Banking Supervision Department

April 21, 2020
8.272.5418

To:
The Banking Corporations and Credit card companies
Attn: CEO

To:
Ms. Eileen Toledano—Chair of the Coordinating Committee of the Israel Institute of Chartered Accountants with the Banking Supervision Department and Members of the Committee

Dear Madam/Sir:

Re: The Coronavirus—Supervisory Emphasis Regarding Debts and Reports to the Public

In view of the development of the coronavirus pandemic and its possible ramifications during the upcoming period on the economy in Israel and abroad, and in view of the importance that the Banking Supervision Department attributes to full and up to date disclosure in the reports to the public of the banking corporations and credit card companies (hereinafter—the banking corporations), we have found it correct to raise the following emphases regarding the manner of implementing the guidance in the Reporting to the Public Directives[1] under the current circumstances:

1. **General:** The Banking Supervision Department recognizes that the coronavirus pandemic is an unusual event that interferes with business activity and incorporates considerable uncertainty. Pursuant to our letter of March 15, 2020[2], the Banking Supervision Department encourages the banking corporations to act prudently in order to stabilize borrowers who are or may be unable to meet their contractual payment obligations because of the effects of Covid-19. Within this framework, the Banking Supervision Department encourages the implementation of plans to modify the terms of loans, which can mitigate adverse effects on borrowers due to the coronavirus pandemic. As described below, the Banking Supervision Department will not guide the banking corporations to automatically classify Covid-19-related modification as Troubled Debt Restructurings.
   The Banking Supervision Department encourages banking corporations to adopt prudent and proactive actions that reduce credit risk, in accordance with the long-term interest of

[1] The emphases that refer to the effect of changes in the terms of banking corporations' loans for reporting to the public included in this letter are based on emphases included in policy statements published recently by US banking supervision authorities, after consultation with the Financial Accounting Standards Board in the US, including within the framework of the following policy statement: "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by Coronavirus", FED, FDIC, NCUA, OCC, CFPB, CSBS, 22.3.2020 (revised 7.4.2020).

[2] Our letter dated March 15, 2020 on the issue of "Supervisory steps as a response to the coronavirus crisis – temporary order."

the banking corporations, their borrowers, and the economy. This approach is consistent with the Banking Supervision Department's practice of encouraging banking corporations to assist borrowers in times of extreme events. In addition, the Banking Supervision Department encourages banking corporations to act to stabilize borrowers as part of the strategy to mitigate risks that is intended to improve an existing non-pass loan.

2. **Classification as troubled debt restructuring due to modifications in loan terms:** Modifications of loan terms do not automatically result in a troubled debt restructuring. In accordance with the Reporting to the Public Directives and the generally accepted accounting principles in the US[3], a restructuring of debt constitutes a troubled debt restructuring if the banking corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider.[4] In accordance with our guidance, debt should not be considered troubled debt restructuring when due to the coronavirus pandemic modifications are made on a good faith basis for a short term to borrowers who were current prior to any relief. This includes short-term (e.g., 6 months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant.[5] Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification plan is implemented.
   Accordingly, when a banking corporation works with borrowers who are current on existing loans, either individually or as part of a program for creditworthy borrowers, who are experiencing short-term financial or operational problems as a result of the coronavirus pandemic, the modification generally would not to be considered a troubled debt restructuring. More specifically, a banking corporation may presume that borrowers are not experiencing financial difficulties at the time of the modification, and thus no further troubled debt restructuring analysis is required for each loan modification in the program, if all the following terms apply:
   - The modification is in response to the coronavirus pandemic;
   - The borrower was current on payments at the time the modification program is implemented; and
   - The modification is a short term modification (e.g., 6 months).

   In addition, regarding housing loans for which a minimum allowance is to be calculated under the depth of arrears method, according to the Directives that apply to such loans[6], a deferral of principal or interest payments for a short term, for a loan which was not a troubled loan before the deferral date, generally, does not require a classification of the loan as a debt restructuring.[7]

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[3] The US rules have specific instructions referring to certain situations in which government plans in a specific state require banking corporations to suspend loan repayments for a term it sets, or certain banking corporations that operate in the US and are covered by Section 4013 of the US CARES Act (March 27, 2020). A banking corporation that has material activities to which these instructions apply is to contact the Head of the Financial Reporting Unit in the Banking Supervision Department to receive specific guidance.

[4] See additional guidelines in Section 30a of the Reporting to the Public Directives.

[5] See additional guidelines in Section 30a.14 of the Reporting to the Public Directives.

[6] See the instructions established in the Appendix on the issue of troubled debts in housing loans in Proper Conduct of Banking Business Directive no. 314 on "Sound Credit Risk Assessment and Valuation for Loans" and in Appendix L to the Reporting to the Public Directives on "Guidelines for Disclosure and Calculation of the Credit Loss Allowance in Respect of Housing Loans".

[7] See the specific guidelines in Sections 11-14 in Appendix L of the Reporting to the Public Directives on "Arrangements in Housing Loans that are in Arrears".

3. **Past Due Reporting:** With regard to debts that are not otherwise reportable as past due, and are granted a deferral due to the coronavirus pandemic, a banking corporation is not required to report such debt as past due because of the deferral. The loan payment date is set by the due date stipulated in the legal agreement. If a banking corporation agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral.[8]

   In addition, for loans subject to a payment deferral program on which payments were past due prior to the borrower being affected by Covid-19, the delinquency status of the loan may be adjusted back to the status that existed at the date of the borrower becoming affected, essentially being frozen for the duration of the payment deferral period. For example, if a consumer loan subject to a payment deferral program was 60 days past due on the date the borrower was affected by Covid-19, the banking corporation would continue to report the loan in its financial reports as 60 days past due during the deferral period, unless the loan is reported in nonaccrual status or charged off.

4. **Classifying troubled debts, including nonaccrual debts, and charge-offs:** The banking corporation should refer to the applicable Reporting to the Public Directives as well as its internal accounting policy, in determining whether to report loans with accommodations to customers affected by Covid-19 as nonaccruing assets in regulatory reports. Judgment is to be utilized in classifying loans to borrowers who were impacted by the coronavirus pandemic. However, during the short-term arrangements discussed in this letter, these loans, generally, should not be reported as nonaccruing.

   As more information becomes available indicating that a specific loan will not be repaid or that there has been a decline in the probability of repayment, the banking corporation should refer to the instructions for classifying troubled debts and charge-offs in the Reporting to the Public Directives.

5. **Disclosure to the public:** In addition to the disclosure that is required in our directives in respect of loans in which a modification in terms occurred and that are classified as troubled debt restructuring that are not accruing interest, and debts classified as trouble debt restructuring that are accruing interest, there also should be disclosure, where material, of loans for which the terms were modified within the framework of dealing with the coronavirus event, which were not classified as trouble debt restructurings. The disclosure should include quantitative data, including details of the balance of debts by main credit segments (at least divided into commercial, housing, and private-non-housing), and the disclosure should clarify the main types of modifications that were made, their duration, and significance. In this context, the banking corporation may clarify that, generally, in accordance with the Reporting to the Public Directives, debts that are classified as troubled debt restructurings that are accruing interest, are performing debts, that the banking corporation expects to fully collect.

Sincerely,

Or Sofer
Deputy Supervisor of Banks

Cc: Dr. Hedva Ber - Supervisor of Banks

[8] The provisions apply as well to the issue of establishing a minimum capital ratio for the bank.