

## **FEDERAL RESERVE SYSTEM**

### **Agency Information Collection Activities: Proposed Collection; Comment Request**

**AGENCY:** Board of Governors of the Federal Reserve System

#### **SUMMARY: Background**

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act, as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the OMB 83-Is and supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

#### **Request for comment on information collection proposals**

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

a. whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;

b. the accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;

c. ways to enhance the quality, utility, and clarity of the information to be collected; and

d. ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

**DATES:** Comments must be submitted on or before September 12, 2005.

**ADDRESSES:** You may submit comments, identified by FR K-2, FR Y-1F, FR Y-9C, by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include docket number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20<sup>th</sup> Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at [www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm) as submitted, unless modified as necessary for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** A copy of the proposed form and instructions, the Paperwork Reduction Act Submission (OMB 83-I), supporting statement, and other documents that will be placed into OMB's public docket files once approved may be requested from the agency clearance officer, whose name appears below.

Michelle Long, Federal Reserve Board Clearance Officer (202-452-3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

**Proposal to approve under OMB delegated authority the extension for three years, without revision, of the following report:**

*Report title:* Notifications Related to Community Development and Public Welfare Investments of State Member Banks

*Agency form number:* FR H-6

*OMB control number:* 7100-0278

*Frequency:* Event-generated

*Reporters:* State Member Banks

*Annual reporting hours:* 125

*Estimated average hours per response:* Investment notice, 2 hours; Application (Prior Approval) 5 hours; and Extension of divestiture period, 5 hours.

*Number of respondents:* Investment notice, 10; Application (Prior Approval) 20; and Extension of divestiture period, 1.

*General description of report:* This information collection is required to obtain a benefit (12 USC 338a, and 12 CFR 208.22). Individual respondent data generally are not regarded as confidential, but information that is proprietary or concerns examination ratings would be considered confidential.

*Abstract:* Regulation H requires state member banks that want to make community development or public welfare investments to comply with the Regulation H notification requirements: (1) if the investment does not require prior Board approval, a written notice must be sent to the appropriate Federal Reserve Bank; (2) if certain criteria are not met, a request for approval must be sent to the appropriate Federal Reserve Bank; and, (3) if the Board orders divestiture but the bank cannot divest within the established time limit, a request or requests for extension of the divestiture period must be submitted to the appropriate Federal Reserve Bank.

**Proposal to approve under OMB delegated authority the extension for three years, with revision, of the following reports:**

1. *Report title:* Application for a Foreign Organization to Become a Bank Holding Company

*Agency form number:* FR Y-1F

*OMB control number:* 7100-0119

*Frequency:* On occasion

*Reporters:* any company organized under the laws of a foreign country seeking to acquire a U.S. subsidiary bank or bank holding company

*Annual reporting hours:* 710

*Estimated average hours per response:* 70-90 hours

*Number of respondents:* 9

*General description of report:* This information collection is required to obtain or retain a benefit under sections 3(a), 3(c), and 5(a) through 5(c) of the Bank Holding Company Act (12 U.S.C. §§1842(a) and (c) and 1844(a) through (c) and is not given confidential treatment unless the applicant specifically requests confidentiality and the Federal Reserve approves the request.

*Abstract:* Under the Bank Holding Company Act (BHCA), submission of this application is required for any company organized under the laws of a foreign country seeking to acquire a U.S. subsidiary bank or bank holding company. Applicants must provide financial and managerial information, discuss the competitive effects of the proposed transaction, and discuss how the proposed transaction would enhance the convenience and needs of the community to be served. The Federal Reserve uses the information, in part, to fulfill its supervisory responsibilities with respect to foreign banking organizations in the United States.

*Current Actions:* Foreign organizations seeking initial entry are currently required to file the FR Y-1F. However, the filing requirements are ambiguous for foreign organizations that are already subject to the BHCA and seek to acquire a U.S. bank or bank holding company. In order to clarify and streamline the application process for foreign

organizations, the Federal Reserve proposes to explicitly state that these organizations should file the FR Y-1F. Thus, the FR Y-1F would be retitled, renumbered, and modified to achieve consistency with the FR Y-3, the Application for Prior Approval to Become a Bank Holding Company or for a Bank Holding Company to Acquire an Additional Bank or Bank Holding Company (OMB No. 7100-0121), the form used by domestic holding companies. Also, the Federal Reserve proposes technical clarifications to the instructions that would remove page number references to the Interagency Biographical or Financial Report (FR 2081c; OMB No. 7100-0134) and insert a sentence into the standard commitment language in order to make the commitments more enforceable.

2. *Report title:* International Applications and Prior Notifications Under Subpart B of Regulation K

*Agency form number:* FR K-2

*OMB control number:* 7100-0284

*Frequency:* On occasion

*Reporters:* Foreign banks

*Annual reporting hours:* 420

*Estimated average hours per response:* 35

*Number of respondents:* 12

*General description of report:* This information collection is required to obtain or retain a benefit under sections 7 and 10 of the International Banking Act (12 U.S.C. 3105 and 3107) and Regulation K (12 C.F.R. 211.24(a) and is not given confidential treatment unless the applicant specifically requests confidentiality and the Federal Reserve approves the request.

*Abstract:* Foreign banks are required to obtain the prior approval of the Federal Reserve to establish a branch, agency, or representative office; to acquire ownership or control of a commercial lending company in the United States; or to change the status of any existing office in the United States. The Federal Reserve uses the information, in part, to fulfill its statutory obligation to supervise foreign banking organizations with offices in the United States.

*Current Actions:* The Federal Reserve proposes technical clarifications to the instructions that would remove page number references to the Interagency Biographical or Financial Report (FR 2081c; OMB No. 7100-0134), correct language pertaining to representative offices, and insert a sentence into the standard commitment language in order to make the commitments more enforceable.

**Proposal to approve under OMB delegated authority the revision of the following report:**

*Report title:* Financial Statements for Bank Holding Companies

*Agency form number:* FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS, and FR Y-9ES

*OMB control number:* 7100-0128

*Frequency:* Quarterly, semiannually, and annually

*Reporters:* BHCs

*Annual reporting hours:* 400,536

*Estimated average hours per response:*

FR Y-9C: 35.55 hours

FR Y-9LP: 4.75 hours

FR Y-9SP: 4.85 hours

FR Y-9ES: 30 minutes

FR Y-9CS: 30 minutes

*Number of respondents:*

FR Y-9C: 2,240

FR Y-9LP: 2,590

FR Y-9SP: 3,253

FR Y-9ES: 87

FR Y-9CS: 600

*General description of report:* This information collection is mandatory (12 U.S.C. 1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act (5 U.S.C. §§522(b)(4), (b)(6) and (b)(8)).

*Abstract:* The FR Y-9C collects basic financial data from a domestic BHC on a consolidated basis in the form of a balance sheet, an income statement, and detailed supporting schedules, including a schedule of off-balance-sheet items, similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036). The FR Y-9C collects data from the BHC as of the end of March, June, September, and December. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of \$150 million or more and lower-tier BHCs that have total consolidated assets of \$1 billion or more. In addition, multibank holding companies with total consolidated assets of less

than \$150 million with debt outstanding to the general public or engaged in certain nonbank activities must file the FR Y-9C.

The FR Y-9LP collects basic financial data from domestic BHCs on an unconsolidated, parent-only basis in the form of a balance sheet, an income statement, and supporting schedules relating to investments, cash flow, and certain memoranda items. This report is filed as of the end of March, June, September, and December on a parent company only basis by each BHC that files the FR Y-9C. In addition, for tiered BHCs, a separate FR Y-9LP must be filed for each lower-tier BHC.

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs as of the end of June and December. Respondents include one-bank holding companies with total consolidated assets of less than \$150 million and multibank holding companies with total consolidated assets of less than \$150 million that meet certain other criteria. This form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This report collects basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

The FR Y-9CS is a free form supplement that may be utilized to collect any additional information deemed to be critical and needed in an expedited manner. It is intended to supplement the FR Y-9C and FR Y-9SP reports.

The FR Y-9ES collects financial information from employee stock ownership plans (ESOPs) that are also BHCs on their benefit plan activities as of December 31. It consists of four schedules: Statement of Changes in Net Assets Available for Benefits,

Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements.

*Current Actions:* The Federal Reserve proposes to revise the FR Y-9C to collect information on purchased impaired loans in response to Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3) issued by the American Institute of Certified Public Accountants (AICPA), and to collect information related to the Government National Mortgage Association (GNMA) mortgage loan optional repurchase program (rebooked loans backing GNMA securities).

### **Proposed Revisions to the FR Y-9C**

The Federal Reserve proposes to revise the FR Y-9C to collect information on purchased impaired loans and rebooked loans backing GNMA securities. Revisions to the FR Y-9 family of reports are typically made once per year effective with the March 31<sup>st</sup> reporting date, however, in light of the change in generally accepted accounting principles (GAAP)<sup>1</sup>, as it relates to reporting for purchased impaired loans and important supervisory considerations, the Federal Reserve proposes to revise the FR Y-9C report effective with the September 2005, report date. The proposed revisions would be consistent with the proposed changes to the FFIEC 031 Call Report, effective for the June 2005 report date. In addition to modifying instructions to incorporate the proposed reporting changes, instructions may be revised and clarified in an attempt to achieve greater consistency in reporting by respondents.

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<sup>1</sup> For this purpose the AICPA Statement of Position is GAAP.

**Purchased Impaired Loans**

SOP 03-3 applies to “purchased impaired loans,” i.e., loans that an institution has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the institution will be unable to collect all contractually required payments receivable. SOP 03-3 does not apply to the loans that an institution has originated, and also excludes certain acquired loans from its scope.

Under SOP 03-3, a purchased impaired loan is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). The Statement of Position limits the yield that may be accreted on the loan (the accretable yield) to the excess of the institution’s estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the institution’s initial investment in the loan. The excess of contractually required cash flows over the cash flows expected to be collected on the loan, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance sheet. After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the loan’s yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

The Statement of Position prohibits an institution from “carrying over” or creating valuation allowances (loan loss allowances) in the initial accounting for purchased impaired loans. This prohibition applies to the purchase of an individual impaired loan, a

pool or group of impaired loans, and impaired loans acquired in a purchase business combination. As a consequence, SOP 03-3 provides that valuation allowances should reflect only those losses incurred after acquisition, that is, the present value of all cash flows expected at acquisition that ultimately are not to be received. Thus, because of the accounting model set forth in SOP 03-3, institutions will need to segregate their purchased impaired loans, if any, from the remainder of their loan portfolio for purposes of determining their overall allowance for loan and lease losses.

According to the Basis for Conclusions of SOP 03-3, the AICPA's Accounting Standards Executive Committee "believes that the accounting for acquired loans within the scope of this SOP is sufficiently different from the accounting for originated loans, particularly with respect to provisions for impairment . . . , such that the amount of loans accounted for in accordance with this SOP should be disclosed separately in the notes to financial statements." The Federal Reserve agrees with this assessment and consistent with the disclosures required by SOP 03-3, proposes to add three items to the FR Y-9C to provide a better understanding of the relationship between the allowances for loan and lease losses and the carrying amount of the loan portfolios of those institutions whose portfolios include purchased impaired loans. All three of these items represent information included in the disclosures required by SOP 03-3. The Federal Reserve believes that not identifying the reporting effect of SOP 03-3 on these data may cause significant confusion regarding the historical credit quality of an organization's loan portfolio.

The Federal Reserve proposes to add two memorandum items to Schedule HC-C, "Loans and Leases," and one memoranda item to Schedule HI-B, Part II, "Changes in

Allowance for Loan and Lease Losses,” to collect information on purchased impaired loans held for investment accounted for in accordance with AICPA SOP 03-3. New Schedule HC-C memorandum item 5(a) would collect the outstanding balance<sup>2</sup> and new memorandum item 5(b) would collect the carrying amount<sup>3</sup> as of the report date of the purchased impaired loans held for investment<sup>4</sup> that are included in Schedule HC-C. New Schedule HI-B, Part II, memorandum item 4 would collect the amount of loan loss allowances for purchased impaired loans held for investment that is included in the total amount of the allowance for loan and lease losses as of the report date.

The Federal Reserve also proposes to revise the instructions to Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to explain how purchased impaired loans should be reported in this schedule. SOP 03-3 does not prohibit placing loans on nonaccrual status and any nonaccrual purchased impaired loans should be reported accordingly in Schedule HC-N. For those purchased impaired loans that are not on nonaccrual status, institutions should determine their delinquency status in accordance with the contractual repayment terms of the loans without regard to the

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<sup>2</sup> The outstanding balance is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loan, owed to the bank holding company at the report date, whether or not currently due and whether or not any such amounts have been charged off by the bank holding company. The outstanding balance does not include amounts that would be accrued under the contract as interest, fees, penalties, and other after the report date.

<sup>3</sup> The carrying amount reflects the recorded investment in all purchased impaired loans reported as held for investment, before any allowances established after acquisition for decreases in cash flows expected to be collected.

<sup>4</sup> Loans held for investment are those loans that the institution has the intent and ability to hold for the foreseeable future or until maturity or payoff. Thus, the outstanding balance and carrying amount of any purchased impaired loans that are held for sale would not be reported in these proposed Memorandum items.

purchase price of (initial investment in) these loans or the amount and timing of the cash flows expected at acquisition.

### **Rebooked Loans Backing GNMA Securities**

Government National Mortgage Association (GNMA) mortgage-backed securities are backed by residential mortgage loans that are insured or guaranteed by the Federal Housing Administration (FHA), the Veterans Administration (VA), or the Farmers Home Administration (FmHA). GNMA programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional.

When the loans backing a GNMA security are initially securitized, Statement No. 140 permits the issuer of the security to treat the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that the issuer does not maintain effective control over the loans. The loans are removed from the issuer's balance sheet. When individual loans later meet GNMA's specified delinquency criteria and are eligible for repurchase, the issuer (provided the issuer is also the servicer) is deemed to have regained effective control over these loans and, under Statement No. 140, the loans can no longer be reported as sold. The delinquent GNMA loans must be

brought back onto the issuer-servicer's books as assets and initially recorded at fair value, regardless of whether the issuer intends to exercise the buy-back option.

The Federal Reserve proposes that all delinquent rebooked GNMA loans should be treated the same as any other delinquent loans carried on the balance sheet and reported as past due on Schedule HC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets." In response to a similar change proposed to the Call Report, a number of institutions commented that they disagreed that delinquent rebooked GNMA loans should be reflected in total past due loans. Because the combined presentation of these assets may obscure their different risk profiles and valuation methodologies, they suggested adding a memoranda line item to the Call Report to report such balances separate from the total. The FFIEC Reports Task Force (RTF) determined that including delinquent rebooked GNMA loans in the body of the past due schedule should not lead to inconsistent disclosure of these loans in the Call Report. The RTF further cited guidance provided by the Securities and Exchange Commission (SEC) indicating that aggregate reported amounts of past due and nonaccrual loans should include such "re-recognized" or rebooked delinquent assets, and that organizations may want to provide supplemental disclosure of the fact that these loans are guaranteed by the U.S. Government to assist users in understanding the aggregate amounts of past due loans.<sup>5</sup> In response to public comment and in keeping with SEC guidance, the RTF plans to break out past due and

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<sup>5</sup> Accounting staff members in the SEC's Division of Corporation Finance prepared guidance on "Current Accounting and Disclosure Issues in the Division of Corporation Finance" dated November 30, 2004, and updated on March 4, 2005. Both versions of this guidance discuss "Accounting for Loans or Other Receivables Covered by Buyback Provisions," including, but not limited to, loans securitized through GNMA.

nonaccrual rebooked GNMA loans so that users can make any desired adjustments to the reported values for total past due and nonaccrual loans.

Consistent with changes to be made to the Call Report as of June 30, 2005, the Federal Reserve proposes to add an item to Schedule HC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," to collect information related to the GNMA mortgage loan optional repurchase program. Schedule HC-N, item 11, collects information on loans and leases past due or nonaccruing which are wholly or partially guaranteed by the U.S. government. New item 11(b) would collect information on rebooked loans backing GNMA securities that have been repurchased or are eligible for repurchase included in item 11. Current item 11(a), "Guaranteed portion of loans and leases included in item 11 above," would be modified to include the parenthetical phrase "exclude rebooked 'GNMA loans'."

The Federal Reserve also proposes to revise current reporting instructions for Schedule HC-N, item 11, which permit institutions to not report as past due delinquent GNMA loans that are repurchased when they are "in foreclosure status" at the time of repurchase, provided the government reimbursement process is proceeding normally. The exception from past due reporting for GNMA loans "in foreclosure status" predates FAS 140. More specifically, when this exception was added to the FR Y-9C instructions, the accounting standards then in effect did not require the seller to rebook delinquent GNMA loans for which the repurchase option became unconditional unless the loans were actually repurchased. Institutions could choose to repurchase delinquent GNMA loans "in foreclosure status" from the loan pool backing a GNMA security rather than

continuing to make monthly advances to the pool on these delinquent loans while initiating foreclosure action.

Until the exception was added, an institution that repurchased delinquent loans in foreclosure status had to report the loans as past due in its regulatory reports whereas an institution making monthly advances on delinquent loans without repurchasing them did not have to report these loans as past due. The creation of the exception eliminated this reporting difference, which depended on how the institution chose to handle its servicing responsibilities. In contrast, under FAS 140, delinquent GNMA loans must be rebooked as assets as soon as the repurchase option becomes unconditional, whether or not the loans are repurchased. Consequently, the difference in balance sheet treatment for repurchased delinquent GNMA loans versus those eligible for repurchase that led the agencies to create the exception from past due reporting no longer exists. Therefore the Federal Reserve proposes that all delinquent rebooked GNMA loans, including those in foreclosure status, should be treated consistently and reported as past due in new item 11(b).

### **Clarifications**

In March 2005 the Federal Reserve began collecting information on the FR Y-9C on the name and address of the BHC's external auditing firm and the name and email address of the engagement partner. This information is completed only by top-tier BHCs that have a full-scope audit conducted. Effective for the December 31, 2005, report date, in order to confirm that a BHC did have a full-scope audit conducted, the FR Y-9C reporting form would be clarified by adding a checkbox for a respondent to indicate if

they had engaged in a full-scope audit as of the December 31, report date. This check box would also be added to the FR Y-9SP as of the December 31, 2005, reporting date.

Schedule HC-R, Regulatory Capital, does not currently allow a BHC to report an amount in column B, "Items Not Subject to Risk-Weighting," item 34, "Cash and balances due from depository institutions," because such items were not expected to exist within this asset category when this schedule was originally designed. However, when amounts are included in column A, "Totals (from Schedule HC)," item 34 for certain embedded derivatives; these embedded derivatives should be risk-weighted under the rules for derivatives rather than the rules that apply to the cash and due from asset account. Effective for the September 30, 2005, report date, in order to allow for the proper reporting of these embedded derivatives included in item 34, column A, the Federal Reserve would modify Schedule HC-R to permit the use of column B, item 34.

Board of Governors of the Federal Reserve System, July 6, 2005.

(signed)

**Jennifer J. Johnson,**  
Secretary of the Board.