

affirming or rescinding his determination upon review of the hearing record. Should the determination be affirmed, it will become effective as of the date of the order.

**ADDRESSES:** A copy of the primacy application relating to this determination is available for inspection between the hours of 7:30 a.m. and 4:30 p.m., Monday through Friday, at the following locations: U.S. EPA Region VII Drinking Water Branch, 726 Minnesota Avenue, Kansas City, Kansas 66101, and the Iowa Department of Natural Resources, Public Drinking Water Program, Wallace State Office Building, Des Moines, Iowa 50319.

**FOR FURTHER INFORMATION CONTACT:** Pat Ritchey, EPA Region VII Drinking Water Branch, at the above address, telephone (913) 551-7409.

**Authority:** Sec. 1413 of the Safe Drinking Water Act, as amended (1986), and 40 CFR 142.10 of the National Primary Drinking Water Regulations.

Dated: May 15, 1995.

**Dennis Grams,**

*Regional Administrator, EPA, Region VII.*  
[FR Doc. 95-15018 Filed 6-28-95; 8:45 am]  
BILLING CODE 6560-50-P

[FRL-5221-5]

**Public Water System Supervision Program: EPA Tentatively Approves Program Revisions Corresponding to the National Primary Drinking Water Regulations for Lead and Copper for the State of Nebraska**

**AGENCY:** Environmental Protection Agency.

**ACTION:** Notice.

**SUMMARY:** Notice is hereby given that the State of Nebraska is revising its approved State Public Water System Supervision (PWSS) Program. Nebraska has adopted regulations for the Lead and Copper Rule that correspond to the National Primary Drinking Water Regulations for the Lead and Copper Rule published by the EPA on June 7, 1991 (56 FR 26460).

EPA has determined that these State program revisions are no less stringent than the corresponding Federal regulation. This determination was based upon a thorough evaluation of Nebraska's PWSS program in accordance with the requirements stated in 40 CFR 142.10. Therefore, EPA has tentatively decided to approve these State program revisions.

All interested parties are invited to request a public hearing. A request for a public hearing must be submitted to

the Regional Administrator, within thirty (30) days of the date of this Notice, at the address shown below. If a public hearing is requested and granted, this determination shall not become effective until such time following the hearing that the Regional Administrator issues an order affirming or rescinding this action. If no timely and appropriate request for a hearing is received, and the Regional Administrator does not elect to hold a hearing on his own motion, this determination shall become effective thirty (30) days from this Notice date.

Insubstantial requests for a hearing may be denied by the Regional Administrator. However, if a substantial request is made within thirty (30) days after this notice, a public hearing will be held.

Requests for a public hearing should be addressed to: Ralph Langemeier, Chief; Drinking Water Branch; U.S. Environmental Protection Agency, Region VII; 726 Minnesota Avenue; Kansas City, Kansas 66101-2798.

Any request for a public hearing shall include the following: (1) The name, address, and telephone number of the individual, organization, or other entity requesting a hearing; (2) a brief statement of the requesting person's interest in the Regional Administrator's determination and of information that the requesting person intends to submit at such hearing; and (3) the signature of the individual making the request, or if the request is made on behalf of an organization or other entity, the signature of a responsible official of the organization or other entity.

Notice of any hearing shall be given not less than fifteen (15) days prior to the time scheduled for the hearing. Such notice will be made by the Regional Administrator in the **Federal Register** and in newspapers of general circulation in the State of Nebraska. A notice will also be sent to the person(s) requesting the hearing as well as to the State of Nebraska. The hearing notice will include a statement of purpose, information regarding time and location, and the address and telephone number where interested persons may obtain further information. The Regional Administrator will issue an order affirming or rescinding his determination based upon review of the hearing record. Should the determination be affirmed, it will become effective as of the date of the order.

**ADDRESSES:** A copy of the primacy application relating to this determination is available for inspection between the hours of 7:30 a.m. and 4:30

p.m., Monday through Friday, at the following locations: U.S. EPA Region VII Drinking Water Branch, 726 Minnesota Avenue, Kansas City, Kansas 66101-2798, and the Nebraska Department of Health, 301 Centennial Mall South, 3rd Floor, Lincoln, Nebraska 68509.

**FOR FURTHER INFORMATION CONTACT:** David Horak, EPA Region VII Drinking Water Branch, 726 Minnesota Avenue, Kansas City, Kansas 66101-2798, telephone (913) 551-7970.

**Authority:** Section 1413 of the Safe Drinking Water Act, as amended (1986), and 40 CFR 142.10 of the National Primary Drinking Water Regulations.

Dated: May 30, 1995.

**Dennis Grams,**

*Regional Administrator, EPA, Region VII.*  
[FR Doc. 95-15017 Filed 6-28-95; 8:45 am]  
BILLING CODE 6560-50-P

**FEDERAL DEPOSIT INSURANCE CORPORATION**

**Differences in Capital and Accounting Standards Among the Federal Banking and Thrift Agencies; Report to Congressional Committees**

**AGENCY:** Federal Deposit Insurance Corporation (FDIC).

**ACTION:** Report to the Committee on Banking and Financial Services of the U.S. House of Representatives and to the Committee on Banking, Housing, and Urban Affairs of the United States Senate Regarding Differences in Capital and Accounting Standards Among the Federal Banking and Thrift Agencies as of December 31, 1994.

**SUMMARY:** This report has been prepared by the FDIC pursuant to Section 37(c) of the Federal Deposit Insurance Act (12 U.S.C. 1831n(c)). Section 37(c) requires each federal banking agency to report annually to the Committee on Banking and Financial Services of the House of Representatives and to the Committee on Banking, Housing, and Urban Affairs of the Senate any differences between any accounting or capital standard used by such agency and any accounting or capital standard used by any other such agency. The report must also contain an explanation of the reasons for any discrepancy in such accounting and capital standards and must be published in the **Federal Register**.

**FOR FURTHER INFORMATION CONTACT:** Robert F. Storch, Chief, Accounting Section, Division of Supervision, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, D.C. 20429, telephone (202) 898-8906.

**SUPPLEMENTARY INFORMATION:** The text of the report follows:

**Report to the Committee on Banking and Financial Services of the U.S. House of Representatives and to the Committee on Banking, Housing, and Urban Affairs of the United States Senate Regarding Differences in Capital and Accounting Standards Among the Federal Banking and Thrift Agencies as of December 31, 1994**

*A. Introduction*

This report has been prepared by the Federal Deposit Insurance Corporation (FDIC) pursuant to Section 37(c) of the Federal Deposit Insurance Act, which requires the agency to annually submit a report to specified Congressional Committees describing any differences in regulatory capital and accounting standards among the federal banking and thrift agencies, including an explanation of the reasons for these differences. Section 37(c) also requires the FDIC to publish this report in the **Federal Register**.

The FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC) (hereafter, the banking agencies) have substantially similar leverage and risk-based capital standards. While the Office of Thrift Supervision (OTS) employs a regulatory capital framework that also includes leverage and risk-based capital requirements, it differs in several respects from that of the banking agencies. Nevertheless, the agencies view the leverage and risk-based capital requirements as minimum standards and most institutions are expected to operate with capital levels well above the minimums, particularly those institutions that are expanding or experiencing unusual or high levels of risk.

The banking agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), have developed uniform Reports of Condition and Income (Call Reports) for all commercial banks and FDIC-supervised savings banks. The reporting standards followed by the banking agencies are substantially consistent with generally accepted accounting principles (GAAP) as they are applied by banks. In the limited number of cases where the bank Call Report standards are different from GAAP, the regulatory reporting requirements are intended to be more conservative than GAAP. The OTS requires each thrift institution to file the Thrift Financial Report (TFR), which is consistent with GAAP as it is applied by

thrifts. However, the reporting standards applicable to the TFR differ in some respects from the reporting standards applicable to the bank Call Report.

*B. Differences in Capital Standards Among the Federal Banking and Thrift Agencies*

*B.1. Minimum Leverage Capital*

The banking agencies have established leverage capital standards based upon the definition of Tier 1 (or core) capital contained in their risk-based capital standards. These standards require the most highly-rated banks (i.e., those with a composite CAMEL rating of "1") to maintain a minimum leverage capital ratio of at least 3 percent if they are not anticipating or experiencing any significant growth and meet certain other conditions. All other banks must maintain a minimum leverage capital ratio that is at least 100 to 200 basis points above this minimum (i.e., an absolute minimum leverage ratio of not less than 4 percent).

The OTS has a 3 percent core capital and a 1.5 percent tangible capital leverage requirement for thrift institutions. Consistent with the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the OTS has proposed revisions to its leverage standard for thrift institutions so that its minimum leverage standard will be at least as stringent as the revised leverage standard that the OCC applies to national banks.

*B.2. Interest Rate Risk*

Section 305 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) mandates that the agencies' risk-based capital standards take adequate account of interest rate risk. The banking agencies requested comment in August 1992 and September 1993 on proposals to incorporate interest rate risk into their risk-based capital standards. The agencies expect to issue another interest rate risk proposal for public comment during 1995. The delay in completing a final rule has been the result of difficulties in designing a meaningful measurement system for interest rate risk and efforts to seek international agreement on capital standards for this risk.

In 1993, the OTS adopted a final rule which adds an interest rate risk component to its risk-based capital standards. Under this rule, thrift institutions with a greater than normal interest rate exposure must take a deduction from the total capital

available to meet their risk-based capital requirement. The deduction is equal to one half of the difference between the institution's actual measured exposure and the normal level of exposure. The OTS has deferred the September 30, 1994, effective date of its interest rate risk rule while the banking agencies continue their work on an interest rate risk rule for banks. The approach ultimately adopted by the banking agencies could differ from that of the OTS.

*B.3. Subsidiaries*

The banking agencies consolidate all significant majority-owned subsidiaries of the parent organization. The purpose of this practice is to assure that capital requirements are related to all of the risks to which the bank is exposed. For subsidiaries which are not consolidated on a line-for-line basis, their balance sheets may be consolidated on a pro-rata basis, bank investments in such subsidiaries may be deducted entirely from capital, or the investments may be risk-weighted at 100 percent, depending upon the circumstances. These options, with respect to the consolidation or "separate capitalization" of subsidiaries for the purpose of determining the capital adequacy of the parent organization, provide the banking agencies with the flexibility necessary to ensure that adequate capital is being provided commensurate with the actual risks involved.

Under OTS capital guidelines, a distinction, mandated by FIRREA, is drawn between subsidiaries engaged in activities that are permissible for national banks and subsidiaries engaged in "impermissible" activities for national banks. Subsidiaries of thrift institutions that engage only in permissible activities are consolidated on a line-for-line basis, if majority-owned, and on a pro rata basis, if ownership is between 5 percent and 50 percent. As a general rule, investments in, and loans to, subsidiaries that engage in impermissible activities are deducted in determining the capital adequacy of the parent. However, for subsidiaries which were engaged in impermissible activities prior to April 12, 1989, investments in, and loans to, such subsidiaries that were outstanding as of that date were grandfathered and were phased out of capital over a five-year transition period that expired on July 1, 1994. During this transition period, investments in subsidiaries engaged in impermissible activities which had not been phased out of capital were consolidated on a pro rata basis. The phase-out provisions were amended by the Housing and Community

Development Act of 1992 with respect to impermissible subsidiaries that are subject to this requirement solely by reason of their real estate investments and activities. The OTS may extend the transition period until July 1, 1996, on a case-by-case basis if certain conditions are met.

#### B.4. Intangible Assets

The banking agencies' rules permit purchased credit card relationships and purchased mortgage servicing rights to count toward capital requirements, subject to certain limits. Both forms of intangible assets are in the aggregate limited to 50 percent of core capital. In addition, purchased credit card relationships alone are restricted to no more than 25 percent of an institution's core capital. Any purchased mortgage servicing rights and purchased credit card relationships that exceed these limits, as well as all other intangible assets such as goodwill and core deposit intangibles, are deducted from capital and assets in calculating an institution's core capital.

In February 1994, the OTS issued a final rule making its capital treatment of intangible assets generally consistent with the banking agencies' rules. However, the OTS rule grandfathers preexisting core deposit intangibles up to 25 percent of core capital and all purchased mortgage servicing rights acquired before February 1990.

#### B.5. Capital Requirements for Recourse Arrangements

**B.5.a. Leverage Capital Requirements**—The banking agencies require full leverage capital charges on most assets sold with recourse, even when the recourse is limited. This includes transactions where the recourse arises because the seller, as servicer, must absorb credit losses on the assets being serviced. The exceptions to this rule pertain to certain pools of first lien one-to-four family residential mortgages and to certain agricultural mortgage loans.

Banks must maintain leverage capital against most assets sold with recourse because the banking agencies' regulatory reporting rules generally do not permit assets sold with recourse to be removed from a bank's balance sheet (see "Sales of Assets With Recourse" in Section C.1. below for further details). As a result, such assets continue to be included in the asset base which is used to calculate a bank's leverage capital ratio.

Because the regulatory reporting rules for thrifts enable them to remove assets sold with recourse from their balance sheets when such transactions qualify for sales under GAAP, the OTS capital

rules do not require thrifts to hold leverage capital against such assets.

**B.5.b. Low Level Recourse Transactions**—The banking agencies and the OTS generally require a full risk-based capital charge against assets sold with recourse. However, in the case of assets sold with limited recourse, the OTS limits the capital charge to the lesser of the amount of the recourse or the actual amount of capital that would otherwise be required against that asset, i.e., the full effective risk-based capital charge. This is known as the "low level recourse" rule.

The banking agencies proposed in May 1994 to adopt the low level recourse rule that OTS already has in place. Such action was mandated four months later by Section 350 of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA). The FDIC adopted the low level recourse rule on March 21, 1995, and the other banking agencies have taken similar action.

**B.5.c. Senior-Subordinated Structures**—Some securitized asset arrangements involve the creation of senior and subordinated classes of securities. When a bank originates such a transaction and retains the subordinated interest, the banking agencies require that capital be maintained against the entire amount of the asset pool. However, when a bank acquires a subordinated interest in a pool of assets that it did not own, the banking agencies assign the investment in the subordinated security to the 100 percent risk weight category.

In general, the OTS requires a thrift that holds the subordinated interest in a senior-subordinated structure to maintain capital against the entire amount of the underlying asset pool regardless of whether the subordinated interest has been retained or has been purchased.

In May 1994, the banking agencies proposed to require banking organizations that purchase subordinated interests which absorb the first dollars of losses from the underlying assets to hold capital against the subordinated interest plus all more senior interests.

**B.5.d. Recourse Servicing**—The right to service loans and other assets may be retained when the assets are sold. This right also may be acquired from another entity. Regardless of whether servicing rights are retained or acquired, recourse is present whenever the servicer must absorb credit losses on the assets being serviced. The banking agencies and the OTS require risk-based capital to be maintained against the full amount of assets upon which a selling institution,

as servicer, must absorb credit losses. Additionally, the OTS applies a capital charge to the full amount of assets being serviced by a thrift that has purchased the servicing from another party and is required to absorb credit losses on the assets being serviced.

The banking agencies' May 1994 proposal also would require banking organizations that purchase certain loan servicing rights which provide loss protection to the owners of the loans serviced to hold capital against those loans.

#### B.6. Collateralized Transactions

The FRB and the OCC have lowered from 20 percent to zero percent the risk weight accorded collateralized claims for which a positive margin of protection is maintained on a daily basis by cash on deposit in the institution or by securities issued or guaranteed by the U.S. Government agencies or the central governments of countries that are members of the Organization of Economic Cooperation and Development (OECD).

The FDIC and the OTS still assign a 20 percent risk weight to claims collateralized by cash on deposit in the institution or by securities issued or guaranteed by U.S. Government agencies or OECD central governments. The FDIC staff is preparing a proposal that will lower the risk weight for collateralized transactions.

#### B.7. Limitation on Subordinated Debt and Limited Life Preferred Stock

Consistent with the Basle Accord, the banking agencies limit the amount of subordinated debt and intermediate-term preferred stock that may be treated as part of Tier 2 capital to an amount not to exceed 50 percent of Tier 1 capital. In addition, all maturing capital instruments must be discounted by 20 percent each year of the five years before maturity. The banking agencies adopted this approach in order to emphasize equity versus debt in the assessment of capital adequacy.

The OTS has no limitation on the ratio of maturing capital instruments as part of Tier 2. Also, for all maturing instruments issued on or after November 7, 1989 (those issued before are grandfathered with respect to the discounting requirement), thrifts have the option of using either (a) the discounting approach used by the banking regulators, or (b) an approach which allows for the full inclusion of all such instruments provided that the amount maturing in any one year does not exceed 20 percent of the thrift's total capital.

**B.8. Presold Residential Construction Loans**

The four agencies assign a 50 percent risk weight to loans to builders to finance the construction of one-to-four family residential properties that have been presold and meet certain other criteria. However, the OTS and OCC rules indicate that the property must be presold before the construction loan is made in order for the loan to qualify for the 50 percent risk weight. The FDIC and FRB permit loans to builders for residential construction to qualify for the 50 percent risk weight once the property is presold, even if that event occurs after the construction loan has been made.

**B.9. Nonresidential Construction and Land Loans**

The banking agencies assign loans for nonresidential real estate development and construction purposes to the 100 percent risk weight category. The OTS generally assigns these loans to the same 100 percent risk category. However, if the amount of the loan exceeds 80 percent of the fair value of the property, the excess portion is deducted from capital.

**B.10. Privately-Issued Mortgage-Backed Securities**

The banking agencies, in general, place privately-issued mortgage-backed securities in either the 50 percent or 100 percent risk-weight category, depending upon the appropriate risk category of the underlying assets. However, privately-issued mortgage-backed securities, if collateralized by government agency or government-sponsored agency securities, are generally assigned to the 20 percent risk weight category.

The OTS assigns privately-issued high-quality mortgage-related securities to the 20 percent risk weight category. These are, generally, privately-issued mortgage-backed securities with AA or better investment ratings.

**B.11. Other Mortgage-Backed Securities**

The banking agencies and the OTS automatically assign to the 100 percent risk weight category certain mortgage-backed securities, including interest-only strips, principal-only strips, and residuals. However, once the OTS' interest rate risk amendments to its risk-based capital standards take effect, stripped mortgage-backed securities will be reassigned to the 20 percent or 50 percent risk weight category, depending upon these securities' characteristics. Residuals will remain in the 100 percent risk weight category.

**B.12. Junior Liens on One-to-Four Family Residential Properties**

In some cases, a bank may make two loans on a single residential property, one loan secured by a first lien, the other by a second lien. In this situation, if the total amount of the two loans exceeds a prudent loan-to-value ratio, the FDIC and the FRB would not consider the loan secured by the first lien to be eligible to receive a 50 percent risk weight. Instead, this loan would be assigned to the 100 percent risk weight category. In all cases, the FDIC would assign the loan secured by the second lien to the 100 percent risk weight category regardless of the aggregate loan-to-value ratio. This approach for first liens is intended to avoid possible circumvention of the capital requirement and to capture the risks associated with the combined transactions.

The OCC and OTS generally assign the loan secured by the first lien to the 50 percent risk weight category and the loan secured by the second lien to the 100 percent risk weight category.

**B.13. Mutual Funds**

Rather than looking to a mutual fund's actual holdings, the banking agencies assign all of a bank's holdings in a mutual fund to the risk category appropriate to the highest risk asset that a particular mutual fund is permitted to hold under its operating rules. Thus, the banking agencies take into account the maximum degree of risk to which a bank may be exposed when investing in a mutual fund because the composition and risk characteristics of its future holdings cannot be known in advance.

The OTS applies a capital charge appropriate to the riskiest asset that a mutual fund is actually holding at a particular time. In addition, both the OTS and the OCC guidelines also permit, on a case-by-case basis, investments in mutual funds to be allocated on a pro rata basis in a manner consistent with the actual composition of the mutual fund.

**B.14. "Covered Assets"**

The banking agencies generally place assets subject to guarantee arrangements by the FDIC or the Federal Savings and Loan Insurance Corporation in the 20 percent risk weight category. The OTS places these "covered assets" in the zero percent risk-weight category.

**B.15. Pledged Deposits and Nonwithdrawable Accounts**

Instruments such as pledged deposits, nonwithdrawable accounts, Income Capital Certificates, and Mutual Capital Certificates do not exist in the banking

industry and are not addressed in the capital guidelines of the three banking agencies.

The capital guidelines of OTS permit thrift institutions to include pledged deposits and nonwithdrawable accounts that meet OTS criteria, Income Capital Certificates, and Mutual Capital Certificates in capital.

**B.16. Agricultural Loan Loss Amortization**

In the computation of regulatory capital, those banks accepted into the agricultural loan loss amortization program pursuant to Title VIII of the Competitive Equality Banking Act of 1987 may defer and amortize certain losses related to agricultural lending that were incurred on or before December 31, 1991. These losses must be amortized over seven years. The unamortized portion of these losses is included as an element of Tier 2 capital under the banking agencies' risk-based capital standards.

Thrifts were not eligible to participate in the agricultural loan loss amortization program established by this statute.

**C. Differences in Reporting Standards Among the Federal Banking and Thrift Agencies****C.1. Sales of Assets with Recourse**

In accordance with FASB Statement No. 77, a transfer of receivables with recourse is recognized as a sale if: (1) The transferor surrenders control of the future economic benefits, (2) the transferor's obligation under the recourse provisions can be reasonably estimated, and (3) the transferee cannot require repurchase of the receivables except pursuant to the recourse provisions.

The practice of the banking agencies is generally to allow banks to report transfers of receivables as sales only when the transferring institution: (1) Retains no risk of loss from the assets transferred and (2) has no obligation for the payment of principal or interest on the assets transferred. As a result, virtually no transfers of assets with recourse can be reported as sales. However, this rule does not apply to the transfer of first lien one-to-four family residential mortgage loans and agricultural mortgage loans under any one of the government programs (Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Agricultural Mortgage Corporation). Transfers of mortgages under these programs are treated as sales for Call

Report purposes, provided the transfers would be reported as sales under GAAP. Furthermore, private transfers of first lien one-to-four family residential mortgages are also reported as sales if the transferring institution retains only an insignificant risk of loss on the assets transferred. However, under the risk-based capital framework, the seller's obligation under any recourse provision resulting from transfers of mortgage loans under the government programs or in private transfers that qualify as sales is viewed as an off-balance sheet exposure that will be assigned a 100 percent credit conversion factor. Thus, for risk-based capital purposes, capital is generally required to be held for any recourse obligation associated with such transactions.

The OTS accounting policy is to follow FASB Statement No. 77. However, in the calculation of risk-based capital under OTS guidelines, off-balance sheet recourse obligations are converted at 100 percent. This effectively negates the sale treatment recognized on a GAAP basis for risk-based capital purposes, but not for leverage capital purposes.

On May 25, 1994, the agencies issued for public comment a proposal addressing certain aspects of the regulatory capital and reporting treatment of assets sold with recourse. If finalized, the proposal could reduce the differences between the bank regulatory reporting requirements and GAAP in this area (which OTS follows) by allowing a larger portion of asset transfers with recourse to be treated as sales for Call Report purposes. In addition, the staffs of the four agencies are working to implement Section 208 of the RCDRIA which mandates that the regulatory reporting requirements applicable to transfers of small business obligations with recourse by qualified insured depository institutions to be consistent with GAAP.

### C.2. Futures and Forward Contracts

The banking agencies, as a general rule, do not permit the deferral of losses on futures and forward contracts whether or not they are used for hedging purposes. All changes in market value of futures and forward contracts are reported in current period income. The banking agencies adopted this reporting standard prior to the issuance of FASB Statement No. 80, which permits hedge or deferral accounting under certain circumstances. Hedge accounting in accordance with FASB Statement No. 80 is permitted by the banking agencies only for futures and forward contracts used in mortgage banking operations.

The OTS practice is to follow generally accepted accounting principles for futures and forward contracts. In accordance with FASB Statement No. 80, when hedging criteria are satisfied, the accounting for a contract is related to the accounting for the hedged item. Changes in the market value of the contract are recognized in income when the effects of related changes in the price or interest rate of the hedged item are recognized. Such reporting can result in deferred losses which would be reflected as assets on the balance sheet.

The FASB is working to develop a comprehensive hedge accounting framework for all free-standing derivative instruments, including futures and forward contracts and certain on-balance sheet instruments, that can be applied consistently by all enterprises. The banking agencies and the OTS are monitoring the progress of this project.

### C.3. Excess Servicing Fees

As a general rule, the banking agencies do not follow GAAP for excess servicing fees, but require a more conservative treatment. Excess servicing arises when loans are sold with servicing retained and the stated servicing fee rate is greater than a normal servicing fee rate. With the exception of sales of pools of first lien one-to-four family residential mortgages for which the banking agencies' approach is consistent with FASB Statement No. 65, excess servicing fee income in banks must be reported as realized over the life of the transferred asset.

In contrast, the OTS allows the present value of the future excess servicing fee to be treated as an adjustment to the sales price for purposes of recognizing gain or loss on the sale. This approach is consistent with FASB Statement No. 65.

### C.4. Specific Valuation Allowances for, and Charge-offs of, Troubled Real Estate Loans not in Foreclosure

A troubled real estate loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying real estate and there are no other available and reliable sources of repayment.

For a troubled collateral dependent real estate loan, the banking agencies generally treat any portion of the loan balance that exceeds the amount that is adequately secured by the value of the collateral, and that can clearly be identified as uncollectible, as a loss that should be charged off. The banking agencies believe that this approach

accurately reflects the amount of recovery a financial institution is likely to receive if it is forced to foreclose on the underlying collateral. This banking agency approach is basically consistent with GAAP as it has been applied by banks.

The most recent OTS policy has been to require a specific valuation allowance against (or a partial charge-off of) a loan for the amount by which the recorded investment in the loan (generally, its book value) exceeds its "value," as defined, when it is probable, based on current information and events, that a thrift will be unable to collect all amounts due (both principal and interest) on the loan. The "value" is either the present value of the expected future cash flows on the loan discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral. Previously, the OTS generally required specific valuation allowances for troubled real estate loans based on the estimated net realizable value of the collateral, an amount that normally exceeds fair value. By revising its policy in 1993, OTS narrowed the accounting difference between banks and thrifts. The revised OTS policy is somewhat similar to the requirements of FASB Statement No. 114 on loan impairment, which was issued in May 1993.

As all banks and thrifts adopt FASB Statement No. 114 during 1995, this accounting difference will be eliminated. When Statement No. 114 is applied for regulatory reporting purposes, impairment of a collateral dependent loan must be measured using the fair value of the collateral.

### C.5. Offsetting of Assets and Liabilities

FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," became effective in 1994. Interpretation No. 39 interprets the longstanding accounting principle that "the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists." Under Interpretation No. 39, four conditions must be met in order to demonstrate that a right of setoff exists. A debtor with "a valid right of setoff may offset the related asset and liability and report the net amount." The banking agencies allow banks to apply Interpretation No. 39 for Call Report purposes solely as it relates to on-balance sheet amounts associated with off-balance sheet conditional and exchange contracts (e.g., forwards, interest rate swaps, and options). Under the Call Report instructions, netting of other assets and liabilities is not

permitted unless specifically required by the instructions.

The OTS practice is to follow GAAP as it relates to offsetting in the balance sheet.

#### C.6. Push Down Accounting

Push down accounting is the establishment of a new accounting basis for a depository institution in its separate financial statements as a result of a substantive change in control. Under push down accounting, when a depository institution is acquired, yet retains its separate corporate existence, the assets and liabilities of the acquired institution are restated to their fair values as of the acquisition date. These values, including any goodwill, are reflected in the separate financial statements of the acquired institution as well as in any consolidated financial statements of the institution's parent.

The banking agencies require push down accounting when there is at least a 95 percent change in ownership. This approach is generally consistent with accounting interpretations issued by the staff of the Securities and Exchange Commission.

The OTS requires push down accounting when there is at least a 90 percent change in ownership.

#### C.7. Negative Goodwill

Under Accounting Principles Board Opinion No. 16, "Business Combinations," negative goodwill arises when the fair value of the net assets acquired in a purchase business combination exceeds the cost of the acquisition and a portion of this excess remains after the values otherwise assignable to the acquired noncurrent assets have been reduced to a zero value.

The banking agencies require negative goodwill to be reported as a liability on the balance sheet and do not permit it to be netted against goodwill that is included as an asset. This ensures that all goodwill assets are deducted in regulatory capital calculations consistent with the internationally agreed-upon Basle Accord.

The OTS permits negative goodwill to offset goodwill assets on the balance sheet.

#### C.8. In-Substance Defeasance of Debt

The banking agencies do not permit banks to report the defeasance of their liabilities in accordance with FASB Statement No. 76. Defeasance involves a debtor irrevocably placing risk-free monetary assets in a trust established solely for satisfying the debt. In order to qualify for this treatment, the possibility that the debtor will be required to make

further payments on the debt, beyond the funds placed in the trust, must be remote. With defeasance, the debt is netted against the assets placed in the trust, a gain or loss results in the current period, and both the assets placed in the trust and the liability are removed from the balance sheet. However, for Call Report purposes, banks must continue to report defeased debt as a liability and the securities contributed to the trust must continue to be reported as assets. No netting is permitted, nor is any recognition of gains or losses on the transaction allowed. The banking agencies have not adopted FASB Statement No. 76 because of uncertainty regarding the irrevocability of trusts established for defeasance purposes. Furthermore, defeasance would not relieve the bank of its contractual obligation to pay depositors or other creditors.

The OTS practice is to follow FASB Statement No. 76.

Dated at Washington, D.C., this 22nd day of June, 1995.

Federal Deposit Insurance Corporation.

**Jerry L. Langley,**

*Executive Secretary.*

[FR Doc. 95-15930 Filed 6-28-95; 8:45 am]

BILLING CODE 6714-01-P

### FEDERAL EMERGENCY MANAGEMENT AGENCY

[FEMA-1055-DR]

#### Kentucky; Amendment to Notice of a Major Disaster Declaration

**AGENCY:** Federal Emergency Management Agency (FEMA).

**ACTION:** Notice.

**SUMMARY:** This notice amends the notice of a major disaster for the State of Kentucky, (FEMA-1055-DR), dated June 13, 1995, and related determinations.

**EFFECTIVE DATE:** June 23, 1995.

**FOR FURTHER INFORMATION CONTACT:** Pauline C. Campbell, Response and Recovery Directorate, Federal Emergency Management Agency, Washington, DC 20472, (202) 646-3606.

**SUPPLEMENTARY INFORMATION:** The notice of a major disaster for the State of Kentucky dated June 13, 1995, is hereby amended to include the following areas among those areas determined to have been adversely affected by the catastrophe declared a major disaster by the President in his declaration of June 13, 1995:

The counties of Christian, Laurel and Pike for Individual Assistance.

The counties of Carter, Elliott and Floyd for Individual Assistance. (already designated for Public Assistance and Hazard Mitigation Assistance). (Catalog of Federal Domestic Assistance No. 83.516, Disaster Assistance.)

**Richard W. Krimm,**

*Associate Director, Response and Recovery Directorate.*

[FR Doc. 95-15980 Filed 6-28-95; 8:45 am]

BILLING CODE 6718-02-M

[FEMA-1054-DR]

#### Missouri; Amendment to Notice of a Major Disaster Declaration

**AGENCY:** Federal Emergency Management Agency (FEMA).

**ACTION:** Notice.

**SUMMARY:** This notice amends the notice of a major disaster for the State of Missouri, (FEMA-1054-DR), dated June 2, 1995, and related determinations.

**EFFECTIVE DATE:** June 22, 1995.

**FOR FURTHER INFORMATION CONTACT:** Pauline C. Campbell, Response and Recovery Directorate, Federal Emergency Management Agency, Washington, DC 20472, (202) 646-3606.

**SUPPLEMENTARY INFORMATION:** The notice of a major disaster for the State of Missouri dated June 2, 1995, is hereby amended to include the following areas among those areas determined to have been adversely affected by the catastrophe declared a major disaster by the President in his declaration of June 2, 1995:

The counties of Andrew, Atchinson, Bates, Chariton, Daviess, Dekalb, Gentry, Henry, Howard, Lafayette, Linn, Macon, Moniteau, Perry and Warren for Individual Assistance. (Already designated for Public Assistance). (Catalog of Federal Domestic Assistance No. 83.516, Disaster Assistance.)

**Richard W. Krimm,**

*Associate Director, Response and Recovery Directorate.*

[FR Doc. 95-15977 Filed 6-28-95; 8:45 am]

BILLING CODE 6718-02-M

[FEMA-1054-DR]

#### Missouri; Amendment to Notice of a Major Disaster Declaration

**AGENCY:** Federal Emergency Management Agency (FEMA).

**ACTION:** Notice.

**SUMMARY:** This notice amends the notice of a major disaster for the State of Missouri, (FEMA-1054-DR), dated June 2, 1995, and related determinations.

**EFFECTIVE DATE:** June 23, 1995.

**FOR FURTHER INFORMATION CONTACT:**