Supporting Statement for
Financial Statements filed by Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128), for implementation in September 2005. Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations.

This family of reports (OMB No. 7100-0128) also contains the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP), the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS), which are not being revised.

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).

The revisions to the FR Y-9C would be consistent with revisions made to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) implemented as of June 30, 2005. A copy of the proposed reporting form, marked to show the revisions, is provided in the attachment. The total current annual burden for the FR Y-9C report is estimated to be 317,184 hours. The overall reporting burden for the FR Y-9 family of reports is estimated to increase by 1,344 hours under the proposed revisions.

Background and Justification

The FR Y-9C report is a standardized financial statement for the consolidated BHC. The FR Y-9C report historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from this report is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations. In addition to providing information used in the supervision of BHCs, the FR Y-9C provides essential information to assist the Board in the formulation of regulations and supervisory policies. These data are also used by the Board to respond to requests from Congress and the public for information on BHCs.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Call Report filed by commercial banks. The FR Y-9C collects consolidated data from the BHC. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of $150 million or more[1] 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.

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 31st reporting date, however, in light of the change in generally accepted accounting principles (GAAP)[2], 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.

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

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[1] Under certain circumstances defined in the General Instructions, BHCs under $150 million may be required to file the FR Y-9C.

[2] For this purpose the AICPA Statement of Position is GAAP.

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[3] and new memorandum item 5(b) would collect the carrying amount[4] as of the report date of the purchased impaired loans held for investment[5] 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.

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[3] 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.

[4] 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.

[5] 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.

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 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

GNMA mortgage-backed securities are backed by residential mortgage loans that are insured or guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration. 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 Financial Accounting Standards Board 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 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 FFIEC 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.[6] In response to public comment and in keeping with SEC guidance, the FFIEC plans to break out past due and 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 Statement 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 Statement 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

[6] 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.

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.

Reporting Panel

There are no revisions proposed to the reporting panels of these reports.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Frequency

There are no changes proposed to the reporting frequency of these reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C is reported quarterly as of the end of March, June, September, and December. The following table lists the current FR Y-9C filing deadlines to the appropriate Federal Reserve Bank through June 2006.

Report Date	**Current** filing Schedule for Top-tier FR Y-9C *after report date*	**All other** FR Y-9C filers *After report date*
March 31, 2005	40 calendar days	45 calendar days
June 30, 2005	40 calendar days	45 calendar days
September 30, 2005	40 calendar days	45 calendar days
December 31, 2005	45 calendar days	45 calendar days
March 31, 2006	40 calendar days	45 calendar days
June 30, 2006	30 calendar days plus 5 business days	45 calendar days

The filing deadline of thirty calendar days plus 5 business days after the report date for top-tier FR Y-9C filers begins with the June 30, 2006, report date for all quarterly reports other than the December 31 report date. For the December 31 report date, the FR Y-9C report for top-tier BHCs would continue to be submitted within forty-five days after the report date.

The data from the FR Y-9C reports that are not given confidential treatment are available to the public on the FFIEC website (www.ffiec.gov/nic) and through the National Technical Information Service.

Legal Status

The Board's Legal Division has determined that the FR Y-9C report is authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. Overall, the Board does not consider the data in this report to be confidential. However, a respondent may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Estimates of Respondent Burden

The current estimated annual reporting burden for the FR Y-9 family of reports is 399,192 hours and would increase approximately 1,344 hours to 400,536 hours as shown in the following table. This increase in the average response time for FR Y-9C filers' would result from adding proposed items related to purchased impaired loans and rebooked loans backing GNMA securities. The total burden for the FR Y-9 reports represents less than 9 percent of total Federal Reserve System annual burden.

	Number of Respondents	*Annual Frequency*	*Estimated Average Hours Per Response*	*Estimated Annual Burden Hours*
Current				
FR Y-9C	**2,240**	**4**	**35.40**	**317,184**
FR Y-9LP	2,590	4	4.75	49, 210
FR Y-9SP	3,253	2	4.85	31, 554
FR Y-9ES	87	1	0.50	44
FR Y-9CS	600	4	0.50	1,200
Total				399,192
Proposed				
FR Y-9C	**2,240**	**4**	**35.55**	**318,528**
FR Y-9LP	2,590	4	4.75	49, 210
FR Y-9SP	3,253	2	4.85	31, 554
FR Y-9ES	87	1	0.50	44
FR Y-9CS	600	4	0.50	1,200
Total				400,536
Change				1,344

Based on an average hourly cost of $20, the current annual cost to the public is estimated to be $7,983,840, and the annual cost to the public for filing the proposed report is estimated to be $8,010,720.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-9 family of reports is estimated to be $1,629,658 annually.