

DRAFT

I. Interim Final Rule for Paycheck Protection Program Liquidity (PPPL) Facility and Paycheck Protection Program (PPP) Loans

To enhance the liquidity of small business lenders and improve the functioning of the broader credit markets, the Federal Reserve Board authorized each of the Federal Reserve Banks to participate in the Paycheck Protection Program **Liquidity** (PPPL) Facility. On April 13, 2020, the Board published an [interim final rule](#), which permits holding companies (HCs) to exclude from regulatory capital requirements Paycheck Protection Program (PPP) covered loans pledged under the PPPL Facility. The interim final rule also clarifies that PPP covered loans as defined in section 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)) receive a zero percent risk weight.

The interim final rule modifies the Board's capital rule and allows PPPL Facility-eligible HCs to neutralize the regulatory effects of PPP covered loans on their risk-based capital ratios, as well as PPP covered loans pledged under the PPPL facility on their leverage capital ratios. When calculating leverage capital ratios, a holding company (HC) may exclude from average total consolidated assets and, as applicable, total leverage exposure a PPP covered loan as of the date that it has been pledged under the PPPL Facility. Accordingly, a PPP covered loan that has not been pledged as collateral in connection with an extension of credit under the PPPL Facility would be included in the calculation of the firm's average total consolidated assets and, as applicable, total leverage exposure. This treatment extends to the community bank leverage ratio. No new extensions of credit will be made under the Facility after September 30, 2020, unless the Federal Reserve Board and U.S. Department of Treasury jointly determine to extend the Facility.

Consistent with U.S. generally accepted accounting principles (U.S. GAAP), the Board expects HCs to report PPP covered loans on their balance sheets. Starting with the June 30, 2020, reporting date, HCs are to include the outstanding balances of their PPP covered loans held for investment or held for sale in the appropriate loan category in Schedule HC-C, and, as applicable, in other FR Y-9C schedules in which loan data are reported. PPP covered loans pledged under the PPPL Facility are reported as pledged loans in Schedule HC-C, Memorandum item 14, "Pledged loans and leases". Any PPP covered loans held for trading would be reported by all HCs on the FR Y-9C balance sheet, Schedule HC, item 5, with the fair value and amortized cost of such loans reported by loan category in Schedule HC-D, Trading Assets and Liabilities, by HCs required to complete this schedule. The outstanding balance of PPP covered loans held for trading that are pledged to the PPPLF would be included in Schedule HC-D, Memorandum item 4.b, "Pledged loans," on the FR Y-9C by institutions required to complete this schedule.

Borrowings from the Federal Reserve Banks are included in Schedule HC, item 16, "Other borrowed money," and included in the relevant sub item under Schedule HC-M, item 14 "Other borrowings"; and Schedule HC-M, item 23.b, "Amount of 'Other borrowings' that are secured."

For regulatory capital reporting, PPP covered loan exposures, regardless of whether they are pledged under the PPPL Facility, would be reported in Schedule HC-R, Part II, item 4.d., "Loans and leases held for sale: All other exposures" or Schedule HC-R, Part II, item 5.d., "Loans and leases held for investment: All other exposures" as appropriate, in both Column A (Totals) and Column C (0% risk-weight category).¹ PPP covered loan exposures that are past due 90 days or more or on nonaccrual should be reported in Schedule HC-R, Part II, item 4.c., "Loans and leases held for sale: Exposures past due 90 days or more or on nonaccrual" or Schedule HC-R, Part II, item 5.c., "Loans and leases held for investment: Exposures past due 90 days or more or on nonaccrual" as appropriate, in both Column A (Totals) and Column C (0% risk-weight category).² The quarterly average of PPP covered loans pledged under the PPPL facility

¹ Reporting in Schedule HC-R, Part II, only applies to non CBLR holding companies.

² The Board and the other federal banking agencies issued an interagency statement to provide information to financial institutions that are working with borrowers affected by the coronavirus: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200407a.htm>

DRAFT

would be reported in Schedule HC-R, part I, item 29, “LESS: Other deductions from (additions to) assets for leverage ratio purposes,” and thus excluded from Schedule HC-R, item 30, “Total assets for the leverage ratio.”

Advanced approaches banking organizations would not include PPP covered loans in “Total risk-weighted assets (RWAs)” in Schedule, HC-R, Part I, item 46.b. Holding companies subject to the supplementary leverage ratio requirement would report their adjusted “Supplementary leverage ratio” in Schedule HC-R, Part I, item 53. PPP covered loans pledged under the PPPL Facility would receive similar treatment as under the leverage ratio and would be reported in the FFIEC 101, Schedule A, SLR Tables.

Holding companies would separately report in Schedule HC-M, item 25.a, 25.b, 25.c., and 25.d, the number of PPP covered loans outstanding, the quarter-end outstanding balance of PPP covered loans, the quarter-end outstanding balance of PPP covered loans that are pledged to the PPPLF, and the quarterly average amount of PPP covered loans pledged to the PPPLF that were excluded from total assets for the leverage ratio reported in Schedule HC-R, Part I, item 30, respectively.

II. Section 4013, Temporary Relief from Troubled Debt Restructurings (TDR)

As provided for under the CARES Act, a holding company may account for an eligible loan modification either under Section 4013 or in accordance with Accounting Standards Codification (ASC) Subtopic 310-40, Receivables–Troubled Debt Restructurings by Creditors. If a loan modification is not eligible under Section 4013, or if the holding company elects not to account for the loan modification under Section 4013, the holding company should evaluate whether the modified loan is a TDR.

To be an eligible loan under Section 4013 (Section 4013 loan), a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020.

Holding companies accounting for eligible loans under Section 4013 are not required to apply ASC Subtopic 310-40 to the Section 4013 loans for the term of the loan modification. Holding companies do not have to report Section 4013 loans as TDRs in regulatory reports. However, consistent with the statute, the Board is collecting information about the volume of loans modified under Section 4013. Holding companies should report the total number of loans outstanding that have been modified under Section 4013 and the outstanding balance of these loans in FR Y-9C, Schedule HC-C, Loans and Lease Financing Receivables, Memorandum items 16.a and 16.b, respectively. These two items are being collected on a confidential basis at the holding company level.

Holding companies should continue to follow reporting instructions and U.S. GAAP for Section 4013 loans, including:

- Appropriately reporting past due and nonaccrual status; and
- Maintaining an appropriate allowance for loan and lease losses in accordance with ASC Subtopic 450-20 or ASC Subtopic 310-10, or an appropriate allowance for credit losses in accordance with ASC Subtopic 326-20, as applicable.

Holding companies are not required to report Section 4013 loans in the following FR Y-9C items:

- Schedule HC-C, Memorandum item 1, “Loans restructured in troubled debt restructurings that are in compliance with their modified terms.”
- Schedule HC-N, Memorandum item 1, “Loans restructured in troubled debt restructurings included in items 1 through 7, above.”

One-to-four family residential mortgages will not be considered restructured or modified for the purposes of the Board’s risk-based capital rules solely due to a short-term modification made on a good faith basis

DRAFT

in response to COVID-19, provided that the loans are prudently underwritten and not 90 days or more past due or carried in nonaccrual status. Loans meeting these requirements that received a 50 percent risk weight prior to such a modification may continue receiving that risk weight.