TO: The Individual Responsible for Filing the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) located in the Second Federal Reserve District.

SUBJECT: Edge and Agreement Corporation reporting requirements for December 31, 2011

Enclosed is a copy of the reporting form for the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b) for the quarter ending December 31, 2011. There are no changes to the FR 2886b reporting form and instructions for December 31, 2011.

Significant accounting changes have been provided in this letter. The vertical black lines in the margins annotate accounting and general guidance revisions found in previous letters.

**Trust Preferred Securities and Limits on Restricted Core Capital Elements**

On March 10, 2005, the Federal Reserve announced the amendment of its risk-based capital standards to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in tier 1 capital, subject to stricter quantitative limits and qualitative standards. The Federal Reserve also revised the quantitative limits applied to the aggregate amount of qualifying cumulative perpetual preferred stock, qualifying trust preferred securities, and Class B and Class C minority interest (collectively, restricted core capital elements) included in the tier 1 capital. These new quantitative limits were scheduled to become effective on March 31, 2009. However, on March 23, 2009, the Federal Reserve adopted a rule extending the compliance date for the tighter limits to March 31, 2011 in light of stressful financial conditions and the severely constrained ability of institutions to raise additional capital in the markets.

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Class B minority interest in consolidated subsidiaries is defined as qualifying cumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary. Class C minority interest in consolidated subsidiaries is defined as qualifying common stockholders’ equity or perpetual preferred stock issued by a consolidated subsidiary that is neither a U.S. depository institution nor a foreign bank.
Goodwill Impairment Testing

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, “Testing Goodwill for Impairment,” to address concerns about the cost and complexity of the existing goodwill impairment test in ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, “Goodwill and Other Intangible Assets”). The ASU’s amendments to ASC Topic 350 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (i.e., for annual or interim tests performed on or after January 1, 2012, for edge and agreement corporation’s with a calendar year fiscal year). Early adoption of the ASU is permitted. Edge and agreement corporations should adopt ASU 2011-08 for FR 2886b reporting purposes in accordance with the standard’s effective date and early adoption provisions.

Under ASU 2011-08, an edge and agreement corporation has the option of first assessing qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test described in ASC Topic 350. If, after considering all relevant events and circumstances, an edge and agreement corporation determines it is not more likely than not (that is, a likelihood of 50 percent or less) that the fair value of a reporting unit is less than its carrying amount (including goodwill), then the edge and agreement corporation does not need to perform the two-step goodwill impairment test. (In other words, if it is more likely than not - a likelihood of more than 50 percent - that the fair value of a reporting unit is greater than its carrying amount, an edge and agreement corporation would not have to test the unit’s goodwill for impairment.) If the edge and agreement corporation instead concludes that the opposite is true (that is, it is more likely than not that the fair value of a reporting unit is less than its carrying amount), then it is required to perform the first step and, if necessary, the second step of the two-step goodwill impairment test. Under ASU 2011-08, an edge and agreement corporation may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The ASU includes examples of events and circumstances that an edge and agreement corporation should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

For additional information, please refer to ASU 2011-08, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498

Accounting for Loan Participations

Amendments to ASC Topic 860, Transfers and Servicing, resulting from Accounting Standards Update No. 2009-16 (formerly FASB Statement No. 166, “Accounting for Transfers of Financial Assets”) modified the criteria that must be met in order for a transfer of a portion of
a financial asset, such as a loan participation, to qualify for sale accounting. These changes apply to transfers of loan participations on or after the effective date of amended ASC Topic 860 (January 1, 2010, for edge and agreement corporations with a calendar year fiscal year), including advances under lines of credit that are transferred on or after the effective date even if the line of credit agreements were entered into before the effective date. Edge and agreement corporations with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with amended ASC Topic 860. In general, loan participations transferred before the effective date of amended ASC Topic 860 are not affected by this new accounting standard.

The reporting of transfers of financial assets incorporates the provisions of Amended ASC Topic 860. The Small Business Administration’s (SBA) longstanding requirement obligates the transferor of the guaranteed portion of an SBA loan at a premium to refund the premium to the transferee if the loan is repaid within 90 days of the transfer. This premium refund obligation is a form of recourse, which causes the transferred guaranteed portion of the loan to not meet the definition of a "participating interest" for this 90-day period. As a result, the transfer must be accounted for as a secured borrowing during this period. Thereafter, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a "participating interest," the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in amended ASC Topic 860 are met.

Edge and agreement corporations should note that the SBA recently eliminated its premium refund requirement for transfers of guaranteed portions of SBA loans at a premium effective for loan transfers settled on or after February 15, 2011. The elimination of this obligation removes the key factor preventing the guaranteed and unguaranteed portions of an SBA loan from meeting the definition of a “participating interest” in a transfer of the guaranteed portion at a premium. With the elimination of this obligation from transfers at a premium on or after February 15, 2011, the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan should now normally meet the definition of a “participating interest” on the transfer date. Assuming that is the case, the transfer of the guaranteed portion of an SBA loan should now be able to be accounted for as a sale on the transfer date, with immediate recognition of any gain or loss on the sale in earnings, if all of the conditions for sale accounting set forth in ASC Topic 860 are met.

Transfers of guaranteed portions of SBA loans at a premium before February 15, 2011, remain subject to the premium refund obligation and must continue to be accounted for in the manner described above.
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.

Because 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, which may not be the case. In making this determination, 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 a concession was made 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 on the FR 2886b report.

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.

An institution 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 results in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) In the FR 2886b 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 RC-C and on Schedule RC-N as necessary.

However, a loan that is a TDR (for example, because of a modification that includes a reduction in principal) that yields a market interest rate at the time of restructuring (and is in compliance with its modified terms) need not continue to be reported as a TDR in Schedule RC-C in calendar years after the year in which the restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must not be in nonaccrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

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”).

Consistent with ASC Subtopic 310-10, TDRs may be aggregated and measured for impairment with other impaired loans that share common risk characteristics by using historical statistics, such as average recovery period and average amount recovered, along with a composite effective interest rate. However, the outcome of such an aggregation approach must be consistent with the measurement methods prescribed in ASC Subtopic 310-10 and the "Loan
Impairment" Glossary entry in the FR Y-9C instructions for loans that are individually considered impaired (i.e., the present value of expected future cash flows discounted at the loan's original effective interest rate or the loan's observable market price if the loan is not collateral dependent; the fair value of the collateral - less estimated costs to sell, if appropriate - if the loan is collateral dependent), not the measurement method prescribed in ASC Subtopic 450-20, Contingencies - Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") for loans not individually considered impaired that are collectively evaluated for impairment. When a loan not previously considered individually impaired is restructured and determined to be a TDR, absent a partial charge-off, it generally is not appropriate for the impairment estimate on the loan to decline as a result of the change in impairment method prescribed in ASC Subtopic 450-20 to the method prescribed in ASC Subtopic 310-10

**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. 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.

Edge and agreement corporations are expected to continue to follow the accounting and reporting guidance on TDRs in the FR 2886b Instruction book. To the extent the guidance in the ASU differs from an edge or agreement corporation’s existing accounting policies and practices for identifying TDRs, edges and agreement corporations will be expected to apply the ASU for FR 2886b reporting purposes in accordance with the standard’s effective date and transition provisions, which are outlined above. To the extent that an edge or agreement corporation’s existing accounting policies and practices are consistent with guidance in the ASU, edge and agreement corporations 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, edge and agreement corporations should refer to ASU 2011-02, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

**Reporting Term Deposits**

The Term Deposit Facility (TDF) is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. For FR 2886b reporting purposes, term deposits offered through the TDF should be treated as balances due from a Federal Reserve Bank. Accordingly, term deposits should be reported in Schedule RC, Balance Sheet, item 1.b, “Cash and balances due from depository institutions: Interest bearing balances”. The earnings on these term deposits should be reported in Schedule RI, item 1.a.(2), “Interest on balances due from depository institutions”.

**Other-Than-Temporary Impairment**

When the fair value of an investment in an available-for-sale or held-to-maturity security is less than its cost basis, the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, an edge and agreement corporation must apply other pertinent guidance such as paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; FASB Staff Position (FSP)

For other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that occur during the current calendar year-to-date reporting period, edge and agreement corporations should report the amount of such losses, the portion recognized in other comprehensive income (before), and the net impairment losses recognized in earnings in Line 6, of the FR 2886b income statement (Schedule RI), respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net of applicable taxes, should be reported in item 5 of Schedule RI-A, Changes in Bank Equity Capital, and included in item 24, “Accumulated other comprehensive income,” on the FR 2886b balance sheet (Schedule RC). For a held-to-maturity debt security on which the edge and agreement corporation has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the edge and agreement corporation should report the carrying value of the debt security, as defined in FSP FAS 115-2, in item 2 of Schedule RC and in column A of Schedule RC-B, Securities. Under the FSP, this carrying value should be the fair value of the debt security as of the date of the most recently recognized other-than-temporary impairment loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

**Reporting Defined Benefit Postretirement Plans**

ASC Subtopic 715-20, Compensation-Retirement Benefits - Defined Benefit Plans-General (formerly FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158)) requires an edge and agreement corporation that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when an edge and agreement corporation initially applied former FAS 158, the previously recognized postretirement plan amounts must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, an edge and agreement corporation must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence,
AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, edge and agreement corporation should refer to FAS 158; FASB Statement No. 87, Employers’ Accounting for Pensions; and FASB Statement No. 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions all of which are codified in ASC Topic 715, Compensation-Retirement Benefits.

**Accounting Standard Codification**

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS 168), to establish the FASB Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (U.S. GAAP). The FASB Codification reorganizes existing U.S. accounting and reporting standards issued by the FASB and other related private-sector standard setters, and all guidance contained in the FASB Codification carries an equal level of authority. All previously existing accounting standards documents are superseded as described in FAS 168. All other accounting literature not included in the FASB Codification is nonauthoritative. The FASB Codification can be accessed at: [http://asc.fasb.org/](http://asc.fasb.org/).

**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:


**Reports Submission**

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

An original and one copy of the completed FR 2886b report must be returned to this Bank, by mail or messenger, no later than January 30, 2012. Any FR 2886b report received after 5:00 p.m. on January 30, 2012 will be considered late unless postmarked by January 27, 2012 or sent by overnight service by January 28, 2012.
Electronic Submission Option

Electronic submission of the FR 2886b report is now available to all edge and agreement corporations. We encourage you to take advantage of this method of report submission. Submitting reports electronically provides the following benefits:

- A timely and efficient alternative to sending the report forms by mail; and
- A printed report is generated that can serve as your institution’s permanent record of the report.

For information on filing the FR 2886b report electronically, please contact Martin Milanovich at 212-720-7310.

The completed report should be submitted to:

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 December 31, 2011 report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits".

Website

The FR 2886b forms and instructions are available on the FFIEC website at:
www.federalreserve.gov/boarddocs/reportforms/

Questions regarding the FR 2886b should be directed to Martin Milanovich, Reports Analyst at (212) 720-7310, or Christine Burke, Team Leader in the Regulatory Reports Division at (212) 720-2409.

Sincerely,

- Signed by Richard Molloy -

Richard Molloy
Assistant Vice President