

EITF ABSTRACTS

Issue No. 88-20

Title: Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio

Date Discussed: August 25-26, 1988

References: FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*
FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
FASB Statement No. 142, *Goodwill and Other Intangible Assets*
APB Opinion No. 16, *Business Combinations*
APB Opinion No. 17, *Intangible Assets*

ISSUE

An enterprise purchases for cash the credit card portfolio, including the cardholder relationships, of a financial institution. The amount paid exceeds the sum of the amounts due under the credit card receivables. [Note: See STATUS section.]

The issues are:

1. Whether the difference between the amount paid and the sum of the balances of the credit card loans at the date of purchase (the premium) should be allocated between the loans acquired and any identifiable intangible assets acquired
2. Over what periods the amounts allocated to the loans acquired and the identifiable intangible assets acquired should be amortized.

EITF DISCUSSION

The Task Force reached a consensus on the first issue that when an enterprise purchases a credit card portfolio including the cardholder relationships, the difference between the amount paid and the sum of the balances of the credit card loans at the date of purchase (the premium) should be

allocated between the cardholder relationships acquired and the loans acquired. [Note: See STATUS section.]

On the second issue, the Task Force reached a consensus that the premium relating to the cardholder relationships represents an identifiable intangible asset that should be amortized over the period estimated to be benefited in accordance with Opinion 17. [Note: This consensus has been partially nullified by Statement 142. See STATUS section under Intangible Assets.] The premium allocated to the loans should be amortized over the life of the loans in accordance with Statement 91. Task Force members noted that if the credit card agreement provides for a repayment period beyond expiration of the card if the card is not renewed, that period should be considered in determining the life of the credit card loan.

STATUS

A related issue was discussed in Issue No. 92-5, "Amortization Period for Net Deferred Credit Card Origination Costs." One of the consensuses the Task Force reached in Issue 92-5 was that, with respect to credit card fees and costs for both purchased and originated cards, an entity should disclose its accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s).

Another related issue was discussed in Issue No. 93-1, "Accounting for Individual Credit Card Acquisitions." In that Issue the Task Force reached a consensus that an enterprise should account for credit card accounts acquired individually as originations under Statement 91 and Issue 92-5.

Statement 125 was issued in June 1996. Statement 125 was replaced by Statement 140 in September 2000, without reconsideration of this matter. Under both Statement 125 and 140, if the transaction described in Issue 1 of 88-20 meets the criteria for sale treatment in paragraph 9, the transferee would recognize all assets and liabilities incurred and initially measure them at fair

value. Issue 2, concerning the periods over which the amounts allocated to the loans acquired and the identifiable asset should be amortized, is outside of the scope of both Statements 125 and 140 because they do not address subsequent measurement of such items.

Intangible Assets

Statement 142, which supersedes Opinion 17, was issued in June 2001. Statement 142 states that an intangible asset shall be amortized over its useful life unless that life is determined to be indefinite. (Opinion 17 limited the amortization period for all intangible assets to 40 years.)

No further EITF discussion is planned.