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Advisory Guidance 2011-2

Credit Quality Disclosures

Many independent institutions have questioned how the Financial Accounting and Standards Board's Accounting Standards Update (ASU) 2010-20, "Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses," impacts colleges and universities. NACUBO's sample disclosures seek to help institutions understand the ASU, which was issued to help financial statement users assess an entity's exposure to credit risk and evaluate its allowance for credit losses. The ASU notes that the relative significance of financing receivables to an entity's operations and financial position will determine the effect that the amended guidance has on an entity. Consequently, the impact on higher education institutions should be minimal.

Augmented and new disclosure requirements in the ASU require that receivables be disaggregated by portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. A class of financing receivable is determined by the receivable's risk characteristics and by the institution's method for monitoring and assessing risk. Classes of financing receivables are generally a disaggregation of portfolio segment. The complexity of the new requirements is reduced when the number of portfolio segments and classes of financing receivables are few and insignificant.

The vast majority of independent colleges and universities tend to have loans to students or faculty and staff that are typically not a significant portion of net assets. Loans normally exist to support faculty or staff retention or assist certain students with access to a higher education. Loan recipients are not given loans based upon credit characteristics and loans are not striated or classified based upon terms and risk attributes. Often collection experience is the conventional method used by independent institutions for determining the allowance for credit losses. Higher education institutions are not in the business of lending to make a profit on the spread between the cost of funds loaned and the borrowers' repayments. Consequently, credit worthiness, risk, and return on investment are not evaluated prior to lending or monitored as such over the life of the loan.

The sample disclosure provided by NACUBO (below) is for student and faculty/staff loans. The disclosure disaggregates the "financing receivable" portfolio segment into two classes: student loans, and loans to faculty and staff. This disaggregation occurs because one class of financing receivables is collateralized and the other is not. The disclosure example meets the following requirements in the ASU:

1. The nature of credit risk inherent in the entity's portfolio of financing receivables
2. How credit risk is analyzed and assessed in arriving at the allowance for credit losses
3. A roll-forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis
4. The aging of past-due financing receivables at the end of the reporting period by class of financing receivables

ASU 2010-20 also requires an entity to disclose its policy for charging off uncollectible trade receivables that have a contractual maturity of one year or less and arose from the sale of goods and services. Such a disclosure could be included in the institution's accounting policy footnote.

The disclosure example does not contain the following required disclosures because they are uncharacteristic for most colleges and universities:

1. The nonaccrual status of loans (loans for which no interest is being accrued due to their past due status)
2. Any financing receivables deemed to be impaired
3. Changes to the accounting policy or methodology for determining the allowance for doubtful accounts (Institutions that change from collection experience should discuss and quantify the change.)
4. The nature and extent of troubled debt restructurings during the period and their effect on the allowance for doubtful accounts
5. The nature and extent of loans modified as troubled debt restructurings within the last 12 months that defaulted during the period and their effect on the allowance for doubtful accounts

Credit quality of Receivables sample disclosure

Financing Receivables

Student Loans:

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans represented 3.7% and 3.4% of total assets, respectively.

At June 30, student loans consisted of the following:

	2010	2011
Federal government programs	29,000	30,000
Institutional programs	2,200	2,000
	31,200	32,000
Less allowance for doubtful accounts:		
Beginning of year	(900)	(900)
Increases	(10)	-
Write-offs	5	-
End of year	(905)	(900)
Student loans receivable, net	30,295	31,100

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $30.2 million and $30 million at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2011 and 2010, the following amounts were past due under student loan programs:

June 30,	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2011	$ 100	100	200	$ 400
2010	$ 75	100	150	$ 325

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

Faculty and staff loans:

As part of a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes receivable amounting to $18,100 and $22,500 were outstanding at June 30, 2011 and 2010, respectively, and are collateralized by deeds of trust on properties concentrated in the region surrounding the

University. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

The loan amounts represent 1.97% and 2.45% of total assets, respectively. At June 30, 2011 and 2010, there were no amounts past due under the faculty and staff loan program.