



Instructions for Preparation of

# Consolidated Financial Statements for Holding Companies

Reporting Form FR Y-9C

Effective ~~March 2023~~

December  
2024

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# Schedule HC-C

## Loan Modifications to Borrowers Experiencing Financial Difficulty

sale. If and when individual loans later meet delinquency criteria specified by GNMA, the loans are eligible for repurchase, the holding company is deemed to have regained effective control over these loans, and the delinquent loans must be brought back onto the holding company's books as loan assets.

Exclude all intracompany (i.e., between subsidiaries of the consolidated holding company) transactions and all loans and leases held for trading purposes.

All loans are classified according to security, borrower, or purpose. All loans satisfying the criteria in the Glossary entry for "Loans secured by real estate" (except those to states and political subdivisions in the U.S.) should be categorized as "Loans secured by real estate" in Schedule HC-C. Loans secured by other collateral, such as securities, inventory, or automobiles would require further examination on both purpose and borrower to properly categorize the loans in Schedule HC-C. For loan categories in Schedule HC-C that include certain loans to individuals, the term "individual" may include a trust or other entity that acts of behalf of (or in place of) an individual or a group of individuals for purposes of obtaining the loan. Loans covering two or more classifications are sometimes difficult to classify. In such instances, classify the entire loan according to the major criterion.

Report in this schedule all loans that the reporting holding company or its consolidated subsidiaries have sold under repurchase agreements. Also report all loans and leases on the books of the reporting holding company even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the holding company has sold or charged off. Also exclude the fair value of any assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the holding company has obtained physical possession of the underlying collateral regardless of whether formal foreclosure or repossession proceedings have been instituted against the borrower. Refer to the Glossary entries for "troubled debt restructurings" and "foreclosed assets" for further discussions of these topics.

When a holding company acquires either (1) a portion of an entire loan that does not meet the definition of a participating interest (i.e., a nonqualifying loan participation) or (2) a qualifying participating interest in a transfer that does not meet all of the conditions for sale

accounting, it should normally report the loan participation or participating interest in Schedule HC, item 4(b), "Loans and leases, held for investment." The holding company also should report the loan participation or participating interest in Schedule HC-C, in the loan category appropriate to the underlying loan, e.g., as a "commercial and industrial loan" in item 4 or as a "loan secured by real estate" in item 1. See the Glossary entry for "transfers of financial assets" for further information.

Exclude, for purposes of this schedule, the following:

- (1) Federal funds sold (in domestic offices), i.e., all loans of immediately available funds (in domestic offices) that mature in one business day or roll over under a continuing contract, excluding funds lent in the form of securities purchased under agreements to resell. Report federal funds sold (in domestic offices) in Schedule HC, item 3(a). However, report overnight lending for commercial and industrial purposes as loans in this schedule. Also report lending transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract that are not securities resale agreements as loans in this schedule.
- (2) Lending transactions in the form of securities purchased under agreements to resell (report in Schedule HC, item 3(b), "Securities purchased under agreements to resell").
- (3) Contracts of sale or other loans indirectly representing other real estate (report in Schedule HC, item 7, "Other real estate owned").
- (4) Undisbursed loan funds, sometimes referred to as incomplete loans or loans in process, unless the borrower is liable for and pays the interest thereon. If interest is being paid by the borrower on the undisbursed proceeds, the amounts of such undisbursed funds should be included in both loans and deposits. (Do not include loan commitments that have not yet been taken down, even if fees have been paid; see Schedule HC-L, item 1).
- (5) All holdings of commercial paper (report in Schedule HC, item 5, if held for trading; report in Schedule HC-B, item 4(b), "Other mortgage-backed securities," item 5, "Asset-backed securities," or item 6, "Other debt securities," as appropriate, if held for purposes other than trading).

## Foreclosed Assets

# Schedule HC-C

See Insert A

on the closed portfolio basis. As such, an institution that applies the portfolio method to a closed portfolio of loans should not allocate the portfolio layer fair value hedge basis adjustments (FVHBAs) to a more granular level and should include these unallocated amounts in this item 11.

If an institution reports each loan item in this schedule net of both unearned income and net unamortized loan fees and has no unallocated portfolio layer FVHBAs applicable to loans, enter a zero in this item. If the amount to be reported in this item represents an addition to the amounts reported in Schedule HC-C, Part I, items 1 through 10, because of unallocated portfolio layer FVHBAs, report the amount with a minus (-) sign.

Do not include net unamortized direct loan origination costs in this item; such costs must be added to the related loan balances reported in Schedule HC-C, items 1 through 9. In addition, do not include unearned income on lease financing receivables in this item. Leases should be reported net of unearned income in Schedule HC-C, item 10.

modifications to borrowers experiencing financial difficulty

## Line Item 12 Total loans and leases, held for investment and held for sale.

Report in columns A and B, as appropriate, the sum of items 1 through 10 less the amount reported in item 11. The total of column A must equal Schedule HC, sum of items 4(a) and 4(b).

## Memoranda

### Line Item M1 ~~Loans restructured in troubled debt restructurings that are in compliance with their modified terms.~~

Report in the appropriate subitem loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms. As 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 by ~~FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan),~~ a troubled debt restructuring is a restructuring of a loan in which a holding company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this Memorandum item, the concession consists of a modification of terms,

modified to borrowers experiencing financial difficulty

~~such as a reduction of the loan's stated interest rate, principal, or accrued interest or an extension of the loan's maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is guaranteed by the government or by others.~~

~~Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off. However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the holding company was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring in this Memorandum item in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a troubled debt restructuring. Also, a loan to a third party purchaser of "other real estate owned" by the reporting holding company for the purpose of facilitating the disposal of such real estate is not considered a troubled debt restructuring. For further information, see the Glossary entry for "troubled debt restructurings."~~

A

modified

Include in the appropriate subitem all loans restructured in troubled debt restructurings as defined above that are in compliance with their modified terms, that is, restructured loans (1) on which all contractual payments of principal or interest scheduled that are due under the modified repayment terms have been paid or (2) on which contractual payments of both principal and interest scheduled under the modified repayment terms are less than 30 days past due.

Exclude from this item (1) those loans restructured in troubled debt restructurings on which under their modified repayment terms either principal or interest is 30 days or more past due and (2) those loans restructured in troubled debt restructurings that are in nonaccrual status under their modified repayment terms. Report such loans restructured in troubled debt restructurings in the category and column appropriate to the loan in Schedule HC-N, items 1 through 8, column A, B, or C, and in Schedule HC-N, Memoranda items 1(a) through 1(f), column A, B, or C.

Insert A

Holding companies are required for financial reporting purposes to disclose modifications to borrowers experiencing financial difficulty if such modifications include principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof).

Report all loan modifications to borrowers experiencing financial difficulty as described in ASU 2022-02, which includes only those modifications which occurred in the previous 12 months, that are performing in accordance with their modified terms, unless the loan meets the conditions that would require it to be reported in Schedule HC-N, Memorandum item 1. For further information, see Glossary entry for "Loan Modification to Borrowers Experiencing Financial Difficulty."

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# Schedule HC-C

Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule HC-C.

**Note:** *HC-C memo items 1(a)(1) through 1(d)(2) and 1(e)(3) through 1(f)(3)(c) are to be completed semiannually in June and December for properties with a billion total assets.*

modified to borrowers experiencing financial difficulty

**Line Item M1(a) Construction, land development, and other land loans (in domestic offices):**

**Line Item M1(a)(1) 1-4 family construction loans.**

Report all loans secured by real estate for the purpose of constructing 1-4 family residential properties (as defined for Schedule HC-C, item 1(a)(1), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item 1-4 family construction loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(a)(1) and Memorandum item 1(a)(1)).

**Line Item M1(a)(2) Other all land development and other land loans (in domestic offices):**

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Report all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans (as defined for Schedule HC-C, item 1(a)(2), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item other construction loans and all land development and other land loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(a)(2) and Memorandum item 1(a)(2)).

**Line Item M1(b) Loans secured by 1-4 family residential properties (in domestic offices).**

modified to borrowers experiencing financial difficulty

Report all loans secured by 1-4 family residential properties (in domestic offices) (as defined for Schedule HC-C, item 1(c), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by 1-4 family residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(c) and Memorandum item 1(d)(2)).

~~nonaccrual status (report in Schedule HC-N, item 1(c) and Memorandum item 1(b)). Also exclude from this item all 1-4 family construction loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms (report in Schedule HC-C, Memorandum item 1(a)(1), above).~~

modified to borrowers experiencing financial difficulty

**Line Item M1(c) Loans secured by multifamily (5 or more) residential properties (in domestic offices):**

Report all loans secured by multifamily (5 or more) residential properties (in domestic offices) (as defined for Schedule HC-C, item 1(d), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by multifamily residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(d) and Memorandum item 1(c)).

**Line Item M1(d) Secured by nonresidential properties (in domestic offices):**

modified to borrowers experiencing financial difficulty

**Line Item M1(d)(1) Loans secured by owner-occupied nonfarm nonresidential properties.**

Report all loans secured by owner-occupied nonfarm nonresidential properties (as defined for Schedule HC-C, item 1(e)(1), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by owner-occupied nonfarm nonresidential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(e)(1) and Memorandum item 1(d)(1)).

**Line Item M1(d)(2) Loans secured by other nonfarm nonresidential properties.**

modified to borrowers experiencing financial difficulty

Report all loans secured by other nonfarm nonresidential properties (as defined for Schedule HC-C, item 1(e)(2), column B) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by other nonfarm nonresidential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 1(e)(2) and Memorandum item 1(d)(2)).



# Schedule HC-C

modified to borrowers experiencing financial difficulty

*Note: Items M1(e)(1) and M1(e)(2) are to be completed by holding companies with \$5 billion or more in total assets. Item M1(e)(3) is to be reported by holding companies with less than \$5 billion in total assets.*

~~and industrial loans restructured in troubled debt restructurings that, under their modified terms, are past due 30 days or more or are in nonaccrual status.~~

modified

## Line Item M1(e) Commercial and industrial loans.

Report all commercial and industrial loans (as defined for Schedule HC-C, item 4) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Report a breakdown of these restructured loans between those to U.S. and non-U.S. addressees for the fully consolidated bank in Memorandum items 1(e)(1) and (2). ~~Exclude commercial and industrial loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 4 and Memorandum item 1(e)).~~

## Line Item M1(f) All other loans.

Report all other loans that cannot properly be reported in Memorandum items 1(a) through 1(e) above that have been restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item all other loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N).~~

Include in this item loans in the following categories that have been restructured in troubled debt restructurings and are in compliance with their modified terms:

## Line Item M1(e)(1) To U.S. addressees

modified to borrowers experiencing financial difficulty

Report all commercial and industrial loans to U.S. addressees (as defined for Schedule HC-C, item 4(a)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item commercial and industrial loans to U.S. addressees restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule HC-N, item 4(a) and Memorandum item 1(e)(1)).~~

~~secured by farmland (in domestic offices) (as defined for Schedule HC-C, item 1.b, column B);~~

- ~~(2) Loans to depository institutions and acceptances of other banks (as defined for Schedule HC-C, item 2);~~
- ~~(3) Loans to finance agricultural production and other loans to farmers (as defined for Schedule HC-C, item 3);~~
- ~~(4) Loans to individuals for household, family, and other personal expenditures (as defined for Schedule HC-C, item 6);~~

## Line Item M1(e)(2) To non-U.S. addressees (domicile).

modified to borrowers experiencing financial difficulty

Report all commercial and industrial loans to non-U.S. addressees (as defined for Schedule HC-C, item 4(b)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item commercial and industrial loans to non-U.S. addressees restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status.~~

~~loans to foreign governments and official institutions (as defined for Schedule HC-C, item 7);~~

- ~~(6) Obligations (other than securities and leases) of states and political subdivisions in the U.S. (included in Schedule HC-C, item 9(b)(2));~~
- ~~(7) Loans to nondepository financial institutions and other loans (as defined for Schedule HC-C, item 9); and~~
- ~~(8) Loans secured by real estate in foreign offices (as defined for Schedule HC-C, item 1, column A).~~

## Line Items M1(e)(3) To U.S. addresses and non-U.S. addresses (domicile).

Holding companies with less than \$5 billion should report all commercial and industrial loans to U.S. addresses and non-U.S. addresses that have been restructured in troubled debt restructuring and are in compliance with their modified terms. ~~Exclude from this item commercial~~

Report in Schedule HC-C, Memorandum items 1(f)(1) through 1(f)(3), each category of loans within "All other loans" that have been restructured in troubled debt restructurings and are in compliance with their modified terms, and the dollar amount of loans in such category, that exceeds 10 percent of total loans restructured in troubled debt restructurings that are in compliance with their modified terms (i.e., 10 percent of the sum of

# Schedule HC-C

modified

modifications to  
borrowers experiencing  
financial difficulty

Schedule HC-C, Memorandum items 1(a) through 1(f). Preprinted captions have been provided in Memorandum items 1(f)(1) through 1(f)(3) for reporting the amount of such ~~restructured~~ loans for the following loan categories if the amount for a loan category exceeds the 10 percent reporting threshold: Loans secured by farmland (in domestic offices); Loans to finance agricultural production and other loans to farmers; (Consumer) Credit cards; Automobile loans; and Other consumer loans.

## **Line Item M1(g) Total loans ~~restructured in troubled debt restructurings~~ that are in compliance with their modified terms.**

Report the sum of Memorandum items 1.a.(1) through 1.f.).

## **Line Item M2 Loans to finance commercial real estate, construction, and land development activities (not secured by real estate) included in Schedule HC-C, items 4 and 9 above.**

Report in this item loans to finance commercial and residential real estate activities, e.g., acquiring, developing and renovating commercial and residential real estate, that are reported in Schedule HC-C, item 4, "Commercial and industrial loans," and item 9, "Other loans," column A.

Such loans generally may include:

- (1) loans made for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loan; or
- (2) loans made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude from this item all loans secured by real estate that are reported in Schedule HC-C, item 1, above. Also exclude loans to commercial and industrial firms where the sole purpose for the loan is to construct a factory or office building to house the company's operations or employees.

**Note: Line items M3 and M4 are to be reported only by holding companies with \$5 billion or more in total assets.**

## **Line Item M3 Loans secured by real estate to non-U.S. addressees (domicile) (included in Schedule HC-C, item 1, column A)**

Report the amount of loans secured by real estate to non-U.S. addressees included in Schedule HC-C, item 1.

For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile."

## **Line Item M4 Outstanding credit card fees and finance charges.**

*This item is to be completed by (1) holding companies that, together with affiliated institutions, have outstanding credit card receivables that exceed \$500 million as of the report date or (2) holding companies that on a consolidated basis are credit card specialty holding companies.*

*Outstanding credit card receivables are the sum of:*

- Schedule HC-C, item 6(a), column A;*
- Schedule HC-S, item 1, column C; and*
- Schedule HC-S, item 6(a), column C.*

*Credit card specialty holding companies are defined as those holding companies that on a consolidated basis exceed 50 percent for the following two criteria:*

- the sum of credit card loans (Schedule HC-C, item 6(a), column A) plus securitized and sold credit card receivables (Schedule HC-S, item 1, column C) divided by the sum of total loans (Schedule HC-C, item 12, column A) plus securitized and sold credit card receivables (Schedule HC-S, item 1, column C); and*
- the sum of total loans (Schedule HC-C, item 12, column A) plus securitized and sold credit card receivables (Schedule HC-S, item 1, column C) divided by the sum of total assets (Schedule HC, item 12) plus securitized and sold credit card receivables (Schedule HC-S, item 1, column C).*

Report the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule HC-C, item 6(a), column A.

*Note: Memorandum items 5(a) and 5(b) are to be completed only by holding companies that have not adopted ASU 2016-13 and are to be reported semiannually in the June and December reports only. Holding companies that have adopted ASU 2016-13 should leave these two items blank.*

## **Line Item M5 Purchased credit-impaired loans held for investment accounted for in accordance with ASC Subtopic 310-30.**

Report in the appropriate subitem the outstanding balance and amount of "purchased credit-impaired loans"

# Schedule HC-M

20, "Receivables-  
Nonrefundable Fees  
and Other Costs",

Purchased credit card relationships shall be carried at amortized cost. Management of the institution shall review the carrying amount at least quarterly, adequately document this review, and adjust the carrying amount as necessary. This review should determine whether unanticipated acceleration or deceleration of cardholder payments, account attrition, changes in fees or finance charges, or other events or changes in circumstances indicate that the carrying amount of the purchased credit card relationships may not be recoverable. If this review indicates that the carrying amount may not be recoverable, the intangible asset should be tested for recoverability, and any impairment loss should be recognized, as described in the instruction for Schedule HC-M, item 2.

*Nonmortgage servicing assets* are contracts to service financial assets, other than loans secured by real estate (as defined for Schedule HC-C, item 1) under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A nonmortgage servicing contract is either (a) undertaken in conjunction with selling or securitizing the nonmortgage financial assets being serviced or (b) purchased or assumed separately. For nonmortgage servicing assets accounted for under the amortization method, the carrying amount is the unamortized cost of acquiring the nonmortgage servicing contracts, net of any related valuation allowances. For nonmortgage servicing assets accounted for under the fair value method, the carrying amount is the fair value of the nonmortgage servicing contracts. For further information, see the Glossary entry for "servicing assets and liabilities."

## Line Item 12(d) Total.

Report the sum of items 12(a), 12(b) and 12(c). This amount must equal Schedule HC, item 10, "Intangible assets."

## Line Item 13 Other real estate owned.

Report the net book value of all real estate other than (1) holding company premises owned or controlled by the holding company and its consolidated subsidiaries (which should be reported in Schedule HC, item 6) and (2) direct and indirect investments in real estate ventures (which should be reported in Schedule HC, item 9). Also exclude real estate property collateralizing a fully or partially government-guaranteed mortgage loan for which the

holding company has received physical possession and the conditions specified 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")~~, were met upon foreclosure. In such a situation, rather than recognizing other real estate owned upon foreclosure, the holding company must recognize a separate "other receivable," which should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. Report such a receivable in Schedule HC-F, item 6, "All other assets." For further information, see the Glossary entry for "Foreclosed assets." Do not deduct mortgages or other liens on such property (report mortgages or other liens in Schedule HC, item 16, "Other borrowed money"). Amounts should be reported net of any applicable valuation allowances.

Include as all other real estate owned:

- (1) Foreclosed real estate, i.e.,
  - (a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the holding company has not yet received title to the property.
  - (b) Real estate collateral underlying a loan when the holding company has obtained physical possession of the collateral. (For further information see Glossary entries for "foreclosed assets" and "troubled debt-restructurings.")

Foreclosed real estate received in full or partial satisfaction of a loan should be recorded at the fair value less cost to sell of the property at the time of foreclosure. This amount becomes the "cost" of the foreclosed real estate. When foreclosed real estate is received in full satisfaction of a loan, the amount, if any, by which the recorded amount of the loan exceeds the fair value less cost to sell of the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule HC, item 16, "Other borrowed money."

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost



# Schedule HC-N

is required or has elected to carry a PCD asset in nonaccrual status, the asset must be reported as a nonaccrual asset at its amortized cost basis (fair value for a PCD available-for-sale debt security) in Schedule HC-N, column C. (For PCD assets for which the holding company has made a policy election to maintain previously existing pools of PCI loans upon adoption of ASU 2016-13, the determination of nonaccrual or accrual status should be made at the pool level, not the individual asset level.) For further information, see the Glossary entry for “purchased credit-deteriorated assets.”

As a general rule, a nonaccrual asset may be restored to accrual status when:

- (1) None of its principal and interest is due and unpaid, and the holding company expects repayment of the remaining contractual principal and interest, or
- (2) When it otherwise becomes well secured and in the process of collection.

For purposes of meeting the first test for restoration to accrual status, the holding company must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for “nonaccrual status,”

- (1) The asset has been formally ~~restructured~~ and qualifies for accrual status,
- (2) The asset is a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method

**modified to a borrower experiencing financial difficulty**

- (3) The borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and certain repayment criteria are met.

For further information, see the Glossary entry for “nonaccrual status.”

~~**Restructured in Troubled Debt Restructurings**—A troubled debt restructuring is a restructuring of a loan in which a holding company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this schedule, the concession consists of a modification of terms, such as a reduction of the loan’s stated interest rate, principal, or accrued~~

~~interest or an extension of the loan’s maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is guaranteed by the government or by others.~~

~~Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off. However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the holding company was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a troubled debt restructuring. Also, a loan to a third party purchaser of “other real estate owned” by the reporting holding company for the purpose of facilitating the disposal of such real estate is not considered a troubled debt restructuring.~~

~~For further information, see the Glossary entry for “troubled debt restructurings.”~~

## Column Instructions

Holding companies that have adopted ASU 2016-13, report in columns A, B and C of Schedule HC-N asset amounts without any deduction for allowances for credit losses.

The columns of Schedule HC-N are mutually exclusive. Any given loan, lease, debt security, or other asset should be reported in only one of columns A, B, and C. Information reported for any given off-balance sheet contract should be reported in only column A or column B.

Report in columns A and B of Schedule HC-N (except for Memorandum item 6) the balance sheet amounts (not just delinquent payments) of loans, leases, debt securities, and other assets that are past due and upon which the bank continues to accrue interest, as follows:

- (1) In column A, report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears

Insert B

Loan Modifications to Borrowers Experiencing Financial Difficulty – Holding companies are required for financial reporting purposes to disclose modifications to borrowers experiencing financial difficulty if such modifications include principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof).

Modified loans reported in this schedule should meet the definition of loan modifications to borrowers experiencing financial difficulty, as described in ASU 2022-02, which includes only those modifications which occurred in the previous 12 months. The amounts reported should include modifications that were accounted for as new loans in addition to modifications that were accounted for as a continuation of existing loans. For further information, see Glossary entry for "Loan Modification to Borrowers Experiencing Financial Difficulty."

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# Schedule HC-N

## **Line Item 12(a)(5) Secured by nonfarm nonresidential properties:**

### **Line Item 12(a)(5)(a) Loans secured by owner-occupied nonfarm nonresidential properties.**

Report in the appropriate column the amount of all covered loans secured by owner-occupied nonfarm nonresidential properties reported in Schedule HC-M, item 6(a)(1)(e)(1), that are included in Schedule HC-N, item 1(e)(1), above because they are past due 30 days or more or are in nonaccrual status as of the report date.

### **Line Item 12(a)(5)(b) Loans secured by other nonfarm nonresidential properties.**

Report in the appropriate column the amount of all covered loans secured by other nonfarm nonresidential properties reported in Schedule HC-M, item 6(a)(1)(e)(2), that are included in Schedule HC-N, item 1(e)(2), above because they are past due 30 days or more or are in nonaccrual status as of the report date.

### **Line Item 12(b) through 12(d) Not applicable.**

### **Line Item 12(e) All other loans and all leases.**

Report in the appropriate column the amount of covered loans and leases reported in Schedule HC-M, item 6(a)(5), "All other loans and all leases," that are past due 30 days or more or are in nonaccrual status as of the report date. Include in the appropriate column of this item covered loans in the following categories that are past due 30 days or more or are in nonaccrual status as of the report date:

- (1) Loans to depository institutions and acceptances of other banks included in Schedule HC-N, item 2;
- (2) Loans to finance agricultural production and other loans to farmers included in Schedule HC-N, item 3;
- (3) Commercial and industrial loans included in HC-N, item 4;
- (4) Loans to individuals for household, family, and other personal expenditures included in Schedule HC-N item 5(a), 5(b) and 5(c);
- (5) Loans to foreign governments and official institutions included in Schedule HC-N, item 6;
- (6) Obligations (other than securities and leases) of states and political subdivisions in the U.S. included in Schedule HC-N, item 7;

(7) Loans to nondepository financial institutions and other loans included in Schedule HC-N, item 7; and

(8) Loans secured by real estate in foreign offices included in Schedule HC-N, item 1(f).

Also include in the appropriate column all covered lease financing receivables included in Schedule HC-N, item 8, above that are past due 30 days or more or are in nonaccrual status as of the report date.

### **Line Item 12(f) Portion of covered loans and leases included in items 12.a through 12.e above that is protected by FDIC loss-sharing agreements.**

Report the maximum amount recoverable from the FDIC under loss-sharing agreements covering the past due and nonaccrual loans and leases reported in Schedule HC-N, items 12(a)(1)(a) through 12(e), above beyond the amount that has already been reflected in the measurement of the reporting holding company's indemnification asset, which represents the right to receive payments from the FDIC under the loss-sharing agreement.

In general, the maximum amount recoverable from the FDIC on covered past due and nonaccrual loans and leases is the recorded amount of these loans and leases, as reported in Schedule HC-N, items 12(a)(1)(a) through 12(e), multiplied by the currently applicable loss coverage rate (e.g., 80 percent or 95 percent). This product will normally be the maximum amount recoverable because reimbursements from the FDIC for covered losses related to the amount by which the "book value" of a covered asset on the failed institution's books (which is the amount upon which payments under an FDIC loss-sharing agreement are based) exceeds the amount at which the reporting holding company reports the covered asset on Schedule HC, Balance Sheet, should already have been taken into account in measuring the carrying **modification to borrowers experiencing financial difficulty** company's loss-sharing reported in Schedule HC-F, item 6, "Other" assets.

## **Memoranda**

### **Line Item M1 Loans restructured in troubled debt restructurings included in Schedule HC-N, items 1 through 7, above.**

*Note: HC-N items memo 1(a)(1) through 1(d)(2) and 1(e)(3) through 1(f)(3)(c) are to be completed semiannually in June and December by HCs with less than \$5 billion total assets.*

# Schedule HC-N

modified to borrowers experiencing financial difficulty

, under their modified repayment terms,

modified to borrowers experiencing financial difficulty

Report in the appropriate subitem and column loans that have been ~~restructured in troubled debt restructurings~~ (as described in “Definitions” above) and are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in one or more of the loan categories in items 1 through 7 of this schedule. Exclude all loans ~~restructured in troubled debt restructurings~~ that are in compliance with their modified terms ~~in Schedule HC-C~~ Memorandum item 1).

For further information, see the “troubled debt restructurings.”

loan modification to borrowers experiencing financial difficulty

## Line Item M1(a) Construction, ~~Part I,~~ and other land loans (in domestic offices):

### Line Item M1(a)(1) 1-4 family construction loans.

Report in the appropriate column all loans secured by real estate for the purpose of constructing 1-4 family residential properties included in item 1(a)(1) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

### Line Item M1(a)(2) Other construction loans and all land development ~~modified to borrowers experiencing financial difficulty~~

Report in the appropriate column all loans secured for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans included in item 1(a)(2) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

### Line Item M1(b) Loans secured by 1-4 family residential properties (in domestic offices).

Report in the appropriate column all loans secured by 1-4 family residential properties (in domestic offices) included in item 1(c) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

### Line Item M1(c) Loans secured by multifamily (5 or more) residential properties (in domestic offices).

Report in the appropriate column all loans secured by multifamily (5 or more) residential properties (in domestic

offices) included in item 1(d) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

### Line Item M1(d) Secured by nonfarm nonresidential properties (in domestic offices)

#### Line Item M1(d)(1) Loans secured by owner-occupied nonfarm nonresidential properties.

Report in the appropriate column all loans secured by owner-occupied nonfarm nonresidential properties included in item 1(e)(1) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

#### Line Item M1(d)(2) Loans secured by other nonfarm nonresidential properties.

Report in the appropriate column all nonfarm nonresidential real estate loans not secured by owner-occupied nonfarm nonresidential properties included in item 1(e)(2) of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

#### Line Item M1(e) Commercial and industrial loans.

Report all commercial and industrial loans included in item 4 of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~ Report a breakdown of these ~~restructured~~ loans between those to U.S. and non-U.S. addressees for the fully consolidated holding company in Memorandum items 1(e)(1) and (2). ~~modified~~

#### Line Item M1(e)(1) To U.S. addressees (domicile).

*Note: Items M1(e)(1) and M1(e)(2) are to be completed by holding companies with \$5 billion or more in total assets. Item M1(e)(3) is to be reported by holding companies with less than \$5 billion in total assets.*

Report in the appropriate column all commercial and industrial loans to U.S. addressees included in item 4 of this schedule that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms,~~



# Schedule HC-N

modified to borrowers experiencing financial difficulty that are **not** in compliance with their modified terms

modified to borrowers experiencing financial difficulty

~~are past due 30 days or more or are in nonaccrual status as of the report date.~~

## Line Item M1(e)(2) To non-U.S. addressees (domicile).

Report in the appropriate column all commercial and industrial loans to non-U.S. addressees ~~included in item 4 of this schedule that have been restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

## Line Item M1(e)(3) To U.S. addresses and non-U.S. addresses (domicile).

Report in the appropriate column all commercial and industrial loans to U.S. addresses and non U.S. addresses included in item 4 of this schedule that ~~have been restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

## Line Item M1(f) All other loans.

Report in the appropriate column all other loans that cannot properly be reported in Memorandum items 1(a) through 1(e) above that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~ Include in the appropriate column of this item all loans in the following categories that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date:~~

- (1) Loans secured by farmland (in domestic offices) included in Schedule HC-N, item 1.b;
- (2) Loans to depository institutions and acceptances of other banks included in Schedule HC-N, item 2;
- (3) Loans to finance agricultural production and other loans to farmers included in Schedule HC-N, item 3;
- (4) Consumer credit cards included in Schedule HC-N, item 5(a);
- (5) Consumer automobile loans included in Schedule HC-N, item 5(b);

- (6) Other consumer loans included in Schedule HC-N, items 5(c);
- (7) Loans to foreign governments and official institutions included in Schedule HC-N, item 6;
- (8) Obligations (other than securities and leases) of states and political subdivisions in the U.S. included in Schedule HC-N, item 7;
- (9) Loans to nondepository financial institutions and other loans included in Schedule HC-N, item 7; and
- (10) Loans secured by real estate in foreign offices included in Schedule HC-N, item 1(f).

Report in Schedule HC-N, Memorandum items 1(f)(1) through 1(f)(3), each category of loans within “All other loans” that have been ~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date,~~ and the dollar amount of loans in such category, that exceeds 10 percent of total loans ~~restructured in troubled debt restructurings that are past due 30 days or more or are in nonaccrual status as of the report date~~ (i.e., 10 percent of the sum of Schedule HC-N, Memorandum items 1(a) through 1(e) plus Memorandum item 1(f), columns A through C). Preprinted captions have been provided in Memorandum items 1(f)(1) through 1(f)(3) for reporting the amount of such restructured loans for the following loan categories if the amount for a loan category exceeds this 10 percent reporting threshold: Loans secured by farmland (in domestic offices); Loans to finance agricultural production and other loans to farmers ~~and (Consumer) automobile loans.~~

modifications to borrowers experiencing financial difficulty

## Line Item M1(g) Total loans ~~restructured in troubled debt restructurings~~ included in Schedule HC-N, items 1 through 7 above.

Exclude amounts reported in Memorandum item 1.f(1) through 1.f(3) when calculating the total in Memorandum item 1.g.

## Line Item M2 Loans to finance commercial real estate, construction, and land development activities included (not secured by real estate) in Schedule HC-N, items 4 and 7, above.

Report the amount of loans to finance commercial real estate, construction, and land development activities **not**

modified to borrowers experiencing financial difficulty



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## Glossary

860, because the AIR asset cannot be contractually prepaid or settled in such a way that the holder would not recover substantially all of its recorded investment. Rather, institutions should follow existing applicable accounting standards, including ASC Subtopic 450-20, Contingencies—Loss Contingencies, in subsequent accounting for the AIR asset. ASC Subtopic 450-20 addresses the accounting for various loss contingencies, including the collectibility of receivables.

For further guidance, holding companies should refer to the Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations dated December 4, 2002. See also the Glossary entry for “Transfers of Financial Assets.”

**Acquisition, Development, or Construction (ADC) Arrangements:** An ADC arrangement is an arrangement in which a holding company or its consolidated subsidiaries provide financing for real estate acquisition, development, or construction purposes and participates in the expected residual profit resulting from the ultimate sale or other use of the property. ADC arrangements should be reported as loans, real estate joint ventures, or direct investments in real estate in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Practice Bulletin 1, Appendix, Exhibit I, *ADC Arrangements*).

Under the Board’s regulatory capital rules, the term high volatility commercial real estate (HVCRE) exposure is defined, in part, to mean a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property. (See §.2 of the regulatory capital rules and the instructions for Schedule HC-R, Part II, item 4.b.) Holding companies should note that the meaning of the term ADC as used in the definition of HVCRE exposure in the regulatory capital rules differs from the meaning of ADC arrangement for accounting purposes in ASC Subtopic 310-10 as described above in this Glossary entry. For example, a holding companies participation in the expected residual profit from a property is part of the accounting definition of an ADC arrangement, but whether the holding company participates in the expected residual profit is not a consideration for purposes of determining whether a credit facility is an HVCRE exposure for regulatory capital purposes. Thus, a loan can be treated as an HVCRE exposure for regulatory capital purposes even

though it does not provide for the holding company to participate in the property’s expected residual profit.

**Agreement Corporation:** See “Edge and Agreement corporation.”

**Allowance for Credit Losses:** This entry applies to holding companies that have adopted ASC Topic 326 (introduced by Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). Holding companies that have not adopted ASC Topic 326 should continue to refer to the Glossary entry for “allowance for loan and lease losses.” For more information on the allowance for credit losses (ACL), institutions should also refer to the [Interagency Policy Statement on Allowances for Credit Losses](#) issued in May 2020.

Standards for accounting for an ACL for financial assets measured at amortized cost and net investments in leases (hereafter referred to collectively as financial assets measured at amortized cost), as well as certain off-balance sheet credit exposures, are set forth in ASC Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. For financial assets measured at amortized cost, the ACL is a valuation account that is deducted from, or added to, the amortized cost basis of financial assets to present the net amount expected to be collected over the contractual term of the financial assets.

For holding companies that have adopted ASC Topic 326, standards for measuring credit losses on available-for-sale (AFS) debt securities are set forth in ASC Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities. See the Glossary entry for “securities activities” for guidance on allowances for credit losses on AFS debt securities.

The following sections of this Glossary entry apply to financial assets measured at amortized cost and also to off-balance sheet credit exposures within the scope of ASC Subtopic 326-20.

**Measurement—**An ACL shall be established upon the origination or acquisition of a financial asset(s) measured at amortized cost. A separate ACL shall be reported for each type of financial asset measured at amortized cost (e.g., loans and leases held for investment, held-to-maturity (HTM) debt securities, and receivables that

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## Glossary

relate to repurchase agreements and securities lending agreements) as of the end of each reporting period.

As of the end of each quarter, or more frequently if warranted, each holding company must evaluate the collectability of its financial assets measured at amortized cost, including, if applicable, any recorded accrued interest receivable (i.e., not already reversed or charged off, as applicable), and make adjusting entries to maintain the balance of each of the separate ACLs reported on the balance sheet at an appropriate level.

A holding company shall measure expected credit losses on a collective or pool basis when financial assets share similar risk characteristics. If a financial asset does not share similar risk characteristics with other assets, expected credit losses for that asset should be evaluated individually. Individually evaluated assets should not be included in a collective assessment of expected credit losses. If a financial asset ceases to share similar risk characteristics with other assets generally pool, it should be moved to a different pool with assets sharing similar risk characteristics, if such a pool exists.

ASC Subtopic 326-20 does not require the use of a specific loss estimation method for purposes of determining ACLs. Various methods may be used to estimate the expected collectability of financial assets measured at amortized cost, with those methods generally applied consistently over time. The same loss estimation method does not need to be applied to all financial assets. A holding company is not precluded from selecting a different method when it determines the method will result in a better estimate of ACLs.

ASC Subtopic 326-20 requires a holding company to measure estimated expected credit losses over the contractual term of its financial assets, considering expected prepayments. Renewals, extensions, and modifications are excluded from the contractual term of a financial asset for purposes of estimating the ACL unless ~~there is a reasonable expectation of executing a troubled debt restructuring or the renewal and extension options are part of the original or modified contract and are not unconditionally cancellable by the holding company.~~ If such renewal or extension options are present, a holding company must evaluate the likelihood of a borrower exercising those options when determining the contractual term.

In estimating the net amount expected to be collected on financial assets measured at amortized cost, a holding

company should consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the holding company's financial assets. Under ASC Subtopic 326-20, a holding company is required to use relevant forward-looking information and expectations drawn from reasonable and supportable forecasts when estimating expected credit losses.

Expected recoveries, prior to collection, are a component of management's estimate of the net amount expected to be collected for a financial asset. Expected recoveries of amounts previously charged off or expected to be charged off that are included in ACLs may not exceed the aggregate amounts previously charged off or expected to be charged off. All assumptions related to expected recoveries should be appropriately documented and supported. When estimating expected recoveries, management may conclude that amounts previously charged off are not collectible.

Changes in the ACL—Additions to, or reductions of, the ACL to adjust its level to management's current estimate of expected credit losses are to be made through charges or credits to the "provision for credit losses on financial assets" (provision) in item 4 of Schedule HI, Income Statement, except for changes to adjust the level of the ACL for off-balance-sheet credit exposures. When available information confirms that specific financial assets measured at amortized cost, or portions thereof, are uncollectible, these amounts should be promptly charged off against the related ACL in the period in which the financial assets are deemed uncollectible. Under no circumstances can expected credit losses on financial assets measured at amortized cost be charged directly to "Retained earnings" after the initial adoption of ASC Topic 326, for which the change from the incurred loss to the current expected credit losses methodology is required to be recorded through a cumulative-effect adjustment to retained earnings. This cumulative-effect adjustment is reported in Schedule HI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors," and disclosed in Notes to the Income Statement (Other), item 3, "Effect of adoption of current expected credit losses methodology on allowances for credit losses on loans and leases held for investment and held-to-maturity debt securities."

Recoveries on financial assets measured at amortized cost represent collections on amounts that were previously charged off against the related ACL. Recoveries

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## Glossary

shall be credited to the ACL, provided that the total amount credited to the ACL as recoveries on a financial asset (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the ACL on that financial asset. Any amounts collected in excess of this limit should generally be recognized as noninterest income upon collection.

Charge-Offs and Establishment of a New Amortized Cost Basis—When a holding company makes a full or partial charge-off of a financial asset measured at amortized cost that is deemed uncollectible, the holding company establishes a new cost basis for that financial asset. Consequently, once a new cost basis has been established for a financial asset through a charge-off, this amortized cost basis may not be directly “written up” at a later date. Reversing the previous charge-off and “re-booking” the charged-off asset after the holding company concludes that the prospects for recovering the charge-off have improved, regardless of whether the holding company assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice. Nevertheless, as stated above, management’s estimate of the net amount expected to be collected for a financial asset, as reflected in the related ACL, considers expected recoveries.

If losses charged off against an ACL exceed the amount of the ACL, a provision expense sufficient to restore the ACL to an appropriate level must be charged to a provision for credit losses on the income statement during the reporting period in which the charge-off is recorded. A holding company shall not increase an ACL by transferring an amount from retained earnings or any segregation thereof to the ACL.

Collateral-Dependent Financial Assets—A collateral-dependent financial asset is a financial asset for which repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management’s assessment, is experiencing financial difficulty as of the reporting date.

For purposes of these reports, the ACL for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable. This application of this requirement for purposes of these reports is limited to collateral-dependent loans; it does not apply to other financial assets such as held-to-maturity debt securities that are collateral dependent.

When estimating the ACL for a collateral-dependent loan, the fair value of collateral should be adjusted to consider estimated costs to sell if repayment or satisfaction of the loan depends on the sale of the collateral. ACL adjustments for estimated costs to sell are not appropriate when the repayment of a collateral-dependent loan is expected from the operation of the collateral.

The fair value of collateral securing a collateral-dependent loan may change over time. If the fair value of the collateral as of the ACL evaluation date has decreased since the previous ACL evaluation date, the ACL should be increased to reflect the additional decrease in the fair value of the collateral. Likewise, if the fair value of the collateral has increased as of the ACL evaluation date, the increase in the fair value of the collateral is reflected through a reduction in the ACL. Any negative ACL that results is capped at the amount previously charged off. In general, any portion of the amortized cost basis in excess of the fair value of collateral less estimated costs to sell, if applicable, that can be identified as uncollectible should be promptly charged off against the ACL.

Financial Assets with Collateral Maintenance Agreements—Holding companies may have financial assets that are secured by collateral (such as debt securities) and are subject to collateral maintenance agreements requiring the borrower to continuously replenish the amount of collateral securing the asset. If the fair value of the collateral declines, the borrower is required to provide additional collateral as specified by the agreement.

ASC Topic 326 includes a practical expedient for financial assets with collateral maintenance agreements where the borrower is required to provide collateral greater than or equal to the amortized cost basis of the asset and is expected to continuously replenish the collateral. In those cases, the holding company may elect the collateral maintenance practical expedient and measure expected credit losses for these qualifying assets based on the fair value of the collateral. If the fair value of the collateral is greater than the amortized cost basis of the financial asset and the holding company expects the borrower to replenish collateral as needed, the holding company may record an ACL of zero for the financial asset when the collateral maintenance practical expedient is applied. Similarly, if the fair value of the collateral is less than the amortized cost basis of the financial asset and the holding company expects the borrower to replenish collateral as needed, the ACL is limited to the difference between the fair

# Glossary

See Insert C

Loan Modification to Borrowers Experiencing Financial Difficulty

value of the collateral and the amortized cost basis of the asset as of the reporting date when applying the collateral maintenance practical expedient.

**Off-Balance-Sheet Credit Exposures**—Each holding company should also estimate, as a separate liability account, expected credit losses for off-balance-sheet credit exposures not accounted for as insurance, over the contractual period during which the holding company is exposed to credit risk. The estimate of expected credit losses should take into consideration the likelihood that funding will occur as well as the amount expected to be funded over the estimated remaining contractual term of the off-balance-sheet credit exposures. Off-balance sheet credit exposures include loan commitments, financial standby letters of credit, and financial guarantees not accounted for as insurance, and other similar instruments except for those within the scope of ASC Topic 815 on derivatives and hedging. This separate allowance should be reported in Schedule HC-G, item 3, “Allowance for credit losses on off-balance-sheet credit exposures,” not as part of the “Allowance for credit losses on loans and leases” in Schedule HC, item 4.c. Additions to, or reductions of, the allowance for credit losses on off-balance sheet credit exposures to adjust the balance of the allowance to an appropriate level are reported in net income.

Holding companies should not record an estimate of expected credit losses for off-balance-sheet credit exposures that are unconditionally cancellable by the issuer. For example, for a holding company that has unfunded commitments (i.e., available credit) on credit cards, the holding company should not record an allowance for expected credit losses for unfunded commitments for which the holding company has the ability to unconditionally cancel the available line of credit. In contrast, home equity lines of credit may be deemed unconditionally cancellable for regulatory capital purposes. However, unfunded commitments under home equity lines of credit are not considered unconditionally cancellable by the issuer for purposes of estimating expected credit losses under ASC Topic 326, because the lender may not unilaterally refuse to extend credit under the commitment.

**Recourse Liability Accounts**—Recourse liability accounts that arise from recourse obligations for any transfers of financial assets that are reported as sales should not be included in an ACL. These accounts are considered separate and distinct from ACLs and from the allowance

for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule HC-G, item 4, “All other liabilities.”

See also the Glossary entries for “accrued interest receivable,” “amortized cost basis,” “business combinations,” “foreclosed assets,” “loan,” “loan fees,” “nonaccrual status,” “purchased credit-deteriorated assets,” “securities activities,” “transfers of financial assets,” and “troubled debt restructurings.”

**Allowance for Loan and Lease Losses:** This Glossary entry applies to holding companies that have not adopted ASC Topic 326, Financial Instruments—Credit Losses. Holding companies that have adopted ASC Topic 326 should refer to the Glossary entry for “allowance for credit losses.” Each holding company must maintain an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses associated with its loan and lease portfolio, i.e., loans and leases that the holding company has intent and ability to hold for the foreseeable future or until maturity or payoff. Each holding company should also maintain, as a separate liability account, an allowance at a level that is appropriate to cover estimated credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees. This separate allowance should be reported in Schedule HC-G, item 3, “Allowance for credit losses on off-balance sheet credit exposures,” not as part of the “Allowance for loan and lease losses” in Schedule HC, item 4(c).

With respect to the loan and lease portfolio, the term “estimated credit losses” means an estimate of the current amount of loans and leases that it is probable the holding company will be unable to collect given facts and circumstances as of the evaluation date. Thus, estimated credit losses represent net charge-offs that are likely to be realized for a loan or pool of loans. These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., through a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each holding company must evaluate, subject to examiner review, the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make entries to maintain the balance of



#### Loan Modifications

A holding company should measure any expected credit losses on loans whose terms have been modified in accordance with ASC Topic 326. ASC Topic 326 allows a holding company to use any appropriate loss estimation method to estimate allowances for credit losses. However, there are circumstances when specific measurement methods are required.

For reporting purposes, the ACL of a collateral dependent loan must be estimated using the fair value of collateral, less cost to sell, as appropriate. A holding company measuring the allowance using the present value of expected future cash flow method (i.e., discounted cash flow method should use the post-modification effective interest rate as the discount rate.)

If a holding company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," using the prospective method (versus the modified retrospective method), loans previously identified as troubled debt restructurings should retain the existing method for measurement purposes. As such, unless the loan is collateral-dependent, an institution should continue to apply a discounted cash flow method, discounted at the loan's original effective interest to estimate expected credit losses until the loan is subsequently modified or settled.

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# Glossary

20, Nonrefundable Fees and Other Costs

**Federal Funds Transactions:** For purposes of the FR Y-9C, federal funds transactions involve the lending (federal funds sold) or borrowing (federal funds purchased) in domestic offices of *immediately available funds* under agreements or contracts that *have an original maturity of one business day or roll over under a continuing contract*. However, funds lent or borrowed in the form of securities resale or repurchase agreements, due bills, borrowings from the Discount and Credit Department of a Federal Reserve Bank, deposits with and advances from a Federal Home Loan Bank, and overnight loans for commercial and industrial purposes are excluded from federal funds. Transactions that are to be reported as federal funds transactions may be secured or unsecured or may involve an agreement to resell loans or other instruments that are not securities.

*Immediately available funds* are funds that the purchasing holding company can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed.

The borrowing and lending of immediately available funds *have an original maturity of one business day* if the funds borrowed on one business day are to be repaid or the transaction reversed on the next business day, that is, if immediately available funds borrowed today are to be repaid tomorrow (in tomorrow's immediately available funds). Such transactions include those made on a Friday to mature or be reversed the following Monday and those made on the last business day prior to a holiday (for either or both of the parties to the transaction) to mature or be reversed on the first business day following the holiday.

A *continuing contract* is a contract or agreement that remains in effect for more than one business day but has no specified maturity and does not require advance notice of either party to terminate. Such contracts may also be known as rollovers or as open-ended agreements.

Federal funds may take the form of the following two types of transactions in domestic offices provided that the transactions meet the above criteria (i.e., immediately available funds with an original maturity of one business day or under a continuing contract):

- (1) Unsecured loans (federal funds sold) or borrowings (federal funds purchased). (In some market usage, the term "fed funds" or "pure fed funds" is confined to unsecured loans of immediately available balances.)

- (2) Purchases (sales) of financial assets (other than securities) under agreements to resell (repurchase) that have original maturities of one business day (or are under continuing contracts) *and* are in immediately available funds.

Any borrowing or lending of immediately available funds in domestic offices that has an original maturity of more than one business day, other than security repurchase or resale agreements, is to be treated as a borrowing or as a loan, *not* as federal funds. Such transactions are sometimes referred to as "term federal funds."

**Federally-Sponsored Lending Agency:** A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

**Fees, Loan:** See "Loan fees."

**Foreclosed Assets:** The accounting and reporting standards for foreclosed assets are set forth in ASC Subtopic 310-40, ~~Receivables—Troubled Debt Restructurings by Creditors~~, and ASC Topic 360, Property, Plant, and Equipment. Subsequent to the issuance of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (the predecessor of ASC Topic 360), AICPA Statement of Position (SOP) No. 92-3, *Accounting for Foreclosed Assets* was rescinded. Certain provisions of SOP 92-3 are not present in FASB Statement No. 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices. These provisions of SOP 92-3 have been incorporated into this Glossary entry, which holding companies must follow for purposes of preparing their FR Y-9C reports.

A holding company that receives from a borrower in full satisfaction of a loan either receivables from a third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall initially measure the asset received at its fair value at the time of the restructuring. When a holding company receives a long-lived asset, such as real estate, from a borrower in

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full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the holding company shall initially measure this asset at its fair value less cost to sell. The fair value (less cost to sell, if applicable) of the asset received in full satisfaction of the loan becomes the “cost” of the asset. The amount, if any, by which the recorded investment in the loan (or the amortized cost basis of the loan, if the holding company has adopted ASC Topic 326, Financial Instruments—Credit Losses)<sup>12</sup> exceeds the fair value (less cost to sell, if applicable) of the asset is a loss which must be charged to the allowance for loan and lease losses (or allowance for credit losses, if the institution has adopted ASC Topic 326) at the time of restructuring, foreclosure, or repossession. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

If an asset is sold shortly after it is received in a restructuring, foreclosure, or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for a long-lived asset, such as real estate, that has been sold) for the fair value (less cost to sell for a long-lived asset, such as real estate, that will be sold) that had been estimated at the time of restructuring, foreclosure, or repossession. Any adjustments should be made to the loss charged against the allowance.

An asset received in partial satisfaction of a loan should be initially measured as described above and the recorded investment in the loan should be reduced by the fair value (less cost to sell, if applicable) of the asset at the time of restructuring, foreclosure, or repossession.

The measurement and accounting subsequent to acquisition for real estate received in full or partial satisfaction of a loan, including through foreclosure or repossession, is discussed below in this Glossary entry. For other types of assets that a holding company receives in full or partial satisfaction of a loan, the holding company generally should subsequently measure and account for such assets

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12. The recorded investment in the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest. For holding companies that have adopted ASC Topic 326, the term “amortized cost basis” is used in place of “recorded investment.” See the Glossary entry for “amortized cost basis.”

in accordance with other applicable generally accepted accounting principles and regulatory reporting instructions for such assets.

For purposes of this report, foreclosed assets (other than real estate property collateralizing a consumer mortgage loan) include loans where the holding company, as creditor, has received physical possession of a borrower’s assets, regardless of whether formal foreclosure proceedings take place. A holding company, as creditor, is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

- a. The holding company obtains legal title to the residential real estate property upon completion of a foreclosure even if the borrower has redemption rights whereby they have a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
- b. The borrower conveys all interest in the residential real estate property to the bank to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.<sup>13</sup>

In such situations, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above.

The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule HC, items 16, “Other borrowed money.”

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13. Refer to FASB’s ASU No. 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure” for transition guidance. The ASU must be applied by public business entities with a fiscal calendar year in their March 2015 FR Y-9C Reports and by private entities with a fiscal calendar year in their March 2016 FR Y-9C Reports. Early adoption is permitted. Entities can elect either a prospective or modified retrospective approach. Under the modified retrospective approach, entities 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.

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After foreclosure, each foreclosed real estate asset (including any real estate for which the holding company receives physical possession,) must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraphs). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs.

If a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure and any gain or loss from the sale or disposition of the asset shall *not* be reported as a loan or lease loss or recovery and shall *not* be debited or credited to the allowance for loan and lease losses (or allowance for credit losses, if the holding company has adopted ASC Topic 326). Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the income statement in Schedule HI, item 5(J) "Net gains (losses) on sales of other real estate owned."

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure—ASC Subtopic 310-40 clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate "other receivable" upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan). When these conditions are met, other real estate owned should not be recognized by a holding company. A holding company should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if all of the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the holding company has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real

estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the holding company is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans provided the three conditions identified above have been met. In such situations, upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule HC-F, item 6, "All other assets." Any interest income earned on the other receivable should be reported in Schedule HI, item 1(g), "Other interest income."

Accounting under ASC Subtopic 610-20 (and ASC Topic 606). Under ASC Subtopic 610-20, if the buyer of the OREO is a legal entity, a holding company should first assess whether it has a controlling financial interest in the legal entity buying the OREO by applying the guidance in ASC Topic 810, Consolidation. If holding company determines that it has a controlling financial interest in the buying legal entity, it should not derecognize the OREO and should apply the guidance in ASC Subtopic 810-10. When a holding company does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, which is expected to be the case for most sales of OREO, the holding company will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of ASC Topic 606. Otherwise, the holding company generally will continue reporting the OREO as an asset, with any cash payments or other consideration received from the individual or entity acquiring the OREO (i.e., any down payment and any subsequent payments of principal or interest) reported as a liability in Schedule HC-G, item 4, "All other liabilities," until it becomes appropriate to recognize the revenue and the sale of the OREO in accordance with ASC Subtopic 610-20 and ASC Topic 606.<sup>14</sup>

14. Although ASC Topic 606 describes the consideration received (including any cash payments) using such terms as "liability," "deposit," and "deposit liability," for regulatory reporting purposes these amounts should be reported in Schedule HC-G, item 4, and not as a deposit in Schedule HC, item 13.

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one business day), other than those involving security resale agreements;

- (7) factored accounts receivable;
- (8) loans arising out of the purchase of assets (other than securities) under resale agreements with a maturity of more than one business day if the agreement requires the holding company to resell the identical asset purchased; or
- (9) participations (acquired or held) in a single loan or in a pool of loans or receivables (see discussion in the Glossary entry for “Transfers of Financial Assets”).

Loan acceptances and commercial paper, held in a trading account are to be reported in Schedule HC, item 5, “Trading assets.”

See also “Loan secured by real estate,” “Overdraft,” and “Sale of assets.”

**Loan Fees:** The accounting standards for nonrefundable fees and costs associated with lending, committing to lend, and purchasing a loan or group of loans are set forth in ASC Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs, a summary of which follows. The statement applies to all types of loans as well as to debt securities (but not to loans or debt securities carried at fair value if the changes in fair value are included in earnings) and to all types of lenders. For further information, see ASC Subtopic 310-20.

A holding company may acquire a loan by originating the loan (lending) or by acquiring a loan from a party other than the borrower (purchasing). Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and leasing activities are all considered “lending activities.” Nonrefundable loan fees paid by the borrower to the lender may have many different names, such as origination fees, points, placement fees, commitment fees, application fees, management fees, restructuring fees, and syndication fees, but in this Glossary entry, they are referred to as loan origination fees, commitment fees, or syndication fees.

ASC Subtopic 310-20 applies to both a lender and a purchaser, and should be applied to individual loan contracts. Aggregation of similar loans for purposes of recognizing net fees or costs and purchase premiums or discounts is permitted under certain circumstances specified in ASC Subtopic 310-20 or if the result does not differ materially from the amount that would have been

recognized on an individual loan-by-loan basis. In general, the ASC Subtopic 310-20 specifies that:

- (1) Loan origination fees should be deferred and recognized over the life of the related loan as an adjustment of yield (interest income). Once a holding company adopts ASC Subtopic 310-20, recognizing a portion of loan fees as revenue to offset all or part of origination costs in the reporting period in which a loan is originated is no longer acceptable.
- (2) Certain direct loan origination costs specified in the ASC Subtopic 310-20 should be deferred and recognized over the life of the related loan as a reduction of the loan’s yield. Loan origination fees and related direct loan origination costs for a given loan should be offset and only the net amount deferred and amortized.
- (3) Direct loan origination costs should be offset against related commitment fees and the net amounts deferred except for: (a) commitment fees (net of costs) where the likelihood of exercise of the commitment is remote, which generally should be recognized as service fee income on a straight line basis over the loan commitment period, and (b) retrospectively determined fees, which are recognized as service fee income on the date as of which the amount of the fee is determined. All other commitment fees (net of costs) shall be deferred over the entire commitment period and recognized as an adjustment of yield over the related loan’s life or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.
- (4) Loan syndication fees should be recognized by the institution managing a loan syndication (the syndicator) when the syndication is complete unless a portion of the syndication loan is retained. If the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator should defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.
- (5) Loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans shall be recognized as an adjustment of yield generally by the



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including loan modifications to borrowers experiencing financial difficulty

interest method based on the contractual term of the loan. However, if the holding company holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the holding company may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. Once a holding company adopts ASC Subtopic 310-20, the practice of recognizing fees over the estimated average life of a group of loans is no longer acceptable.

- (6) A refinanced or restructured loan, ~~other than a troubled debt restructuring~~, should be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan. Any unamortized net fees or costs and any prepayment penalties from the original loan should be recognized in interest income when the new loan is granted. If ~~the refinancing or restructuring does not meet these conditions or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as a part of the net investment in the new loan (or the amortized cost basis of the new loan if the holding company has adopted ASC Topic 326, Financial Instruments - Credit Losses).~~ The net investment in, or the amortized cost basis of, the new loan, as applicable, should consist of the remaining net investment in the original loan, any additional amounts loaned, any fees received, and direct loan origination costs associated with the transaction. ~~In a troubled debt restructuring involving a modification of terms, fees received should be applied as a reduction of the recorded investment in, or the amortized cost basis of, the loan, as applicable; the loan, and all related costs, including direct loan origination costs, should be charged to expense as incurred. (See the Glossary entry for "troubled debt restructurings" for further guidance.)~~

- (7) Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns about realization of loan principal or interest.

Direct loan origination costs of a completed loan are defined to include only (a) incremental direct costs of

loan origination incurred in transactions with independent third parties for that particular loan and (b) certain costs directly related to specified activities performed by the lender for that particular loan.<sup>25</sup> Incremental direct costs are costs to originate a loan that (a) result directly from and are essential to the lending transaction and (b) would not have been incurred by the lender had that lending transaction not occurred. The specified activities performed by the lender are evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction. The costs directly related to those activities include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that particular loan and other costs related to those activities that would not have been incurred but for that particular loan.

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including ~~costs related to activities performed by the lender for~~ ~~g potential borrowers, soliciting~~ ~~servicing existing loans, and other~~ ~~ed to establishing and monitoring~~ credit policies, supervision, and administration. Employees' compensation and fringe benefits related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in "Any unearned income on loans reflected in items 1-9 above" in Schedule HC-C. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule HC-C. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 1, "Interest income," in

25. For purposes of this report, a holding company which deems its costs for these lending activities not to be material and which need not maintain records on a loan-by-loan basis for other purposes may expense such costs as incurred.

See also "Loan Modifications to Borrowers Experiencing Financial Difficulty."



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~~As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule HC-N in accordance with the schedule's instructions. A loan identified as impaired is one for which it is probable that the institution will be unable to collect all principal and interest amounts due according to the contractual terms of the original loan agreement. Therefore, a loan that is not already in nonaccrual status when it is first identified as impaired will normally meet the criteria for placement in nonaccrual status at that time. Exceptions may arise when a loan not previously in nonaccrual status is identified as impaired because its terms have been modified in a troubled debt restructuring, but the borrower's sustained historical repayment performance for a reasonable time prior to the restructuring is consistent with the modified terms of the loan and the loan is reasonably assured of repayment (of principal and interest) and of performance in accordance with its modified terms. This determination must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Exceptions may also arise for those purchased impaired loans for which the criteria for accrual of income under the interest method are met as specified in ASC Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality. Any cash payments received on impaired loans in nonaccrual status should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see the Glossary entries for "nonaccrual status" and "purchased impaired loans and debt securities."~~

**Loan Secured by Real Estate:** For purposes of this report, a loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien or liens on real property for which the lien or liens are central to the extension of the credit—that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens) must be greater than 50 percent of the principal amount of the loan at origination.<sup>26</sup>

26. Bank holding companies should apply this revised definition of "loan secured by real estate" prospectively beginning April 1, 2009. Loans reported on or before March 31, 2009, as loans secured by real estate need

A loan satisfying the criteria above, except a loan to a state or political subdivision in the U.S., is to be reported as a loan secured by real estate in Schedule HC-C, item 1, and related items in the report, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of whether the loan was originated by the reporting holding company or purchased from others and, if originated by the reporting holding company, regardless of the department or subsidiary within the holding company or subsidiary that made the loan; (3) regardless of how the loan is categorized in the holding company's records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan's principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan not be considered a loan secured by real estate for purposes of the FR Y-9C. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in these reports based on the purpose of the loan.

The following are examples of the application of the preceding guidance:

- (1) A subsidiary loans \$700,000 to construct and equip a building that will be used as a dental office. The loan will be secured by both the real estate and the dental equipment. At origination, the estimated values of the building, upon completion, and the equipment are \$400,000 and \$350,000, respectively. The loan should be reported as a loan secured by real estate in Schedule HC-C, item 1.a.(2), "Other construction loans and all land development and other land loans." In contrast, if the estimated values of the building and equipment at origination were \$340,000 and \$410,000, respectively, the loan should not be reported as a loan secured by real estate. Instead, the loan

not be reevaluated and, if appropriate, recategorized into other loan categories on Schedule HC-C, Loans and Lease Financing Receivables.

See insert D

**Loan Modifications to Borrowers Experiencing Financial Difficulty:** The accounting standards for loan modifications to borrowers experiencing financial difficulty are set forth in ASC Topic 326, Financial Instruments – Credit Losses and ASC Topic 310, Receivables. ASC Subtopic 310-10 requires modifications of receivables to borrowers experiencing financial difficulty where the modification results in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) to be disclosed for financial reporting purposes. These disclosures only include loan modifications to borrowers experiencing financial difficulty, regardless of whether the modifications result in new loans or the continuation of existing loans. Loan modifications to borrowers who are not experiencing financial difficulty or do not meet the definition above would not be disclosed.

For reporting purposes, loans modified to borrowers experiencing financial difficulty must be included in the amounts reported in the appropriate loan category in Schedule HC-C, Loans and Leases, items 1 through 9. Additionally, if the loan is in compliance with its modified terms, these modifications are reported in the appropriate loan category in Schedule HC-C, Memorandum item 1. For loans that are not in compliance with their modified terms, the loans must be included in the amounts reported in the appropriate loan category in Schedule HC-N, items 1 through 7, and reported in Schedule HC-N, Memorandum item 1.

See the Glossary entry for “Nonaccrual Status” for a discussion of the conditions under which a loan on nonaccrual that has undergone a modification to a borrower experiencing financial difficulty (including those that involve a multiple note structure) may be returned to accrual status. Other Considerations - A modification of a loan in which an institution receives physical possession of the borrower's assets, whether in full or partial satisfaction of the debt, should be accounted for in accordance with ASC Subtopic 310-20. In such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for "Foreclosed Assets."

In addition, if a modification of a loan includes both a modification of terms and the acceptance of property in partial satisfaction of the loan, the accounting for such a modification is a two-step process. First, the amortized cost basis of the loan is reduced by the fair value (less cost to sell, if appropriate) of the property received, and second, the holding company is expected to measure any expected credit losses on the remaining recorded balance, or amortized cost basis, as applicable, of the modified loan in accordance with ASC Subtopic 326-20, Financial Instruments – Credit Losses – Measured at Amortized Cost, and record any related allowance. If the modification of terms meets the definition of the loan modification to a borrower experiencing financial difficulty, then include the loan in the amounts reported on Schedule HC-C or Schedule HC-N, as appropriate.

A modification may also involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Modifications in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Modifications in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a “new” loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value. If the modification of terms meets the definition of the loan modification to a borrower experiencing financial difficulty, then include the loan in the amounts reported on Schedule HC-C or Schedule HC-N, as appropriate.

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data are available may be valued at cost adjusted for amortization of premium or accretion of discount unless credit problems of the obligor or upward movements in the level of interest rates warrant a lower estimate of current value. Securities that are not marketable such as, Federal Reserve stock or equity securities in closely held businesses, should be valued at book or par value, as appropriate.

**Mergers:** See “Business combinations.”

**Money Market Deposit Account (MMDA):** See “Deposits.”

**Mortgages, Residential, Participations in Pools of:** See “Transfers of financial assets.”

**NOW Account:** See “Deposits.”

**Nonaccrual Status:** *General rule*—Holding companies on an accrual basis of reporting shall not accrue interest or discount on (1) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, (2) any asset for which payment in full of interest or principal is not expected, or (3) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is *both* well secured and in the process of collection.

An asset is “well secured” if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guaranty of a financially responsible party. An asset is “in the process of collection” if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for the nonaccrual of interest listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

*Exceptions to the general rule*—In the following situations, an asset need not be placed in nonaccrual status:

- (1) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule HC-C, item 6, “Loans to individuals for household, family, and other personal expenditures”) or a loan secured by a 1-to-4 family residential property (as defined for Schedule HC-C, item 1(c), Loans “Secured by 1-4 family residential properties”). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the holding company’s net income is not materially overstated. However, to the extent that the holding company has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in Schedule HC-N, column C.
- (2) For a holding company that has not adopted FASB Accounting Standards Update No. 2016-13 (ASU 2016-13), which governs the accounting for credit losses, the criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, are met for a purchased credit-impaired (PCI) loan, pool of loans, or debt security accounted for in accordance with that Subtopic, regardless of whether the loan, the loans in the pool, or debt security had been maintained in nonaccrual status by its seller. (For PCI loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) For further information, see the Glossary entry for “purchased credit-impaired loans and debt securities.”
- (3) For a holding company that has adopted ASU 2016-13, the following criteria are met for a PCD asset, including a PCD asset that was previously a PCI asset or part of a pool of PCI loans, that would otherwise be required to be placed in nonaccrual status under the general rule:
  - (a) The holding company reasonably estimates the timing and amounts of cash flows expected to be collected, and
  - (b) The holding company did not acquire the asset primarily for the rewards of ownership of the underlying collateral, such as use of collateral in

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operations of the institution or improving the collateral for resale.

When a PCD asset that meets the criteria above is not placed in nonaccrual status, the asset should be subject to other alternative methods of evaluation to ensure that the institution's net income is not materially overstated. If an institution is required or has elected to carry a PCD asset in nonaccrual status, the asset must be reported as a nonaccrual asset at its amortized cost basis in Schedule HC-N, column C. (For PCD loans for which the institution has made a policy election to maintain previously existing pools of PCI loans upon adoption of ASU 2016-13, the determination of nonaccrual or accrual status should be made at the pool level, not the individual asset level.) For further information, see the Glossary entry for "purchased credit-deteriorated assets."

*Treatment of previously accrued interest*—The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status and the treatment of subsequent payments as either principal or interest should be handled in accordance with generally accepted accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, for holding companies that have *not* adopted ASC Topic 326, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the "income earned, not collected on loans" account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate "interest and fee income on loans" account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the "allowance for loan and lease losses" account on the balance sheet. The use of this method presumes that holding company management's additions to the allowance through charges to the "provision for loan and lease losses" on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios *and* the "income earned, not collected on loans" account. Holding companies that have adopted ASC Topic 326 should refer to the Glossary entry for "accrued interest receivable" for information on the treatment of previously accrued interest.

*Treatment of cash payments and criteria for the cash basis recognition of income*—When doubt exists as to the collectibility of the remaining recorded investment in a nonaccrual asset (or the amortized cost basis of a nonaccrual asset, if the holding company has adopted ASC Topic 326), any payments received must be applied to reduce the recorded investment, or the amortized cost basis of, the asset, as applicable, to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does *not*, in and of itself, require a charge-off, in whole or in part, of the asset's recorded investment or the amortized cost basis, as applicable. However, any identified losses must be charged off.

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining recorded investment in, or the amortized cost basis of, the asset, as applicable, (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible.<sup>27</sup> A holding company's determination as to the ultimate collectibility of the asset's remaining recorded investment, or the amortized cost basis, as applicable, must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors.

When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable practice involves allocating contractual interest payments among interest income, reduction of the recorded investment, or the amortized cost basis of, the asset, as applicable, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining recorded investment at the contractual rate. A holding company may also choose to account for the contractual interest in its entirety either as income, reduction of the recorded investment, or the amortized cost basis of, the asset, as applicable, or

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27. An asset subject to the cost recovery method required by ASC Subtopic 325-40, Investments—Other—Beneficial Interests in Securitized Financial Assets, should follow that method for reporting purposes. In addition, when a PCI, pool of loans, or debt security that is accounted for in accordance with ASC Subtopic 310-30 (or when a PCD asset that is accounted for in accordance with ASC Subtopic 326-20, if the holding company has adopted ASC Topic 326) has been placed on nonaccrual status, the cost recovery method should be used, when appropriated.



# Glossary

recovery of prior charge-offs, depending on the condition of the loan, consistent with its accounting policies for other financial reporting purposes. **modified**

*Restoration to accrual status*—As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the holding company expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. If any interest payments received while the asset was in nonaccrual status were applied to reduce the recorded investment in, or the amortized cost basis of, the asset, as applicable, as discussed in the preceding section of this entry, the application of the asset's recorded investment, as applicable, should not be credited (with the exception of the modification of a loan to a borrower experiencing financial difficulty) to the asset's recorded investment in, or the amortized cost basis of, the asset.

**modified to a borrower experiencing financial difficulty**

the first test, the holding company must have received repayment of the past due principal and interest unless:

- (1) The asset has been formally ~~restructured~~ and qualifies for accrual status, as discussed below;
- (2) For a holding company that has adopted ASU 2016-13, the asset is a purchased impaired loan or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method specified therein;
- (3) For a holding company that has adopted ASU 2016-13, the asset is a PCD asset and it meets the two criteria specified in the third exception to the general rule discussed above; or
- (4) The borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and the following two criteria are met. These criteria are, first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the **modification**

**In conjunction with the reporting requirements on Schedule HC-C, and Schedule HC-N for loan modifications to borrowers experiencing financial difficulty, the institution should consider both the "A" and "B" notes in its analysis of whether the modification results in principal forgiveness, an interest rate reduction, or a deferral of payment(s).**

**modified**  
disclosed as past due in Schedule HC-N until it has been brought fully current or until it later must be placed in nonaccrual status.

A loan or other debt instrument that has been formally ~~restructured in a troubled debt restructuring~~, so as to be reasonably assured of repayment (of principal and interest) and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the ~~restructured~~ asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. (In returning the asset to accrual status, sustained historical payment performance for a reasonable time prior to the restructuring may be taken into account.) Such a restructuring must improve the collectibility of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the holding company from the responsibility to promptly charge off all identified losses.

A ~~troubled debt restructuring~~ may involve a multiple note structure in which, for example, a ~~troubled~~ loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. For a ~~troubled debt restructuring~~ of a collateral-dependent loan involving a multiple note structure, the amount of the "A" note should be determined using the fair value of the collateral. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and: (1) there is economic substance to the restructuring and it ~~qualifies as a troubled debt restructuring under generally accepted accounting principles~~, (2) the portion of the original loan represented by the "B" note has been charged off before or at the time of the restructuring, and (3) the "A" note is reasonably assured of repayment and of performance in accordance with the modified terms.

Until the ~~restructured~~ asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding

**modified**

## Glossary

"Loan Modifications to Borrower Experiencing Financial Difficulty."

section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for other reasons, the asset must be placed in nonaccrual status. For further information on formally restructured assets, see the Glossary entry for "~~Troubled Debt Restructuring~~."

*Treatment of multiple extensions of credit to one borrower*—As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectibility and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a holding company or its subsidiaries do not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a depository institution has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets criteria for nonaccrual status, the depository institution should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

**Noninterest-Bearing Account:** See "Deposits."

**Nontransaction Account:** See "Deposits."

**Notes and Debentures Subordinated to Deposits:** See "Subordinated notes and debentures."

**Offsetting:** Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Holding companies are permitted to offset assets and liabilities recognized in the balance sheet when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting, a right of setoff exists when all of the following conditions are met:

- (1) Each party owes the other determinable amounts. Thus, only bilateral netting is permitted.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether

the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to ASC Subtopic 210-20, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting holding company has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability on the balance sheet. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other pronouncements identified in ASC Subtopic 210-20. These pronouncements apply to such items as leverage leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, ASC Subtopic 210-20, Balance Sheet – Offsetting, describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under ASC Subtopic 210-20 must be applied consistently.

According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, ASC Subtopic 210-20 does not apply to securities borrowing or lending transactions. Therefore, for purposes of filing holding company reports, holding companies should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in ASC Subtopic 210-20 are met.

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# Glossary

~~Schedule HC-C. An institution also should report the outstanding balance and amount of those held-for-investment purchased credit-impaired loans reported in Schedule HC-C, part I, Memorandum items 5.a and 5.b, that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status as of the report date in Schedule HC-N, Memorandum items 9.a and 9.b, column A, B, or C, respectively, in accordance with the past due and nonaccrual guidance provided above in this Glossary entry.~~

~~For further information, refer to ASC Subtopic 310-30.~~

**Put Option:** See “Futures, forward, and standby contracts.”

**Real Estate, Loan Secured By:** See “Loans secured by real estate.”

**Reciprocal Balances:** Reciprocal balances arise when two depository institutions maintain deposit accounts with each other, that is, when a subsidiary bank of the consolidated holding company has both a due to and a due from balance with another depository institution. For purposes of the FR Y-9C, reciprocal balances between subsidiaries of the reporting holding company and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles.

GAAP permits financial institutions to net reciprocal balances where right of offset exists.

For a definition of “Commercial banks in the U.S.,” see the Glossary entry for “Banks, U.S. and foreign.”

**Reinsurance:** Reinsurance is the transfer, with indemnification, of all or part of the underwriting risk from one insurer to another for a portion of the premium or other consideration. Reinsurance contracts may be on an excess-of-loss or quota-share basis, the latter being when the primary underwriter and the reinsurer proportionately share all insured losses from the first dollar. Reinsurance includes insurance coverage arranged by a holding company affiliate such as a mortgage reinsurance company, underwritten by another underwriter and then returned or ceded in part or whole back to the mortgage reinsurance affiliate.

**Reinsurance Recoverables:** Reinsurance recoverables represent reimbursements expected by insurance underwriters, under reinsurance contracts governing underwriting coverage ceded to another insurer, for paid and unpaid claims, claim settlement expenses and other pol-

icy benefits. Reinsurance recoverables do not include insurance payments expected by the holding company as a result of policy claims filed by the company with insurance underwriters.

~~**Renegotiated “Troubled” Debt:** See “Troubled debt restructuring.”~~

**Repurchase Agreements to Maturity and Long-Term Repurchase Agreements:** See “Repurchase/resale agreements.”

**Repurchase/Resale Agreements:** A repurchase agreement is a transaction involving the “sale” of financial assets by one party to another, subject to an agreement by the “seller” to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the “purchase” of financial assets by one party from another, subject to an agreement by the “purchaser” to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA’s *Audit and Accounting Guide for Banks and Savings Institutions*, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages) and generally have different principal amounts.

*General rule*—Consistent with ASC Topic 860, Transfers and Servicing, repurchase and resale agreements involving financial assets (e.g., securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring (“selling”) institution maintains control over the transferred assets. (See Glossary entry for “transfers of financial assets” for further discussion of control criteria).

If a repurchase agreement both entitles and obligates the “selling” institution to repurchase or redeem the transferred assets from the transferee (“purchaser”) the “selling” institution should report the transaction as a secured



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# Glossary

Schedule HI, Income Statement, but should be reflected in Schedule HI-A, items 7 and 8, “Sale of treasury stock,” and “Purchase of treasury stock.” Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule HC, item 25, “Surplus.”

For further information, see ASC Subtopic 505-30, Equity – Treasury Stock.

**Troubled Debt Restructuring:** ~~The accounting standards for troubled debt restructurings 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 by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan) and, for holding companies that have adopted ASC Topic 326, Financial Instruments – Credit Losses, in ASC Topic 326. Holding companies should refer to the Glossary entries for “allowance for loan and lease losses” and “allowance for credit losses,” as applicable, when considering measurement of the allowance for loan losses or allowance for credit losses (allowance, when used interchangeably) for TDRs.~~

~~A troubled debt restructuring (TDR) is a restructuring in which a holding company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan or other debt instrument (hereafter referred to collectively as a “loan”) may include, but is not necessarily limited to: (1) the transfer from the borrower to the institution of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for “foreclosed assets” for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured troubled loan. Modifications of loans should be evaluated to determine if a TDR exists in totality. In some instances a borrower may have been able to add additional collateral or a guarantor to a loan which fully~~

~~compensates for a concession made by the holding company.~~

~~See the Glossary entry for “nonaccrual status” for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.~~

~~A TDR in which a holding company receives physical possession of the borrower’s assets, should be accounted for in accordance with ASC Subtopic 310-40. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for “foreclosed assets.”~~

~~A TDR may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two-step process: (i) the recorded amount (or amortized cost basis if the holding company has adopted ASC Topic 326) of the loan is reduced by the fair value (less cost to sell, if appropriate) of the property received, and (ii) the holding company should measure any impairment (or expected credit losses if the holding company has adopted ASC Topic 326) on the remaining recorded balance, or amortized cost basis, as applicable, of the restructured loan in accordance with ASC Topic 310 (or ASC Subtopic 326-20 if the holding company has adopted ASC Topic 326) and record any related allowance.~~

~~A TDR may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower’s funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a “new” loan in full or partial satisfaction of the original borrower’s loan. The “new” loan should be recorded at its fair value.~~

~~A credit analysis should be performed for a TDR in conjunction with its restructuring to determine its collectibility and estimated allowance. When available information confirms that a specific TDR, or a portion thereof, is uncollectible, the uncollectible amount should be charged~~



# Glossary

off against the allowance at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The holding company should periodically evaluate the collectibility of the TDR so as to determine whether any additional amounts should be charged to the allowance, or, if the restructuring involved a financial asset other than a loan, to another appropriate account.

Once an obligation has been restructured in a TDR, it continues to be considered a TDR until paid in full or otherwise settled, sold, or charged off (or meets the conditions discussed below under “Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring”). The loan must be reported in the appropriate loan category in Schedule HC-C, items 1 through 9, and in the appropriate loan category in:

- Schedule HC-C, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule HC-N, items 1 through 7, and Memorandum item 1, if it is not in compliance with its modified terms.

However, for a loan that is a TDR for which the concession did not include a reduction of principal, if the restructuring agreement specifies a contractual interest rate that is a market interest at the time of the restructuring and the loan is in compliance with its modified terms, the loan need not continue to be reported as a troubled debt restructuring in Schedule HC-C, Memorandum item 1, in calendar years after the year in which the restructuring took place. A market interest rate is a contractual interest rate that at the time of the restructuring is greater than or equal to the rate that the institution was willing to accept for a new loan with comparable risk. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

## **Accounting for a Subsequent Restructuring of a TDR:**

When a loan has previously been modified in a TDR, the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate accounting by the institution under U.S. GAAP. Under certain circumstances it may be acceptable

not to report for the subsequently restructured loan as a TDR. The Federal Reserve will not object to an institution no longer treating such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When determining whether the borrower is experiencing financial difficulties, the institution’s assessment of the borrower’s financial condition and prospects for repayment after the restructuring should be supported by a recurrent, well documented credit evaluation performed at the time of the restructuring. When assessing whether a concession has been granted by the institution, the agencies consider any principal forgiveness on a cumulative basis to be a continuing concession. Accordingly, a TDR loan with any principal forgiveness would retain the TDR designation after subsequent restructurings.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above the loan need no longer be disclosed as a TDR in the FR Y-9C. The recorded investment or amortized cost basis, as applicable, should not change at the time of the subsequent restructuring (unless cash is advanced or received). When there have been charge-offs prior to the subsequent restructuring, consistent with FR Y-9C instructions, any expected recoveries of amounts previously charged off are not added to the recorded investment in, or the amortized cost basis of, the TDR, as applicable. For holding companies that have not adopted ASC Topic 326, no recoveries should be recognized until collections on amounts previously charged off have been received. For holding companies that have adopted ASC Topic 326, expected recoveries of amounts previously charged off should be considered as part of the allowance estimate but are not included in the amortized cost basis of the TDR. Similarly, if interest payments were applied to the recorded investment in the TDR loan prior to the subsequent restructuring, the application of these payments to the recorded investment should not be reversed nor reported

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# Glossary

~~as interest income at the time of the subsequent restructuring.~~

~~If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR, the loans should be reported as a TDR.~~

~~Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted — This section of this Glossary entry applies to holding companies that have not adopted ASC Topic 326. Holding companies that have adopted ASC Topic 326 should refer to the “Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted” section below.~~

~~All loans whose terms have been modified in a TDR, including both commercial and retail loans, are impaired loans. Therefore, a holding company should measure any impairment on the restructured loan in accordance with ASC Topic 310, Receivables, and should refer to the Glossary entry for “loan impairment.”~~

~~A holding company measuring the allowance on a TDR that is not collateral dependent using the present value of expected future cash flows method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate. ASC Topic 310 also permits a holding company to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.~~

~~For a subsequently restructured TDR, if at the time of the subsequent restructuring the holding company appropriately determines that the loan no longer meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for “loan impairment.” Accordingly, going forward, the loan’s allowance should be measured under ASC Subtopic 450-20, Contingencies — Loss Contingencies.~~

~~For a subsequently restructured TDR on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the TDR should continue to be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310.~~

~~Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted — This section of this Glossary entry applies to holding companies that have adopted ASC Topic 326. Holding companies that have not adopted ASC Topic 326 should continue to refer to the “Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted” section above.~~

~~A holding company should measure any expected credit losses on loans whose terms have been modified in a TDR in accordance with ASC Topic 326 as set forth in the Glossary entry for “allowance for credit losses.” ASC Topic 326 allows a holding company to use any appropriate loss estimation method to estimate ACLs for TDRs. However, there are circumstances when specific measurement methods are required. For purposes of the Consolidated Reports of Condition and Income, if a TDR, or a loan for which a TDR is reasonably expected, is collateral dependent, the ACL must be estimated using the fair value of collateral.~~

~~A holding company measuring the allowance on a TDR, or a pool of TDRs with shared risk characteristics, using the present value of expected future cash flow method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate.~~

~~When there is a reasonable expectation of executing a TDR or if a TDR has been executed, the expected effect of the modification (e.g., a term extension or an interest rate concession) is included in the estimate of the allowance.~~

~~If the TDR designation is removed from a loan balance when it is appropriate for the loan to no longer be reported as a TDR, given the change in the loan’s risk characteristics, the holding company should determine whether the loan should be included in a pool of loans with similar risk characteristics for allowance measurement purposes or evaluated for expected credit losses on an individual basis.~~

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## Glossary

~~See also the Glossary entries for “allowance for credit losses” or “allowance for loan and lease losses,” as applicable, “amortized cost basis,” and “foreclosed assets.”~~

**Trust Preferred Securities as Investments:** As holding company investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust’s only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in ASC Topic 320, Investments-Debt Securities, and in ASC Topic 321, Investments-Equity Securities. Because of the mandatory redemption provision in the typical trust preferred security, *investments* in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a holding company is permitted to invest in trust preferred securities, holding companies should report these *investments* as debt securities for purposes of these reports (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity under ASC Topic 321, rather than debt securities under ASC Topic 320). If not held for trading purposes, trust preferred securities issued by U.S. business trusts should be reported in Schedule HC-B, item 6(a), “Other domestic debt securities.” If not held for trading purposes, an investment in a structured financial product, such as a collateralized debt obligation, for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts should be

reported in Schedule HC-B, item 5(b), “Structure financial products,” and in the appropriate subitem of Schedule HC-B, Memorandum item 6, “Structured financial products by underlying collateral or reference assets.”

**Trust Preferred Securities Issued:** Trust preferred securities are marketed under a variety of names including MIPS (“Monthly Income Preferred Securities”), QUIPS (“Quarterly Income Preferred Securities”) and TOPrS (“Trust Originated Preferred Securities”). These securities are generally issued out of special purpose entities whose voting common stock is wholly owned by the parent holding company. The proceeds from the issuance of these securities are lent to the holding company in the form of a very long term, deeply subordinated note. Under GAAP, the special purpose entity may either be a consolidated subsidiary of the holding company or a deconsolidated entity that qualifies as an unconsolidated subsidiary of the holding company for regulatory reporting and other regulatory purposes.

Holding companies seeking to issue such securities should consult with their Federal Reserve Bank. Under the revised regulatory capital rule, TruPS are generally considered non-qualifying capital instruments that must be phased-out of tier 1 capital (see instructions for HC-R, Part I, items 20, 21, 27, and 28). Note that the rule permanently grandfathers non-qualifying capital instruments in the tier 1 capital of depository institution holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009, and 2010 Mutual Holding Companies (subject to limits and additional requirements in case of mergers and acquisitions). Nonqualifying capital instruments under the rule include TruPS and cumulative perpetual preferred stock issued before May 19, 2010, that BHCs included in tier 1 capital under the limitations for restricted capital elements in the general risk-based capital rules.

For purposes of reporting on the FR Y-9C, trust preferred securities issued by a *consolidated* subsidiary should be reported in Schedule HC, item 19(b).

For special purpose entities that issue trust preferred securities and the entity is *not consolidated*, report the amount of subordinated notes payable by the holding company to the unconsolidated special purpose entity in Schedule HC, item 19(b).

**U.S. Banks:** See “Banks, U.S. and foreign.”