

Snapshot

Accounting for ‘purchased loans’

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Contents

Introduction	2
Scope	2
Recognition and measurement	6
Initial recognition	7
Subsequent measurement	9
Disclosure	10
Effective date and transition	10
Appendix	12

The FASB issued ASU 2025-08 to expand the population of acquired financial assets subject to the “gross-up” approach under the credit losses guidance in Topic 326. Under the gross-up approach, the acquirer recognizes an allowance for credit losses on the acquired financial asset by increasing the amortized cost basis of the asset rather than through credit loss expense. Previously, the gross-up approach was limited only to purchased financial assets with credit deterioration. The amendments in the ASU create a new class of purchased financial assets – “purchased seasoned loans” – subject to the gross-up approach.

Introduction

The guidance for credit losses in ASC 326, which is commonly referred to as the current expected credit loss model (or CECL), has two approaches for initially recognizing the allowance for credit losses: the “general” approach and the “gross-up” approach.

Under the general approach, financial instruments within the scope of CECL are initially recognized at their amortized cost, and an allowance for credit losses (ACL) is established against the amortized cost basis through the recognition of credit loss expense. Alternatively, under the gross-up approach, the ACL is established not through credit loss expense, but by increasing the amortized cost basis of the financial assets.

Prior to ASU 2025-08, the gross-up approach applied only to purchased financial assets with credit deterioration (PCD assets). The amendments in ASU 2025-08 expand the application of the gross-up approach to a new category of financial assets created by the amendments—“purchased seasoned loans.”

Scope

The amendments define “purchased seasoned loans” as acquired financial assets meeting the definition of a *loan* (as opposed to the definition of a *debt security*) that comply with the following criteria:

1. They are not PCD assets; and
2. They satisfy either the “business criterion” or the “seasoning criterion” upon acquisition (see descriptions below).

Under the amendments, purchased seasoned loans exclude credit cards or loan receivables arising from transactions accounted for under ASC 606.



Purchased Seasoned Loans

ASC 326-20-30-16

A purchased seasoned loan is a loan that meets either of the following criteria and is not a purchased financial asset with credit deterioration or a financial asset listed in paragraph 326-20-30-19:

- a. The loan is obtained through a business combination accounted for using the acquisition method in accordance with Subtopic 805-20.
- b. The loan is (i) obtained through a transfer that is not a business combination accounted for using the acquisition method in accordance with Subtopic 805-20 or (ii) initially recognized through the consolidation of a variable interest entity in accordance with paragraph 810-10-30-3. In addition, the loan must meet both of the following criteria:
 1. The loan is obtained more than 90 days after its origination date.
 2. The transferee was not involved with the origination of the loan. See paragraph 326-20-30-17 for guidance on how to assess whether the transferee was involved with the origination of the loan.

ASC 326-20-30-19

Purchased seasoned loans do not include the following:

- a. Credit cards
- b. Debt securities
- c. Trade receivables arising from transactions accounted for under Topic 606 on revenue from contracts with customers.

The FASB defines “loan” as follows in the Codification’s Master Glossary.

Loan

A contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor’s statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

Business criterion

A loan, other than a PCD asset, that is acquired as part of a business combination transaction accounted for using the acquisition method in accordance with Subtopic 805-20 meets the business criterion and is accounted for as a purchased loan. An acquirer should apply the guidance in ASC 805 to determine whether an acquisition transaction constitutes a business combination. See Grant Thornton’s Viewpoint, [*Identifying Business Combinations*](#), for further guidance

**Grant Thornton insight: Loans acquired through the initial consolidation of a VIE that is not a business**

Loans acquired by consolidating a variable-interest entity (VIE) that is not a “business,” as defined in ASC 805, are required to be assessed under the seasoning criterion in ASC 326-20-30-17, even though the initial measurement of a VIE that is not a business upon initial consolidation is performed under the acquisition method in Subtopic 805-20.

Seasoning criterion

Under ASC 326-20-30-17, an acquired loan that is not a PCD asset and does not satisfy the business criterion is considered to be a purchased seasoned loan if both of the following conditions are met:

- The loan was acquired more than 90 days after its origination; and
- The acquirer was not involved with the origination of the loan.



Purchased Seasoned Loans

ASC 326-20-30-17

The transferee is more likely to be involved with the origination of a loan when the transfer of that loan is effected through the terms of an existing contractual relationship, financing arrangement, purchase commitment, or other agreement with the entity that originated and transferred the loan. The transferee is involved with the origination of a loan when either of the following occurs:

- a. Within 90 days after the loan origination date, the transferee has direct or indirect exposure to the economic risks and rewards of ownership.
- b. The transferee has substantive influence on the offering, arranging, underwriting, or other nonadministrative lending activity performed by the originator (the transferor) related to the initial extension of credit to a debtor.

ASC 326-20-30-18

When the transferee acquires a group of loans under paragraph 326-20-30-16(b), it shall evaluate the guidance in paragraph 326-20-30-17 on an individual loan basis.

An acquirer must use judgment when determining whether it was “involved” with the origination of an acquired loan. Under ASC 326-20-30-17, an acquirer is “involved” with the origination of a loan if either the “risks and rewards” criterion or the “substantive influence” criterion is met:

- *Risks and rewards criterion:* Within 90 days after the origination date, the acquirer has direct or indirect exposure to the economic risks and rewards of ownership of the loan.
- *Substantive influence criterion:* The acquirer has substantive influence on the offering, arranging, underwriting, or other nonadministrative lending activity performed by the originator (the transferor) related to the initial extension of credit to the underlying debtor.



Grant Thornton insight: ‘Risks and rewards’ and ‘substantive influence’ criteria

Acquirers need to exercise judgment when determining whether they have met either (1) the risks and rewards criterion or (2) the substantive influence criterion.

Risks and rewards criterion

ASC 326-20-30-17(a) specifies that exposure to the risks and rewards of ownership may be either direct or indirect. When evaluating whether an acquirer has such exposure within 90 days of loan origination, entities should consider all relevant facts, circumstances, and arrangements, including:

- The contractual terms of the transaction, including forward purchase commitments written by the acquirer to the originator or call options written by the originator to the acquirer
- The existence of funding arrangements between the acquirer and the originator, or the conveyance of a put option or similar contract from the acquirer to the originator

- The existence of a loss-sharing arrangement in which the acquirer has an obligation to reimburse an originator for an amount of principal loss incurred by the originator before the transfer of the loan
- The existence of a make-whole arrangement in which the acquirer has an obligation to reimburse the originator upon termination of the purchase transaction by the acquirer

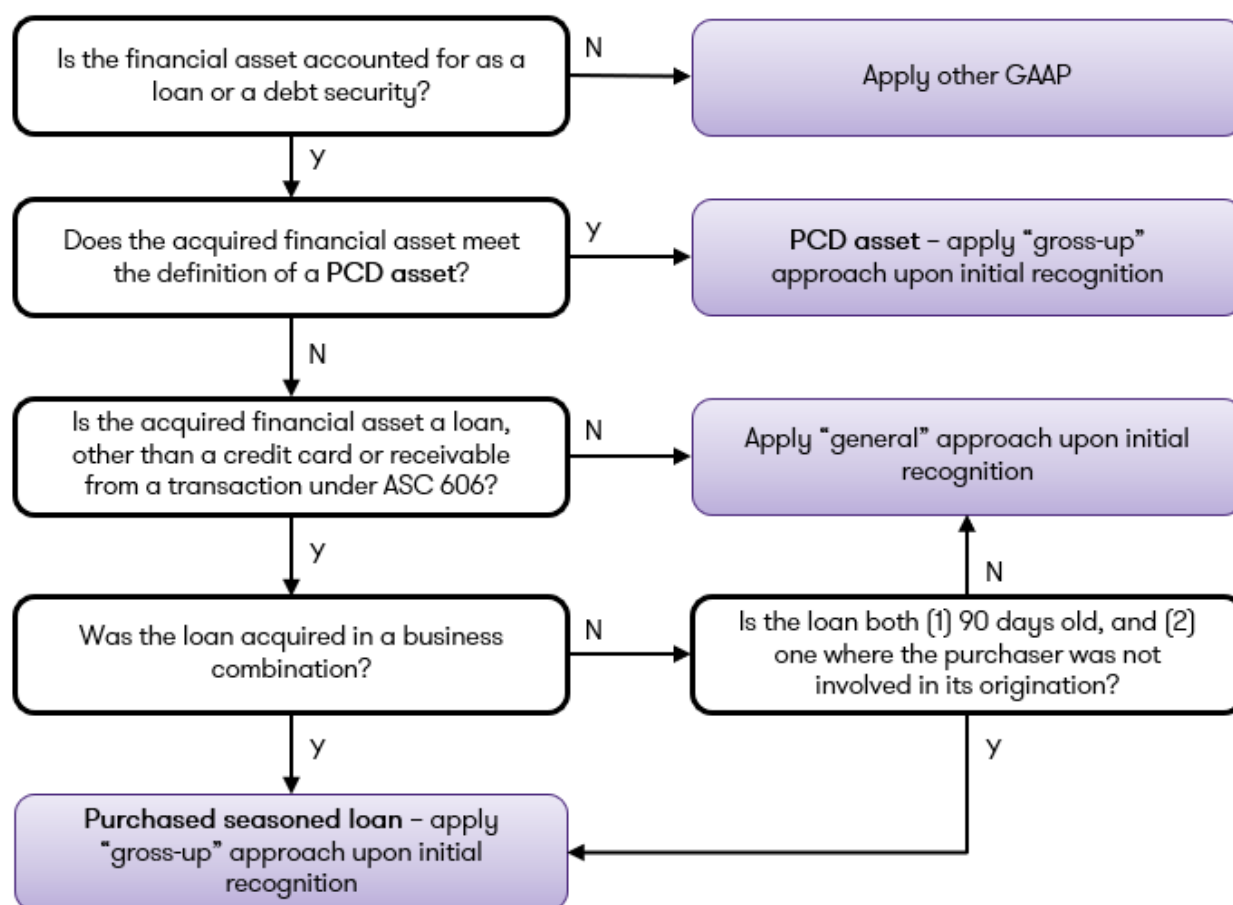
Substantive influence criterion

While the term “substantive influence” is not defined in U.S. GAAP, we believe entities should consider all relevant facts and circumstances in determining whether this criterion applies, including:

- Any other financial relationships between the acquirer and transferor, including debt and equity investments held by the acquirer in the transferor
- The nature of the relationship between the transacting entities, including arrangements made in contemplation of recurring transfers of similar loans and the acquirer’s ability to influence the originator’s underwriting standards

Loans acquired outside of a business combination are assessed individually under the seasoning criterion, including those acquired through the initial consolidation of a VIE that is not a business.

Acquired loans that are not PCD assets and do not qualify as purchased seasoned loans are initially measured consistently with originated financial assets under the “general” approach, in accordance with the guidance in ASC 326-20-30-1 through 30-10 and 30-12.



Recognition and measurement

The distinction under CECL between (1) PCD assets and purchased seasoned loans, and (2) other financial assets measured at amortized cost, primarily relates to the initial recognition and measurement of the ACL.

Under ASC 326, the ACL is a valuation account that is deducted from, or added to, the amortized cost basis of financial assets, so that the net amount expected to be collected on the financial assets is presented on the balance sheet. Under the general approach of recognizing credit losses in ASC 326, the ACL is established against a pool of financial assets through credit loss expense.

In contrast, for PCD assets and purchased seasoned loans, the ACL is established by increasing the amortized cost basis of the financial assets by a corresponding amount instead of through credit loss expense, which is the gross-up method. Additionally, the amendments in ASU 2025-08 extend the existing fair value measurement exception of PCD assets in ASC 805 to purchased seasoned loans.

Initial recognition

Under the gross-up approach, the acquirer establishes the ACL against acquired PCD assets or purchased seasoned loans by following these steps:

1. Determining the initial amortized cost basis under the guidance applicable to the transaction through which the entity acquired the financial assets;
2. Determining the ACL for the PCD assets or purchased seasoned loans; and
3. Adding the ACL to the initial amortized cost basis of PCD assets or purchased seasoned loans.

The difference between the par amount of PCD assets or purchased seasoned loans and their adjusted amortized cost basis is the noncredit discount (or premium), which is recognized in income over the life of the asset using the interest method in ASC 310-20.



Example 12: Recognizing Purchased Financial Assets with Credit Deterioration

ASC 326-20-55-61

This Example illustrates application of the guidance to an individual purchased financial asset with credit deterioration.

ASC 326-20-55-62

Under paragraphs 326-20-30-13 and 310-10-35-53B, for purchased financial assets with credit deterioration, the discount embedded in the purchase price that is attributable to expected credit losses should not be recognized as interest income and also should not be reported as a credit loss expense upon acquisition.

ASC 326-20-55-63

Bank O records purchased financial assets with credit deterioration in its existing systems by recognizing the amortized cost basis of the asset, at acquisition, as equal to the sum of the purchase price and the associated allowance for credit loss at the date of acquisition. The difference between amortized cost basis and the par amount of the debt is recognized as a noncredit discount or premium. By doing so, the credit-related discount is not accreted to interest income after the acquisition date.

ASC 326-20-55-64

Assume that Bank O pays \$750,000 for a financial asset with a par amount of \$1 million. The instrument is measured at amortized cost basis. At the time of purchase, the allowance for credit losses on the unpaid principal balance is estimated to be \$175,000. At the purchase date, the statement of financial position would reflect an amortized cost basis for the financial asset of \$925,000 (that is, the amount paid plus the allowance for credit loss) and an associated allowance for credit losses of \$175,000. The difference between par of \$1 million and the amortized cost of \$925,000 is a non-credit-related discount. The acquisition-date journal entry is as follows:

Loan – par amount	\$1,000,000	
Loan – noncredit discount		\$ 75,000
Allowance for credit losses		175,000
Cash		750,000

ASC 326-20-55-65

Subsequently, the \$75,000 noncredit discount would be accreted into interest income over the life of the financial asset consistent with other Topics. The \$175,000 allowance for credit losses should be updated in subsequent periods consistent with the guidance in Section 326-20-35, with changes in the allowance for credit losses on the unpaid principal balance reported immediately in the statement of financial performance as a credit loss expense.

When measuring the ACL for PCD assets and purchased seasoned loans, an entity should apply the general guidance in Subtopic 326-20 applicable to all financial assets measured at amortized cost. Additionally, the ACL for PCD and purchased seasoned loans includes expected recoveries of amounts previously written off and expected to be written off by the reporting entity and is not to exceed the aggregate of amounts previously written off and expected to be written off. If the entity estimates the ACL using a method other than a discounted cash flow (DCF) method, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount.



Example 18: Determining the Negative Allowance for Purchased Financial Assets with Credit Deterioration with No Change in Credit Conditions

ASC 326-20-55-86

The following Example illustrates the application of the guidance in paragraph 326-20-30-13A for purchased financial assets with credit deterioration. For purposes of this Example, the acquired portfolio of loans is assumed to share similar risk characteristics and is evaluated for credit losses on a collective basis.

ASC 326-20-55-87

Bank Q purchases a portfolio of loans with a par amount of \$10 million for \$2 million. At acquisition, Bank Q expects to collect \$2.5 million on the loan portfolio. Bank Q estimates expected credit losses using a method other than a discounted cash flow method in accordance with paragraph 326-20-30-4. The acquisition-date journal entry is as follows.

Loan – par amount	\$ 10,000,000	
Loan – noncredit discount		\$ 500,000
Allowance for credit losses		7,500,000
Cash		2,000,000

ASC 326-20-55-88

After acquisition, Bank Q determines that each loan is deemed uncollectible on an individual unit-of-account basis and, therefore, writes off the loan portfolio. The following journal entries are recorded.

Provision expense	\$ 2,000,000	
Allowance for credit losses		\$ 2,000,000
Allowance for credit losses	\$ 9,500,000	
Loan – noncredit discount		\$ 500,000
Loan – par amount		10,000,000

ASC 326-20-55-89

Although deemed uncollectible on an individual basis, when grouped together, the group of loans is expected to have some recoveries on an aggregate basis. Therefore, Bank Q records a negative allowance in accordance with paragraph 326-20-30-13A. Because Bank Q's expectation of credit conditions has not changed since acquisition, the expected recoveries of \$2.5 million must not result in the acceleration of the noncredit discount that existed immediately before being written off. Therefore, the following journal entry is recorded.

Allowance for credit losses	\$ 2,000,000	
Provision expense		\$ 2,000,000

Example 19: Determining the Negative Allowance for Purchased Financial Assets with Credit Deterioration after a Change in Credit Conditions**ASC 326-20-55-90**

Assume the same facts from Example 18. Bank Q subsequently determines that a change in credit conditions has occurred and expects to collect an additional \$600,000 (for a total of \$3.1 million) on the group of loans. Because Bank Q's expectation of credit conditions has changed and it is determining the amount that it expects to collect using a method other than a discounted cash flow method, the expected recoveries of \$3.1 million would be reduced by the noncredit discount of \$0.5 million (that has not been accreted). This would result in Bank Q having an overall negative allowance of \$2.6 million. Therefore, the following journal entry is recorded.

Allowance for credit losses	\$ 600,000	
Provision expense		\$ 600,000

Subsequent measurement

ASC 326 provides specific incremental guidance on how to subsequently measure the ACL related to PCD assets and purchased seasoned loans and on recognizing interest income

Remeasuring the ACL

ASC 326 requires a reporting entity to record an ACL at each reporting date by comparing the amount of its current estimate of the ACL to the amount previously recorded, and to recognize the difference as a credit loss expense (or a reversal of credit loss expense). When estimating the ACL, a reporting entity must aggregate financial assets with similar risk characteristics and estimate the ACL on each pool of assets. A reporting entity may elect, on a pool-by-pool basis, to estimate the ACL using a DCF method or a method other than a DCF method.

If an entity elects to estimate the ACL using a DCF method for PCD assets and purchased seasoned loans, it must discount the expected credit losses at the discount rate that equates the purchaser's estimate of the financial asset's future cash flows as of the acquisition date to the purchase price of the financial asset.

If an entity elects to estimate the ACL for PCD assets and purchased seasoned loans using a method other than a DCF method, it should measure the ACL against the unpaid principal balance of the financial assets. However, for purchased seasoned loans, an entity may elect to measure the ACL using the amortized cost basis of the loans. An entity must make this election for purchased seasoned loans on an acquisition-by-acquisition basis, applying the same election to all purchased seasoned loans in the same acquisition transaction. If an entity elects to measure the ACL using the amortized cost basis of purchased seasoned loans, that election is irrevocable. Additionally, the effective interest rate determined as of the acquisition date should not be remeasured for purchased seasoned loans if the election to measure the ACL using the amortized cost basis of the loans has been made.

Interest income

ASC 310 prohibits an entity from recognizing as interest income on PCD assets and purchased seasoned loans any discount embedded in the purchase price of such assets that is attributable to the acquirer's assessment of expected credit losses at the acquisition date. Additionally, as noted above, the election to measure the ACL using the amortized cost basis of purchased seasoned loans when utilizing an ACL estimation method other than a DCF method must not result in an adjustment to the effective interest rate used to recognize interest income on such loans.

ASC 310 does not prohibit an entity from placing PCD assets or purchased seasoned loans on nonaccrual status if the entity lacks a reasonable expectation about the amount expected to be collected.

Disclosure

The amendments in ASU 2025-08 require entities to separately present purchased seasoned loans in the ACL roll-forward disclosures required in ASC 326-20-50-13.

Effective date and transition

The amendments in ASU 2025-08 are effective for annual reporting periods beginning after December 15, 2026 and for interim reporting periods within those annual reporting periods. Entities may early adopt the amendments in this ASU as of the beginning of an interim or annual period.

Entities should apply the amendments prospectively to acquisitions of financial assets as of or after the initial application date.



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Appendix

The following table contains the titles of guidance cited in this publication from the FASB Codification or FASB Accounting Standard Update.

Quick reference	Title
ASC 310-20	<i>Receivables: Nonrefundable Fees and Other Costs</i>
ASC 326-20	<i>Financial Instruments – Credit Losses: Measured at Amortized Cost</i>
ASC 606	<i>Revenue from Contracts with Customers</i>
ASC 805-20	<i>Business Combinations: Identifiable Assets and Liabilities, and Any Noncontrolling Interest</i>
ASU 2025-08	<i>Financial Instruments – Credit Losses (Topic 326): Purchased Loans</i>

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