The Board of Governors of the Federal Reserve System along with other banking regulators issued an Interagency Statement on Loan Modifications (the Statement) on Sunday, March 22.

The Statement provides relief that allows banks to avoid reporting a loan as a Troubled Debt Restructuring (TDR). According to the Statement, the banking regulators have confirmed with the Financial Accounting Standards Board (FASB) that short-term modifications in response to COVID-19 that are made to loans that are current (i.e., less than 30 days past due at the time of modification) prior to any relief should not be reported by the bank as a TDR. Such short-term (e.g., six months) modifications may include payment deferrals, fee waivers, extensions of prepayment terms, or other delays in payment. The Statement allows the banks of impacted borrowers to provide payment relief in certain situations without having to suffer the regulatory and operating consequences that accompany a loan reported as a TDR. It also supplements statements released last week by regulators clarifying that examiners will not automatically adversely classify loans that are affected by COVID-19 and will not criticize prudent efforts made by banks to modify terms on such loans.

Based on the Statement, a borrower experiencing cash flow problems with respect to the COVID-19 crisis should reach out to any FDIC-insured lenders to see whether
such modifications may be possible without adverse consequences to the bank or the borrower.