

# FASB issues ASU

## Credit losses – purchased loans

November 13, 2025



## FASB expands the use of the gross-up method for purchased seasoned loans.

### Source and applicability

- Accounting Standards Update No. 2025-08, [Purchased Loans](#).
- All entities.

### Fast facts, impacts, actions

ASU 2025-08 expands the use of the gross-up method to certain acquired loans beyond purchased financial assets with credit deterioration (PCD assets). Under the gross-up method an allowance for credit losses is recognized at the acquisition date with an offsetting entry to the asset's amortized cost basis. Specifically, the ASU does the following:

- applies the gross-up method to acquired non-PCD assets that are 'purchased seasoned loans' and provides criteria for determining whether acquired loans qualify as purchased seasoned loans;
- for purchased seasoned loans, eliminates the Day 1 credit loss expense and reduces interest income recognized in subsequent periods (because the gross-up method will now apply to those loans);
- keeps the guidance for PCD assets unchanged; and
- results in narrow subsequent measurement differences between purchased seasoned loans and PCD assets.

### Effective date & early adoption

The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2026, and is applied on a prospective basis. Early adoption is permitted.



An entity may elect to early adopt the guidance for 2025 and apply it prospectively from either the beginning of the interim reporting period or the annual reporting period that includes the interim period.

## Background

Historically, there have been two accounting approaches (PCD and non-PCD) for recognition of credit losses at acquisition on acquired loans. Stakeholders voiced concerns about the complexity and lack of comparability resulting from the dual models. Stakeholders also noted that:

- the initial Day 1 credit loss expense on non-PCD loans does not reflect the economics of acquired assets recorded at fair value; and
- the identification of PCD assets is subjective, difficult to understand and not applied consistently from entity to entity.

The majority of stakeholders who have expressed an opinion support guidance that would better reflect the economics of the acquired assets by accounting for most acquired loans under the gross-up method (currently limited to PCD assets).

Under the gross-up method, an entity grosses up the asset's amortized cost basis for the estimate of credit losses at the acquisition date. This Day 1 allowance for credit losses is established without an income statement effect. Any difference between the unpaid principal balance and this grossed-up basis is a non-credit discount or premium, which is accreted into interest income over time.

## Purchased seasoned loan definition

Although the FASB decided not to apply the gross-up method to all non-PCD loans, it did expand the method to a subset of non-PCD loans – called 'purchased seasoned loans'. ASU 2025-08's framework requires that an acquired loan first be evaluated to determine whether it is a PCD asset (and therefore already accounted for under the gross-up method). If it is not a PCD asset, it is then evaluated to determine whether it is a purchased seasoned loan.

A purchased seasoned loan is a loan that meets *either* of the following criteria:

- the loan is obtained through a business combination accounted for using the acquisition method; or
- the loan is (i) obtained through a transfer that is not a business combination accounted for using the acquisition method or (ii) initially recognized through the consolidation of a variable interest entity. In addition, the loan must meet both of the following:
  - the loan is obtained more than 90 days after its origination date; and
  - the acquirer (transferee) was not involved with the loan's origination.

Purchased seasoned loans do not include credit cards, debt securities or trade receivables arising from transactions accounted for under Topic 606. However, revolving consumer loans such as home equity lines of credit need to be evaluated to determine if they are purchased seasoned loans.

## Involved in the origination assessment

The ASU indicates a transferee is considered to be involved with the origination of a loan when *either* of the following occurs.

- Within 90 days after the loan origination date, it has direct or indirect exposure to the economic risks and rewards of ownership – e.g. exposure through a loss-sharing or make-whole arrangement in which the acquirer has an obligation to the originator related to credit losses incurred by the originator before the transfer of the loan.
- It 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.



Judgment may be required to determine whether an entity was involved with the origination of a loan. Since this is a new concept introduced by the ASU, entities should develop policies, procedures and related controls to assess arrangements (both contractual and noncontractual) to determine if they constitute involvement with the origination of the loan.

## Accounting for purchased seasoned loans

The initial recognition of a purchased seasoned loan is the same as for PCD assets. An entity grosses up the amortized cost basis of the loan for the estimate of credit losses on the loan at the acquisition date. The Day 1 allowance for credit losses is established without an income statement effect.

Although the initial accounting for purchased seasoned loans and PCD assets is the same, there are narrow differences in the subsequent measurement, including the following.

- For purchased seasoned loans, if a method other than a discounted cash flow method is used, an accounting policy election permits subsequent measurement of expected credit losses to be based on the amortized cost instead of the unpaid principal at each balance sheet date after the acquisition date. In contrast, if a method other than a discounted cash flow method is used for PCD assets, the initial and subsequent measurement of expected credit losses is based on the unpaid principal balance.
- There is incremental guidance on recognizing expected recoveries that applies to PCD assets but not to purchased seasoned loans.
- Purchased seasoned loans are not subject to specific guidance for PCD assets that indicates recognition of income is dependent on having a reasonable expectation about the amounts expected to be collected.



Because there are narrow subsequent measurement differences between purchased seasoned loans and PCD assets, if an entity wants to combine those assets into the same pool for measurement of expected credit losses, it should consider the extent to which these differences would be material.

## Effective dates and transition

Effective dates	All Entities
Annual periods – Fiscal years beginning after	December 15, 2026
Interim periods – In fiscal years beginning after	December 15, 2026
Early adoption permitted?	<ul style="list-style-type: none"> <li>• Yes, any annual or interim reporting period if financial statements have not yet been issued or made available for issuance.</li> <li>• If early adopted in an interim period, an entity applies the amendments at the initial application date, which is the beginning of either: <ul style="list-style-type: none"> <li>– the interim reporting period; or</li> <li>– the annual reporting period that includes the interim period.</li> </ul> </li> </ul>
Transition method	Prospectively for acquisitions on or after the initial application date.

## Example

Bank is a calendar-year end entity and had acquisitions in February 2025 and November 2025.

If Bank early adopts the ASU on November 30, 2025, it applies the new guidance prospectively from the initial application date. Bank elects the initial application date as either:

- January 1, 2025 (guidance would apply to both acquisitions); or
- October 1, 2025 (guidance would only apply to the November acquisition).

If Bank early adopts the guidance on January 1, 2026, it would apply the guidance to any acquisitions in 2026 (and neither of the 2025 acquisitions).

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