

Begin Text Box—Illustration (Interaction of FAS 114 With an Adversely Classified Loan, Partial Charge-off, and the Overall ALLL): An institution determined that a collateral dependent loan, which it identified for evaluation, was impaired. In accordance with FAS 114, the institution established an ALLL for the amount that the recorded investment in the loan exceeded the fair value of the underlying collateral, less costs to sell. Consistent with relevant regulatory guidance, the institution classified as “Loss,” the portion of the recorded investment deemed to be the confirmed loss and classified the remaining recorded investment as “Substandard.” For this loan, the amount classified “Loss” was less than the impairment amount (as determined under FAS 114). The institution charged off the “Loss” portion of the loan. After the charge-off, the portion of the ALLL related to this “Substandard” loan (1) reflects an appropriate measure of impairment under FAS 114, and (2) is included in the aggregate FAS 114 ALLL for all loans that were identified for evaluation and individually considered impaired. The aggregate FAS 114 ALLL is included in the institution’s overall ALLL. *End Text Box*

Large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment are not included in the scope of FAS 114.⁴ Such groups of loans may include, but are not limited to, credit card, residential mortgage, and consumer installment loans. FAS 5 addresses the accounting for impairment of these loans. Also, FAS 5 provides the accounting guidance for impairment of loans that are not identified for evaluation on an individual basis and loans that are individually evaluated but are not individually considered impaired.

Institutions should ensure that they do not layer their loan loss allowances. Layering is the inappropriate practice of recording in the ALLL more than one amount for the same probable loan loss. Layering can happen when an institution includes a loan in one segment, determines its best estimate of loss for that loan either individually or on a group basis (after taking into account all appropriate environmental factors, conditions, and events), and then includes the loan in another group, which receives an additional ALLL amount.⁵

While different institutions may use different methods, there are certain common elements that should be included in any loan loss allowance methodology. Generally, an institution’s methodology should:⁶

⁴ In addition, FAS 114 does not apply to loans measured at fair value or at the lower of cost or fair value, leases, or debt securities.

⁵ According to the Federal Financial Institutions Examination Council’s *Federal Register* Notice, Implementation Issues Arising from FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, published February 10, 1995, institution-specific issues should be reviewed when estimating loan losses under FAS 114. This analysis should be conducted as part of the evaluation of each individual loan reviewed under FAS 114 to avoid potential ALLL layering.

⁶ Refer to paragraph 7.05 of the AICPA Audit Guide.

(1) Include a detailed analysis of the loan portfolio, performed on a regular basis;

(2) Consider all loans (whether on an individual or group basis);

(3) Identify loans to be evaluated for impairment on an individual basis under FAS 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under FAS 5;

(4) Consider all known relevant internal and external factors that may affect loan collectibility;

(5) Be applied consistently but, when appropriate, be modified for new factors affecting collectibility;

(6) Consider the particular risks inherent in different kinds of lending;

(7) Consider current collateral values (less costs to sell), where applicable;

(8) Require that analyses, estimates, reviews and other ALLL methodology functions be performed by competent and well-trained personnel;

(9) Be based on current and reliable data;

(10) Be well documented, in writing, with clear explanations of the supporting analyses and rationale; and

(11) Include a systematic and logical method to consolidate the loss estimates and ensure the ALLL balance is recorded in accordance with GAAP.

A systematic methodology that is properly designed and implemented should result in an institution’s best estimate of the ALLL. Accordingly, institutions should adjust their ALLL balance, either upward or downward, in each period for differences between the results of the systematic determination process and the unadjusted ALLL balance in the general ledger.⁷

Bibliography

American Institute of Certified Public Accountants’ *Audit and Accounting Guide, Banks and Savings Institutions*, 2000 edition

Auditing Standards Board Statement on Auditing Standards No. 61, *Communication With Audit Committees* (AICPA, Professional Standards, vol. 1, AU sec. 380)

Emerging Issues Task Force Topic No. D–80, *Application of FASB Statements No. 5 and No. 114 to a Loan Portfolio* (EITF Topic D–80 and attachments), discussed on May 19–20, 1999

Financial Accounting Standards Board Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* (An Interpretation of FASB Statement No. 5)

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*

Federal Deposit Insurance Act, Section 39, *Standards for Safety and Soundness* (12 U.S.C. 1831p–1)

Federal Financial Institutions Examination Council’s *Instructions for Preparation of Consolidated Reports of Condition and Income*

⁷ Institutions should refer to the guidance on materiality in SEC Staff Accounting Bulletin No. 99, *Materiality*.

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of A Loan* (An Amendment of FASB Statements No. 5 and 15)

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* (An Amendment of FASB Statement No. 114)

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125*

Interagency Guidelines Establishing Standards for Safety and Soundness, established in 1995 and 1996, as amended on October 15, 1998

Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL), December 21, 1993

Joint Interagency Statement (regarding the ALLL), November 24, 1998

Joint Interagency Letter to Financial Institutions (regarding the ALLL), March 10, 1999

Joint Interagency Letter to Financial Institutions (regarding the ALLL), July 12, 1999

Securities and Exchange Commission Financial Reporting Release No. 28, *Accounting for Loan Losses by Registrants Engaged in Lending Activities*, December 1, 1986

Securities and Exchange Commission Securities Act Industry Guide 3, *Statistical Disclosure by Bank Holding Companies* Securities and Exchange Commission Staff Accounting Bulletin No. 99, *Materiality*, August 1999

Securities Exchange Act of 1934, Section 13(b)(2)–(7) (15 U.S.C. 78m(b)(2)–(7))

United States General Accounting Office Report to Congressional Committees, *Depository Institutions: Divergent Loan Loss Methods Undermine Usefulness of Financial Reports*, (GAO/AIMD–95–8), October 1994

Dated: July 2, 2001.

Keith J. Todd,

Executive Secretary, Federal Financial Institutions Examination Council.

[FR Doc. 01–16973 Filed 7–5–01; 8:45 am]

BILLING CODES 6710–01–P; 6714–01–P; 6720–01–P; 4810–33–P

FEDERAL RESERVE SYSTEM

Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the

assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. The application also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the nonbanking company complies with the standards in section 4 of the BHC Act (12 U.S.C. 1843). Unless otherwise noted, nonbanking activities will be conducted throughout the United States. Additional information on all bank holding companies may be obtained from the National Information Center website at www.ffiec.gov/nic/.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than July 30, 2001.

A. Federal Reserve Bank of New York (Betsy Buttrill White, Senior Vice President) 33 Liberty Street, New York, New York 10045-0001:

1. *North Fork Bancorporation, Inc.*, Melville, New York; to acquire 100 percent of the voting shares of North Fork Bank, Melville, New York, and thereby indirectly acquire Commercial Bank of New York, New York, New York.

B. Federal Reserve Bank of Chicago (Phillip Jackson, Applications Officer) 230 South LaSalle Street, Chicago, Illinois 60690-1414:

1. *Piper Holdings, Inc.*, Covington, Indiana; to become a bank holding company by acquiring 100 percent of the voting shares of The Fountain Trust Company, Covington, Indiana.

C. Federal Reserve Bank of Dallas (W. Arthur Tribble, Vice President) 2200 North Pearl Street, Dallas, Texas 75201-2272:

1. *Live Oak Financial Corp.*, Dallas, Texas; to become a bank holding company by acquiring 100 percent of the voting shares of Live Oak Delaware Financial Corp., Wilmington, Delaware, and thereby indirectly acquire Live Oak State Bank, Dallas, Texas (in organization).

2. *Live Oak Delaware Financial Corp.*, Wilmington, Delaware; to become a bank holding company by acquiring 100 percent of the voting shares of Live Oak State Bank, Dallas, Texas (in organization).

Board of Governors of the Federal Reserve System, June 29, 2001.

Robert deV. Frierson

Associate Secretary of the Board.

[FR Doc. 01-16870 Filed 7-5-01; 8:45 am]

BILLING CODE 6210-01-S

FEDERAL RESERVE SYSTEM

Sunshine Act Meeting

Agency Holding the Meeting: Board of Governors of the Federal Reserve System.

TIME AND DATE: 10:00 a.m., Wednesday, July 11, 2001.

PLACE: Marriner S. Eccles Federal Reserve Board Building, 20th and C Streets, NW., Washington, DC 20551.

STATUS: Closed.

MATTERS TO BE CONSIDERED:

1. Personnel actions (appointments, promotions, assignments, reassignments, and salary actions) involving individual Federal Reserve System employees.
2. Any items carried forward from a previously announced meeting.

CONTACT PERSON FOR MORE INFORMATION: Michelle A. Smith, Assistant to the Board; 202-452-3204.

SUPPLEMENTARY INFORMATION: You may call 202-452-3206 beginning at

approximately 5 p.m. two business days before the meeting for a recorded announcement of bank and bank holding company applications scheduled for the meeting; or you may contact the Board's Web site at <http://www.federalreserve.gov> for an electronic announcement that not only lists applications, but also indicates procedural and other information about the meeting.

Dated: July 3, 2001.

Robert deV. Frierson,

Associate Secretary of the Board.

[FR Doc. 01-17071 Filed 7-03-01; 1:43 pm]

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FEDERAL TRADE COMMISSION

Granting of Request for Early Termination of the Waiting Period Under the Premerger Notification Rules

Section 7A of the Clayton Act, 15 U.S.C. 18a, as added by Title II of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, requires persons contemplating certain mergers or acquisitions to give the Federal Trade Commission and the Assistant Attorney General advance notice and to wait designated periods before consummation of such plans. Section 7A(b)(2) of the Act permits the agencies, in individual cases, to terminate this waiting period prior to its expiration and requires that notice of this action be published in the **Federal Register**.

The following transactions were granted early termination of the waiting period provided by law and the premerger notification rules. The grants were made by the Federal Trade Commission and the Assistant Attorney General for the Antitrust Division of the Department of Justice. Neither agency intends to take any action with respect to these proposed acquisitions during the applicable waiting period.

Trans #	Acquiring	Acquired	Entities
TRANSACTIONS GRANTED EARLY TERMINATION—05/29/2001			
20011793	Cambrex Corporation	BioScience Contact Production Corp	BioScience Contact Production Corp.
20011809	General Dynamics Corporation	Israel Aircraft Industries Ltd	Israel Aircraft Industries Ltd.
20011817	Suez	Suez	Nalco/Exxon Energy Chemicals L.P.
20011831	Armor Holdings, Inc	The Kroll-O'Gara Company	O'Gara Security Associates, Inc. O'Gara-Hess & Eisenhardt Armoring Company The O'Gara Company
20011832	L-3 Communications Holdings, Inc	Jai N. and Shashi A. Gupta	EER Systems, Inc.
20011834	RCBA Strategic Partners, L.P	CBRE Holdings, Inc	CBRE Holding, Inc.
20011841	RCBA Strategic Partners, L.P	CB Richard Ellis Services, Inc	CB Richard Ellis Services, Inc.
20011846	Jones Apparel Group, Inc	McNaughton Apparel Group Inc	McNaughton Apparel Group Inc.
20011847	General Electric Company	ORIX Corporation	ORIX Corporation