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FEDERAL RESERVE SYSTEM

Proposed Agency Information Collection Activities: Comment Request

AGENCY: Board of Governors of the Federal Reserve System (Board)

ACTION: Notice and request for comment.

SUMMARY: In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the Board, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (the "agencies") may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the agencies' publication for public comment of a proposal to extend, with revision, 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 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), which are currently approved information collections. The Board is publishing this proposal on behalf of the agencies. At the end of the comment period, the comments and recommendations received will be analyzed to determine the extent to which the FFIEC and the agencies should modify the reports. The Board will then submit the reports to OMB for review and approval.

DATES: Comments must be submitted on or before [INSERT DATE 60 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Interested parties are invited to submit written comments to the agency listed below. All comments will be shared among the agencies. You may submit comments, identified by FFIEC 002 (7100-0032), by any of the following methods:

- Agency Web Site: http://www.federalreserve.gov. Follow the instructions for submitting comments on the http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.
- Federal eRulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include the OMB control number in the subject line of the message.
- FAX: 202-452-3819 or 202-452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters may send a copy of their comments to the OMB desk officer for the agencies by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street N.W., Washington, DC 20503, or by fax to 202-395-6974.

FOR FURTHER INFORMATION CONTACT: Additional information or a copy of the collections may be requested from Cynthia M. Ayouch, Federal Reserve Board Clearance Officer, 202-452-3829, Division of Research and Statistics, Board of Governors of the Federal

Reserve System, 20th and C Streets, N.W., Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may call 202-263-4869.

SUPPLEMENTARY INFORMATION:

Proposal to extend for three years with revision the following currently approved collections of information:

Report Titles: Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks; 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

Form Numbers: FFIEC 002; FFIEC 002S

OMB Number: 7100-0032

Frequency of Response: Quarterly

Affected Public: U.S. branches and agencies of foreign banks

Estimated Number of Respondents: FFIEC 002 - 237; FFIEC 002S - 59

Estimated Time per Response: FFIEC 002 – 25.57 hours; FFIEC 002S – 6.0 hours

Estimated Total Annual Burden: FFIEC 002 – 24,240 hours; FFIEC 002S – 1,416 hours

General Description of Reports: These information collections are mandatory: 12 U.S.C. §§ 3105(c)(2), 1817(a)(1) and (3), and 3102(b). Except for select sensitive items, the FFIEC 002 is not given confidential treatment; the FFIEC 002S is given confidential treatment [5 U.S.C. § 552(b)(4) and (8)].

Abstract: On a quarterly basis, all U.S. branches and agencies of foreign banks are required to file the FFIEC 002, which is a detailed report of condition with a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978. The data are also used to augment the bank credit, loan, and deposit information needed for monetary policy and other public policy purposes. The FFIEC 002S is a supplement to the FFIEC 002 that collects information on assets and liabilities of any non-U.S. branch that is managed or controlled by a U.S. branch or agency of the foreign bank. Managed or controlled means that a majority of the responsibility for business decisions, including but not limited to decisions with regard to lending or asset management or funding or liability management, or the responsibility for recordkeeping in respect of assets or liabilities for that foreign branch resides at the U.S. branch or agency. A separate FFIEC 002S must be completed for each managed or controlled non-U.S. branch. The FFIEC 002S must be filed quarterly along with the U.S. branch or agency's FFIEC 002. The data from both reports are used for: (1) monitoring deposit and credit transactions of U.S. residents; (2) monitoring the impact of policy changes; (3) analyzing structural issues concerning foreign bank activity in U.S. markets; (4) understanding flows of banking funds and indebtedness of developing countries in connection with data collected by the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) that are used in economic analysis; and (5) assisting in the supervision of U.S. offices of foreign banks. The Federal Reserve System collects and processes these reports on behalf of all three agencies.

Current Actions: The agencies propose to implement a limited number of revisions to the FFIEC 002 reporting requirements in 2012. These changes are intended to provide data needed for reasons of safety and soundness and other public purposes. The proposed changes would also help achieve consistency with revisions the agencies are proposing to make to the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041) filed by insured banks and savings institutions. The proposed revisions to the FFIEC 002 summarized below have been approved for publication by the FFIEC. The agencies would implement the proposed changes for the June 30, 2012, reporting date.

Discussion of Proposed Revisions to the FFIEC 002

A. Additional Detail on Trading Assets

U.S. branches and agencies of foreign banks (branches) currently report "other securities" held for investment (i.e., securities other than U.S. Government securities, mortgage-backed securities, and other asset-backed securities) in Schedule RAL, Assets and Liabilities, item 1.c.(1), Securities of foreign governments and official institutions, and Schedule RAL, item 1.c.(4), All other (bonds, notes, debentures, and corporate stock). However, branches currently report these "other securities," when held for trading purposes, together with assets other than securities that are held for trading purposes, in Schedule RAL, item 1.f.(4), other trading assets. The agencies propose to collect a new item on Schedule RAL, for "other securities" held for trading purposes (new Schedule RAL, item 1.f.(4)). Current Schedule RAL, item 1.f.(4), Other trading assets, would be renumbered as item 1.f.(5) and would be defined to exclude all securities held for trading. The additional detail would allow the agencies to better monitor movements in other securities held for trading purposes over time, and provide for more meaningful analysis of the existing categories of trading assets.

B. Loan Origination Data

As highlighted by the recent financial crisis and its aftermath, the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system. However, the information currently available to policymakers both within and outside the agencies is insufficient to accurately monitor the extent to which depository institutions are providing credit to households and businesses. In its current form, the FFIEC 002 report collects data on the amount of loans to both households and businesses that are outstanding on institutions' books at the end of each quarter. However, the underlying flow of loan originations cannot be deduced from these quarter-end data owing to the myriad of factors and banking activities that routinely affect the amount of outstanding loans held by institutions, including activities such as loan paydowns, extensions, purchases and sales, securitizations, and repurchases. Direct reporting of loan originations would allow the agencies to isolate the flow of credit creation from the effects of these other banking activities.

Economic research points to a crucial link between the availability of credit and macroeconomic outcomes.[1] For example, the rapid contraction in both total loans held on institutions' balance sheets and in credit lines held off their balance sheets in the volatile period following the collapse of Lehman Brothers in the fall of 2008 likely contributed to the depth of the economic recession as well as to the subsequent weakness in the recovery in economic activity. However, the lack of data on loan originations made it very difficult for policymakers to assess the sources of the steep declines in outstanding loans and credit lines during the recent crisis and in other periods of slow loan growth such as the early 1990s "credit crunch." In fact, a fall in outstanding loans could be driven by reduced demand for credit, reduced supply of credit by banking organizations, or both. Looking only at changes in outstanding loan balances can give misleading signals and mask important shifts in the supply of, and demand for, credit. Policymakers may react differently in each of these cases.

[1] See, for example, A. K. Kashyap and J. C. Stein (2000), "What Do a Million Observations on Banks Say About the Transmission of Monetary Policy," *The American Economic Review*, Vol. 90, No. 3, pages 407-428. See also Michael Woodford, "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, Fall 2010, volume 24, issue 4, pages 21-44.

The sources of loan growth—such as whether loans were made under commitment or not under commitment—also contain important insights for those monitoring financial stability or developing macroprudential regulatory policies.[2] As observed in the fall of 2008, strong loan growth that is driven primarily by customers drawing down funds from preexisting lending commitments can be a sign of stresses in financial markets, and therefore a signal that the economy could be slowing down. In contrast, strong growth in credit that includes robust extensions to new customers could signal a broad pickup in demand for financing and hence renewed economic growth, or it could suggest that institutions have eased their lending standards. Accordingly, rapid loan growth can be an important indicator of the safety and soundness of individual institutions.[3] Loan origination data, if collected from banking institutions, would better identify when such developments warrant greater supervisory scrutiny. Loan data currently available to the agencies provide insufficient detail to accurately monitor credit creation by banking institutions. The FFIEC 002 report currently collects data on the recorded amounts of a wide variety of loan categories in Schedule C, Loans. On Schedule S, Servicing, Securitization, and Asset Sale Activities, branches report the outstanding principal balance of seven categories of loans sold and securitized for which the institution has retained servicing or has provided recourse or other credit enhancements.[4] For these same seven loan

[2] Moritz Schularick and Alan M. Taylor, "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises, 1870-2008," 2009, National Bureau of Economic Research, Inc., NBER Working Papers: 15512.

[3] William R. Keeton, "Does Faster Loan Growth Lead to Higher Loan Losses?" *Federal Reserve Bank of Kansas City Economic Review*, 2nd Quarter 1999, volume 84, issue 2, pages 57-75, and Deniz Igan and Marcelo Pinheiro, "Exposure to Real Estate in Bank Portfolios," *Journal of Real Estate Research*, January-March 2010, volume 32, issue 1, pages 47-74.

[4] The seven categories are (1) 1-4 family residential mortgages, (2) home equity loans, (3) credit card loans, (4) auto loans, (5) other consumer loans, (6) commercial and industrial loans, and (7) all other loans, all leases, and all other assets (commercial real estate loans, for example, are subsumed in this category).

categories, branches also report the unpaid principal balance of loans they have sold (but not securitized) with recourse or other seller-provided credit enhancements. No data exist for those loans that branches have sold without recourse or seller-provided credit enhancements when servicing has not been retained.

In contrast, savings associations currently report data on loan originations, sales, and purchases in the Thrift Financial Report (TFR) (OTS 1313; OMB No. 1550-0023). On TFR Schedule CF, Consolidated Cash Flow Information, savings associations report by major loan category the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter. In addition, on TFR Schedule LD, Loan Data, savings associations report the amount of net charge-offs, purchases, originations, and sales of certain 1-4 family and multifamily residential mortgages with high loan-to-value ratios.[5]

The agencies propose to begin collecting data on loan originations from branches with total assets of $300 million or more because, as outlined in detail above, this information would be of substantial benefit in light of the fact that the data currently available for banking organizations are inadequate for monetary policy and financial stability regulators to monitor and analyze credit flows and because the proposed data will support the agencies' supervisory efforts.

More specifically, for branches with $300 million or more in total assets, the agencies propose to collect quarterly information on loan originations for several important loan categories by introducing a new Schedule U, Loan Origination Activity.[6] Under this proposal,

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[5] Savings associations will discontinue filing the TFR after the December 31, 2011, report date, which means that these data, as currently reported in the TFR, will no longer be collected going forward.

[6] Thus, branches with less than $300 million in total assets would be exempt from completing proposed Schedule U.

all branches with $300 million or more in total assets would report in column A of Schedule U, for certain loan categories reported in Schedule C, Loans, the quarter-end balance sheet amount of those loans that were originated during the quarter that ended on the report date.[7] Branches with $1 billion or more in total assets would also report, for relevant loan categories, (1) the portion of this quarter-end amount that was originated under a newly established commitment[8] (column B of Schedule U) and (2) the portion that was not originated under a commitment (column C of Schedule U). In general, the additional data that would be reported in columns B and C of Schedule U by branches with $1 billion or more in total assets represent two ways that institutions originate new loans, both of which affect the amounts of loans on institutions' balance sheets.

In the proposed originations schedule, all branches with $300 million or more in total assets would report the amounts reported in Schedule C, Part I, as of the quarter-end report date that were originated during the quarter that ended on the report date for the following loan categories reported on a domestic office only basis:

- Construction, land development, and other land loans;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;

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[7] For example, a loan was originated for $120,000 during the quarter. As a result of principal payments received during the quarter, the recorded amount of the loan as reported on the institution's balance sheet (Schedule RAL) and in the loan schedule (Schedule C) at quarter-end was $101,000. The institution would report the $101,000 quarter-end recorded amount for this loan in column A of proposed Schedule U. In general, in reporting amounts in column A, if a loan origination date is unknown, the reporting institution would be instructed to use the date that the loan was first booked by the institution.

[8] A newly established commitment is one for which the terms were finalized and the commitment became available for use during the quarter that ended on the report date. A newly established commitment also includes a commitment that was renewed during the quarter that ended on the report date.

- Loans to commercial banks and other depository institutions in the U.S.;
- Loans to banks in foreign countries;
- Loans to other financial institutions;
- Commercial and industrial loans to U.S. addressees; and
- All other loans (as reported in Schedule C, Part I, item 8).

In addition, for each of the preceding loan categories, branches with $1 billion or more in total assets would separately disclose the portion of the quarter-end amount of loans originated during the quarter that was originated under a newly established commitment and the portion that was not originated under a commitment.

Loan originations that were made under a newly established commitment or a commitment that was renewed during the quarter are likely to more closely reflect the current lending standards and loan terms being applied by an institution, so an expansion or contraction in this subset of loans is indicative of current supply and demand conditions. In this regard, research has shown that loans not made under a commitment are more sensitive to changes in monetary policy than loans made under a commitment.[9] In contrast, loans drawn under previous commitments reflect lending standards and terms that were in place at the time the loan agreements were reached. Hence, changes in outstanding balances associated with previously committed lines are more indicative of demand for funds from the firms that have these lines, as institutions are less able to ration such credit.

As mentioned above, all savings associations, many of which are small, have for many years reported in the TFR the dollar amount of loans that were closed or disbursed, loans and

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[9] Donald P. Morgan, "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments," *Journal of Money, Credit and Banking*, Vol. 30, No. 1 (Feb. 1998), pages 102-118.

participations purchased, and loan sales during the quarter by major loan category. Thus, the additional reporting burden of proposed FFIEC 002 Schedule U for branches with $300 million or more in total assets may be manageable for banking institutions. Nevertheless, because branches have not previously been required to report data pertaining to loan originations for FFIEC 002 reporting purposes, the agencies recognize that branches' data systems may not at present be designed to identify and capture data on loans originated during the quarter that ended on the report date. The agencies request comment on the ability of branches' existing loan systems to generate the data proposed for Schedule U. If this information is not currently available, the agencies request comment on how burdensome it would be to adapt current systems to report the proposed origination data for Schedule U. To the extent that existing loan systems enable branches to track data on loans originated during the quarter by loan category in a different manner than has been proposed, branches are invited to suggest alternative ways in which such origination data could be collected in the FFIEC 002 report and to explain how an alternative would meet the agencies' data needs as described above in this section.

Paperwork Reduction Act Request for Comment

Comments are invited on:

a. Whether the information collections are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;

b. The accuracy of the agencies' estimate of the burden of the information collections, including the validity of the methodology and assumptions used;

c. Ways to enhance the quality, utility, and clarity of the information to be collected;

d. Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and

e. Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this notice will be shared among the agencies. All comments will become a matter of public record.

Board of Governors of the Federal Reserve System, November 17, 2011, 2011

Jennifer J. Johnson,
Secretary of the Board.
Billing Code 6210-01-P

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