Many financial institutions have acquired loans or debt securities as a result of FDIC-assisted transactions, “healthy” bank mergers or loan portfolio acquisitions in their normal course of business. Such transactions require that all acquired receivables are measured at fair value. Subsequent to an acquisition event, the purchase price adjustment is accounted for under various book and tax accounting treatments depending on the facts and circumstances of the receivables and certain policy elections made by management. For example, there may be an expectation to receive less cash flows than the contractual obligations of certain loans due to evidence of credit deterioration, which scopes in ASC 310-30 (SOP 03-3) accounting treatment.

In direct response to client requests, KPMG has developed the Effective Yield Model™ that is specifically designed to meet varied loan accounting needs of our clients. The Effective Yield Model features a seamless integration across all required accounting and reporting functions. Core functionality includes:

- Integrated cash flow engine designed to risk adjust contractual cash flows for fixed and floating rate loans including: Residential and Commercial mortgage loans, Consumer loans, Syndicated loans and Revolving loans
- Proprietary methodology that isolates changes to total expected cash flows as a result of credit and noncredit related factors
- Integrated present value techniques including discount rates and internal rates of return associated with various effective yield, impairment and fair value accounting requirements
- Import capability to load and store core loan system transactional data, cash flows, effective yields, fair value amounts and other pertinent data, such as foreclosed and repossessed property details
- Comprehensive financial, tax and management reporting needed to manage and comply with applicable U.S. GAAP disclosures and regulatory standards
- Full system level control including user access rights, historical data retention, and scalability associated with future transactions
ASC 310-20 (SFAS 91) – Contractual cash flow accounting for new originations and acquired performing loans using both the effective yield and straight line methods

ASC 310-30 (SOP 03-3) – Expected cash flow accounting for acquired loans with evidence of deteriorated credit quality

ASC 805 (SFAS 141R) – Fair market value analysis for portfolios acquired in a business combination

ASC 825-10 (FAS 159) and ASC 946-10 (AICPA Investment Company Audit and Accounting Guide) – Mark to market accounting

ASC 360-10 (FAS 144) – Held for sale accounting associated with foreclosed and Repossessed property accounting

IAS 39 (IFRS) – Effective yield accounting for acquired loans

ASC 805 (FAS 141R) – Indemnification Asset accounting as applied to FDIC assisted transactions with loss sharing agreements

IRC Section 597 and 1276 – Tax calculations of market discount accretion, including multiple tax basis treatment for federal and state purposes, where applicable

FDIC loss share certificate reporting

FFIEC Call Reporting needs related to acquired loan portfolios

The Effective Yield Model is a web enabled KPMG licensed system installed on client provided hardware and an Oracle database. In addition to the loan accounting system solution, KPMG provides additional services including core system loan data extraction, transformation and loading; life of loan cash flow assumptions; expected cash flow prospective level yield and impairment analysis; and ongoing data processing of acquired or originated portfolios.

Why KPMG?

KPMG offers a compelling value proposition which clearly differentiates us from our competitors, including:

- A team of seasoned industry professionals with direct purchase accounting experience and FDIC assisted transaction valuation, implementation and practice issues.
- Insight into the complexities and future trends in FDIC loss share reporting standards gained through our connection to an extensive network of client acquiring institutions.
- Skills and experience to quickly implement solutions that allow our clients to remain compliant and ahead of the curve on the FDIC’s frequent updates to the loss share requirements.
- Comprehensive knowledge of FDIC loss share procedures for guiding clients through the intricacies of the loss share reporting process.
- Whole loan and mortgage finance, financial engineering, systems engineering, and credit professionals with fixed income analytical skills and data flow management and integration experience.
- Unparalleled footprint in the banking industry – provides unique access to market intelligence and insight.
- Tailor-made approach specific to FirstBank with a focus on both short-term solutions and long-term process sustainability. We custom enhance our software applications to meet the specific facts and circumstances of the client’s business requirements.
- Working style that emphasizes teaming with you.
- An established network of 20 relevant banking relationships to leverage in benchmarking industry accepted practices.
- A reputation for successful implementation of our recommended solutions. We will provide a list of references upon request.
- A systems solution that provides for multiple Book accounting treatments, Tax accounting, FFIEC Call Report schedules and FDIC Loss Share reporting.

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