Supporting Statement for
Financial Statements for 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 (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the mandatory Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128), for implementation June 30, 2012. This family of reports also contains the following mandatory reports, which are not being revised:

(1) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP),
(2) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP),
(3) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and
(4) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS).

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. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when the supplement is used.

The Federal Reserve proposes the following revisions and clarifications to the FR Y-9C effective June 30, 2012: (1) add a section to Schedule HC-C, Loans and Lease Financing Receivables, to collect information on the allowance for loan and lease losses by loan category; (2) add two data items to Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities, to collect the amount of representation and warranty reserves for 1-4 family residential mortgage loans sold; (3) add a data item to Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect the outstanding balance of purchased credit impaired loans by past due and nonaccrual status; (4) add Schedule HC-U, Loan Origination Activity in Domestic Offices, to collect information on loan originations; (5) modify the reporting instructions to clarify the reporting and accounting treatment of specific valuation allowances, and (6) add a new Glossary entry for capital contributions of cash and notes receivable. For the June 30, 2012, report date, institutions may report reasonable estimates for any new or revised data items in their FR Y-9C report if the information is not readily available.

A copy of selected pages of the proposed reporting form, marked to show the revisions, is attached. The total current annual paperwork burden for the FR Y-9 family of reports is estimated to be 256,628 hours and is estimated to increase by 8,781 hours for a proposed annual paperwork burden of 265,409 hours.

Background and Justification

The FR Y-9C, FR Y-9LP, and FR Y-9SP are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES is a financial statement for BHCs that are Employee Stock Ownership Plans (ESOPs). The Federal Reserve also has the authority to use the FR Y-9CS, a free form supplement, to collect any additional information deemed to be critical and needed in an expedited manner. The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports 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.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) filed by commercial banks. The FR Y-9C collects consolidated data from BHCs. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of $500 million or more.[1] The Federal Reserve proposes several changes to the FR Y-9C reporting requirements to better understand BHCs' risk exposures, to better support macroeconomic analysis and monetary policy purposes, and to collect certain information prescribed by changes in accounting standards.

A. Proposed Revisions Related to Call Report Revisions

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report. In the past, BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report to reduce reporting burden.

A.1 Allowance for Loan and Lease Losses by Loan Category

In July 2010, the Financial Accounting Standards Board (FASB) published Accounting Standards Update No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU 2010-20), which amended Accounting Standards Codification (ASC) Topic 310, Receivables. The main objective of the update was to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Examples of financing receivables included loans, credit cards, notes receivable, and leases (other than an operating lease). The update was intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses.

[1] Under certain circumstances described in the General Instructions, BHCs with assets under $500 million may be required to file the FR Y-9C.

To achieve its main objective, ASU 2010-20 requires, in part, that an entity disclose by portfolio segment "[t]he balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity's impairment method" and "[t]he recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated . . . in the same manner."[2] As 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." For each portfolio segment, the disaggregation based on impairment method requires separate disclosure of allowance and related recorded investment amounts for financing receivables collectively evaluated for impairment, individually evaluated for impairment, and acquired with deteriorated credit quality.[3] This disaggregated disclosure requirement is effective for public entities for the first interim or annual reporting period ending on or after December 15, 2010, and for nonpublic entities for annual reporting periods ending on or after December 15, 2011.

Consistent with the ASU 2010-20 disclosure requirements described above, the Federal Reserve proposes to revise the June 2012 FR Y-9C report to capture disaggregated detail of institutions' allowances for loan and lease losses (ALLL) and related recorded investments for loans and leases from institutions with $1 billion or more in total assets. Disaggregated data would be reported for key loan categories for which the recorded investments are reported in Schedule HC-C, Loans and Lease Financing Receivables. The Federal Reserve also proposes to collect this information on the basis of impairment method for each loan category. To the extent that an institution uses multiple impairment methods for a given loan category, the institution would report the ALLL and recorded investment for each applicable impairment method for that loan category. The Federal Reserve believes that the use of key loan categories reported on Schedule HC-C for the proposed new disaggregated disclosures is consistent with the meaning of the term portfolio segment in ASU 2010-20 and with the banking agencies' supervisory guidance on ALLL methodologies.[4] More specifically, the Federal Reserve proposes to collect from institutions with $1 billion or more in total assets disaggregated allowance and recorded investment data on the basis of impairment method (collectively evaluated for impairment,[5] individually evaluated for impairment, and acquired with deteriorated credit quality) for the following loan categories:

- Construction, land development, and other land loans;

---

[2] ASC paragraphs 310-10-51-11B(g) and (h).

[3] ASC paragraph 310-10-51-11C. Allowances for amounts collectively evaluated for impairment are determined under ASC Subtopic 450-20, Contingencies–Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"), allowances for amounts individually evaluated for impairment are determined under ASC Section 310-10-35, Receivables–Overall–Subsequent Measurement (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), and allowances for loans acquired with deteriorated credit quality are determined under ASC Subtopic 310-30, Receivables–Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer").

[4] See the banking agencies' July 2001 "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" at http://www.federalreserve.gov/boarddocs/srletters/2001/SR0117a1.pdf.

[5] For loans collectively evaluated for impairment, an institution would also report the amount of any unallocated portion of its ALLL.

- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;[6]
- Commercial and industrial loans;
- Credit card loans to individuals for household, family, and other personal expenditures;
- All other loans to individuals for household, family, and other personal expenditures; and
- All other loans and all lease financing receivables.

Currently, the FR Y-9C report does not provide detail on the components of the ALLL disaggregated by loan category in the manner prescribed by ASU 2010-20. Rather, only the amount of the overall ALLL is reported with separate disclosure of the total amount of the allowance for loans acquired with deteriorated credit quality.[7] Therefore, when conducting off-site evaluations of the level of an individual institution's overall ALLL and changes therein, examiners and analysts cannot determine whether the institution is releasing loan loss allowances in some loan categories and building allowances in others. Collecting more detailed ALLL information would allow the Federal Reserve to more finely focus efforts related to the ALLL and credit risk management and, in conjunction with past due and nonaccrual data currently reported by loan category that are used in a general assessment of an institution's credit risk exposures, to better evaluate the appropriateness of its ALLL. As an example, it is currently not possible to differentiate the ALLL allocated to commercial real estate (CRE) loans from the remainder of the ALLL at institutions with CRE concentrations. By collecting more detailed ALLL information, examiners and analysts would then better understand how institutions with such concentrations are building or releasing allowances, the extent of ALLL coverage in relation to their CRE portfolios, and how this might differ among institutions.

The proposed additional detail on the composition of the ALLL by loan category would also be useful for analysis of the depository institution system. As of June 30, 2011, institutions with $1 billion or more in total assets, which would report the additional detail under this proposal, held nearly 92 percent of the ALLLs held by all institutions. More granular ALLL information would assist the Federal Reserve in understanding industry trends related to the build-up or release of allowances for specific loan categories. The information would also support comparisons of ALLL levels by loan category, including the identification of differences in ALLL allocations by institution size. Understanding how institutions' ALLL practices and allocations differ over time for particular loan categories as economic conditions change may also provide insights that can be used to more finely tune supervisory procedures and policies.

The Federal Reserve will request public comment on the degree to which the proposed disaggregated detail of institutions' ALLLs corresponds to institutions' current allowance methodologies, both with respect to the key loan categories included in the proposal and the separate reporting of allowance amounts on the basis of impairment method for each loan category. In addition, comment will be invited on the appropriateness of including an item in the

---

[6] The first five loan categories would be reported on a domestic office only basis.

[7] Credit card specialty banks and other institutions with a significant volume of credit card receivables also disclose the amount, if any, of ALLL attributable to retail credit card fees and finance charges.

FR Y-9C report in which institutions would report the amount of any unallocated portion of the ALLL for loans collectively evaluated for impairment.[8] To the extent that the proposed information is not captured in institutions' automated data collection systems, the Federal Reserve will request comment on institutions' ability to begin to capture this ALLL and related recorded investment information associated with outstanding loans.

A.2 Loan Origination Activity

As highlighted by the recent financial crisis and its aftermath, the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system. However, the information currently available to policymakers both within and outside the Federal Reserve is insufficient to accurately monitor the extent to which depository institutions are providing credit to households and businesses. In its current form, the FR Y-9C report collects data on the amount of loans to both households and businesses that are outstanding on institutions' books at the end of each quarter. However, the underlying flow of loan originations cannot be deduced from these quarter-end data owing to the myriad of factors and banking activities (other than charge-offs for which data are reported) that routinely affect the amount of outstanding loans held by institutions, including activities such as loan paydowns, extensions, purchases and sales, securitizations, and repurchases. Direct reporting of loan originations would allow the Federal Reserve to isolate the flow of credit creation from the effects of these other banking activities.

Economic research points to a crucial link between the availability of credit and macroeconomic outcomes.[9] For example, the rapid contraction in both total loans held on institutions' balance sheets and in credit lines held off their balance sheets in the volatile period following the collapse of Lehman Brothers in the fall of 2008 likely contributed to the depth of the economic recession as well as to the subsequent weakness in the recovery in economic activity. As a result, encouraging the expansion of banking organization loan supply was a primary goal of most of the emergency liquidity facilities established during the height of the crisis and of the Troubled Asset Relief Program (TARP).[10] Likewise, numerous authors have shown a relationship between bank lending and changes in bank capital.[11] For example, during the early 1990s, lending was also significantly depressed while banking organizations' capital cushions were being rebuilt, leading some analysts to describe the period as a "credit crunch" that resulted in a materially slower recovery in economic activity.

[8] Note that the table in ASC paragraph 310-10-55-7 illustrating the required disclosure by portfolio segment of the end-of-period balance of the ALLL disaggregated on the basis of impairment method and the end-of-period recorded investment in financing receivables related to each ALLL balance includes an unallocated portion of the ALLL.
[9] See, for example, A. K. Kashyap and J. C. Stein (2000), "What Do a Million Observations on Banks Say About the Transmission of Monetary Policy," *The American Economic Review*, Vol. 90, No. 3, pages 407-428. See also Michael Woodford, "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, Fall 2010, volume 24, issue 4, pages 21-44.
[10] Chairman Ben S. Bernanke, "Troubled Asset Relief Program and the Federal Reserve's liquidity facilities," Testimony before the Committee on Financial Services, U.S. House of Representatives, November 18, 2008, at http://www.federalreserve.gov/newsevents/testimony/bernanke20081118a.htm.
[11] See, for example, Joe Peek and Eric Rosengren (1995), "The Capital Crunch: Neither a Borrower nor a Lender Be," *Journal of Money, Credit and Banking*, volume 27(3), pages 625-638, August. See also Ben Bernanke and Cara Lown (1991), "The Credit Crunch," *Brookings Papers on Economic Activity*, 2:1991, pages 205-239.

However, the lack of data on loan originations made it very difficult for policymakers to assess the sources of the steep declines in outstanding loans and credit lines during the recent crisis and during the early 1990s "credit crunch." In fact, a fall in outstanding loans could be driven by reduced demand for credit, reduced supply of credit by banking organizations, or both. Looking only at changes in outstanding loan balances can give misleading signals and mask important shifts in the supply of, and demand for, credit. Policymakers may react differently in each of these cases.

The sources of loan growth—such as whether loans were made under commitment or not under commitment—also contain important insights for those monitoring financial stability or developing macroprudential regulatory policies.[12] As observed in the fall of 2008, strong loan growth that is driven primarily by customers drawing down funds from preexisting lending commitments can be a sign of stresses in financial markets, and therefore a signal that the economy could be slowing down. In contrast, strong growth in credit that includes robust extensions to new customers could signal a broad pickup in demand for financing and hence renewed economic growth, or it could suggest that institutions have eased their lending standards. Accordingly, rapid loan growth can be an important indicator of the safety and soundness of individual institutions.[13] Loan origination data, if collected from depository institutions, would better identify when such developments warrant greater supervisory scrutiny.

Credit availability to small businesses is widely considered an important driver of economic growth. As a result, the significant contraction in business loans on institutions' books over the past several years has generated calls from policymakers (and the public) to better understand the credit flows of small businesses.[14] The collection of data on originations of loans to businesses by the size of the original loan would provide a window into the functioning of the important small business market.[15]

In addition, if loan origination information were available, it would also be valuable in designing, and assessing the effectiveness of, government policies for depository institutions and other financial markets. For instance, policymakers would be keenly attuned to whether, and if so, to what extent, the changes to the capital and liquidity requirements for large institutions that will be contained in regulations implementing the Dodd-Frank Act and the international Basel III

[12] Moritz Schularick and Alan M. Taylor, "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises, 1870-2008," 2009, National Bureau of Economic Research, Inc., NBER Working Papers: 15512.

[13] William R. Keeton, "Does Faster Loan Growth Lead to Higher Loan Losses?" *Federal Reserve Bank of Kansas City Economic Review*, 2nd Quarter 1999, volume 84, issue 2, pages 57-75, and Deniz Igan and Marcelo Pinheiro, "Exposure to Real Estate in Bank Portfolios," *Journal of Real Estate Research*, January-March 2010, volume 32, issue 1, pages 47-74.

[14] See Federal Reserve Board, Report to Congress on the Availability of Credit to Small Business, 2007, at http://www.federalreserve.gov/boarddocs/rptcongress/smallbusinesscredit/sbfreport2007.pdf. See also testimony before the House Financial Services Committee (May 18, 2010) at http://cybercemetery.unt.edu/archive/cop/20110401231854/http://cop.senate.gov/documents/testimony-051810-atkins.pdf and Congressional Oversight Panel Oversight Report, The Small Business Credit Crunch and the Impact of the TARP (May 13, 2010), at http://cybercemetery.unt.edu/archive/cop/20110402035902/http://cop.senate.gov/documents/cop-051310-report.pdf.

[15] The Call Report and TFR currently collect the outstanding amount of small dollar loans to businesses and farms where, for loans to businesses, "small dollar" is defined as loans (not made under commitments) that have original amounts of $1 million or less and draws on commitments where the total commitment amount is $1 million or less.

agreement affect depository institution loan supply. Although these new regulations would only directly affect a few dozen large banking organizations, smaller banking organizations also may adjust their lending policies in response to the changes at large banking organizations.

Loan data currently available to the Federal Reserve provide insufficient detail to accurately monitor credit creation by depository institutions. The FR Y-9C report currently collects data on the recorded amounts of a wide variety of loan categories in Schedule HC-C, Loans and Lease Financing Receivables. Schedule HI-B, Part I, Charge-Offs and Recoveries on Loans and Leases, collects the flow of gross charge-offs and recoveries in many of the loan categories for which recorded amounts are reported in Schedule HC-C. On Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities (in Domestic Offices), which was added to the FR Y-9C report in 2006, certain bank holding companies report originations and purchases of residential mortgage loans held for sale, but not originations of loans held for investment. On Schedule HC-S, Servicing, Securitization, and Asset Sale Activities, bank holding companies report the outstanding principal balance of seven categories of loans sold and securitized for which the institution has retained servicing or has provided recourse or other credit enhancements.[16] For these same seven loan categories, bank holding companies also report the unpaid principal balance of loans they have sold (not in securitizations) with recourse or other seller-provided credit enhancements. No data exist for those loans bank holding companies have sold without recourse or seller-provided credit enhancements when servicing has not been retained.

In contrast, savings associations currently report data on loan originations, sales, and purchases in the Thrift Financial Report (TFR) (OTS 1313; OMB No. 1550-0023). On TFR Schedule CF, Consolidated Cash Flow Information, savings associations report by major loan category the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter. In addition, on TFR Schedule LD, Loan Data, savings associations report the amount of net charge-offs, purchases, originations, and sales of certain 1-4 family and multifamily residential mortgages with high loan-to-value ratios.[17]

The Federal Reserve proposes to begin collecting data on loan originations because, as outlined in detail above, this information would be of substantial benefit in light of the fact that the data currently available for banking organizations are inadequate for monetary policy and financial stability regulators to monitor and analyze credit flows and because the proposed data will support the Federal Reserve’s supervisory efforts.

More specifically, the Federal Reserve proposes to collect quarterly information on loan originations for several important loan categories by introducing a new Schedule HC-U, Loan Origination Activity (in Domestic Offices). Under this proposal, all institutions would report in column A of Schedule HC-U, for certain loan categories reported in Schedule HC-C, Loans and Lease Financing Receivables, the quarter-end balance sheet amount for those loans originated

[16] The seven categories are (1) 1-4 family residential mortgages, (2) home equity loans, (3) credit card loans, (4) auto loans, (5) other consumer loans, (6) commercial and industrial loans, and (7) all other loans, all leases, and all other assets (commercial real estate loans, for example, are subsumed in this category).
[17] Savings associations will discontinue filing the TFR after the December 31, 2011, report date, which means that these data, as currently reported in the TFR, will no longer be collected going forward.

during the quarter that ended on the report date.[18] Institutions with $1 billion or more in total assets would also report, for relevant loan categories, (1) the portion of this quarter-end amount that was originated under a newly established commitment[19] (column B of Schedule HC-U) and (2) the portion that was not originated under a commitment (column C of Schedule HC-U). In general, the additional data that would be reported in columns B and C of Schedule HC-U by institutions with $1 billion or more in total assets represent two ways that institutions originate new loans, both of which affect the amounts of loans on institutions' balance sheets.

In the proposed originations schedule, all institutions would report the amounts reported in Schedule HC-C, as of the quarter-end report date that were originated during the quarter that ended on the report date for the following loan categories:

- 1-4 family residential construction loans;
- Other construction loans and all land development and other land loans;
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by first liens on 1-4 family residential properties;
- Closed-end loans secured by junior liens on 1-4 family residential properties;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;[20]
- Loans to commercial banks and other depository institutions in the U.S.;
- Loans to banks in foreign countries;
- Loans to finance agricultural production and other loans to farmers;
- Commercial and industrial loans to U.S. addressees with original amounts of $1,000,000 or less;
- Commercial and industrial loans to U.S. addressees with original amounts of more than $1,000,000;
- Consumer credit card loans;
- Consumer automobile loans;
- Other consumer loans; and
- Loans to nondepository financial institutions.

In addition, for each of the preceding loan categories, except as noted below, institutions with $1 billion or more in total assets would separately disclose the portion of the quarter-end amount of loans originated during the quarter that was originated under a newly established commitment and the portion that was not originated under a commitment. Closed-end loans

---

[18] For example, a loan was originated for $120,000 during the quarter. As a result of principal payments received during the quarter, the recorded amount of the loan as reported on the institution's balance sheet (Schedule HC) and in the loan schedule (Schedule HC-C) at quarter-end was $101,000. The institution would report the $101,000 quarter-end recorded amount for this loan in column A of proposed Schedule HC-U. In general, in reporting amounts in column A, if a loan origination date is unknown, the reporting institution would be instructed to use the date that the loan was first booked by the institution.

[19] A newly established commitment is one for which the terms were finalized and the commitment became available for use during the quarter that ended on the report date. A newly established commitment also includes a commitment that was renewed during the quarter that ended on the report date.

[20] The first seven loan categories would be reported on a domestic office only basis.

secured by first liens on 1-4 family residential properties, closed-end loans secured by junior liens on 1-4 family residential properties, and consumer automobile loans would be excluded from both of these additional disclosures. Consumer credit card loans and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit would be excluded from the disclosure of loans not originated under a commitment because it is assumed such loans are always extended under commitment.

Loan originations that were made under a newly established commitment or a commitment that was renewed during the quarter are likely to more closely reflect the current lending standards and loan terms being applied by an institution, so an expansion or contraction in this subset of loans is indicative of current supply and demand conditions. In this regard, research has shown that loans not made under a commitment are more sensitive to changes in monetary policy than loans made under a commitment.[21] In contrast, loans drawn under previous commitments reflect lending standards and terms that were in place at the time the loan agreements were reached. Hence, changes in outstanding balances associated with previously committed lines are more indicative of demand for funds from the firms that have these lines, as institutions are less able to ration such credit.

As mentioned above, all savings associations, many of which are small, have for many years reported in the TFR the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter by major loan category. Thus, the additional reporting burden of proposed Schedule HC-U may be manageable for such institutions. Nevertheless, because bank holding companies have not previously been required to report data pertaining to loan originations for FR Y-9C reporting purposes, the Federal Reserve recognizes that institutions' data systems may not at present be designed to identify and capture data on loans originated during the quarter that ended on the report date. The Federal Reserve requests comment on the ability of institutions' existing loan systems to generate the proposed data for Schedule HC-U, and if this information is not currently available, how burdensome it would be to adapt current systems to report origination data as proposed in Schedule HC-U. To the extent that existing loan systems enable institutions to track data on loans originated during the quarter by loan category in a different manner than has been proposed, institutions are invited to suggest alternative ways in which such origination data could be collected in the FR Y-9C report and to explain how an alternative would meet the Federal Reserve's data needs as described above in this section.

A.3 Past Due and Nonaccrual Purchased Credit Impaired Loans

The FR Y-9C report currently collects information regarding the past due and nonaccrual status of loans, leases, and other assets in Schedule HC-N. To determine whether an asset is past due for purposes of completing this schedule, an institution must look to the borrower's performance in relation to the contractual terms of the asset. Over the past few years, there has been a substantial increase in the amount of assets reported in Schedule HC-N as past due 90 days or more and still accruing. At some institutions, a large portion of this increase is related to loans subject to the accounting requirements set forth in ASC Subtopic 310-30, Receivables –

[21] Donald P. Morgan, "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments," *Journal of Money, Credit and Banking*, Vol. 30, No. 1 (Feb. 1998), pages 102-118.

Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly American Institute of Certified Public Accountants Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"), i.e., purchased credit-impaired loans, that were acquired in business combinations, including acquisitions of failed institutions, and other transactions. Loans accounted for under ASC Subtopic 310-30 are initially recorded at their purchase price (in a business combination, fair value). To the extent that the cash flows expected to be collected exceed the purchase price of the loans acquired and the acquiring institution has sufficient information to reasonably estimate the amount and timing of these cash flows, the institution recognizes interest income using the interest method. Otherwise, the loans should be placed in nonaccrual status.

Because loans accounted for under ASC Subtopic 310-30 are impaired at the time of purchase, it is possible for institutions to hold on-balance sheet assets purchased at a deep discount that are contractually 90 days or more past due, but on which interest is being accrued because the amount and timing of the expected cash flows on the assets can be reasonably estimated. Currently, insufficient information is collected in Schedule HC-N to determine the volume of purchased credit-impaired loans included in the loan amounts reported as "past due 90 days or more and still accruing" (or reported in the other past due and nonaccrual categories in the schedule). As the volume of assets reported in the three past due and nonaccrual columns in Schedule HC-N has increased at many institutions that also report holdings of loans accounted for under ASC Subtopic 310-30, the Federal Reserve cannot determine whether this growth is due to purchased credit-impaired loans or whether the source of the increase has been deterioration in the credit quality and performance among the assets the institution originated (or purchased without evidence of credit problems at acquisition). Better understanding the source of these increases would assist the Federal Reserve in determining the need to adjust supervisory strategies for individual institutions.

Because of the significant number of acquisitions by depository institutions of loans accounted for under ASC 310-30 over the past few years and the expected number of future acquisitions, the Federal Reserve proposes to collect additional information in Schedule HC-N to segregate the amount of purchased credit-impaired loans that are included in the past due and nonaccrual loans reported in this schedule. New memorandum items would be added to Schedule HC-N to separately collect from all institutions the total outstanding balance of purchased credit-impaired loans accounted for under ASC 310-30 that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. The related carrying amount of these loans (before any post-acquisition loan loss allowances) would also be reported by past due and nonaccrual status. This information would mirror the data reported in Memorandum item 5, "Purchased impaired loans held for investment accounted for in accordance with AICPA Statement of Position 03-3," in Schedule HC-C. Based on the information reported in Memorandum item 5, approximately 300 institutions hold purchased credit-impaired loans and would be affected by the proposed new Schedule HC-N Memorandum items.

A.4 Representation and Warranty Reserves

When institutions sell or securitize mortgage loans, they typically make certain representations and warranties to the investors or other purchasers of the loans at the time of the sale and to financial guarantors of the loans sold. The specific representations and warranties may relate to the ownership of the loan, the validity of the lien securing the loan, and the loan's compliance with specified underwriting standards. Under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"), institutions are required to accrue loss contingencies relating to the representations and warranties made in connection with their mortgage securitization activities and mortgage loan sales when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. In October 2010, the Division of Corporation Finance of the Securities and Exchange Commission (SEC) sent a letter to certain public companies reminding them of the need to "provide clear and transparent disclosure regarding your obligations relating to the[se] various representations and warranties."[22] A review of a sample of disclosures about mortgage loan representations and warranties by public banking organizations in their SEC filings since October 2010 reveals that these disclosures tend to distinguish between obligations to U.S. government-sponsored entities and other parties.

At present, BHCs with $1 billion or more in total assets and smaller BHCs with significant 1-4 family residential mortgage banking activities are required to complete Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities. These BHCs report the amount of 1-4 family residential mortgage loans previously sold subject to an obligation to repurchase or indemnify that have been repurchased or indemnified during the quarter. However, the amount of representation and warranty reserves attributable to residential mortgages as of quarter-end included in other liabilities on these institutions' balance sheets is not separately reported in Schedule HC-P.

Accordingly, building on the SEC's guidance concerning transparent disclosure in this area, the Federal Reserve proposes to add two data items to Schedule HC-P in which institutions required to complete this schedule would report the quarter-end amount of representation and warranty reserves for 1-4 family residential mortgage loans sold (in domestic offices), including in those mortgage loans transferred in securitizations accounted for as sales. The amount of reserves for representations and warranties made to U.S. government-sponsored entities (the Federal National Mortgage Association or Fannie Mae, the Federal Home Loan Mortgage Corporation or Freddie Mac, and the Government National Mortgage Association or Ginnie Mae) (Schedule HC-P, data item 7.a) would be reported separately from the amount of reserves for representations and warranties made to other parties (Schedule HC-P, data item 7.b).

[22] The Division of Corporation Finance's "Sample Letter Sent to Public Companies on Accounting and Disclosure Issues Related to Potential Risks and Costs Associated with Mortgage and Foreclosure-Related Activities or Exposures" can be accessed at http://www.sec.gov/divisions/corpfin/guidance/cfoforeclosure1010.htm.

A.5 Instructional Revisions

A.5. (1) Specific Valuation Allowances

Savings associations that currently file a TFR may create a "Specific Valuation Allowance" (SVA) in lieu of taking a charge-off to record the loss associated with a loan when the institution determines that it is likely that the amount of the loss classification will change due to market conditions. The use of an SVA allows a savings association to reduce or increase the amount of the SVA as market conditions change. When a charge-off is taken, however, the only way an institution can recover the loss is through an actual cash recovery. A savings association is not permitted to use an SVA in lieu of a charge-off when it classifies certain credits as losses such as unsecured loans, consumer loans, and credit cards, and in instances where the collateral underlying a secured loan will likely be acquired through foreclosure or repossession. In those cases, only a charge-off is appropriate.

As announced in initial *Federal Register* notice that was published on August 25, 2011,[23], many savings and loan holding companies (SLHCs) will be required to file the FR Y-9C report, which would consolidate the SLHC savings association subsidiary, beginning with the March 31, 2012, reporting period (unless the institution elects to begin filing the FR Y-9C before that time). Once SLHCs begin to file the FR Y-9C and savings associations begin to file the Call Report, they will be required to follow FR Y-9C and Call Report reporting instructions and the banking agencies' policies regarding loss classifications, which require a charge-off for all confirmed losses and do not allow the creation or use of a SVA as described above. Therefore, the use of SVAs will not be permitted for any SLHC after December 31, 2011. Existing reporting instructions will be modified to clarify this point. Also the Federal Reserve will issue additional supplemental guidance to explain how any existing SVAs should be treated when an institution no longer files the TFR.

A.5. (2) Capital Contributions in the Form of Cash or Notes Receivable

The Federal Reserve often encounters or receives questions about capital contributions in the form of a note receivable. The capital contribution may involve a sale of capital stock or a contribution to additional paid-in capital (surplus) that often takes place, or is expected to take place, at or shortly before a quarter-end report date. In other cases, capital contributions are in the form of cash, with some occurring before quarter-end and others occurring after quarter-end. The regulatory reporting issue that arises with respect to these capital contributions is when and under what circumstances can they be reflected as an increase in the amount of equity capital reported on the balance sheet and thereby be included in regulatory capital.

Although the accounting for capital contributions is not currently addressed in the FR Y-9C reporting instructions, institutions are expected to report capital contributions in their FR Y-9C report in accordance with generally accepted accounting principles (GAAP). In summary, capital contributions in the form of cash are appropriately recognized in equity capital on the balance sheet when received. Capital contributions in the form of a note receivable, executed prior to quarter-end, increase an institution's equity capital at quarter-end only when the note is

[23] 76 FR 53129

collected prior to issuance of the institution's financial statements (including its FR Y-9C) for that quarter. To provide guidance to institutions and examiners on the appropriate reporting of these capital contributions, the Federal Reserve proposes to add a new Glossary entry to the FR Y-9C instructions.

Capital Contributions of Cash and Notes Receivable: An institution may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity – Overall (formerly EITF Issue No. 85-1, "Classifying Notes Received for Capital Stock") and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in an institution's balance sheet and income statement when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the institution's reports for that quarter (in Schedule HI-A, item 5 or 6, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When an institution receives a note receivable, rather than cash, as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock issued or the contribution to paid-in capital should be reported in Schedule HC, item 23, 24, or 25, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule HC, item 26.c, "Other equity capital components." No net increase in equity capital should be reported in Schedule HI-A, Changes in Bank Holding Company Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule HC, item 26.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an institution does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

However, ASC Subtopic 505-10 provides that an institution may record a note received as a capital contribution as an asset, rather than a reduction of equity capital, only if the note is collected in cash "before the financial statements are issued." The note receivable must also satisfy the existence criteria described below. When these conditions are met, the note receivable should be reported separately from an institution's other loans and receivables in Schedule HC-F, item 6, "Other [assets]."

For purposes of these reports, the financial statements are considered issued at the earliest of the following dates:

(1) The submission deadline for the FR Y-9C (40 calendar days after the quarter-end report date, except for year-end reporting, for which the deadline is 45 calendar days after quarter-end);
(2) Any other public financial statement filing deadline to which the institution is subject; or
(3) The actual filing date of the institution's public financial reports, including the filing of its FR Y-9C report or a public securities filing by the institution.

To be reported as an asset, rather than a reduction of equity capital, as of a quarter-end report date, a note received as a capital contribution (that is collected in cash as described above) meet the definition of an asset under generally accepted accounting principles (GAAP) by satisfying all of the following existence criteria:

(1) There must be written documentation providing evidence that the note was contributed to the institution prior to the quarter-end report date by those with authority to make such a capital contribution on behalf of the issuer of the note;
(2) The note must be a legally binding obligation of the issuer to fund a fixed and determinable amount by a specified date; and
(3) The note must be executed and enforceable before quarter-end.

If a note receivable for a capital contribution obligates the note issuer to pay a variable amount, the institution must offset the note and equity capital. Similarly, an obligor's issuance of several notes having fixed face amounts, taken together, would be considered a single note receivable having a variable payment amount, which would require all the notes to be offset in equity capital as of the quarter-end report date.

FR Y-9LP

The FR Y-9LP includes standardized financial statements filed quarterly on a parent company only basis from 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.

FR Y-9SP

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs. Respondents include BHCs with total consolidated assets of less than $500 million. 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 is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

FR Y-9CS

The FR Y-9CS is a supplemental report that may be utilized to collect additional information deemed to be critical and needed in an expedited manner from BHCs. The information is used to assess and monitor emerging issues related to BHCs. It is intended to supplement the FR Y-9 reports, which are used to monitor BHCs between on-site inspections. The data items of information included on the supplement may change as needed.

FR Y-9ES

The FR Y-9ES collects financial information from ESOPs that are also BHCs on their benefit plan activities. 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.

Frequency

The Federal Reserve recommends no changes to the reporting frequency of the FR Y-9 family of 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 and FR Y-9LP are filed quarterly as of the end of March, June, September, and December. The filing deadline for the FR Y-9C is 40 calendar days after the March 31, June 30, and September 30 as-of dates and 45 calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is 45 calendar days after the quarter-end as-of date. The FR Y-9SP is filed semiannually as of the end of June and December. The filing deadline for the FR Y-9SP is 45 calendar days after the as-of date. The annual FR Y-9ES is collected as of December 31 and the filing deadline is July 31, unless an extension is granted for filing by October 15.

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

Legal Status

The Board's Legal Division has determined that the FR Y-9 family of reports is authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. Overall, the Federal Reserve does not consider the financial data in these reports 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)].

Consultation Outside the Agency

On November 21, 2011, the Federal Reserve published a notice in the *Federal Register* (76 FR 71968) requesting public comment for 60 days on the revision, without extension, of the FR Y-9C. The comment period for this notice expired on January 20, 2012.

Sensitive Questions

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

Estimates of Respondent Burden

The current annual reporting burden for the FR Y-9 family of reports is estimated to be 256,628 hours and would increase to 265,409 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 45.00 hours to 47.15 hours resulting from an increase of 2.15 hours for proposed new data items. The Federal Reserve estimates that all respondents would be required to report the proposed information on loan origination activity and estimates that less than half of the respondents would be required to report the proposed information on ALLL by loan category. The Federal Reserve estimates that about one-quarter of the respondents would be required to provide new information on representation and warranty reserves and estimates that less than one-fifth of respondents would be required to report information on past due and nonaccrual purchased credit impaired loans. The revised annual burden for the FR Y-9 family of reports would represent less than 4 percent of total Federal Reserve System paperwork burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FR Y-9C	1,021	4	45.00	183,780
FR Y-9LP	1,295	4	5.25	27,195
FR Y-9SP	4,186	2	5.40	45,209
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				256,628
Proposed				
FR Y-9C	1,021	4	47.15	192,561
FR Y-9LP	1,295	4	5.25	27,195
FR Y-9SP	4,186	2	5.40	45,209
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				265,409
Change				+8,781

With the proposed revisions the total cost to the public is estimated to increase from the current level of $11,137,655 to $11,518,750 for the revised BHC reports.[24]

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing these reports are estimated to be $2,550,201 per year. With the revisions the estimated costs will increase to $2,644,909 per year. The one-time costs to implement the revised reports are estimated to be $139,374.

Attachment

[24] Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ $16, 45% Financial Managers @ $50, 15% Legal Counsel @ $54, and 10% Chief Executives @ $80). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2010, www.bls.gov/news.release/ocwage.nr0.htm.