

# FASB CHANGES RECOGNITION OF CREDIT LOSSES FOR SOME PURCHASED LOANS

NOVEMBER 2025

## SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2025-08, *Purchased Loans*, in response to stakeholders' concerns about the accounting for acquired financial assets in accordance with Accounting Standards Codification (ASC) 326, *Financial Instruments – Credit Losses*. The ASU amends the current expected credit loss (CECL) model in ASC 326-20 to:

- ▶ Expand the population of acquired financial assets subject to the “gross-up approach” for measuring credit losses to apply to “seasoned” purchased loans. This approach allows entities to avoid recording a day-one credit loss expense in profit or loss but also reduces interest income recognized in later periods.
- ▶ Introduce criteria for determining whether a purchased loan is considered “seasoned” and will be accounted for using the gross-up approach.

The ASU will primarily affect financial institutions and banks because it applies only to purchased loans but could affect other entities. The amendments will be effective for interim and annual periods beginning after December 15, 2026, with early adoption allowed for financial statements that have not yet been issued or made available for issuance.

## BACKGROUND

ASC 326 currently includes two approaches for recognizing expected credit losses on an acquired financial asset depending on whether the acquired financial asset sustained a “more-than-insignificant” deterioration of credit quality since its origination (referred to as a purchased financial asset with credit deterioration, or a PCD asset):

- ▶ To account for a PCD asset, an entity must recognize an allowance for expected credit losses at the acquisition date with an offsetting increase to the purchase price of the acquired financial asset (the gross-up approach) to arrive at its amortized cost.
- ▶ To account for a non-PCD asset, an entity follows the general approach under the CECL model and recognizes the expected credit loss immediately as credit loss expense in profit or loss.

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The premise behind the gross-up approach is that the purchase price of a PCD asset already reflects an expectation of credit losses, and as such is already discounted from its par value. Accordingly, if this discount were accreted through interest income, it would result in recognizing interest income attributable to cash flows in excess of what the acquirer expects to collect. To prevent this scenario, the gross-up approach increases the PCD asset's purchase price by the amount of the allowance for expected credit losses at the acquisition date, such that interest income is accreted only with respect to a noncredit discount.<sup>1</sup>

During a post-implementation review (PIR) of ASC 326, stakeholders expressed concerns about the different approaches for PCD and non-PCD acquired financial assets and recommended expanding the gross-up method to most non-PCD acquired financial assets. Aside from the inherent judgment in determining when an asset has experienced significant credit deterioration since origination and the lack of comparability, stakeholders observed that acquired financial assets often are initially recognized at fair value, which already captures expectations about collections. Accordingly, they observed that the requirement to recognize an immediate credit loss expense at the acquisition date for non-PCD assets results in double counting credit losses. Based on this feedback, the FASB decided to expand the gross-up approach only to non-PCD purchased loans meeting specified seasoning criteria.

The accounting for PCD assets will not change.

## SCOPE

The ASU applies to all entities. The ASU applies to any non-PCD purchased **seasoned loan** (as discussed in more detail below), **except** for:

- ▶ Credit cards
- ▶ Debt securities
- ▶ Trade receivables arising from revenue transactions in the scope of ASC 606, *Revenue from Contracts with Customers*

Although credit cards are excluded, the amendments apply to other open-ended lines of credit (for example, home equity lines of credit).

The scope of these amendments differs from existing guidance on PCD assets, which does not distinguish between the types of acquired financial assets.

## MAIN PROVISIONS

### Initial Measurement

An entity must apply the gross-up approach to any non-PCD purchased **seasoned loan**.

- ▶ Loans acquired in a business combination accounted for using the acquisition method are considered seasoned and do not require further evaluation under the seasoning criteria.
- ▶ Loans acquired in any transaction other than a business combination (that is, loans purchased individually, as a portfolio, or through the initial consolidation of a variable interest entity that is not a business) must meet **both** of the following seasoning criteria:
  - The loan is acquired more than 90 days after its origination.
  - The purchaser is **not involved** with the origination of the loan.

The purchaser is considered involved with the origination of the loan when **either** of the following occurs:

- ▶ The purchaser has direct or indirect exposure to the economic risks and rewards of ownership within 90 days after the origination of the loan, or
- ▶ The purchaser has substantive influence on the offering, arranging, underwriting, or other non-administrative lending activity that the originator (the transferor) performs in connection to the initial extension of credit to a debtor.

When a purchase of a loan occurs pursuant to the terms of an existing financing agreement, purchase commitment, or other agreement with the originator of the loan, the purchaser is more likely to be involved with its origination.

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<sup>1</sup> For an illustration of the gross-up approach, see Example 12 in ASC 326-20-55-61.

**BDO INSIGHTS: INVOLVEMENT OF THE PURCHASER WITH THE ORIGINATION OF THE PURCHASED LOANS**

Under the amended guidance, the purchaser must evaluate any involvement it has with the origination of the purchased loans, whether directly or indirectly. For example, the originator may have followed the purchaser’s underwriting standards or guidelines in originating the loans or the purchaser may have been involved with processing the loan transactions. Additionally, some loan purchase agreements include loss-sharing provisions or make-whole provisions that expose the purchaser to economic risks and rewards of ownership within 90 days after the origination of the loans.

Reaching a conclusion about the purchaser’s involvement with the origination of the purchased loans requires the application of professional judgment, based on the facts and circumstances

For purchased seasoned loans, the purchaser initially measures the loan at its amortized cost which equals its purchase price increased by the amount of allowance for credit losses at the acquisition date. If a purchased loan does not meet the seasoning criteria (or if the non-PCD financial asset is excluded from the scope of the ASU), the purchaser must immediately recognize an expected credit loss expense in profit or loss rather than adjusting the amortized cost.

**Subsequent Measurement of Purchased Seasoned Loans**

The initial recognition of PCD assets and purchased seasoned loans is the same. However, as the gross-up approach was originally developed for financial assets with more-than-insignificant deterioration of credit since origination, the ASU introduces some differences in the subsequent measurement of purchased seasoned loans and PCD assets, as follows:

	PURCHASED SEASONED LOANS	PCD ASSETS
Allowance for credit losses estimated using a method <b>other than</b> discounted cash flows	The purchaser may choose, <b>on an acquisition-by-acquisition basis</b> , to measure the allowance for credit losses for all purchased seasoned loans in that acquisition using the amortized cost basis.	The purchaser must measure the allowance for credit losses based on the unreturned principal amount.
Recognition of interest income	Purchased seasoned loans are subject to the same accrual policies that the purchaser applies to its originated financial assets. That is, interest accrues irrespective of expectations about collection.	PCD assets are not subject to the same accrual policies that the purchaser applies to its originated financial assets. Interest income accrues only to the extent that the purchaser has a reasonable expectation about the amount expected to be collected.
Expected recoveries	Expected recoveries of purchased seasons loans are not limited. That is, the guidance limiting expected recoveries <b>does not</b> apply.	Expected recoveries of PCD assets are <b>limited</b> to the noncredit discount of the asset if the allowance for credit losses is estimated using a method other than discounted cash flows.

## EFFECTIVE DATE AND TRANSITION

The following table summarizes transition for ASU 2025-08:

ALL ENTITIES	
Effective Date	Fiscal years and interim periods within fiscal years beginning after December 15, 2026.
Early adoption	<p>Allowed for all entities in an interim or annual period for financial statements that have not yet been made available for issuance.</p> <p>If the amendments are early adopted in an interim period, they may be applied either as of the beginning of that interim period or the beginning of the annual period that includes that interim period.</p>
Transition	Prospective to loans that are acquired on or after the initial application date (that is, the beginning of the fiscal year that begins after December 15, 2026).

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[Link to ASU 2025-08](#)

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The experienced professionals in BDO’s [Accounting Advisory](#) practice can help navigate the complexities of applying U.S. GAAP and adopting new accounting guidance.

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