

**Supporting Statement for
Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies
(FR Y-11, FR Y-11S; OMB No. 7100-0244), and
Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations
(FR 2314, FR 2314S; OMB No. 7100-0073)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following mandatory reports, for implementation March 31, 2007:

- (1) the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11; OMB No. 7100-0244), and
- (2) the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073).

This family of reports also contains the following reports, which are not being revised:

- (1) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S; OMB No. 7100-0244), and
- (2) the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S; OMB No. 7100-0073).

The FR Y-11 reporting forms collect financial information for individual U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis or the FR Y-11S annually based on size thresholds. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations. The FR 2314 reporting forms collect financial information for direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis or the FR 2314S annually based on size thresholds. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries, and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

The Federal Reserve proposes to collect four new data items on the quarterly FR Y-11 and FR 2314 reporting forms to monitor the extension of negatively amortizing residential mortgage loans and to make them consistent with the proposed revision on the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128). The Federal Reserve also proposes to add a new section to the FR 2314 titled Notes to the Financial Statements. The Federal Reserve is not proposing any revisions to the FR Y-11S and FR 2314S.

Copies of the proposed reporting forms, marked to show the revisions, are attached. The total current annual burden for the FR Y-11 reports is estimated to be 35,341 hours and would increase by 545 hours with these revisions. The total current annual burden for the FR 2314 reports is estimated to be 6,457 hours and would increase by 149 hours.

Background and Justification

The FR Y-11 family of reports collects financial information for individual U.S. nonbank subsidiaries of domestic BHCs, which is essential for monitoring the subsidiaries' potential impact on the BHC or its subsidiary banks' condition. Consolidated and parent company only data do not reveal the extent of the problems that may exist within the nonbank subsidiaries because the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report.

In addition to providing information used in the supervision of BHCs, the FR Y-11 family of reports provides essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The data are also used by the Federal Reserve to respond to requests from the Congress and the public for information on BHCs.

The FR 2314 family of reports is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of foreign subsidiaries of U.S. banking organizations and the data are used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. banking organizations both individually and in the aggregate.

Description of the Information Collection

FR Y-11 and FR Y-11S

Domestic BHCs file the FR Y-11 for their U.S. nonbank subsidiaries on an individual basis. The FR Y-11 consists of a balance sheet and income statement; information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, and loans; and a memoranda section. The FR Y-11 is filed quarterly, as of the last calendar day of March, June, September, and December, by a top-tier BHC for each individual nonbank subsidiary that it owns or controls if the top-tier BHC files the FR Y-9C and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier BHC's consolidated equity capital; or (d) operating revenue of at least 5 percent of the top-tier BHC's consolidated operating revenue. The FR Y-11 is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion.

The FR Y-11S is an abbreviated reporting form that comprises four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-11S is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$50 million, but less than

\$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

FR 2314 and FR 2314S

The FR 2314 collects financial information for direct or indirect foreign subsidiaries of U.S. SMBs, Edge and agreement corporations, and BHCs. The FR 2314 consists of a balance sheet and income statement; information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, and loans; and a memoranda section. A parent U.S. banking organization must file the FR 2314 quarterly as of the last calendar day of March, June, September, and December for its subsidiary if the subsidiary is owned or controlled by a parent U.S. BHC that files the FR Y-9C or a SMB or an Edge or agreement corporation that has total consolidated assets equal to or greater than \$500 million and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue. The FR 2314 is filed annually for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion.

The FR 2314S is an abbreviated reporting form that comprises four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR 2314S is filed annually, as of December 31, for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with assets of at least \$50 million but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

Proposed Revisions

FR Y-11 and FR 2314

Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. Currently the Federal Reserve has no readily available means of identifying the industry's exposure to such loans. Therefore, the Federal Reserve proposes to collect four data items at the nonbank subsidiary level to monitor the extension of negatively amortizing residential mortgage loans in the industry and to parallel the data items being proposed for inclusion on the FR Y-9C.

The Federal Reserve proposes to collect one memorandum item from all nonbank subsidiaries on Schedule BS-A, Loan and Leases Financing Receivables, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties in order to obtain an overall measure of this potentially higher risk lending activity. In addition, the Federal Reserve proposes to collect two memorandum items on Schedule BS-A and one memorandum item on Schedule IS, Income Statement, from nonbank subsidiaries with a

significant volume of negatively amortizing 1-4 family residential mortgage loans. The determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans in excess of 5 percent of the total loans and leases reported on Schedule BS-A. A nonbank with negatively amortizing loans would determine whether it met the size threshold for reporting the three additional memorandum items based on data reported from the previous year-end FR Y-11 and FR 2314.

The Federal Reserve also proposes two additional Schedule BS-A memorandum items to collect (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The first memorandum item would provide a measure of the maximum exposure that could be incurred for negative amortization loans in the current 1-4 family residential property loan portfolio. The second memorandum item would then identify what component of 1-4 family mortgage loans is comprised of negative amortization loans. The Schedule IS memorandum item is year-to-date non-cash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. This memorandum item would identify the amount and extent of interest revenue accrued and uncollected to ascertain the degree this potentially higher risk lending activity supports the BHC's overall net income. All nonbank subsidiaries with negatively amortizing 1-4 family residential loans in excess of the reporting threshold would report these data items for the entire calendar year following the end of any calendar year when the threshold was exceeded.

FR 2314 only

The Federal Reserve proposes to add the section Notes to the Financial Statements to allow respondents the opportunity to provide, at their option, any material information included in specific data items on the financial statements that the parent U.S. banking organization wishes to explain. The addition of this section would enable The Federal Reserve to automate information that respondents may want to report as footnotes to various reported data items and provide for release of this information to the public. This section is currently included on the FR Y-11.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-11 and FR 2314. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The quarterly FR Y-11 and FR 2314 are filed as of the end of March, June, September, and December and are submitted within sixty days after the as-of date. Meeting the thresholds for filing quarterly is self determined by the respondent and ascertained as of the reporting date.

The FR Y-11 annual, FR Y-11S, FR 2314 annual, and FR 2314S are filed as of the end of December and are also submitted within sixty days after the as-of date. The data from the FR Y-11 and FR 2314 that are not given confidential treatment are available to the public, but are not published routinely.

Legal Status

The Board's Legal Division has determined that the FR Y-11 reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)] and that the FR 2314 reports are authorized under [12 U.S.C. 324, 602, 625, and 1844(c)]. Overall, the Board does not consider these data to be confidential. However, a respondent may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Consultation Outside the Agency

On January 11, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 1325) requesting public comment for sixty days on the revision, without extension, of the FR Y-11 and FR 2314. The comment period for this notice expired on March 12, 2007. No comments were received. On March 26, 2007, the Federal Reserve published a final notice in the *Federal Register* (72 FR 14104).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

As shown in the following table, the current estimated annual reporting burden for the FR Y-11 reports is 35,341 hours and would increase to 35,886 hours. The current estimated annual reporting burden for the FR 2314 reports is 6,457 hours and would increase to 6,606 hours. The increase in the estimated average hours per response is due to the addition of the new data items. The proposed total burden for the two information collections represents less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
FR Y-11 (quarterly)	1,287	4	6.25	32,175
FR Y-11 (annual)	301	1	6.25	1,881
FR Y-11S	1,285	1	1.0	<u>1,285</u>
<i>Total</i>				35,341
<i>Proposed</i>				
FR Y-11 (quarterly)	1,287	4	6.35	32,690
FR Y-11 (annual)	301	1	6.35	1,911
FR Y-11S	1,285	1	1.0	<u>1,285</u>
<i>Total</i>				35,886
<i>Change</i>				545
<i>Current</i>				
FR 2314(quarterly)	211	4	6.25	5,275
FR 2314 (annual)	151	1	6.25	944
FR 2314S	238	1	1.0	<u>238</u>
<i>Total</i>				6,457
<i>Proposed</i>				
FR 2314(quarterly)	211	4	6.40	5,402
FR 2314 (annual)	151	1	6.40	966
FR 2314S	238	1	1.0	<u>238</u>
<i>Total</i>				6,606
<i>Change</i>				149

With the proposed revisions, the total estimated annual cost to the public of the FR Y-11 reports would increase from \$2,178,773 to \$2,212,372. The total estimated annual cost to the public of the FR 2314 reports would increase from \$398,075 to \$407,260.¹

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR Y-11 is estimated to be \$256,750 per year. With the revisions the estimated costs will increase by less than 1 percent to \$258,650 per year. The one-time costs to implement the revised report are estimated to be \$10,690. Current costs to the Federal Reserve System for

¹ Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ \$25, 45% - Managerial or Technical @ \$55, 15% - Senior Management @ \$100, and 10% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.

collecting and processing the FR 2314 is estimated to be \$93,500 annually. With the revisions the estimated costs will increase by less than 1 percent to \$94,200 per year. The one-time costs to implement the revised report are estimated to be \$7,250.