

FEDERAL RESERVE BANK *of* NEW YORK

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ASSISTANT VICE PRESIDENT

April 6, 2015

To: The Chief Executive Officer of Each U.S Branch and Agency of a Foreign Bank
Located in the Second Federal Reserve District

The following report forms and instructions for the March 31, 2015, reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002);
- Supplemental Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002s); and
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019)

There are no changes to the FFIEC 002, FFIEC 002S, or FFIEC 019 reporting forms or instructions for the March 31, 2015, report date.

Transition to Reporting Central

The Country Exposure report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019) has migrated to Reporting Central as of the March 31, 2014 report date. This report will be available electronically by manual data entry into the Reporting Central application and file uploads will not be accepted at this time. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions.

The Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) and the Report of Assets and Liabilities of Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S) has migrated to Reporting Central, as of the June 30, 2014 report date. Both file uploads and manual data entry into the Reporting Central application are accepted. For institutions that do not choose to file this report electronically, the Federal Reserve will continue to accept paper copy submissions. The Federal Reserve developed Reporting Central to enhance the overall reporting functionality of the Federal Reserve Banks' data collection and processing activities.

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These enhancements will allow for a more secure, technically advanced, and efficient system that will encompass a single point of entry for electronic submission and file uploads. Financial and nonfinancial institutions will access Reporting Central via the FedLine® Web access solution to submit reports and gain access to electronic reporting applications, report forms, and instructions. Additional information about the Reporting Central application, including an online resource center, is available at: <http://www.frb services.org/centralbank/reportingcentral/index.html>. If you have any questions regarding these changes please contact your Reporting and Reserves District Contact.

Accounting by Private Companies for Identifiable Assets in a Business Combination

In December 2014, the FASB issued ASU No. 2014-18, "Accounting for Identifiable Intangible Assets in a Business Combination," which is a consensus of the Private Company Council (PCC). This ASU provides an accounting alternative that permits a private company, as defined in U.S. GAAP (and discussed in a later section of these Supplemental Instructions), to simplify the accounting for certain intangible assets. The accounting alternative applies when a private company is required to recognize or otherwise consider the fair value of intangible assets as a result of certain transactions, including when applying the acquisition method to a business combination under ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations").

Under ASU 2014-018, a private company that elects the accounting alternative should no longer recognize separately from goodwill:

- Customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of a business, and
- Noncompetition agreements.

However, because mortgage servicing rights and core deposit intangibles are regarded as capable of being sold or licensed independently, a private company that elects this accounting alternative must recognize these intangible assets separately from goodwill, initially measure them at fair value, and subsequently measure them in accordance with ASC Topic 350, Intangibles – Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets").

A private company that elects the accounting alternative in ASU 2014-18 also must adopt the private company goodwill accounting alternative described in ASU 2014-02, "Accounting for Goodwill," which is discussed in a later section of these Supplemental Instructions. However, a private company that elects the goodwill accounting alternative in ASU 2014-02 is not required to adopt the accounting alternative for identifiable intangible assets in ASU 2014-18.

A private company's decision to adopt ASU 2014-18 must be made upon the occurrence of the first business combination (or other transaction within the scope of the ASU) in fiscal years beginning after December 15, 2015. The effective date of the private company's decision to adopt the accounting alternative for identifiable intangible assets depends on the timing of that first transaction.

- If the first transaction occurs in the private company's first fiscal year beginning after December 15, 2015, the adoption will be effective for that fiscal year's annual financial reporting period and all interim and annual periods thereafter.
- If the first transaction occurs in a fiscal year beginning after December 15, 2016, the adoption will be effective in the interim period that includes the date of the transaction and subsequent interim and annual periods thereafter.

Early application of the intangibles accounting alternative is permitted for any annual or interim period for which a private company's financial statements have not yet been made available for issuance. Customer-related intangible assets and noncompetition agreements that exist as of the beginning of the period of adoption should continue to be accounted for separately from goodwill, i.e., such existing intangible assets should not be combined with goodwill.

A branch or agency that meets the private company definition in U.S. GAAP is permitted, but not required, to adopt ASU 2014-18 for FFIEC 002 purposes and may choose to early adopt the ASU, provided it also adopts the private company goodwill accounting alternative. If a private institution issues U.S. GAAP financial statements and adopts ASU 2014-18, it should apply the ASU's intangible asset accounting alternative in its FFIEC 002 report in a manner consistent with its reporting of intangible assets in its financial statements.

For additional information on the private company accounting alternative for identifiable intangible assets, institutions should refer to ASU 2014-18, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Private Company Accounting Alternatives, Including Accounting for Goodwill

In May 2012, the Financial Accounting Foundation, the independent private sector organization responsible for the oversight of the Financial Accounting Standards Board (FASB), approved the establishment of a Private Company Council (PCC) to improve the process of setting accounting standards for private companies. The PCC is charged with working jointly with the FASB to determine whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under U.S. generally accepted accounting principles (GAAP). Alternative guidance for private companies may include modifications or exceptions to otherwise applicable existing U.S. GAAP standards.

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A branch or agency that is a private company, as defined in U.S. GAAP (as discussed in the next section of these Supplemental Instructions), is permitted to use private company accounting alternatives issued by the FASB when preparing the FFIEC 002 report(s), except as provided in 12 U.S.C. 1831n (a) as described in the following sentence. If the Federal Reserve determines that a particular accounting principle within U.S. GAAP, including a private company accounting alternative, is inconsistent with the statutorily specified supervisory objectives, the Federal Reserve may prescribe an accounting principle for regulatory reporting purposes that are no less stringent than U.S. GAAP. In such a situation, an institution would not be permitted to use that particular private company accounting alternative or other accounting principle within U.S. GAAP for FFIEC 002 reporting purposes. The Federal Reserve would provide appropriate notice if they were to disallow any accounting alternative under the statutory process.

On January 16, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-02, "Accounting for Goodwill," which is a consensus of the PCC. This ASU generally permits a private company to elect to amortize goodwill on a straight-line basis over a period of ten years (or less than ten years if more appropriate) and apply a simplified impairment model to goodwill. In addition, if a private company chooses to adopt the ASU's goodwill accounting alternative, the ASU requires the private company to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. In contrast, existing U.S. GAAP does not permit goodwill to be amortized, instead requiring goodwill to be tested for impairment at the reporting unit level annually and between annual tests in certain circumstances. The ASU's goodwill accounting alternative, if elected by a private company, is effective prospectively for new goodwill recognized in annual periods beginning after December 15, 2014, and in interim periods within annual periods beginning after December 15, 2015. Goodwill existing as of the beginning of the period of adoption is to be amortized prospectively over ten years (or less than ten years if more appropriate). The ASU states that early application of the goodwill accounting alternative is permitted for any annual or interim period for which a private company's financial statements have not yet been made available for issuance.

A branch or agency that meets the private company definition in ASU 2014-02, as discussed in the following section of these Supplemental Instructions (i.e., a private institution), is permitted, but not required, to adopt this ASU for FFIEC 002 reporting purposes and may choose to early adopt the ASU. If a private institution issues U.S. GAAP financial statements and adopts the ASU, it should apply the ASU's goodwill accounting alternative in its FFIEC 002 reports in a manner consistent with its reporting of goodwill in its financial statements. Thus, for example, a private institution with a calendar year fiscal year that chooses to adopt ASU 2014-02 must apply the ASU's provisions in its December 31, 2015, and subsequent quarterly FFIEC 002 reports unless early application of the ASU is elected. If a private institution with a calendar

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year fiscal year is adopting ASU 2014-02 for 2014 financial reporting purposes, the institution may implement the provisions of the ASU in its FFIEC 002 reports for December 31, 2014. This would require the private institution to report in its year-end 2014 FFIEC 002 one full year's amortization of goodwill existing as of January 1, 2014, and the amortization of any new goodwill recognized in 2014. Alternatively, the calendar year private institution could begin to apply the provisions of ASU 2014-02 in its FFIEC 002 report for September 30, 2014, in which case it would report nine months' amortization of goodwill existing as of January 1, 2014, and the amortization of any new goodwill recognized in the first nine months of 2014.

Private institutions choosing to early adopt the goodwill accounting alternative in ASU 2014-02 that have a fiscal year or an early application date other than the one described in the examples above should contact their Federal Reserve District Bank for reporting guidance. For additional information on the private company accounting alternative for goodwill, institutions should refer to ASU 2014-02, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Definitions of Private Company and Public Business Entity

According to ASU No. 2014-02, "Accounting for Goodwill," a private company is a business entity that is not a public business entity. ASU No. 2013-12, "Definition of a Public Business Entity," which was issued in December 2013, added this term to the Master Glossary in the Accounting Standards Codification. This ASU states that a business entity, such as a HC, that meets any one of five criteria set forth in the ASU is a public business entity for reporting purposes under U.S. GAAP, including FFIEC 002 reporting purposes. An institution that is a public business entity is not permitted to apply the private company goodwill accounting alternative discussed in the preceding section when preparing its FFIEC 002 reports.

As defined in ASU 2013-12, a business entity is a public business entity if it meets any one of the following criteria:

- It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC (such as one of the federal banking agencies).
- It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

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- It has issued securities that are traded, listed, or quoted on an exchange or an over-the-counter market, which includes an interdealer quotation or trading system for securities not listed on an exchange (for example, OTC Markets Group, Inc., including the OTC Pink Markets, or the OTC Bulletin Board).
- It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

For additional information on the definition of a public business entity, institutions should refer to ASU 2013 12, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring

When a loan has previously been modified in a troubled debt restructuring (TDR), the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate accounting by the institution under U.S. generally accepted accounting principles. Under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. The federal financial institution regulatory agencies will not object to an institution no longer treating such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When assessing whether a concession has been granted by the institution, the Federal Reserve considers any principal forgiveness on a cumulative basis to be a continuing concession. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114), and the loan need no longer be disclosed as a TDR in the FFIEC 002 report, except as noted below. Accordingly, going forward, loan impairment should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement

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No. 5). Even though the loan need no longer be measured for impairment as a TDR or disclosed as a TDR, the recorded investment in the loan should not change at the time of the subsequent restructuring (unless cash is advanced or received). In this regard, when there have been charge-offs prior to the subsequent restructuring, consistent with longstanding FFIEC 002 instructions, no recoveries should be recognized until collections on amounts previously charged off have been received. Similarly, if interest payments were applied to the recorded investment in the TDR loan prior to the subsequent restructuring, the application of these payments to the recorded investment should not be reversed nor reported as interest income at the time of the subsequent restructuring.

If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR or individually evaluated and determined to be impaired, then the impairment on the loan should be measured under ASC Subtopic 310-10 and, if appropriate, the loan should be disclosed as a TDR.

For a subsequently restructured TDR loan on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the loan should continue to be measured as a TDR. However, if the subsequent restructuring agreement specifies a contractual interest rate that, at the time of the subsequent restructuring, is not less than a market interest rate for new debt with similar credit risk characteristics and the loan is performing in compliance with its modified terms after the subsequent restructuring, the loan need not continue to be reported as a TDR in Schedule N, column D in calendar years after the year in which the subsequent restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

Institutions may choose to apply this guidance prospectively to subsequently restructured loans that meet the conditions discussed above for removing the TDR designation. Institutions also may choose to apply this guidance to loans outstanding as of September 30, 2014, for which there has been a previous subsequent restructuring that met the conditions discussed above at the time of the subsequent restructuring. However, prior FFIEC 002 reports should not be amended.

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure," to address diversity in practice for how government-guaranteed mortgage loans are recorded upon foreclosure. The ASU updates guidance contained in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended), because U.S. generally accepted accounting principles (GAAP) previously did not provide specific guidance on how to

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categorize or measure foreclosed mortgage loans that are government guaranteed. The new ASU clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate "other receivable" upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan in accordance with the guidance in ASC Subtopic 310-40).

Under the new guidance, institutions should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the institution has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the institution is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans provided the three conditions identified above have been met. In such situations, upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule RAL, "All other assets, Item 1(H)." Other real estate owned would not be recognized by the institution.

For institutions that are public business entities, as defined under U.S. GAAP (as discussed in the preceding section of these Supplemental Instructions), ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. For example, institutions with a calendar year fiscal year that are public business entities must apply the ASU in their FFIEC 002 reports beginning March 31, 2015. However, institutions that are not public business entities (i.e., that are private companies) are not required to apply the guidance in ASU 2014-14 until annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Thus, institutions with a calendar year fiscal year that are private companies must apply the ASU in their December 31, 2015, and subsequent quarterly FFIEC 002 reports. Earlier adoption of the guidance in ASU 2014-14 is permitted if the institution has already adopted the amendments in ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure" (which is discussed in the following section of these Supplemental Instructions).

Entities can elect to apply ASU 2014-14 on either a modified retrospective transition basis or a prospective transition basis. However, institutions must use the method of transition that is elected for ASU 2014-04 (that is, either modified retrospective or prospective). Applying ASU 2014-14 on a prospective transition basis should be less complex for institutions than applying the ASU on a modified retrospective transition basis. Under the prospective transition method, an institution should apply the new guidance to foreclosures of real estate property collateralizing certain government-guaranteed mortgage loans (based on the criteria described above) that occur after the date of adoption of the ASU. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to affected accounts existing as of the beginning of the annual period for which the ASU is adopted. The cumulative-effect adjustment for this change in accounting principle should be reported in Schedule M, Item 2(a).

For additional information, institutions should refer to ASU 2014-14, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon a Foreclosure

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure" to address diversity in practice for when certain loan receivables should be derecognized and the real estate recognized. The ASU updated guidance contained in Accounting Standards Codification Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors.

Under prior accounting guidance, all loan receivables were reclassified to other real estate owned (OREO) when the institution, as creditor, obtained physical possession of the property, regardless of whether formal foreclosure proceedings had taken place. The new ASU clarifies when a creditor is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate collateralizing a consumer mortgage loan. Under the new guidance, physical possession for these residential real estate properties is considered to have occurred and a loan receivable would be reclassified to OREO only upon:

- The institution obtaining legal title through foreclosure even if the borrower has redemption rights whereby it can legally reclaim the real estate for a period of time, or
- Completion of a deed-in-lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the institution to satisfy the loan.

Real estate-secured loans other than consumer mortgage loans collateralized by residential real estate should continue to be reclassified to OREO when the institution has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. However, nonpublic entities, as defined under generally accepted accounting principles, are not required to apply the guidance in the ASU to interim periods in the year of adoption.

Early adoption is permitted under the standard. FBOs electing to early adopt should include as other real estate owned on Schedule M, Part IV, item 2, all residential real estate collateral underlying consumer mortgage loans when the institution has obtained physical possession of the collateral as defined under ASU 2014-04.

FBOs can elect to apply the ASU on either a modified retrospective transition basis or a prospective transition basis. Under the modified retrospective transition method, an institution should apply a cumulative-effect adjustment to residential consumer mortgage loans and OREO existing as of the beginning of the annual period for which the amendments are effective. As a result of adopting the ASU, assets reclassified from OREO to loans should be measured at the carrying value of the real estate at the date of adoption while assets reclassified from loans to OREO should be measured at the lower of the net amount of loan receivable or the OREO property's fair value less costs to sell at the time of adoption. Under the prospective transition method, an institution should apply the new guidance to all instances where the institution receives physical possession of residential real estate property collateralized by consumer mortgage loans that occur after the date of adoption.

For additional information, institutions should refer to ASU 2014-04, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order

Questions have arisen regarding the appropriate accounting and regulatory reporting treatment for certain secured consumer loans where (1) the loan has been discharged in a Chapter 7 bankruptcy under the U.S. Bankruptcy Code,¹ (ii) the borrower has not reaffirmed the debt, (iii) the borrower is current on payments, and (iv) the loans has not undergone a troubled debt restructuring (TDR) before the bankruptcy.

¹ 11 USC Chapter 7

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When a debtor files for Chapter 7 bankruptcy, a trustee is appointed to liquidate the debtor's assets for the benefit of creditors. Generally, Chapter 7 bankruptcy results in a discharge of personal liability for certain debts that arose before the petition date. A bankruptcy discharge acts as a permanent injunction of claims against the debtor, but does not extinguish certain secured debt or any existing liens on the property securing the debt.

In general, for certain secured debt, the loan agreement (including the promissory note and, depending on the state, the security interest) entered into before bankruptcy remains in place after the debt has been discharged in a Chapter 7 bankruptcy. However, the lender may no longer pursue the borrower personally for a deficiency due to nonpayment. In addition, the institution's ability to manage the loan relationship is restricted. For example, after a borrower has completed Chapter 7 bankruptcy, an institution is limited with regard to collection efforts, communications with the borrower, loss mitigation strategies, and reporting on the discharged debt to credit bureaus.

The accounting and regulatory reporting issues that arise for secured consumer loans discharged in a Chapter 7 bankruptcy include: (1) whether the discharge is a TDR, (2) the measure of impairment, (3) whether the loan should be placed in nonaccrual status, and (4) charge-off treatment.

TDR Determination

In determining whether a secured consumer debt discharged in a Chapter 7 bankruptcy constitutes a troubled debt restructuring, a branch or agency needs to assess whether the borrower is experiencing financial difficulties and whether a concession has been granted to the borrower. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-40, a bankruptcy filing is an indicator of a borrower's financial difficulties. Determining whether a branch or agency has granted a concession in a Chapter 7 bankruptcy requires judgment. In assessing whether a concession has been granted, institutions should consider all relevant facts and circumstances, including the effect of changes to the legal rights and obligations of the lender and the borrower resulting from Chapter 7 bankruptcy. Changes taken as a whole that are not substantive may not be considered a concession.

Regardless of the impairment method used, when available information confirms that specific loans, or portions thereof, are uncollectible, these amounts should be promptly written down through a specific reserve or charge-off.

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Practices for Loans and Lines of Credit Secured by Junior Liens on 1-4 Family Residential Properties, which can be accessed at <http://fedweb.frb.gov/fedweb/bsr/srltrs/sr1203.shtm>.

Regardless of impairment method used, when available information confirms that specific loans or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance for loan and leases losses.

Accrual Status

Branches and agencies should follow the Glossary entry under "Nonaccrual Status" when determining whether secured consumer debt discharged in a Chapter 7 bankruptcy should be on accrual status. These instructions also address the restoration of nonaccrual assets, including any loans identified as TDRs that are in nonaccrual status, to accrual status.

Consistent with GAAP and regulatory guidance, institutions are expected to follow revenue recognition practices that do not result in overstating income. For a secured consumer loan discharged in a Chapter 7 bankruptcy, whether or not it is a TDR, placing the loan on nonaccrual when payment in full of principal and interest is not expected is one appropriate method to ensure income is not overstated.

Charge-off Treatment

GAAP states that loans shall be charged off in the period in which the loans are deemed uncollectible. Because of heightened risk that loans discharged through bankruptcy may be uncollectible, the interagency *Uniform Retail Credit Classification and Account Management Policy* (Uniform Retail Credit Policy) requires such loans to be written down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court unless the institution can clearly demonstrate and document that repayment is likely to occur. To assess whether such a loan should be deemed uncollectible, a branch or agency should perform a credit analysis at the time a borrower whose loan is current completes Chapter 7 bankruptcy (hereafter, a post-discharge analysis). If the post-discharge analysis indicates repayment of principal and interest is likely to continue, then immediate write-down to collateral value and full application of payments to reduce the recorded investment in the loan is not required.

If a credit analysis does not support that repayment of principal and interest is likely to continue, the loan should be written down to the collateral's fair value (less costs to sell). Any balance not charged off should be placed on nonaccrual when full collection of principal and interest is not expected. The Uniform Retail Credit Policy can be accessed at <http://fedweb.frb.gov/fedweb/bsr/srltrs/SROOOS.htm>.

losses) for the amount of the recovery, and reported as part of the calculation for profit or loss, in Schedule M, Part I, Line 2.a, "Gross due from/to head office of parent bank".

"Purchased" Loans Originated By Others

When acquiring loans originated by others, institutions should consider whether the transaction should be accounted for as a purchase of the loans or as a secured borrowing in accordance with Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). For the transaction to qualify for sale accounting:

- First, unless the transfer is of an entire financial asset, the transferred portion of the financial asset must meet the definition of a participating interest.
- Second, the transfer must meet all of the conditions set forth in Subtopic 860-10 to demonstrate that the transferor has surrendered control over the transferred financial assets

For example, some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported in FFIEC 002 Report Schedule C, item 3, "Loans to other financial institutions," and on the balance sheet in Schedule RAL, item I.e., "Loans and leases, net of unearned income."

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In situations where the transaction between the mortgage loan originator and the transferee (acquiring) institution is accounted for as a secured borrowing with pledge of collateral, the transferee (acquiring) institution's designation of the financing provided to the originator as held for sale is appropriate only when the conditions in ASC Subtopic 310-10, Receivables-Overall (formerly AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others") and the 2001 Interagency Guidance on Certain Loans Held for Sale have been met. In these situations, the mortgage loan originator's plumed sale of the pledged collateral (i.e., the individual residential mortgage loans) to a takeout investor is not relevant to the transferee institution's designation of the loan to the originator as held for investment or held for sale. In situations where the transferee institution simultaneously extends a loan to the originator and transfers an interest (for example, a participation interest) in the loan to the originator to another party, the transfer to the other party also should be evaluated to determine whether the conditions in ASC Topic 860 for sale accounting treatment have been met. If this transfer qualifies to be accounted for as a sale, the portion of the loan to the originator that is retained by the transferee institution should be classified as held for investment when the transferee has the intent and ability to hold that portion for the foreseeable future or until maturity or payoff (which is generally in the near term).

Troubled Debt Restructurings and Current Market Interest Rates

Many institutions are restructuring or modifying the terms of loans through workout programs, renewals, extensions, or other means to provide payment relief for those borrowers who have suffered deterioration in their financial condition. Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables- Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor's concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, such as a modification of terms to

reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

The stated interest rate charged the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans to nontroubled borrowers at the time of the restructuring, some institutions have concluded that these restructurings are not TDRs; however, this conclusion may be inappropriate. In reaching this conclusion, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. An interest rate on a modified loan greater than or equal to those available in the marketplace for similar credits does not in and of itself preclude a modification from being designated as a TDR. Rather, when evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether the institution has made a concession to the borrower with respect to the market interest rate (or has made some other type of concession that could trigger TDR accounting and disclosure, for example, terms or conditions outside of the institution's policies or common market practices) and, if so, how the modified or restructured loan should be reported.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon

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ASU 2011-02 reiterates that the two conditions mentioned in the preceding section on "Troubled Debt Restructurings and Current Market Interest Rates" must exist in order for a loan modification to be deemed a TDR: (1) a company must grant a concession to the borrower as part of the modification and (2) the borrower must be experiencing financial difficulties. The ASU explains that a company may determine that a borrower is experiencing financial difficulties if it is probable that the borrower will default on any of its debts in the foreseeable future. The borrower does not have to be in default at the time of the modification. Other possible factors that should be considered in evaluating whether a borrower is experiencing financial difficulties is if the borrower has declared (or is in the process of declaring) bankruptcy, the creditor does not expect the borrower's cash flows to be sufficient to service its debt under the existing terms, or there is substantial doubt about an entity's ability to continue as a going concern.

Another important aspect of the ASU is that it prohibits financial institutions from using the effective interest rate test included in the TDR guidance for borrowers in ASC Subtopic 470-60, Debt-Troubled Debt Restructurings by Debtors, when determining whether the creditor has granted a concession as part of a loan modification. However, as explained in ASU 2011-02, if a borrower does not have access to funds at a market rate of interest for similar debt, the rate on the modified loan is considered to be a below-market rate and may be an indicator that the company has granted a concession to the borrower.

Furthermore, the ASU provides new guidance regarding insignificant delays in payment as part of loan modification. If, after analysis of all facts and circumstances, a creditor determines that a delay in payment is insignificant, the creditor has not granted a concession to the borrower. This determination requires judgment and should consider many factors, including, but not limited to, the amount of the delayed payments in relation to the loan's unpaid principal or collateral value, the frequency of payments due on the loan, the original contractual maturity, and the original expected duration of the loan.

For additional information, branches and agencies should refer to ASU 2011-02, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

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Reports Monitoring

Please note that the timeliness of receipt of each of these reports will be monitored and the submission of initial data via facsimile, even if prior to the deadline, does not constitute timely filing.

The completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **April 30, 2015**. Any FFIEC 002/002S report received after 5:00 p.m. on **April 30, 2015** will be considered late unless postmarked by **April 27, 2015** or sent overnight service by **April 29, 2015**.

An original and one copy of the completed FFIEC 019 report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **May 15, 2015**. Any FFIEC 019 report received after 5:00 p.m. on **May 15, 2015** will be considered late unless postmarked by **May 12, 2015** or sent overnight service by **May 14, 2015**. Reporting institutions have the option to electronically submit the completed FFIEC 019 report(s) using the Federal Reserve System's Reporting Central Application by no later than **May 15, 2015**.

**Federal Reserve Bank of New York
Statistics Function
33 Liberty Street, 4th Floor
New York, NY 10045**

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the March 31, 2015 report date. The staff of this Reserve Bank will monitor whether branches and agencies are meeting their basic reporting requirements through the use of "validity edits."

Website

The FFIEC 002/002S and FFIEC 019 forms and instructions are available on the FFIEC website at www.ffiec.gov/ffiec-reportforms.htm. In addition, attached are validity edit checks for the FFIEC 002.

Questions regarding the FFIEC 002 and FFIEC 002S reports should be directed to Camelia Karp, Statistics Research Analyst at (212) 720-6766, or Molly Wu, Staff Manager at (212) 720-8125.

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Questions regarding the FFIEC 019 report should be directed to Rob Braccia, Reports Analyst in the Financial Flows Division at (212) 720-8540, or Brian Goodwin, Staff Manager in the Division at (212) 720-8316.

Sincerely,

Patricia Selvaggi
Assistant Vice President