

# “ALL” About Disclosure Reports

Key issues to know

# About Sagemworks

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- Lending, Credit Risk and Portfolio Risk Solutions
- More than 1,100 financial institution clients
- Founded in 1998

- Thought leader for institutions and examiners
- Regularly featured in national and trade media

# About Synergy Bank Consulting

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- Ancin Cooley, CIA, CISA, is the Founder and Managing Principal of Synergy Bank Consulting, Inc., the risk management advisory firm dedicated to helping financial institutions optimize their security, compliance and business performance.
- He brings deep, first-hand experience gained from working for the Office of the Comptroller of the Currency (OCC) as an examiner. During his tenure at the OCC, he performed safety and soundness examinations at community and mid-size banks that ranged from \$100 million to \$4 billion dollars in total assets located in Georgia, South Carolina, North Carolina, and Florida. After leaving the OCC, Ancin worked for a regional accounting firm where he led loan reviews and internal audits.
- Ancin specializes in preparing financial institutions for regulatory exams, process improvement, and project management. When not advising clients, training for triathlons, or hanging out with his young son, Ancin designs and conducts targeted professional development trainings for the banking industry.

# What Are They?

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- Accounting Standards Update (ASU) 2010-20
  - » Disclosures about the credit quality of financial receivables and the allowance for credit losses
- Required for submission to the 10-K and 10-Q
- Currently not required for call report\*

# When Did They Become Required?

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- Released July 2010
- Required for public banks: December 15, 2010
- Non-public: December 15, 2011

# How Did They Come About?

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- “The global financial crisis highlighted the need for additional information about a company’s financial instruments, including loans and other financing receivables...this update provides greater transparency for investors and other users of financial statements by requiring more information from companies about credit risk exposures for financing receivables and the related credit reserves.”

– FASB Chairman Robert H. Herz

# What's Required?

## New reports

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- The amended guidance requires disclosure of the following:
  1. Credit Quality Indicators
  2. Aging of Past Due Receivables
  3. Nature and extent of Troubled Debt Restructures and their effect on the ALLL
  4. Listing of significant loan purchases and sales of loans

# Credit Quality Indicators

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- By Loan Class – just one or a combination of risk grade, risk profile or performing vs nonperforming

## Credit Risk Profile by Risk Grade by Class

Loan Type Code	Pass	Special Mention	Substandard	Doubtful	Total
COMMERCIAL	\$183,062,565.27	\$25,689,256.79	\$48,230,354.03	\$8,226,496.66	\$341,833,552.99
CONSUMER	\$324,717,622.38	\$1,723,763.29	\$10,089,685.16	\$0.00	\$348,974,552.09
CRE	\$480,441,665.40	\$19,377,764.47	\$47,610,096.45	\$20,967.76	\$600,804,315.89
<b>Total:</b>	<b>\$988,221,853.05</b>	<b>\$46,790,784.55</b>	<b>\$105,930,135.64</b>	<b>\$8,247,464.42</b>	<b>\$1,291,612,420.97</b>

# Aging of Past Due Receivables

- Aging of past due loans by loan class

## Disclosure- Aging Analysis of Loans by Class

Call Code	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Total Loans >90 Days and Still Accruing	Total Nonaccrual Loans
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1a1	\$0.00	\$0.00	\$0.00	\$0.00	\$639,741.65	\$639,741.65	\$0.00	\$0.00
1a2	\$386,157.36	\$175,092.89	\$1,300,000.00	\$1,861,250.25	\$11,657,201.26	\$13,518,451.51	\$1,300,000.00	\$2,004,301.94
1b	\$0.00	\$0.00	\$0.00	\$0.00	\$160,000.00	\$160,000.00	\$0.00	\$0.00
1c1	\$411,602.55	\$70,679.15	\$182,873.54	\$665,155.24	\$24,104,551.02	\$24,769,706.26	\$182,873.54	\$0.00
1c2a	\$707,087.52	\$155,533.29	\$232,354.73	\$1,094,975.54	\$24,881,144.61	\$25,976,120.15	\$232,354.73	\$588,076.29
1c2b	\$36,605.24	\$61,545.68	\$0.00	\$98,150.92	\$2,208,801.61	\$2,306,952.53	\$0.00	\$0.00
1d	\$0.00	\$0.00	\$0.00	\$0.00	\$2,329,074.88	\$2,329,074.88	\$0.00	\$0.00
1e1	\$171,852.01	\$624,063.27	\$1,510,503.06	\$2,478,979.51	\$33,968,344.00	\$36,447,323.51	\$1,495,390.05	\$379,208.92
1e2	\$582,091.24	\$0.00	\$709,255.39	\$1,291,346.63	\$13,572,292.51	\$14,863,639.14	\$709,255.39	\$280,942.37
4a	\$444,638.04	\$0.00	\$249,614.32	\$694,252.36	\$33,737,604.42	\$34,431,856.78	\$36,146.41	\$531,480.35
6a	\$0.00	\$0.00	\$0.00	\$0.00	\$23,927.77	\$23,927.77	\$0.00	\$0.00
6b	\$0.00	\$0.00	\$18,239.31	\$18,239.31	\$1,998,059.30	\$2,016,298.61	\$0.00	\$0.00
6c	\$20,320.45	\$0.00	\$5,738.64	\$26,059.09	\$643,371.14	\$669,430.23	\$0.00	\$5,738.64
6d	\$0.00	\$0.00	\$485,000.00	\$499,263.88	\$3,391,253.63	\$3,890,517.51	\$0.00	\$540,612.08
<b>Total</b>	<b>\$2,760,354.41</b>	<b>\$1,086,914.28</b>	<b>\$4,693,578.99</b>	<b>\$8,727,672.73</b>	<b>\$153,315,367.80</b>	<b>\$162,043,040.53</b>	<b>\$3,956,020.12</b>	<b>\$4,330,360.59</b>

# Nature & Extent of TDRs

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- In-depth Troubled Debt Restructuring (TDR) report by loan class for occurrences during the reporting period

## TDR Pre & Post Modification Report

12/31/2012

Loan Type Code	Number of Contracts	Pre Modification Recorded Investment	Post Modification Recorded Investment
Commercial Ln Non-RE	5	\$137,713.63	\$124,551.17
Commercial RE	5	\$3,015,830.96	\$2,961,758.08
Consumer Ln Non-RE	5	\$110,599.97	\$69,985.59
Multi Family and Rental RE	3	\$227,981.78	\$181,826.42
Residential RE	3	\$618,607.99	\$618,869.67
Retail TDR and Impaired	0	\$0.00	\$0.00
<b>Totals:</b>	21	\$4,110,734.33	\$3,956,990.93

## TDR Pre & Post Modification Report

Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Below market interest rate</u>			
Commercial			
Commercial real estate - Construction			
Commercial real estate - Other			
Commercial real estate - Owner occupied			
Consumer			
Faith-based non-profit - Construction			
Faith-based non-profit - Other			
Faith-based non-profit - Owner occupied	1	\$2,521,806.36	\$2,484,320.31
Other loans			
Residential real estate - Construction			
Residential real estate - First mortgage			
Residential real estate - Home equity			
Residential real estate - Multifamily			
<u>Extended payment terms</u>			
Commercial			
Commercial real estate - Construction			
Commercial real estate - Other	1	\$353,089.31	\$350,899.62
Commercial real estate - Owner occupied	1	\$82,031.20	\$79,916.09
Consumer			
Faith-based non-profit - Construction			
Faith-based non-profit - Other			
Faith-based non-profit - Owner occupied	4	\$1,635,302.13	\$1,614,880.22
Other loans			
Residential real estate - Construction			
Residential real estate - First mortgage	1	\$36,685.74	\$33,592.91
Residential real estate - Home equity			
Residential real estate - Multifamily			
<b>Total:</b>	<b>8</b>	<b>\$4,628,914.74</b>	<b>\$4,563,609.15</b>

# TDR's Effect on ALLL

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- Report of TDR defaults in the past 12 months by loan class and their impact upon the allowance for loan and lease losses (ALLL)

## TDR Re-default Report

12/31/2012

Loan Type Code	Number of Contracts	Recorded Investment
Commercial Ln Non-RE	3	\$307,806.48
Commercial RE	2	\$99,845.23
Consumer Ln Non-RE	3	\$55,692.18
Multi Family and Rental RE	0	\$0.00
Residential RE	1	\$14,156.00
<b>Totals:</b>	<b>9</b>	<b>\$477,499.89</b>

# What Do They Consist Of?

## Updated reports

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- Roll forward schedule for allowance for credit losses
  - » Broken out by disaggregated basis of loan class
  - » Each corresponding loan's total recorded investment listed out
- Non accrual status of loans by loan class
- Impaired loans by loan class, with and without reserve required
  1. Must also disclose interest income recognized
  2. Disclosure average recorded investment

# Roll Forward Schedule

- Roll-forward schedule for the allowance for credit losses now disaggregated on the basis of the loan class

## ALLL Rollforward Schedule by Loan Class

<u>Loan Class</u>	<u>Total ending ALLL balance as of Dec 31, 2011</u>	<u>2012 Charge-offs</u>	<u>2012 Recoveries</u>	<u>2012 Provision (decrease) increase</u>	<u>Total ending ALLL balance as of Dec 31, 2012</u>
Commerical	\$348,000.00	\$0.00	\$0.00	(\$256,878.84)	\$91,121.16
Commercial Real Estate	\$971,000.00	\$97,890.00	\$74,844.43	(\$49,615.81)	\$898,338.62
Faith-Based Non-Profit	\$1,128,000.00	\$0.00	\$0.00	\$146,014.35	\$1,274,014.35
Residential Real Estate	\$1,299,000.00	\$495,775.89	\$21,133.57	\$126,403.95	\$950,761.63
Consumer	\$62,000.00	\$2,999.08	\$3,869.19	(\$33,419.69)	\$29,450.42
Other Loans	\$42,000.00	\$32,575.67	\$11,801.45	\$33,768.38	\$54,994.16
<b>Total:</b>	<b>\$3,850,000.00</b>	<b>\$629,240.64</b>	<b>\$111,648.64</b>	<b>-\$33,727.67</b>	<b>\$3,298,680.33</b>

# \*New Call Report Schedule RI-C

- For institutions > \$1B

12/31/2012				
Call Report	FAS 114 Loan Balance	FAS 114 ALLL Balance	FAS 5 Loan Balance	FAS 5 ALLL Balance
<b>1.) Real Estate loans</b>				
a.) Construction Loans	\$ -	\$ -	\$ 62,167,812	\$ 799,328
b.) Commercial real estate loans	\$ 5,158,125	\$ 932,479	\$ 419,917,737	\$ 4,984,499
c.) Residential real estate loans	\$ -	\$ -	\$ 201,403,222	\$ 3,122,983
<b>2.) Commercial loans (inc Ag)</b>	\$ 2,093,942	\$ 246,168	\$ 278,973,304	\$ 3,299,624
<b>3.) Credit Cards</b>	\$ -	\$ -	\$ -	\$ -
<b>4.) Other consumer loans</b>	\$ -	\$ -	\$ 353,542,213	\$ 3,873,055
<b>5.) Unallocated, if any</b>				\$ 805,433
<b>6.) Total</b>	\$ 7,252,067	\$ 1,178,646	\$ 1,316,004,288	\$ 16,884,922

# Impaired Loans by Loan Class

## Impaired Loans

as of December 31, 2012

Loan Type Code	Recorded Investment	Unpaid Principal Balance	Related Allowance	Avg Recorded Investment	Interest Income Recognized
<b>Ag Production Loans</b>					
With no related allowance recorded:	\$0.00	\$0.00	\$0.00	\$10,511.54	\$0.00
With an allowance recorded:	\$75,496.31	\$75,496.31	\$4,740.47	\$90,784.18	\$5,198.09
<b>Total:</b>	<b>\$75,496.31</b>	<b>\$75,496.31</b>	<b>\$4,740.47</b>	<b>\$101,295.71</b>	<b>\$5,198.09</b>
<b>AG Real Estate</b>					
With no related allowance recorded:	\$0.00	\$0.00	\$0.00	\$417,755.26	\$0.00
With an allowance recorded:	\$1,643,830.55	\$1,643,830.55	\$103,571.71	\$1,729,642.79	\$35,741.01
<b>Total:</b>	<b>\$1,643,830.55</b>	<b>\$1,643,830.55</b>	<b>\$103,571.71</b>	<b>\$2,147,398.05</b>	<b>\$35,741.01</b>
<b>Commercial Ln Non-RE</b>					
With no related allowance recorded:	\$164,127.59	\$169,796.36	\$0.00	\$168,621.64	\$13,734.74
With an allowance recorded:	\$211,913.49	\$211,913.49	\$15,237.37	\$306,725.02	\$14,357.69
<b>Total:</b>	<b>\$376,041.08</b>	<b>\$381,709.85</b>	<b>\$15,237.37</b>	<b>\$475,346.66</b>	<b>\$28,092.43</b>
<b>Commercial RE</b>					
With no related allowance recorded:	\$1,265,512.20	\$1,265,512.20	\$0.00	\$1,311,784.13	\$61,933.54
With an allowance recorded:	\$13,073,104.28	\$13,701,967.28	\$1,306,716.64	\$13,000,710.04	\$590,982.70
<b>Total:</b>	<b>\$14,338,616.48</b>	<b>\$14,967,479.48</b>	<b>\$1,306,716.64</b>	<b>\$14,312,494.16</b>	<b>\$652,916.24</b>

# Challenges They Present

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- Time requirement /resources
- Cost
- Availability of information
  - » Logistics of consolidating data sources
  - » Report writing technology
  - » Information management system?

# Solutions to Consider

Solution	Pros	Cons
Accounting firm	<ul style="list-style-type: none"> <li>Alleviates some burden</li> <li>Subject matter expert on accounting regulations</li> <li>Experience &amp; credibility</li> </ul>	<ul style="list-style-type: none"> <li>Cost</li> <li>Gather and provide data to firm</li> <li>No integration of data</li> <li>Lack of flexibility</li> </ul>
Internal software	<ul style="list-style-type: none"> <li>One-time fixed costs</li> <li>Control &amp; customization</li> </ul>	<ul style="list-style-type: none"> <li>Capital &amp; human capital</li> <li>Required on-going knowledge</li> <li>Risk</li> <li>Maintenance of program</li> </ul>
Third party software	<ul style="list-style-type: none"> <li>Efficiency / Time</li> <li>Credibility</li> <li>Potentially the cheapest option</li> <li>Third part responsible for updates and knowledge</li> <li>Consistency</li> <li>Data integration</li> </ul>	<ul style="list-style-type: none"> <li>Potential learning curve</li> <li>Data not saved internally</li> </ul>