FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

PATRICIA SELVAGGI
ASSISTANT VICE PRESIDENT

July 3, 2014

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 June 30, 2014, 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, the FFIEC 002S or the FFIEC 019 reporting forms or instructions for the June 30, 2014, report date.

Copies of reporting forms and instructions are available on the FFIEC public website at (**www.ffiec.gov/ffiec_report_forms.htm.)**

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

T 212.720.8037 | **F** 212.720.2478 | **E** patricia.selvaggi@ny.frb.org | **W** www.newyorkfed.org

Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S) has migrated to Reporting Central, which is replacing the Internet Electronic Submission (IESUB) application, as of the June 30, 2014 report date. Both file uploads and manual data entry into the Reporting Central application will be 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. 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.frbservices.org/centralbank/reportingcentral/index.html. If you have any questions regarding these changes please contact your Reporting and Reserves District Contact.

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

[1] II USC Chapter 7

debt, (iii) the borrower is current on payments, and (iv) the loans has not undergone a troubled debt restructuring (TDR) before the bankruptcy.

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.

<u>TDR Determination</u>

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.

Measure of Impairment

If a branch or agency has concluded that the completion of a Chapter 7 bankruptcy filing has resulted in a TDR, the loan should be measured for impairment under ASC Section 310-10-35 (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"). Under this guidance, impairment shall be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a branch or agency may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. For regulatory reporting purposes, branches and agencies must measure impairment based on the fair value of the collateral when an impaired loan is determined to be collateral dependent. A loan is considered to be collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. Judgment is required to determine whether an impaired loan is collateral dependent and a branch or agency should assess all available credit information and weigh all factors pertaining to the loan's repayment sources.

If repayment of an impaired loan is not solely dependent upon the underlying collateral, impairment would be measured based on the present value of expected future cash flows. ASC Section 310-10-35 allows impaired loans to be aggregated and measured for impairment with other impaired loans that share common risk characteristics.

Discharged secured consumer debts that are not TDRs (or are not otherwise determined to be in the scope of ASC 310-10 and held for investment) should be measured collectively for impairment under ASC Subtopic 450-20 (formerly FASB Statement No.5, "Accounting for Contingencies"). In estimating the allowance for loan and lease losses (ALLL) under ASC Subtopic 450-20, branches and agencies should consider all available evidence and weigh all factors that affect the collectability of the loans as of the evaluation date. Factors can include the bankruptcy filing, delinquent senior liens, and negative equity in the collateral and sustained timely payment performance by the borrower.

Branches and agencies should ensure that loans are properly segmented based upon similar risk characteristics when calculating the allowance under ASC Subtopic 450-20. Borrowers of secured consumer debt discharged in a Chapter 7 bankruptcy generally are considered to have a higher credit risk profile than those borrowers that have not filed for Chapter 7 bankruptcy. For branches and agencies with significant holdings of these loans to borrowers who have completed a Chapter 7 bankruptcy, it is appropriate to segment these mortgage loans separately from pools of mortgage loans to borrowers who have not filed for Chapter 7 bankruptcy when calculating the allowance. Branches and agencies should follow existing regulatory guidance in calculating the ALLL including, if applicable, the *Interagency Supervisory Guidance on Allowance for Loan and Lease Losses Estimation*

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 uncollectable, 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.

As discussed in the Uniform Retail Credit Policy, evaluating the quality of a retail credit portfolio on a loan-by-loan basis is inefficient and burdensome for the institution being examined and for examiners given the generally large number of relatively small-balance loans in a retail credit portfolio. Therefore, the type of credit analysis that is performed to assess whether repayment is likely to continue may vary depending on whether the loans are managed individually or on a homogenous pool basis.

For loans managed in pools, branches and agencies may choose to evaluate the likelihood of continued repayment on a pool basis. In order for a pool analysis to be used, a branch or agency must identify various credit risk indicators that signify likelihood of continuing repayment. Such indicators might include measures of historical payment performance, loan structure, lien position, combined loan-to-value ratios, amounts paid over the minimum payment due and other pertinent factors that have been associated with payment performance in the past. Such credit risk indicators should then be considered as a whole when determining whether objective evidence supports the likelihood of continuing repayment. A branch or agency using pool-based analysis should also conduct ongoing monitoring to ensure the appropriateness of the credit risk indicators used to support the likelihood of continuing repayment.

For all loans managed individually and any loans managed on a pool basis where the pool analysis does not support likelihood of continuing repayment, a loan-level, post-discharge credit analysis would be necessary to support likelihood of continuing repayment. A loan-level, post- discharge analysis should demonstrate and document structured orderly collection, post- discharge repayment capacity, and sustained payment performance. If likelihood of continuing repayment cannot be supported, the loan should be deemed uncollectable and written down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court.

Reporting of Specific Reserves

Once a loan is written-down through a specific reserve or charge-off, a new cost basis for the asset is established. Changing this cost basis by re-booking or writing-up the loan is not permitted. Under Accounting Standard Codification (ASC) 310-10-35-37, after the initial measurement of impairment, if there is a significant change in the amount or timing of an impaired loan's expected future cash flow, the change should be applied by adjusting the valuation allowance.

On the FFIEC 002, loans that are written down through the application of a specific reserve are treated in an identical manner as loans that are partially or wholly charged-off. Therefore, recoveries on loans for which there is a specific reserve should be accounted for on a cash basis by reducing the expense account (i.e. the provision for loan 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".

Determining the Fair Value of Derivatives

ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), defines fair value and establishes a framework for measuring fair value. As stated in ASC Topic 820, fair value is a market-based measurement, not an entity-specific measurement, and the fair value of a derivative position should be measured using the assumptions that market participants would use when pricing that position, including assumptions about risks. An entity should select inputs that are consistent with the characteristics of the derivative position that market participants would take into account in a transaction for the derivative asset or liability. In the absence of a Levell input, an entity should apply an adjustment, such as a premium or discount, when market participants would do so when determining the fair value of a derivative position, consistent with the unit of account. For derivatives, the unit of account generally is the individual transaction unless an entity has made an accounting policy decision to apply the exception in ASC Topic 820 pertaining to measuring the fair value of a group of financial instruments the entity manages on the basis of its net exposure to either market risks or credit risks.

When measuring the fair value of a derivative position that has a bid-ask spread, ASC Topic 820 does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for measuring the fair value within the bid-ask spread. An entity should determine the price within the bid-ask spread that is most representative of fair value, which is the price that would be received to sell the asset or paid to transfer the liability (i.e., an exit price), based on assumptions a market participant would use in a similar circumstance. An institution should maintain documented policies for determining the point within the bid-ask spread that is most representative of fair value and consistently apply those policies.

An entity is expected to apply all of its valuation policies and techniques for measuring fair value consistently over time. Nevertheless, ASC Topic 820 acknowledges that a change in valuation technique from one methodology to another that results in an equally or more representative measure of the fair value of a derivative position may be appropriate. However, it would be inappropriate for an entity to alter its valuation methodology or policies to achieve a desired financial reporting outcome. An example of an inappropriate change in valuation methodology that would result in a fair value estimate not representative of a derivative position's exit price would be for an entity to migrate from using a mid-market pricing convention to using a price within the bid-ask spread that is more advantageous to the entity to offset the impact of adverse changes in market prices or otherwise mask losses.

Unless its fair value measurement is categorized within Level I, if there has been a change in valuation technique for a derivative position, ASC Topic 820 requires an entity to disclose that change and the reasons for making it in the notes to financial statements prepared in accordance with U.S. GAAP.

"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."

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).

Indemnification Assets and Accounting Standards Update No. 2012-06

In October 2012, the FASB issued Accounting Standards Update (ASU) No. 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of an institution," to address the subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution that includes an FDIC loss-sharing agreement. This ASU amends ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007),"Business Combinations"), which includes guidance applicable to government-assisted acquisitions of failed institutions.

Under the ASU, when an institution experiences a change in the cash flows expected to be collected on a loss-sharing indemnification asset because of a change in the cash flows expected to be collected on the assets covered by the loss-sharing agreement, the institution should account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in the value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2012.Early adoption of the ASU is permitted. For institutions with a calendar year fiscal year, the ASU takes effect January 1, 2013. The ASU's provisions should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of an institution. To the extent the guidance in the ASU differs from a branch or agency's existing accounting policies and practices for subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution, the branch or agency will be expected to apply the ASU for FFIEC 002 reporting purposes in accordance with the standard's effective date and transition provisions, which are outlined above. To the extent that a branch or agency's existing accounting policies and practices are consistent with guidance in the ASU, the branch or agency should continue to follow its existing policies and practices.

For additional information, institutions should refer to ASU 2012-06, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

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 individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

A branch or agency that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that result in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) In the FFIEC 002 report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported in the appropriate loan category in Schedule C, Part I, and in Schedule N, as necessary. In addition, a loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables- Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended).

Troubled Debt Restructurings and Accounting Standards Update No. 2011-02

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," to provide additional guidance to help creditors determine whether a concession has been granted to a borrower and whether a borrower is experiencing financial difficulties. The guidance is also intended to reduce diversity in practice in identifying and reporting TDRs. This ASU is effective for public companies for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption for purposes of identifying TDRs. The measurement of impairment for any newly identified TDRs resulting from retrospective application will be applied prospectively in the first interim or annual period beginning on or after June 15, 2011. Nonpublic companies should apply the new guidance for annual periods ending after December 15, 2012, including interim periods within those annual periods. Early adoption of the ASU is permitted for both public and nonpublic entities, with nonpublic entities that adopt early subject to a retrospective identification requirement.

Branches and agencies are expected to continue to follow the accounting and reporting guidance on TDRs in the preceding section of these Supplemental Instructions and in the FFIEC 002 Instructions. To the extent the guidance in the ASU differs from a branch or agency's existing accounting policies and practices for identifying TDRs, the branch or agency will be expected to apply the ASU for FFIEC 002 reporting purposes in accordance with the standard's effective date and transition provisions, which are outlined above. To the extent that a branch or agency's existing accounting policies and practices are consistent with guidance in the ASU, the branch or agency should continue to follow its existing policies and practices.

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.

Subscription Service

We offer a subscription service which enables you to receive recent news and updates on our reporting forms and instructions and upcoming Bank events. You can sign up for this service at the following website:
http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK8

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 **July 30, 2014.** Any FFIEC 002/002S report received after 5:00p.m. on **July 30, 2014** will be considered late unless postmarked by **July 25, 2014** or sent overnight service by **July 29, 2014.**

An original and one copy of the completed FFIEC 019 report(s) (if applicable) for **June 30, 2014** must be returned to this Bank, by mail or messenger, no later than **August 14, 2014**. Any FFIEC 019 report received after 5:00 p.m. on **August 14, 2014** will be considered late unless postmarked by **August 11, 2014** or sent overnight service by **August 14, 2014**. Reporting institutions also 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 **August 14, 2014**.

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 June 30, 2014 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, Financial Reports Associate in the Regulatory Reports Division at (212) 720-6766, or Cheryl Skillman, Team Leader in the Division at (212) 720-8739.

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

Sincerely,

-Signed by Patricia Selvaggi-

Patricia Selvaggi
Assistant Vice President