

New! Allowance for Credit Loss Disclosures in Financial Statements

Overview: On July 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-20 (ASU 2010-20), *Disclosures About the Credit Quality of Financing Receivables and Allowance for Credit Losses*. The new standard establishes multiple new disclosures requiring financial institutions and other entities to disaggregate by portfolio segment or class its loans and allowance for credit losses (also known as the allowance for loan and lease losses). In addition, discussions about the entity's policies, methodologies and credit risk assessments used in estimating the allowance for credit losses are required.

New Disclosures: New disclosures will include, but are not limited to, the following: roll forward of the allowance account disaggregated by segment, loan balances by class and by risk rating, loan balances by class and by past due status, impaired loans by class level subcategorized by loans with no specific allowance and loans with a specific allowance and nonaccrual loans by class level. Changes in allowance for credit loss methodology require extensive disclosures. For example, a change in loss period used for the calculation of historical loss ratios would be considered a change in methodology.

The new standard also requires disclosure of troubled debt restructuring (TDR) balances prior to restructuring and balances after restructuring and defaults of TDRs within 12 months of restructuring. This part of the standard has been delayed until FASB issues the new ASU on TDRs. Its issuance is expected in the second quarter of 2011.

Important: Troubled debt restructurings are impaired loans. Once a loan is classified a TDR it remains classified a TDR until paid in full (except in limited situations). In other words, it will always be considered an impaired loan for GAAP purposes.

Effective Date: These new disclosures were effective for periods ending on or after December 15, 2010 for public entities. **For nonpublic entities, disclosure requirements will be effective for annual periods ending on or after December 15, 2011.** Presentation of new disclosures in comparable financial statements is not required for the prior period.

For additional information, please contact any of the following members of the Financial Institutions Group.

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FINANCIAL STATEMENT DISCLOSURE ALERT!

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