American Bankers Association
Building Success. Together.

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January 20, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Re: Proposed Agency Information Collection Activities; Comment Request 76 Federal Register 71968; November 21, 2011; FRB: FR Y-9C

Dear Ms. Johnson:

The American Bankers Association (ABA)[1] appreciates the opportunity to comment on the proposed revisions to the FRB Consolidated Financial Statements for Bank Holding Companies (BHC) FR Y-9C,[2] as issued by the Board of Governors of the Federal Reserve System (agency). The agency's proposed revisions to the FR Y-9C include several changes and new items to provide additional data that the agency believes are necessary to better understand BHCs' risk exposures, to better support macroeconomic analysis and monetary policy purposes, and to collect certain information prescribed by accounting changes. With respect to the proposed new data reporting of quarterly loan origination activity, the agency also highlights that "the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system."[3]

ABA members have expressed no concerns with many of the agency's proposed revisions. ABA supports the agency's proposed revisions relating to Past Due and Nonaccrual Purchased Credit-Impaired Loans. ABA has concerns with the following proposals and urges the agency to consider the several changes suggested below in the final revisions to the FR Y-9C.

- Allowance for Loan and Lease Losses by Loan Category (ALLL): ABA recommends that the agency adopt a narrower, more focused alternative proposal which is more feasible for institutions to collect and report than the agency's proposed new reporting for nine loan categories, which would be very burdensome for institutions. Thus, ABA recommends the more targeted reporting categories of consumer loans, separately broken out with separate line items for consumer credit cards and all other consumer loans; and commercial loans.

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its 2 million employees. The majority of ABA's members are banks with less than $165 million in assets. Learn more at www.aba.com.
[2] 76 *Fed. Reg.* 71968 (November 21, 2011). The FR Y-9C is generally filed by top-tier BHCs with total consolidated assets of $500 million or more.
[3] *See* 76 *Fed. Reg.* 71971, column 1.

- Loan Origination Activity: ABA recommends that the agency defer this proposed revision until its consideration of the 2013 proposed revisions to the FR Y-9C, and reevaluate in the interim, whether there will still be a need to require new reporting of loan origination activity. If the agency does not defer the new reporting in the FR Y-9C, ABA recommends that the agency clearly define and clarify key terms as a prerequisite to any new reporting; propose less burdensome reporting; and delay the effective date of new reporting to provide sufficient lead time for BHCs to implement needed automated system changes.

ABA believes these suggested changes would still allow the agency to obtain the meaningful information it needs, while avoiding some of the excess regulatory burden borne by BHCs. These points, as well as additional suggestions for improving revisions to the FR Y-9C, are set forth in greater detail below.

Discussion

ABA supports the following item:

Past Due and Nonaccrual Purchased Credit-Impaired Loans.
The agency proposed more granular additional reporting by all institutions in the June 30, 2012, FR Y-9C Schedule HC-N, new Memoranda items of purchased credit-impaired loans accounted for in accordance with FASB ASC 310-30. More specifically, the proposal would break out the total outstanding balance, and the related carrying amount of these loans included in Schedule HC-N, that are (1) past due 30-89 days and still accruing; (2) past due 90 days or more and still accruing; and (3) in nonaccrual status. This information would mirror similar data reported in Schedule HC-C, Memorandum item 5. This additional reporting breakout will allow users of the FR Y-9C to identify and differentiate loans that have experienced unexpected credit deterioration since acquisition from those in which the credit deterioration was already existing or expected at the time of acquisition. The acquisition prices of the latter group of loans are assumed to already reflect the existing or expected credit deterioration and, thus, would not often result in an economic loss to the institution. From a safety and soundness perspective, only the past due and nonaccrual status of those originated loans is relevant.

ABA supports the agency's proposed revisions and recommends that the agency adopt these proposed revisions without change. ABA believes the agency's proposed revisions would allow BHCs to reconcile GAAP reporting with regulatory reporting in the FR Y-9C.

ABA has concerns with the following items:

Allowance for Loan and Lease Losses by Loan Category.

The agency proposed revisions to the June 30, 2012, FR Y-9C by adding a new section to Schedule HC-C, Loans and Lease Financing Receivables, to capture disaggregated detail of an institution's end-of-period allowances for loan and lease losses (ALLL) to conform to ASU

2010-20[4]. The proposed new section in Schedule HC-C would require institutions with $1 billion or more in total assets to report disaggregated allowance and recorded investment data on the basis of impairment method for: (1) collectively evaluated for impairment, (2) individually evaluated for impairment, and (3) acquired with deteriorated credit quality, for nine loan categories that the agency determined are key loan categories reported on FR Y-9C Schedule HC-C.

ABA is concerned with the expansive scope of the agency's proposed new ALLL reporting requirements on Schedule HC-C. The proposal calls for institutions to collect and report information for nine different loan categories. Many institutions do not currently collect the information called for, and, similar information that institutions collect for GAAP reporting is not consistent with what is proposed for the FR Y-9C. Thus, the proposal calls for data that would be very burdensome to collect and report. ABA recommends that the agency adopt a narrower, more focused, proposal, requiring fewer categories, specifically:

- Reporting by institutions with $1 billion or more in total assets on the agency's proposed new section on Schedule HC-C, disaggregated data limited to the following broad loan categories:
    1. Consumer loans
        - 1.a. Consumer credit cards
        - 1.b. All other consumer loans
    2. Commercial loans

ABA members could not reach a consensus on more granular reporting on the other loan categories proposed by the agency. ABA believes that many institutions with $1 billion or more in total assets could likely capture and report the agency's proposed disaggregated allowance (ALLL) and related recorded investment data on the basis of impairment method only for the recommended loan categories above.

Some ABA members believe the current GAAP ASU 2010-20 reporting that is based on entity disclosure "by portfolio segment[5]" does not match to the agency's proposed new FR Y-9C categories, and there are modeling differences used by institutions for capturing and reporting ALLL. Members are also concerned with the impact of "qualitative" factors which would affect the quantitative reporting by individual institutions.

The disclosures now required as a result of ASU 2010-20 are based on how institutions model their credit portfolio. The ALLL balances related to portfolios and classifications required in ASU 2010-20 would not match or directly reconcile to <u>any</u> of the nine loan categories in the proposal for most institutions. Generally, the portfolios and classifications now disclosed for GAAP purposes are defined by product – how institutions model their credit risk – while the proposed categories detailed in the agency's proposal appears to emphasize the collateral that

[4] Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20).
[5] *See* 76 *Fed. Reg.* 71970. The agencies' also note in this portion of the proposal that "[a]s defined in the ASC Master Glossary, a portfolio segment is '[t]he level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses.'"

secures the related loan amounts. Simple examples of the mismatch between the GAAP requirements and the proposal include:

1. Commercial loans secured by the borrower's personal residential property.
2. Consumer loans secured by a borrower's nonresidential property held.
3. Commercial real estate loan portfolios reported for GAAP purposes may include ALLL amounts that span a minimum of three of the categories proposed in the proposal.
4. Credit card portfolios reported for GAAP purposes often have both consumer (individual) and business-related accounts.

Due to the difference between GAAP and the proposal, dozens of new reporting and reconciliation points may be required if the proposed FR Y-9C categories are maintained, as permutations of the different subcategories will be required. Within all this, since institutions model their credit risk based on the GAAP requirement, ABA does not believe any of the new reporting and reconciliation points will add value to an institution's internal control systems. In addition to breaking out such amounts based on an individually- versus collectively-evaluated impairment methods, the issues introduced by the different accounting used for purchased credit-impaired loans only provides another layer of complexity in the process. Therefore, bankers see minimal, if any, positive benefit for the additional costs relating to the agency's proposed new reporting on the nine loan categories. In fact, the Working Group reviewing this aspect of the proposal foresees no benefit to providing ALLL balances, as proposed.

ABA notes for the agency that the amounts in the categories we propose above will, nonetheless, often not directly reconcile to the classifications reported in GAAP disclosures. However, using the ABA-recommended alternative loan categories will minimize the differences.

Finally, ABA is not opposed to the agency's proposal to require reporting of the amount of any unallocated portion of the ALLL for loans collectively evaluated for impairment.

Loan Origination Activity.

The agency proposed additional reporting by all institutions that file the FR Y-9C, (generally top-tier BHCs with $500 million or more in total consolidated assets) in a new Schedule HC-U, Loan Origination Activity (in Domestic Offices) for quarterly amounts of loans originated for 16 categories of loans reported in Schedule HC-C, Loans and Lease Financing Receivables. This proposal also would require institutions with $1 billion or more in total assets to further breakout new loan origination data during the quarter to include loans originated under a newly-established commitment and loans that are not originated under a commitment. The agency also requests comment on: 1) the ability of institutions' existing loan systems to generate the proposed loan origination data for proposed new Schedule HC-U; 2) the burden of adapting current systems to report the proposed loan origination data if the information is not currently available; and 3) alternative ways to collect quarterly loan origination data in the FR Y-9C.

ABA recommends that the agency defer until 2013 proposed data capture of loan origination activity in proposed new Schedule HC-U and re-evaluate in the interim, whether there still is a need to report new loan origination data in the FR Y-9C. If the agency ultimately requires reporting of loan origination activity in the FR Y-9C, ABA recommends that the agency define and clarify key terms as a prerequisite to any new reporting, propose less burdensome reporting, and delay the effective date of new reporting to provide sufficient lead time for affected institutions to implement automated system revisions necessary to capture and report any new loan origination activity data.

ABA is concerned with the agency's proposed new detailed data reporting for new loan originations on a net basis for the proposed 16 loan categories. Our concerns are based on the lack of clarity of many key terms and issues regarding such additional reporting and the unclear benefit of capturing and reporting this new loan origination information at this point in time relative to the clear burden. The timing is especially problematic and burdensome since affected institutions will be making simultaneous and major system reporting revisions relating to the FDIC final rule on deposit insurance assessments,[6] and updating institutions' systems for the new ongoing agency FR Y-14Q reporting by institutions that are required to report CCAR[7] data to the agency.

Deferral would (1) allow the agency to clarify many terms and uncertainties relating to the proposed new reporting; (2) minimize the unnecessary burden of implementing new automated systems that the proposed new loan origination activity reporting would impose on many institutions at the same time that significant system revisions are needed to comply with other important regulatory reporting requirements; and (3) allow the agency to assess whether the new CCAR provides an alternative source of new loan origination information the agency may be able to rely upon to substantially meet its needs outlined in the proposal.

Some of the problematic issues the proposed new loan origination reporting would create for many institutions include how they would report loan advances, revolving loans, increases in lines of credit, and borrower draw-downs on revolving lines of credit. Institutions are also concerned with how the additional breakouts relating to originations under a newly-established commitment, and originations not originated under commitment would be determined, especially for credit cards. It is not clear how commitments would be determined, for example, for an increase in a line of credit. Additionally, reporting this information will be unnecessarily burdensome since manual tracking would be needed for many institutions until systems could be revised or developed to capture and report it. Further, the capture and net reporting of this information would be very burdensome.

If the agency does not defer new reporting of loan origination activity on the FR Y-9C, as a prerequisite to ensure clarity, accuracy, and meaningful reporting, ABA strongly recommends

[6] *See* 76 *Fed. Reg.* 77315 (December 12, 2011).

[7] The CCAR process is a separate reporting process from the agency's proposed quarterly reporting of detailed loan origination activity by institutions that file the FR Y-9C (BHCs that have $500 million or more in total consolidated assets) and additional more granular reporting by institutions with $1 billion or more in total assets. The CCAR affects bank holding companies (BHCs) that have total consolidated assets of $50 billion or more and requires broad and detailed data reporting that will continue on an ongoing quarterly basis to the agency on new FR Y-14Q. A portion of the information the agency has proposed to collect on the new FR Y-9C Schedule HC-U – Loan Origination Activity (in Domestic Offices), may be redundant with information the agency is requiring BHCs to report for CCAR.

that the agency limit any new reporting of loan origination activity in the FR Y-9C to gross, not net reporting; and provide necessary clarification and clear definitions of key terms and reporting concepts, including:

- Revolving loans
    - Commitments and revolving credit agreements that were:
        - renegotiated
        - refinanced
        - converted
        - renewed
        - drawn down
    - Specific clarification and examples of credit card reporting of loan originations and commitments, including each of the terms and concepts noted above. ABA also requests clarification in Instructions for the FR Y-9C Schedule HC-U on how to report credit card origination activity for Columns A and B of proposed Schedule HC-U, particularly clarifying the reporting of newly established commitments for credit cards. (*See* Appendix A for more details relating to credit card loan reporting.)
    - Clarifying whether these definitions are intended to be consistent with definitions being considered in the FDIC's Large Bank Pricing model for reporting subprime loans.
- The impact of troubled debt restructurings (TDRs) on reporting commitments (*i.e.* is a TDR a revision of terms; is a TDR a new origination?)
- An origination during the quarter.

While there may be gaps in the CCAR information capture and reporting and what the agency has proposed for the June 30, 2012, FR Y-9C on specific loan origination activity data, and the types of institutions that would report the data, ABA urges the agency to consider whether the information it seeks to capture through new loan origination information on the FR Y-9C could be reasonably satisfied by the CCAR data reporting. Specifically, ABA requests the agency to consider if its concern that "the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system", as well as the agency's desire for "[d]irect reporting of loan originations [to] allow the Federal Reserve to isolate the flow of credit creation from the effects of … other banking activities"[8] would be satisfied by the data the agency will collect through the CCAR.

Conclusion

ABA appreciates the opportunity to comment on the proposed revisions included in the Proposed Agency Information Collection Activities and Comment Request.

[8] *See* 76 *Fed. Reg.* 71971, columns 1- 2.

Please contact the undersigned at (202) 663-5331 or kmctighe@aba.com if you have any questions. Thank you for considering our comments and recommendations.

Sincerely,

Kathleen P. McTighe
Senior Counsel

Appendix A

Issues and Request for Clarification Relating to Proposed Loan Origination Activity Reporting for Credit Card Loans on New FR Y-9C, Schedule HC-U – Loan Origination Activity (in Domestic Offices)

ABA requests clarification of the following definitions relating to credit card loans: commitment, renegotiated, refinanced and renewal.

- We request specific clarification of whether these definitions are intended to be consistent with definitions being considered in the FDIC's Large Bank Pricing model for reporting subprime loans.

- We request clarification of whether a credit card line increase would meet the definition of a newly established commitment, renegotiation, refinancing or renewal. If so, we request the agency to provide an example of how to report the newly established reportable amount.
    - For example, for reporting lines of credit, a cardholder has a $10K line of credit and has an outstanding balance of $10K. The cardholder requests and receives a $2K credit line increase. The cardholder uses $1K of these funds. If this falls under the definition of a newly established reportable item, would $1K or $11K be reported in Schedule HC-U?

- We request clarification of whether a TDR would meet the definition of a newly established commitment, renegotiation, refinancing or renewal.

ABA also requests clarification regarding lapses between quarters when an institution issues credit in one quarter and the cardmember does not utilize the funds until the next quarter -- specifically, whether this would be considered a newly established commitment in the 2nd quarter. It would be helpful if the agency provides reporting examples.

Other situations which the ABA requests the agency to provide additional clarification on how to report credit card loans, include:

Column A:

- If a person had a card for ten years, the balance was $200 at the end of Q4 2011, there were $50 of payments received during Q1 2012, and the ending balance was $425 at the end of Q1 2012, would the institution report the $225 newly spent on this account?

- If a person gets a new card in February but chooses not to spend and has a zero balance at the end of Q1 2012, the institution would report nothing. However, if this cardmember, at the end of Q2 2012 charges $5,000, the institution would then report in Q2 2012 the new charges. In Q3 2012, the ending balance is $2,500. Would the institution report nothing, even though the customer charged, paid off a large portion of the balance and has a remaining balance of $2,500 during Q3 2012?

Institutions that are over $1B in assets would be required to also report in Column B & C[9], if applicable. The definitions and guidance for reporting in these two columns are unclear for credit card loans. ABA requests the agency to provide additional clarification if it decides to require this reporting in the FR Y-9C.

[9] We note that Column C would not apply to consumer credit cards due to the agency's exemption for this reporting.