

FEDERAL RESERVE BANK OF BOSTON

P.O. BOX 55882
BOSTON, MASSACHUSETTS 02205

July 15, 2005

To: The Chief Executive Officer of the Bank Holding Company in the First Federal Reserve District

Re: 06/30/05 Y-Reports due to the Federal Reserve Bank of Boston during the third quarter 2005.

The following is a comprehensive list of Y-Reports that are due to this Reserve Bank during the third quarter 2005. Deadlines and Reserve Bank contact information is provided for each report. Please note that all Bank Holding Companies file the FR Y-8 and FR Y-9C/FR Y-9LP or FR Y 9SP. With regard to the remaining financial reports, please refer to the report instructions to determine if you must file them.

- **FR Y-6 - *Annual Report of Bank Holding Companies***

The filing deadline for the FR Y-6 for all bank holding companies with a fiscal year ending during the third quarter of 2005 is **90 days** after their specific fiscal year end date. If you have any questions concerning this report, please contact JoanMarie Herlihy at (617) 973-2108.

- **FR Y-8 - *Bank Holding Company Report of Insured Depository Institutions' Section 23 Transactions with Affiliates***

The filing deadline for the FR Y-8 report is **Monday, August 1, 2005**. If you have any questions, please contact Sheila Radville at (617) 973-3340.

- **FR Y-9C and the FR Y-9LP- *The Consolidated Statements for Bank Holding Companies* and the *Parent Company Only Financial Statements for Large Bank Holding Companies with Total Consolidated Assets of More than \$150 Million*.**

The filing deadline for the FR Y-9C report is **Tuesday, August 9, 2005** and the filing deadline for the FR Y-9LP report is **Monday, August 15, 2005**. If you have any questions concerning these reports, please contact Kelley Gardner at (617) 973-3421.

Bank holding companies filing FR Y-9 reports (FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9ES) are **required** to submit each report electronically. The Federal Reserve will no longer accept paper copies of these reports from bank holding companies. Bank holding companies must maintain in their files a manually signed and attested printout of the data submitted. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company's files.

All respondents are now required to perform validation checks as part of the electronic submission process. This Federal Reserve Bank previously issued a letter to you with information on this change to the report submission process. This discussion is also included in Attachment 1 of this document. Further information may also be found at the following website: www.reportingandreserves.org under the heading BHC Modernization project. For example, see this website for information on guidelines for resolving edits and a document addressing frequently asked questions (FAQ).

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If you complete the preparation, editing, and review of your report(s) before the submission deadline, please file the report(s) immediately rather than waiting. Early submission provides for additional time for your institution to become accustomed with the new enhanced electronic submission process, and aids the Federal Reserve in the editing, review, and analysis of the reports. If you later find that certain information needs to be revised, please make the appropriate changes to your report and promptly submit the revised data.

On October 25, 2004, the Federal Reserve announced in the *Federal Register* the proposed reporting changes to FR Y-9 series reports for 2005 that have been approved by the Board of Governors. This notice describing the changes may also be found on the Federal Reserve Board's web site at www.federalreserve.gov under "Reporting Forms" and then "Information Collections Under Review." Changes to the FR Y-9C form and instructions were principally made to: identify private equity merchant banking activity, identify firms providing auditing services to the BHC, and to add a new item to the balance sheet to break out information related to trust preferred securities. In addition, implementation of the accelerated 35-day deadline (defined as 30 calendar days plus 5 business days) for top-tier FR Y-9C filers has been delayed until June 2006, and the FR Y-9LP filing deadline remains at 45 calendar days after the report date.

Please note that implementation of the accelerated 35-day deadline (defined as 30 calendar days plus 5 business days) for top-tier FR Y-9C filers has been delayed until June 2006, and the FR Y-9LP and FR Y-9SP filing deadline remains at 45 calendar days after the report date. Also note that the FR Y-9C item identifying firms providing auditing services to the BHC, initially collected in March 2005, is now completed only as of the December 31st report.

The Federal Reserve plans to propose the addition of three items to the September 30, 2005, FR Y-9C relating to AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and the reporting of purchased impaired loans. Also an item will be proposed to be added to the past due and nonaccrual schedule to collect information on rebought GNMA loans that have been repurchased or are eligible for repurchase. These changes would be comparable to revisions that will be made to the June 30, 2005, commercial bank Call Report. The proposed changes to the FR Y-9C should be published in the Federal Register shortly.

Bank holding companies should review the supplemental instructions (Attachment 1) for information concerning accounting and reporting issues that may affect FR Y-9 reports. A summary of significant reporting revisions to the reporting requirements is included in Attachment 2, and a summary listing of FR Y-9SP data edits that have changed since December 31, 2004, is provided in Attachment 3.

- **FR Y-10 – *Report of Changes in Organizational Structure***

As needed, submit to this Federal Reserve Bank within thirty calendar days of a reportable transaction or event. If you have any questions concerning this report, please contact Andrea Severance at (617) 973-3043.

- **FR Y-11 - *Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies***
- **FR Y-11S - *Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies***

The filing deadline for the FR Y-11/11s report is Monday **Monday, August 29, 2005**. Please review the filing requirements listed in the report instructions, and inform this reserve bank's contact if the filing requirements for any non-bank subsidiaries has changed. If you have any questions concerning this report, please contact Kelley Gardner at (617) 973-3421.

- **FR Y-12 – *Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies***
If the institution has an equity portfolio, there is a strong likelihood that it should be filing the FR Y-12. This report is required from all bank holding companies that directly or indirectly hold common stock (in nonfinancial companies) that in aggregate equal or exceed the lesser of 5% of tier 1 capital or \$200 million.

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The filing deadline for the FR Y-12 report is **Monday, August 15, 2005**. If you have any questions concerning this report, please contact Kelley Gardner at (617) 973-3421.

If you were using Fedline to submit bulk data files to this Reserve Bank, please note that Fedline no longer supports bulk data transmission. As an alternative, you must file your reports via the internet using IESUB, the Federal Reserve's internet reporting mechanism. For additional information on electronic filing or for technical questions, please contact Kelley Gardner at (617) 973-3421. For all other reports not required to be filed electronically, please send to the Federal Reserve Bank of Boston; P.O. Box 55882; Boston, Massachusetts 02205; Attention: SSI Unit, 7th Floor.

Please be advised that this Reserve Bank does not mail out copies of the report forms and instructions. The report forms and instructions are available on the Federal Reserve Board's web site at www.federalreserve.gov under "Reporting Forms."

All financial information will be made available to the public upon request without prior notice to the reporting company. If any bank holding company is of the opinion that certain information warrants confidential treatment, please refer to the instructions on "Confidentiality" contained in the specific series of the general instructions for additional information.

Again, if you need any additional information on the reporting forms listed in this letter, please contact the individual listed above under the specific report series. We appreciate your cooperation in providing us with this information.

Very truly yours,

Claire Desjardins

Enclosures

ATTACHMENT 1

Supplemental Instructions:

Editing of Data by Respondents

The Federal Reserve has made changes to the FR Y-9 series to require validation checks to be performed by respondents as part of the electronic submission process. These changes were implemented as of September 30, 2004, for the FR Y-9C and FR Y-9LP reports and implemented as of December 31, 2004, for the FR Y-9SP and FR Y-9ES reports. This new process requires bank holding companies (BHCs) to perform published validity and quality checks on data (so-called edits) by the filing deadline. Respondents are encouraged to file reports electronically as soon as possible, rather than waiting until the submission deadline. Validity and quality edits are provided at the end of the reporting instructions for the FR Y-9C, FR Y-9LP, FR Y-9SP and FR Y-9ES. Although these changes have similarities to the Call Report Modernization Initiative, this effort is separate and distinct from that initiative, and it has different technical requirements.

Formerly, after the Federal Reserve received a BHC report, it was subjected to validation checks to assess the accuracy and reasonableness of the data submitted. If this validation process identified any edit exceptions in a BHC's report, a Federal Reserve analyst may have contacted the BHC and asked for clarification of the data associated with these edit exceptions. The BHC then provided revised data or explanatory comments concerning edit exceptions.

Under the new system, all BHCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility, IESUB, using either data entry or file transfer. This data collection system subjects a BHC's electronic data submission to the published validity and quality edit checks and transmits the results of such checks to the BHC shortly thereafter. The BHC is then expected to correct its report data to eliminate any validity edit exceptions. The BHC is also provided a method for supplying explanatory comments concerning quality edit exceptions. These explanatory comments are held confidential. BHC reports must be free of any validity edit failures and include explanations of all quality edit failures at the filing deadline. Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline may be deemed late, on a case by case basis depending on the facts and circumstances giving rise to the late filing. The Federal Reserve expects BHCs to apply the enhanced process on a best efforts and "good faith" basis.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may also choose to incorporate validity and quality edit checks into their software. The Federal Reserve provided technical specifications to software vendors in May 2004.

Overall these changes are expected to reduce the number of inquiries received from Federal Reserve Bank analysts and improve the timeliness and quality of BHC data. Additional information will be forwarded to BHCs as it becomes available. The Federal Reserve will continue to provide updates as warranted about the enhanced IESUB submission process on the web site: www.reportingandreserves.org under the heading BHC Modernization project. For example, see this website for information on guidelines for resolving edits and a document addressing frequently asked questions (FAQ).

Accelerated Filing Deadline

The Board approved the acceleration of the filing deadline for *top-tier* FR Y-9C filers and followed the Securities and Exchange Commission's (SEC's) phased-in approach by implementing a 40-day deadline in June 2004. The new filing deadlines apply for the March, June, and September report dates. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date. The Board has delayed implementation of a 35-day deadline (defined as 30 calendar days plus 5 business days), scheduled to begin in June 2005, until June 2006, consistent with a delay recently announced by the SEC for 10Q reports.

The FR Y-9LP, FR Y-9SP, FR Y-9ES and all lower-tier bank holding companies that file the FR Y-9C are not subject to the accelerated deadline. The deadline for these reports will remain at 45 days after the report date.

Tobacco Transition Payment Program

The Fair and Equitable Tobacco Reform Act, commonly referred to as the "Tobacco Buyout," was enacted into law on October 22, 2004, as part of the American Jobs Creation Act of 2004. This Act established the Tobacco Transition Payment Program, which is administered by the U.S. Department of Agriculture (USDA). Under this program, the Commodity Credit Corporation (CCC) will make annual payments to eligible tobacco quota holders (i.e., landowners) and tobacco producers (i.e., farmers) beginning in 2005 and ending in 2014.

The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, the statute and the rules implementing the tobacco buyout program permit a private party, such as a banking institution, to make a lump-sum payment to the quota holder or producer in return for the right to receive one or more of the annual payments to be made by the CCC under the buyout program. More specifically, a quota holder or producer can obtain a lump-sum payment from a banking institution or other party by executing an "assignment" of tobacco buyout payments or a "successor-in-interest" contract. Under both of these financing arrangements, the consideration paid to the quota holder or producer must be greater than or equal to the present value of the transferred annual payments discounted at the prime rate plus two percentage points rounded to the nearest whole number. Assignment contracts and successor-in-interest contracts become effective only upon the approval of the CCC. The annual payments by the CCC will be made directly to the assignee or successor party.

However, any annual payments to be made to a banking institution or other party under an assignment contract will be reduced if the quota holder or producer owes any debt to an agency of the United States at any time over the life of the contract, thereby exposing the assignee to credit risk. On the other hand, on a successor-in-interest contract, a successor party obtains all rights to the transferred payments and the annual payments cannot be reduced for any debt owed by the quota holder or producer to an agency of the United States subsequent to the CCC's approval of the successor-in-interest contract. Nevertheless, the CCC will reduce any annual payments to the successor party if the successor owes any debt to an agency of the United States. In addition, the CCC will not issue a payment to the successor to a producer contract if the successor is not in compliance with wetlands and highly erodible land provisions of the USDA's regulations or is convicted of trafficking in controlled substances.

Bank holding companies that enter into CCC-approved assignment contracts and successor-in-interest contracts and make lump-sum payments to tobacco quota holders or producers should report these financing arrangements as "Loans to finance agricultural production and other loans to farmers" in Schedule HC-C, item 3. The discount reflected in these lump-sum payments should be recognized as interest income over the life of the contract using the interest method.

For risk-based capital purposes, assignment contracts should be risk weighted at 100 percent because of the potential exposure to payment reductions for any debt owed by the quota holder or producer to an agency of the United States as outlined above. Successor-in-interest contracts from quota holders are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at zero percent. In contrast, successor-in-interest contracts from producers are considered conditionally guaranteed and should be risk weighted at 20 percent.

FASB Interpretation No. 46

The FASB issued Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, in December 2003. Revised interpretation No. 46 replaces interpretation No. 46, which was issued in January 2003. This interpretation explains how to identify a "variable interest entity" (previously referred to as a "special purpose entity") and how an organization should assess its interests in a variable interest entity to decide whether to consolidate that entity. Variable interest entities often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, and reinsurance. Most small bank holding companies (BHCs) are unlikely to have any "variable interests" in variable interest entities.

In general, a variable interest entity is an entity in which either the controlling financial interests are not voting interests or the equity investors do not bear the entity's residual economic risks. A variable interest is a contractual or ownership interest in an entity that changes when the value of the entity's net assets changes. An organization

that has a variable interest (or a combination of variable interests) that will absorb a majority of a variable interest entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both, is the "primary beneficiary" of the variable interest entity and must consolidate it.

For FR Y-9C purposes, bank holding companies with variable interests in variable interest entities must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions. Application of Interpretation No. 46 (Revised) by bank holding companies that are public companies, or subsidiaries of such public companies, was required for specified types of variable interest entities at various dates beginning December 31, 2003, through December 31, 2004. Application of Interpretation No. 46 (Revised) by bank holding companies that are neither public companies nor subsidiaries of public companies was required immediately for variable interest entities created after December 31, 2003, and for all other variable interest entities at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year bank holding companies).

The assets and liabilities of a consolidated variable interest entity should be reported on the FR Y-9C balance sheet (Schedule HC) on a line-by-line basis according to the asset and liability categories shown on the balance sheet. This reporting treatment also carries over to the other schedules in the FR Y-9C.

Reporting of Trust Preferred Securities

The Federal Reserve added a new item to the balance sheet (Schedule HC, item 19(b)) to specifically break out information on subordinated notes payable to unconsolidated trusts issuing trust preferred securities, and trust preferred securities issued by consolidated special purpose entities. This information will no longer be included in Schedule HC, Balance Sheet, item 20, "Other liabilities," or Schedule HC-G, Other Liabilities, item 4, "Other." BHCs are advised that this reporting change does not represent any change to the risk-based capital treatment for trust preferred securities. Consistent with guidance previously provided in Federal Reserve Supervisory Letter SR 03-13 of July 2, 2003, BHCs should continue to include the allowable amount of eligible trust preferred securities in their tier 1 capital for regulatory capital purposes until further notice. The amounts in tier 1 capital should be reported in Schedule HC-R, Regulatory Capital, item 6(b), "Qualifying trust preferred securities," in accordance with the reporting instructions.

Bank holding companies are encouraged to consult with their external auditor on the appropriate application of generally accepted accounting principles (GAAP), including FIN 46 and revised FIN 46 (FIN 46R), on the consolidation or deconsolidation of trusts issuing trust preferred stock for financial statements and regulatory reporting. Consistent with their GAAP determination and SR 03-13, bank holding companies that deconsolidate such trusts for financial reporting purposes should include the full amount of the deeply subordinated note issued to the trust in Schedule HC, Balance Sheet, item 19(b), and the bank holding company's investment in the special purpose subsidiary should be reported in Schedule HC, item 8, "Investments in unconsolidated subsidiaries and associated companies." The amount of the subordinated note issued to the trust, net of the bank holding company's investment in the special purpose subsidiary, is equivalent to the amount of the trust preferred securities issued. The net amount (that is allowed in tier 1 capital) should be reported in Schedule HC-R, item 6.b. Note that Schedule HC-R, memoranda item 3.d, no longer includes amounts related to trust preferred securities. Amounts of trust preferred securities (or notes payable to unconsolidated special purpose entities that issue trust preferred securities, net of the BHC's investment in the entity) that are in excess of the limits for cumulative preferred stock that can be included in Tier 1 capital, should be reported in item 16, "Other Tier 2 capital components."

The investment in unconsolidated subsidiaries that issue trust preferred securities should not be risk weighted for risk based capital purposes. This would apply to special purpose entities issuing trust preferred securities that are not consolidated by BHCs under FIN 46. If the investment is netted for determining Tier 1 treatment, a consistent application is to exclude the investment from risk-weighted assets. Therefore, the amount of the investment in unconsolidated subsidiaries that issue trust preferred securities should be reported in Schedule HC-R, line item 42, "All other assets," column B, "Items not subject to risk-weighting."

Bank holding companies that file the FR Y-11 should continue to report special purpose entities issuing trust preferred securities that qualify as a subsidiary as defined by Regulation Y and in the FR Y-11 reporting instructions, regardless of whether the entity is consolidated on the FR Y-9C report. Bank holding companies that file the FR Y-9LP should continue to report any notes payable to special-purpose subsidiaries that issue trust

preferred securities in Schedule PC-B, item 16 (and included in Schedule PC, item 18(b) and Schedule PC-B, item 5(b)). However, for purposes of reporting information on nonbank subsidiaries in Schedule PC-B, item 15, the term "subsidiary" is inclusive of only companies that have been consolidated in the FR Y-9C. Therefore, if the bank holding company has deconsolidated the special purpose entity issuing trust preferred securities, the entity would not be reflected in this item.

Other-Than-Temporary Impairment of Securities and EITF Issue No. 03-1

Under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, an institution must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other than temporary, the cost basis of the individual security must be written down to fair value through earnings, thereby establishing a new cost basis for the security.

In March 2004, the FASB ratified the consensus reached by its Emerging Issues Task Force (EITF) on EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF's consensus applies to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost. The consensus was intended to provide additional guidance for determining whether investments in these securities have incurred an other-than-temporary impairment.

The FASB has indefinitely delayed the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. In the meantime, institutions should continue to apply relevant other-than-temporary impairment guidance as required by existing authoritative literature, including FASB Statement No. 115, EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (Topic 5.M. in the Codification of Staff Accounting Bulletins).

Reporting "Loaned" Securities on the Balance Sheet

The FR Y-9C reporting instructions include a revised Glossary entry for "Securities Borrowing/Lending Transactions." As revised, the Glossary entry states that, for transactions accounted for as secured borrowings under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, "loaned" securities should continue to be reported on the balance sheet as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. The instructions had previously required bank holding companies to recategorize such "loaned" securities from securities to "Other assets." In addition, "loaned" securities that are reported as available-for-sale or held-to-maturity in Schedule HC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of the schedule. However, bank holding companies should note that the instructions for reporting "Securities lent" in Schedule HC-L, item 6, and Schedule HC-R, item 48, have not changed.

AICPA Statement of Position 03-3 on Purchased Impaired Loans

In December 2003, the AICPA issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In general, this Statement of Position applies to purchased impaired loans, i.e., loans that a banking organization 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 banking organization will be unable to collect all contractually required payments receivable. The Statement of Position applies to loans acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. Bank holding companies must follow Statement of Position 03-3 for FR Y-9C reporting

purposes in accordance with its effective date based on their fiscal years. The Statement of Position does not apply to the loans that a banking organization has originated.

Under this Statement of Position, 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 banking organization's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the banking organization'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 an impairment.

The Statement of Position prohibits a banking organization from "carrying over" or creating 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.

In Schedule HC-C, Loans and Lease Financing Receivables, bank holding companies should report the carrying amount (before any loan loss allowance) of a purchased impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased impaired loan should be reported as unearned income in Schedule HC-C, item 11.

GNMA Mortgage Loan Optional Repurchase Program

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 Department of Veterans Affairs/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 transferor of the loans to treat the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that the transferor (seller) does not maintain effective control over the loans. The loans are removed from the seller's balance sheet. When individual loans later meet GNMA's specified delinquency criteria and are eligible for repurchase, the seller (provided the seller 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 seller-servicer's books as assets and initially recorded at fair value, regardless of whether the seller intends to exercise the buy-back option. An offsetting liability would also be recorded. Whether or not these rebooked delinquent loans are repurchased, the seller-servicer should report them as loans on the FR Y-9C balance sheet (Schedule HC) and related schedules. These loans should be reported as held for sale (Schedule HC, item 4.a) or held for investment (Schedule HC, item 4.b), based on facts and circumstances, in accordance with generally accepted accounting principles. These loans should not be reported as "Other assets" (Schedule HC, item 11). The offsetting liability should be reported as "Other borrowed money" (Schedule HC, item 16).

For risk-based capital purposes, rebooked GNMA loans should be risk-weighted in the same manner as all other FHA, VA, and FmHA loans, i.e., at 20 percent to the extent of the conditional guarantee. For leverage capital purposes, these rebooked loans should be included in the bank holding company's average total assets.

Commitments to Originate and Sell Mortgage Loans

On May 3, 2005, the agencies issued an Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. This advisory provides supplemental guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be *held for resale* and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts. The advisory can be accessed on the Federal Reserve Board's Web site at www.federalreserve.gov/boarddocs/srletters/2005/sr0510.htm.

Commitments to originate mortgage loans that will be held for resale, which the advisory refers to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including both mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Institutions should also account for loan sales agreements that meet the definition of a derivative, which the advisory refers to as forward loan sales commitments, at fair value on the balance sheet.

The advisory also addresses the guidance that should be considered in determining the fair value of derivatives. In this regard, when quoted market prices are not available, which is typically the case for derivative loan commitments and forward loan sales commitments, estimates of fair value should be based on the best information available in the circumstances. A simplified example is included to provide general guidance on one approach that may be used to value commitments to originate mortgage loans that will be held for resale. In addition, the advisory states that the agencies expect all institutions, including those that are not required to file reports with the SEC, to follow the guidance in SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*, in recognizing derivative loan commitments. The Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

According to the advisory, under a typical derivative loan commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment.

Bank holding companies are expected to apply the guidance in the advisory when preparing their FR Y-9C reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for FR Y-9C reporting purposes. All other derivative loan commitments should be reported as over-the-counter written interest rate options in Schedule HC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule HC-L. The principal amount of the mortgage loans to be originated under these derivative loan commitments must be reported as the notional amount of the derivatives in Schedule HC-L, item 11.d.(1), column A, and in Schedule HC-L, item 13, column A. Bank holding companies must also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule HC-L, item 14.b. As with written options, derivative loan commitments are outside the scope of the credit conversion process that applies to derivatives under the Federal Reserve's risk-based capital standards. However, if the fair value of any of these derivative loan commitments after initial recognition is positive and therefore reported as an asset, this positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-balance sheet asset.

Bank holding companies should note that commitments to originate mortgage loans that will be held for investment purposes and commitments to originate other types of loans are not considered derivatives. The unused portion of loan commitments that are not considered derivatives should continue to be reported in Schedule HC-L, item 1. Unused commitments with an original maturity exceeding one year are subject to the risk-based capital standards and must be reported in Schedule HC-R, item 53.

Reporting Asset-Backed Commercial Paper Conduits in Schedule HC-R

An asset-backed commercial paper (ABCP) program is usually carried out through a bankruptcy-remote, special-purpose entity, which generally is sponsored and administered by a banking organization to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program. Because these programs typically are sponsored by large banking organizations, the reporting and regulatory capital requirements applicable to these programs should have no impact on most small bank holding companies.

In July 2004, the banking agencies issued a final rule amending their risk-based capital standards to make permanent an existing interim risk-based capital treatment for assets in ABCP conduits that sponsoring banking organizations are required to consolidate in accordance with Interpretation No. 46 (Revised). Under the final rule, sponsoring banking organizations are permitted to exclude the consolidated ABCP program assets from their risk-weighted asset bases when they calculate their risk-based capital ratios. The final rule also requires banking organizations to hold risk-based capital against eligible ABCP program liquidity facilities with an original maturity of one year or less that provide liquidity support to these programs by imposing a 10 percent credit conversion factor on such facilities effective September 30, 2004. Eligible liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. All liquidity facilities that provide liquidity support to ABCP will be treated as eligible liquidity facilities until September 30, 2005. Beginning September 30, 2005, however, ineligible liquidity facilities (both short-term and long-term) will be treated as direct credit substitutes or recourse obligations and will be subject to a 100 percent credit conversion factor. For all liquidity facilities, the resulting credit equivalent amount is risk weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable. Bank holding companies involved with ABCP programs should refer to the final rule for complete information on the risk-based capital treatment of these programs.

In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital). The final rule also does not alter the accounting rules for balance sheet consolidation under Interpretation No. 46 (Revised), nor does it affect the denominator of the Tier 1 leverage capital ratio calculation, which continues to be based primarily on on-balance sheet assets as reported under generally accepted accounting principles.

Under the agencies' final rule, banking organization sponsors of any consolidated ABCP programs should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule HC-R, Regulatory Capital. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank holding company has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the final rule, and risk weights them accordingly. However, unless this consolidation option has been chosen, sponsoring banking organizations must continue to hold risk-based capital against all exposures arising in connection with these programs, whether or not the programs are consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule HC-R. Furthermore, bank holding companies that provide eligible liquidity facilities to ABCP programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule HC-R, item 53 (unless a sponsor has chosen the consolidation option). The full amount of the unused portion of an eligible liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an eligible liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. Finally, any minority interests in consolidated ABCP programs should not be included in Schedule HC-R, item 6.a, "Qualifying minority interests in consolidated subsidiaries and similar items."

ATTACHMENT 2

Revisions to the FR Y-9C for June 2005:

Report Form

- (1) *Cover page*. Updated reporting date to June 30, 2005
- (2) *Schedule HC, memoranda item 1*. Modified note to read "(to be completed annually only by top-tier bank holding companies for the December 31 report date)."

Revisions to the FR Y-9LP for June 2005:

Report Form

- (1) *Cover page*. Updated reporting date to June 30, 2005.

Revisions to the FR Y-9SP for June 2005:

Report Form and Corresponding Instructions

- (1) *Cover page*. Updated reporting date to June 30, 2005, and the expiration date to March 31, 2008.
- (2) *Schedule SC, Memorandum, item 1*. Added item to indicate the "Name and address of the bank holding company's independent external auditing firm (see instructions), and the name and e-mail address of the auditing firm's engagement partner." Instructions indicate to be completed by BHCs that have a full-scope audit conducted, or otherwise enter "none" in Memoranda item 1(a).
- (3) *Schedule SC-M, item 4*. Added item to collect the "amount of nonvoting equity capital, including related surplus."
- (4) *Schedule SC-M, item 18*. Renumbered as new item 19 and revised caption to "Do your aggregate nonfinancial equity investments (see instructions for definition) equal or exceed (on an acquisition cost basis) 10 percent of the BHC's total capital as of the report date?" to increase the total capital threshold from 5 percent to 10 percent.
- (5) *Schedule SC-M, item 18*. Deleted item.
- (6) *Schedule SC-M, item 20*. Renumbered as new item 18 and modified to ask "Does the bank holding company hold, either directly or indirectly through a subsidiary or affiliate, any nonfinancial equity investments (see instructions for definition) within a Small Business Investment Company (SBIC) structure, or under section 4(c)(6) or 4(c)(7) of the Bank Holding Company Act, or pursuant to the merchant banking authority of section 4(k)4(H) of the Bank Holding Company Act, or pursuant to the investment authority granted by Regulation K?"
- (7) *Schedule SC-M, item 20.a*. Added item to ask "Has the bank holding company sold or otherwise liquidated its holding of any nonfinancial equity investment since the previous reporting period?"
- (8) *Schedule SC-M, item 20.b*. Added item to ask "Does the bank holding company manage any nonfinancial equity investments for the benefit of others?"

Instructions Only

- (1) *General Instructions*. Modified section B, "Report Form Captions, Non-applicable Items and Instructional Detail," to indicate to leave blank items that are not applicable to the institution, rather than enter "N/A."
- (2) *General Instructions*. Modified section D, "Negative Entries," to indicate that negative entries should be recorded with a minus (-) sign rather than in parenthesis.
- (3) *Schedule SC-M, items 14 and 17*. Modified to indicate to leave items blank that are not applicable to the institution, rather than enter "N/A."
- (4) *Schedule SC-M, item 17.b*. Clarified to exclude from this item balances due from related institutions on the books of nonbank subsidiaries of the reporting bank holding company, and report such balances in item 17.a.
- (5) *Edits*: Updates to the FR Y-9SP Checklist and FR Y-9SP Edits.

Revisions to the FR Y-11/S for June 2005

Report Form

Cover page. Revised the reporting date to June 30, 2005.

Instructions

- (1) *General Instructions.* In the “Definitions” section, clarified the definition of related organizations to include all associated companies.
- (2) *Balance Sheet, items 7.* Clarified that net deferred tax assets and net deferred tax liabilities rather than all deferred tax assets and deferred tax liabilities should be reported in items 7 and 14 respectively.

ATTACHMENT 3

**SUMMARY OF EDIT CHANGES EFFECTIVE
FOR JUNE 30, 2005 FR Y-9C CHECKLISTS**

FR Y-9SP

New Edits:

Quality: 0767, 0773, 0876, 0930, 0940

Revised Edits:

Validity (if renumbered, old edit # is in parenthesis):

0003, 0530, 0535 (0550)

Quality (if renumbered, old edit # is in parenthesis):

0012

Deleted Edits:

Validity: 0540
