

**Supporting Statement for the  
Report of Net Debit Cap  
(FR 2226; OMB No. 7100-0217)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Report of Net Debit Cap (FR 2226; OMB No. 7100-0217). Federal Reserve Banks collect these data annually to provide information that is essential for their administration of the Federal Reserve Board's Payments System Risk (PSR) policy. The Report of Net Debit Cap comprises three resolutions, which are filed by an institution's board of directors depending on the institution's needs. The first resolution is used to establish a de minimis net debit cap, and the second resolution is used to establish a self-assessed net debit cap. Institutions use these two resolutions to establish a capacity for daylight overdrafts that is greater than the capacity that is typically assigned by a Reserve Bank. Institutions use the third resolution to establish additional collateralized capacity.

The current annual burden for the FR 2226 is estimated to be 1,780 hours for 1,785 respondents. PSR policy requires depository institutions to submit their resolutions annually, as of the date of the board of directors meeting approving the resolution(s). Copies of the current model resolutions are located in Appendix B of the *Guide to the Federal Reserve's Payments System Risk policy*.

**Background and Justification**

The model resolutions associated with the Report of Net Debit Cap address the allocation of daylight credit pursuant to the Federal Reserve Board's PSR policy. Under the policy, institutions that maintain a Federal Reserve account are assigned or may establish a net debit cap that represents a maximum limit on uncollateralized daylight overdrafts incurred in that account on a single day or on average during a two-week maintenance period. A daylight overdraft occurs when the intraday balance in a depository institution's Federal Reserve account is negative. The net debit cap is calculated by applying a net debit cap multiple to a capital measure (risk-based capital for a U.S.-chartered institution and to a U.S. capital equivalency measure for a U.S. branch or agency of a foreign bank).<sup>1</sup> An institution's cap category, or class, and its reported capital determine the size of the net debit cap. The six cap categories are zero, exempt-from-filing, de minimis, average, above average, and high. All cap categories are granted at the discretion of the Reserve Banks.

The Federal Reserve monitors the compliance of depository institutions with their net debit caps by using an ex post monitoring system. An institution that exceeds its net debit cap may be counseled by its Reserve Bank. If an institution continues to exceed its net debit cap or if it poses an excessive credit risk, the institution's payment activity will be monitored in real time

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<sup>1</sup>See 55 Fed. Reg. 22095 (May 31, 1990).

using the Account Balance Monitoring System, where Fedwire funds transfers, net settlement transactions, and ACH credit originations that would exceed the institution's account balance plus net debit cap would be rejected or delayed.

Financially healthy institutions that incur overdrafts up to \$10 million or 20 percent of their risk-based capital may be assigned a cap, called an "exempt-from-filing cap," by the Reserve Bank. However, if an institution wishes to increase its daylight overdraft capacity beyond the limits afforded by an exempt-from-filing cap, they must file a board-of-directors resolution with their Administrative Reserve Bank authorizing a higher capacity.

The de minimis cap category allows institutions to incur daily peak and two-week average daylight overdrafts up to a cap of 40 percent of their risk-based capital. Financially healthy institutions that are eligible for access to the discount window and that expect to incur daylight overdrafts in excess of the exempt-from-filing limitations, but less than 40 percent of their risk-based capital, should file a board-of-directors resolution with their Administrative Reserve Bank. This category was designed to reduce the burden of performing a self-assessment for those institutions incurring relatively small levels of daylight overdrafts.

Financially healthy institutions with access to the discount window and that use Federal Reserve intraday credit in amounts that exceed 40 percent of their risk-based capital on a single day or on average over a two-week reserve-maintenance period must establish a cap through the self-assessment process.

In 2001, the Federal Reserve approved a policy change that allows depository institutions with self-assessed net debit caps to pledge collateral for the purpose of expanding their daylight overdraft capacity beyond their net debit caps. Depository institutions that pledge collateral to expand their daylight overdraft capacity must provide justification for this additional capacity and will be monitored at their net debit cap plus the value of the Reserve Bank-approved collateral.

### **Description of Information Collection**

The reporting panel includes all financially healthy depository institutions that incur daylight overdrafts in their Federal Reserve accounts and wish to establish a capacity for daylight overdrafts greater than that afforded by an exempt cap. Depository institutions that are assigned zero net debit caps or exempt-from-filing net debit caps do not have to file board-of-directors resolutions with their Administrative Reserve Banks. Institutions that apply for and are assigned a self-assessed net debit cap or a de minimis net debit cap must file a board-of-directors resolution. Institutions are required to submit the resolutions at least annually.

A de minimis cap can be adopted by an institution if it limits its daylight overdrafts to 40 percent of its risk-based capital (or 40 percent of U.S. capital equivalency for foreign entities). In this case, the institution files a de minimis cap resolution, the first model resolution.

Depository institutions seeking capacity for daylight overdrafts greater than that afforded by the exempt or de minimis caps must complete a self-assessment. The self-assessment takes

into consideration a depository institution's creditworthiness, intraday funds management and controls, consumer credit policies, operating controls and contingency procedures. A self-assessment is required for average, above average, or high cap categories. The results of the self-assessment must be reviewed and approved by the institution's board of directors. The directors' approval must be communicated to the Reserve Bank by submission of a board of directors' resolution, the second model resolution. Prior to granting the depository institutions' request for daylight overdrafts greater than that afforded by the exempt or de minimis caps, their Administrative Reserve Banks must get Federal Reserve Board approval. The Reserve Bank will ensure that the cap resolution is complete and the cap requested is appropriate. The work papers supporting the self-assessment and resolution should be retained by the institution for review by its primary supervisor.

Depository institutions with self-assessed net debit caps and that seek additional daylight overdraft capacity must submit, to their Administrative Reserve Banks, written justification to support the request for the additional capacity. In evaluating a depository institution's request, the Administrative Reserve Bank will review the institution's daylight overdraft levels and financial condition. If the Administrative Reserve Bank approves the request, the depository institution will need to file the collateralized capacity resolution 3a.

In addition, if a depository institution has been approved to receive additional collateralized daylight overdraft capacity and pledges in-transit securities to support the additional capacity, the depository institution will need to file the additional resolution 3b. The Administrative Reserve Bank may accept in-transit securities on the Fedwire book-entry securities system as collateral to support an institution's maximum daylight overdraft capacity level. In-transit securities refer to book-entry securities transferred over Fedwire's National Book-Entry System that have been purchased by a depository institution, but which are not yet paid for by the institution's customers. In-transit collateral differs from a stable pool of collateral in that the value of in-transit collateral regularly fluctuates intraday where as the value of a stable pool generally does not.

### **Time Schedule for Information Collection**

The PSR policy requires depository institutions to submit their resolutions annually, as of the date of the board of directors meeting approving the resolution(s). Institutions file the resolutions directly with their Administrative Reserve Banks and keep current copies of the resolutions on file for examiner review. The Reserve Banks enter the net debit cap information into an ex post monitoring system and forward the information to the institutions' primary supervisors for examination purposes.

### **Legal Status**

The Federal Reserve Board's Legal Division has determined that sections 11, 16, and 19 of the Federal Reserve Act (12 U.S.C. §248(i), §248-1 and §464) authorize the Federal Reserve Board to require the FR 2226 resolutions. The information submitted by respondents for the payments system risk reduction program may be accorded confidential treatment under the Freedom of Information Act (5 U.S.C. §552 (b)(4)).

## 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.

## Estimate of Respondent Burden

In 2004, an estimated 1,522 institutions filed a resolution for a de minimis cap, 252 institutions filed the resolution for the self-assessed cap, ten institutions filed the resolution for collateralized capacity, and one institution filed the Supplement for Securities In-transit resolution. The Federal Reserve does not anticipate a significant change in the number of institutions filing resolutions. Assuming a one-hour response time per resolution, the current annual reporting burden for the FR 2226 is estimated to be 1,780 hours. This burden represents less than 1 percent of total Federal Reserve reporting burden.

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<b>FR 2226</b>	<i>Estimated Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated total annual burden hours</i>
De Minimis Cap	1,522	1	1	1,522
Self-Assessment Cap	252	1	1	252
Collateralized Capacity- (3a)	10	1	.5	5
Supplement for Securities In-transit (3b)	1	1	1	1
<i>Total</i>	1,785			1,780

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Based on a rate of \$40 per hour, the estimated current annual cost to the public is \$71,200.

## Estimate of Cost to the Federal Reserve System

Estimates of the annual cost to the Federal Reserve System of collecting and processing the proposed revised report will be obtained.