Frequently Asked Questions
Pertaining to Draft Reporting Forms for
Capital Assessments and Stress Testing
October 5, 2011

On September 7, 2011, the Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget, invited public comment on an information collection proposal to implement capital assessments and stress testing information collection (FR Y-14A and Q; OMB No. 7100-to be assigned). The FR Y-14A would collect annually bank holding companies' (BHCs') quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios. The FR Y-14Q would collect granular data on BHCs' various asset classes and pre-provision net revenue for the reporting period, which would be used to support supervisory stress test models and for continuous monitoring efforts, on a quarterly basis.

In an effort to provide clarity around the proposal, a list of frequently asked questions and answers is being published and will be updated, as appropriate, with new information. The proposal is open for public comment for a period of 60 days, closing on November 7, 2011. You may submit comments on the proposal using any method provided in the Board's Federal Register notice.

A copy of the Board's Federal Register notice is available at: www.federalreserve.gov/reportforms/formsreview/FRY14Q_FRY14A_20110907_ifr.pdf

Attachment

FR Y-14A and FR Y-14Q Data Collection Proposal: Commercial Real Estate Schedule FAQ

Q: Will the Federal Reserve provide clarity on the ways in which the definitions of data fields #8, #13, #39, #41, and #43 might differ from those which are commonly used in some firms' data systems, credit files, or in data templates that were used in connection with the previous year's Comprehensive Capital Analysis and Review (CCAR)?

A: The proposed CCAR commercial real estate (CRE) loan level data dictionary includes data field 43, titled "Cross Collateralized Loan Number." This field would help the Federal Reserve identify loans that are secured by properties that are also pledged as collateral on a *pari passu* basis with other loans at the same financial institution. Cross collateralization and/or cross default create complex relationships that might not be captured consistently in the data collection without further clarification.

In the "Cross Collateralized Loan Numbers" field, the Federal Reserve proposes to collect the loan identification numbers of other loans included elsewhere in the CRE data submission that are cross collateralized and/or cross defaulted with the loan being reported. Assuming that the cross collateralized and/or cross defaulted loans have the same seniority, the credit characteristics should be reported on an aggregated level for the group of cross collateralized and/or cross defaulted loans. Consequently, fields 13 (Value at Origination), 39 (Current Net Operating Income), and 41 (Current Value) are proposed to be reported in the CCAR CRE data collection on the aggregate level where the loan is either cross collateralized or cross defaulted with other loans.

While, in other similar collections, there have been two fields collecting loan-to-value (LTV) ratio data, the proposal would include two LTV fields: one for the value of the property or properties securing the loan – "Value at Origination" (field 13) and another for "Current Value" (field 41).

In an effort to help the reporters better understand how the data should be reported for cross collateralized loans, two examples are provided as an appendix to this document.

Another field that may need further clarification is proposed data field 8, titled "Lien Position." Based on Federal Reserve supervisory reviews, some banks may have loans that fit into the category of "B Note." In an A/B note structure, the first mortgage is divided into two tranches, an A note and a B note. The B note is structurally subordinated to the A note from a payments perspective, but the B-note is still secured by the common first mortgage position. Payments on the B Note are subordinated to the A Note and incurred losses are allocated to the B note first. The B notes may or may not result from a troubled debt restructuring.

Appendix: Examples

Example I

In November 2007, ABC Bank approved a $43,440,000 loan (loan number ABC314) to a borrower, which was secured by three hotels. Due to adverse market conditions, the hotels began to experience cash flow problems.   This caused the current net operating income (NOI) to decline from the original NOI. In Q4 2010, the borrower and ABC bank agreed to use equity in properties that were securing separate ABC bank loans (ABC3141, ABC31415) to the same borrower as support. Pursuant to an agreement between ABC Bank and the borrower, they agreed to cross-collateralize and cross-default the three loans in 2010. Table 1 presents basic loan information of the three loans. Note that dollar values are in millions.

Table 1

Loan Number	Property Number	Orig date	At Origination					Current				
			Loan	LTV	Value	NOI	Int Rate	Loan	LTV	Value	NOI	Int Rate
ABC314	1	11/2/2007	$ 20.00	80%	$ 25.00	2.00	7.00%	$ 20.00	127%	$ 15.79	1.50	6.00%
ABC314	2	11/2/2007	$ 14.06	75%	$ 18.75	1.50	7.00%	$ 14.06	116%	$ 12.11	1.15	6.00%
ABC314	3	11/2/2007	$ 9.38	75%	$ 12.50	1.00	7.00%	$ 9.38	105%	$ 8.95	0.85	6.00%
			$ 43.44	77%	$ 56.25	4.50	7.00%	$ 43.44	118%	$ 36.84	3.50	6.00%
ABC3141	4	3/16/2007	$ 7.00	70%	$ 10.00	0.80	7.50%	$ 6.80	85%	$ 8.00	0.76	6.50%
ABC3141	5	3/16/2007	$ 4.38	70%	$ 6.25	0.50	7.50%	$ 4.30	86%	$ 5.00	0.48	6.50%
			$ 11.38	70%	$ 16.25	1.30	7.50%	$ 11.10	85%	$ 13.00	1.24	6.50%
ABC31415	6	6/5/2006	$ 9.33	60%	$ 15.56	1.40	8.00%	$ 7.50	48%	$ 15.56	1.40	7.00%
Total			$ 64.15	73%	$ 88.06	7.20	7.23%	$ 62.04	95%	$ 65.40	6.14	6.21%

The Bank may have the following data (Table 2) available from its data system or in its credit files:

Table 2

Loan Number	Origination Date	Current Outstanding Balance	Interest Rate	At Origination		Current	
				LTV	NOI	LTV	NOI
ABC314	11/2/2007	$43,400,000	6.00%	77%	$7,200,000	95%	$6,140,000
ABC3141	3/16/2007	$11,100,000	6.00%	70%	$1,300,000	85%	$6,140,000
ABC31415	6/5/2006	$7,500,000	7.00%	60%	$1,400,000	48%	$6,140,000

The calculations based on the ABC Bank data produced the values in Table 3, using a 30-year amortization to calculate the payment and DSCR values.

Table 3

Loan Number	Origination Date	Calculated Payment	Calculated Orig DSCR	Calculated Current DSCR
ABC314	11/2/2007	$260,205	2.31	1.97
ABC3141	3/16/2007	$66,550	1.63	7.69
ABC31415	6/5/2006	$49,898	2.34	10.25

An example of the correct data reporting practice for the proposed schedule is presented in Table 4.

Table 4

Loan Number	Origination Date	Current Outstanding Balance	Interest Rate	At Origination		Current		Crossed Collateralized Loan Number
				Value	NOI	Value	NOI	
ABC314	11/2/2007	$43,400,000	6.00%	$ 56,250,000	$7,200,000	$65,400,000	$6,140,000	ABC314, ABC3141, ABC31415
ABC3141	3/16/2007	$11,100,000	6.00%	$ 16,250,000	$1,300,000	$65,400,000	$6,140,000	ABC314, ABC3141, ABC31415
ABC31415	6/5/2006	$7,500,000	7.00%	$ 15,560,000	$1,400,000	$65,400,000	$6,140,000	ABC314, ABC3141, ABC31415

The "Current Value" and "Current NOI" are the same across the loans (ABC314, ABC3141, ABC31415) because they are cross-collateralized and cross-defaulted. Table 5 presents revised calculations based on the data that ABC Bank provided using the proper reporting methodology.

Table 5

Loan Number	Current Calculated DSCR	Current Calculated LTV
ABC314	1.26	95%
ABC3141	1.26	95%
ABC31415	1.26	95%

In Table 5, the calculation was amended to include the combined values to reflect the cross-collateralizations of the loans. Since all of the loans share the same collateral and have access to the same cash flows, the calculated DSCR and LTV are the same for all three.

Example II

In June 2010, ABC Bank approved two loans (loans number ABC27, ABC 271) to a real estate developer, which were secured by one property; the loans were cross-collateralized, and cross-defaulted. Loan ABC27 is an amortizing term loan and loan ABC271 is a revolving line of credit for the purpose of purchasing additional property. In Q4 2010, the borrower drew down $10,000,000 from loan ABC271 to purchase a new $50,000,000 property. In Q1 2011, the borrower was approved for $40,000,000 permanent financing (loan ABC2718) on the newly purchased property and loan ABC2718 was cross-collateralized and cross-defaulted with loans ABC27 and ABC271. The borrower repaid $5,000,000 (ABC271) to ABC Bank as a cash equity investment. Table 1 presents basic loan information of the three loans. Note that dollar values are in millions. The $15 million NOI represents the combined cash flows from all three properties.

Table 1

Loan Number	Property Number	At Origination							Current				
		Orig date	Committed	Outstanding	LTV	Value	NOI	Int Rate	Outstanding	LTV	Value	NOI	Int Rate
ABC27	1	6/7/2010	$ 100.00	$ 100.00	50%	$ 200.00	10.50	5.00%	$ 100.00	76%	$ 250.00	15.00	5.00%
ABC271	1	6/7/2010	$ 50.00	$ -	50%	$ 200.00	10.50	7.50%	$ 5.00	76%	$ 250.00	15.00	7.00%
ABC2718	2	1/11/2011	$ 40.00	$ 40.00	76%	$ 250.00	15.00	6.50%	$ 40.00	76%	$ 250.00	15.00	6.50%

The following is a portion of the data (Table 2) that the Bank may have in its data system or credit files:

Table 2

Loan Number	Origination Date	Current Committed Balance	Current Outstanding Balance	Interest Rate	At Origination		Current	
					LTV	NOI	LTV	NOI
ABC27	6/7/2010	$ 100,000,000	$ 100,000,000	5.00%	50%	$10,500,000	50%	$10,500,000
ABC271	6/7/2010	$ 50,000,000	$ 5,000,000	7.50%	0%	$10,500,000	3%	$10,500,000
ABC2718	1/11/2011	$ 40,000,000	$ 40,000,000	6.50%	16%	$15,000,000	16%	$15,000,000

The calculations based on the ABC Bank data produced the values in Table 3, using a 30-year amortization to calculate the payment and DSCR values.

Table 3

Loan Number	Origination Date	Calculated Payment	Calculated Orig DSCR	Calculated Current DSCR
ABC27	6/7/2010	$536,822	1.63	1.63
ABC271	6/7/2010	$349,607	2.50	2.50
ABC2718	1/11/2011	$252,827	4.94	4.94

An example of the correct data reporting practice is presented in Table 4.

Table 4

Loan Number	Origination Date	Current Outstanding Balance	Interest Rate	At Origination Value	At Origination NOI	Current Value	Current NOI	Crossed Collateralized Loan Number
ABC27	6/7/2010	$ 100,000,000	5.00%	$200,000,000	$10,500,000	$250,000,000	$15,000,000	ABC27, ABC271, ABC2718
ABC271	6/7/2010	$ 5,000,000	7.50%	$200,000,000	$10,500,000	$250,000,000	$15,000,000	ABC27, ABC271, ABC2718
ABC2718	1/11/2011	$ 40,000,000	6.50%	$250,000,000	$15,000,000	$250,000,000	$15,000,000	ABC27, ABC271, ABC2718

Table 5 presents revised calculations based on the ABC Bank provided data in the new proposed format.

Table 5

Loan Number	Current Calculated DSCR	Current Calculated LTV
ABC27	1.52	76%
ABC271	1.52	76%
ABC2718	1.52	76%

In Table 5, the calculation was amended to include the combined values to reflect the cross-collateralizations of the loans.