FEDERAL RESERVE BANK *of* NEW YORK

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PATRICIA SELVAGGI
STATISTICS OFFICER

July 12, 2011

To: The Officer Responsible for Filing the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations:

Enclosed is the form for the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N) for the quarter ending June 30, 2011. There are no changes to the FR Y-7N report forms or instructions for the June 30, 2011 report date.

Foreign Banking Organizations file the FR Y-7N quarterly for each U.S. nonbank subsidiary with total assets equal to or greater than $1 billion or with total off-balance-sheet activity equal to or greater than $5 billion. Foreign Banking Organizations file the detailed FR Y-7N annually for each U.S. nonbank subsidiary that does not meet the criteria to file quarterly but has total assets equal to or greater than $250 million (and less than $1 billion). Foreign Banking Organizations file the abbreviated FR Y-7NS annually for each nonbank subsidiary that does not meet the criteria to file the detailed report, but has total assets equal to or greater than $50 million (and less than $250 million). The FR Y-7N/FR Y-7NS must be submitted for each legal entity subject to reporting requirements. Therefore, consolidation of individual entities is not permitted.

Accounting for Loan Participations

Amendments to ASC Topic 860, Transfers and Servicing, resulting from Accounting Standards Update No. 2009-16 (formerly FASB Statement No. 166, "Accounting for Transfers of Financial Assets") modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. These changes

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apply to transfers of loan participations on or after the effective date of amended ASC Topic 860 (January 1, 2010, for nonbank subsidiaries with a calendar year fiscal year), including advances under lines of credit that are transferred on or after the effective date even if the line of credit agreements were entered into before the effective date. Entities with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with amended ASC Topic 860. In general, loan participations transferred before the effective date of amended ASC Topic 860 are not affected by this new accounting standard.

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

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

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

Troubled Debt Restructurings and Current Market Interest Rates

Many institutions are restructuring or modifying the terms of loans to provide payment relief for those borrowers who have suffered deterioration in their financial condition. Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

Nonbanking subsidiaries should note that effective as of March 31, 2011, BS-A, item 7.d. was revised to “Loans restructured in troubled debt restructurings” to clarify this should not include lease agreements. In addition, “Loans restructured in troubled debt restructurings” (Schedule BS-A, item 7.d.) include loans to individuals for household, family and other personal expenditures, and all loans secured by 1-4 family residential properties whose terms have been modified in troubled debt restructurings.

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor’s concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor’s near-term cash requirements, such as a modification of terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

Because the stated interest rate charged the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans to nontroubled borrowers at the time of the restructuring, some institutions have concluded that these restructurings are not TDRs, which may not be the case. In making this determination, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. An interest rate on a modified loan greater than or equal to those available for similar credits does not in and of itself preclude a modification from being designated as a TDR. Rather, when evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether a concession was made to the borrower with respect to the market interest rate (or has made some other type of concession that could trigger TDR accounting and disclosure, for example, terms or conditions outside of the subsidiary’s policies or common market practices) and, if so, how the modified or restructured loan should be reported on the FR Y- 7N report.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

An institution that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that results in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) On the FR Y-7N report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported in the appropriate loan category in Schedule BS-A as necessary.

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

A loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended)". For further information, see the instructions for Schedules BS-A.

Troubled Debt Restructurings and Accounting Standards Update No. 2011-02

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," to provide additional guidance to help creditors determine whether a concession has been granted to a borrower and whether a borrower is experiencing financial difficulties. The guidance is also intended to reduce diversity in practice in identifying and reporting TDRs. This ASU is effective for public companies for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption for purposes of identifying TDRs. The measurement of impairment for any newly identified TDRs resulting from retrospective application will be applied prospectively in the first interim or annual period beginning on or after June 15, 2011. Early adoption of the ASU is permitted for both public and nonpublic entities, with nonpublic entities that adopt early subject to a retrospective identification requirement.

Nonbanking subsidiaries are expected to continue to follow the accounting and reporting guidance on TDRs in the preceding section of these Supplemental Instructions and in the FR Y-7N Instruction book. To the extent the guidance in the ASU differs from a nonbanking subsidiary's existing accounting policies and practices for identifying TDRs, the non-bank subsidiary will be expected to apply the ASU for FR Y-7N reporting purposes in accordance with the standard's effective date and transition provisions, which are outlined above. To the extent that a nonbanking subsidiary's existing accounting policies and practices are consistent with guidance in the ASU, the nonbanking subsidiary should continue to follow its existing policies and practices.

ASU 2011-02 reiterates that the two conditions mentioned in the preceding section on "Troubled Debt Restructurings and Current Market Interest Rates" must exist in order for a loan modification to be deemed a TDR: (1) a company must grant a concession to the borrower as part of the modification and (2) the borrower must be experiencing financial difficulties. The ASU explains that a company may determine that a borrower is experiencing financial difficulties if it is probable that the borrower will default on any of its debts in the foreseeable future. The borrower does not have to be in default at the time of the modification. Other possible factors that should be considered in evaluating whether a borrower is experiencing financial difficulties is if the borrower has declared (or is in the process of declaring) bankruptcy, the creditor does not expect the borrower's cash flows to be sufficient to service its debt under the existing terms, or there is substantial doubt about an entity's ability to continue as a going concern.

Another important aspect of the ASU is that it prohibits financial institutions from using the effective interest rate test included in the TDR guidance for borrowers in ASC Subtopic 470-60, Debt – Troubled Debt Restructurings by Debtors, when determining whether the creditor has granted a concession as part of a loan modification. However, as explained in ASU 2011-02, if a borrower does not have access to funds at a market rate of interest for similar debt, the rate on the modified loan is considered to be a below-market rate and may be an indicator that the company has granted a concession to the borrower.

Furthermore, the ASU provides new guidance regarding insignificant delays in payment as part of loan modification. If, after analysis of all facts and circumstances, a creditor determines that a delay in payment is insignificant, the creditor has not granted a concession to the borrower. This determination requires judgment and should consider many factors, including, but not limited to, the amount of the delayed payments in relation to the loan's unpaid principal or collateral value, the frequency of payments due on the loan, the original contractual maturity, and the original expected duration of the loan.

For additional information, bank holding companies should refer to ASU 2011-02, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Variable Interest Entities

Reporters preparing the FR Y-7N should submit a report for each legal entity subject to reporting requirements (i.e. on a parent only basis). Therefore, consolidation of individual entities, including VIEs, is not permitted. However, respondents should separately assess whether a VIE meets the definition of a subsidiary as defined by Section 211.2(w) of Federal Reserve Regulation K, which generally includes companies 25 percent or more owned or controlled by another company, and determine if any such entities meet the criteria for filing the FR Y -7N.

Accounting Standards Codification

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

The FASB Codification is effective for interim and annual periods ending after September 15, 2009. Therefore, effective for the September 30, 2009, and subsequent FR Y-7N reports, references in the reporting instructions (including these Supplemental Instructions) to specific pre-Codification standards under U.S. GAAP (e.g., FASB Statements of Financial Accounting Standards, FASB Interpretations, Emerging Issues Task Force Issues, and

Accounting Principles Board Opinions) should be understood to mean the corresponding reference in the FASB's Accounting Standards Codification. In addition, the banking agencies have published on the FFIEC's website a list of all pre-codification references to authoritative accounting literature and the corresponding FASB Codification references. This reference guide may be useful for FRY-7N reporting purposes and may be accessed at:

http://www.ffiec.gov/pdf/FFIEC_forms/CodificationReferences_201006.pdf

Other-Than-Temporary Impairment

When the fair value of an investment in an available-for-sale or held-to-maturity security is less than its cost basis, the impairment is either temporary or other-than-temporary (OTTI). To determine whether the impairment is other-than-temporary, a nonbank subsidiary must apply other pertinent guidance such as paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*; FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*; paragraph 6 of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*; Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*; and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*.

For OTTI losses on held-to-maturity and available-for-sale debt securities that occur during the current calendar year-to-date reporting period, nonbanks should report the total amount of such losses, the portion recognized in other comprehensive income (before), and the net impairment losses recognized in earnings in item 6, of the FR Y-7N income statement (Schedule IS). OTTI losses that are to be recognized in other comprehensive income, net of applicable taxes, should be reported in item 5 of Schedule IS-A, Changes in Equity Capital, and included in item 18.d, "Accumulated other comprehensive income", on the FR Y-7N balance sheet (Schedule BS). For a held-to-maturity debt security on which the nonbank has recognized an OTTI loss related to factors other than credit loss in other comprehensive income, the nonbank should report the carrying value of the debt security, as defined in FSP FAS 115-2, in item 2.a of Schedule BS. Under the FSP, this carrying value should be the fair value of the debt security as of the date of the most recently recognized OTTI loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

Extended Net Operating Loss Carryback Period

The Business Assistance Act of 2009, which was enacted on November 6, 2009, permits banking organizations and other businesses, excluding those banking organizations that received capital from the U.S. Treasury under the Troubled Asset Relief Program, to elect a net operating loss carryback period of three, four, or five years instead of the usual carryback period of two years for any one tax year ending after December 31, 2007, and beginning before January 1, 2010. This extended carryback period applies to either the 2008 or 2009 tax year. The amount of the net operating loss that can be carried back to the fifth carryback year is limited to 50 percent of the available taxable income for that fifth year, but this limit does not apply to other carryback years.

Under GAAP, nonbanks may not record the effects of this tax change in their balance sheets and income statements for financial and regulatory reporting purposes until the period in which the law was enacted (i.e., the fourth quarter of 2009). Nonbanks should recognize the effects of this fourth quarter 2009 tax law change on their current and deferred tax assets and liabilities, including valuation allowances for deferred tax assets, in their FR Y-7N report for December 31, 2009. Nonbanks should not amend their FR Y-7N report for prior quarters for the effects of the extended net operating loss carryback period.

In addition, any recognized income tax refund receivable resulting from a net operating loss carryback that remains outstanding as of March 31, 2010, should be reported in Schedule BS, item 7, “All other assets”, not in Schedule BS-M, item 3.c, “Net deferred tax assets”.

Subscription Service

We offer a subscription service which enables you to receive recent news and updates on our reporting forms and instructions and upcoming Bank events. You can sign up for this service at the following website:

http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

Electronic Submission Option

Electronic submission of the FR Y-7N report is available to all U.S. nonbank subsidiaries. We encourage you to take advantage of this method of reporting submission. Vendors have developed a software package that provides the means to submit the FR Y-7N electronically. Submitting reports electronically using the software package provides the following benefits:

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

For information on filing the FR Y-7N report electronically, please contact Laura McGaughey at (212) 720-2683.

Website

Copies of the FR Y-7N reporting forms and instructions are also available on the Federal Reserve Board's web site at *www.federalreserve.gov* under "Reporting Forms."

An original and one copy of the completed FR Y-7N report must be received by the Federal Reserve Bank of New York on August 29, 2011. Any FR Y-7N report received after 5:00 p.m. on August 29, 2011 will be considered late unless postmarked by August 26, 2011 or sent by overnight service by August 28, 2011. Completed reports should be submitted to:

Federal Reserve Bank of New York

Statistics Function

33 Liberty Street, 4th Floor

New York, New York 10045

We continue to monitor the accuracy of the periodic regulatory reports submitted for the June 30, 2011 report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits." The edits for the FR Y-7N report are included in the instructions.

Questions regarding the FR Y-7N should be directed to Laura McGaughey, Reports Analyst in the Regulatory Reports Division at (212) 720-2683 or Anthony Guglielmo, Team Leader of that Division at (212) 720-8002.

Sincerely,

Patricia Selvaggi

Statistics Officer

Statistics Function

Enclosures

Bcc: Mr. Castillo

Mrs. Selvaggi

Mr. Lamar

RRD Files

Foreign Unit