by community bankers when discussing the ALLL, impairment, and TDRs.

The following is a list of acronyms used throughout this document:

ALLL	Allowance for Loan and Lease Losses	P	Prime Rate
ASC	Accounting Standards Codification	PV	Present Value
ASC-310	ASC 310-10-35	TDR	Troubled Debt Restructuring
DCR	Debt Service Coverage Ratio	UCC	Uniform Commercial Code
LTV	Loan-to-Value	WC	Working Capital
MV	Market Value		
