

(i) A duly appointed tellers committee;

(ii) A small number of specifically authorized administrative employees assisting the tellers committee by validating stockholders' eligibility to vote;

(iii) An independent third party tabulating the vote; or

(iv) The Farm Credit Administration.

(b) No Farm Credit bank or association may use signed ballots in stockholder votes. A bank or association may use balloting procedures, such as an identity code, that can be used to identify whether an individual stockholder is eligible to vote or has previously submitted a vote. In weighted voting, the votes must be tabulated by an independent third party.

(c) An independent third party or each member of the tellers committee that tabulates the votes, and any administrative employees assisting the tellers committee in verifying stockholder eligibility to vote, must sign a certificate declaring that such party, member, or employee will not disclose to any person (including the institution, its directors, stockholders, or employees) any information about how or whether an individual stockholder has voted, except that the information must be disclosed to the Farm Credit Administration, if requested.

(d) Once a Farm Credit bank or association receives a ballot, the vote of that stockholder is final, except that a stockholder may withdraw a proxy ballot before balloting begins at a stockholders' meeting. A Farm Credit bank or association may give a stockholder voting by proxy an opportunity to give voting discretion to the proxy of the stockholder's choice, provided that the proxy is also a stockholder eligible to vote.

(e) Ballots and proxy ballots must be safeguarded before the time of distribution or mailing to voting stockholders and after the time of receipt by the bank or association until disposal. When stockholder meetings are held for the purpose of conducting elections or other votes, only proxy ballots may be accepted prior to any or all sessions of the stockholders' meeting and mail ballots may only be distributed after the conclusion of the meeting. In an election of directors, ballots, proxy ballots, and election records must be retained at least until the end of the term of office of the director. In other stockholder votes, ballots, proxy ballots, and records must be retained for at least 3 years after the vote.

(f) An institution and its officers, directors, and employees may not make any public announcement of the results

of a stockholder vote before the tellers committee or independent third party has validated the results of the vote.

Dated: May 21, 2015.

**Dale L. Aultman,**

*Secretary, Farm Credit Administration Board.*

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**BILLING CODE 6705-01-P**

## FEDERAL HOUSING FINANCE AGENCY

### 12 CFR Part 1290

**RIN 2590-AA38**

### Federal Home Loan Bank Community Support Program—Administrative Amendments

**AGENCY:** Federal Housing Finance Agency.

**ACTION:** Final rule.

**SUMMARY:** The Federal Housing Finance Agency (FHFA) is issuing a final rule amending its community support regulation to streamline and simplify the administrative process requirements under the regulation. The amendments will not affect the substantive requirements of the regulation, which include FHFA review and assessment of applicable members of the Federal Home Loan Banks (Banks) every two years, or change the criteria for determining member compliance with the community support standards and eligibility for access to long-term Bank advances. The amendments will replace the current process of selecting one-eighth of all applicable members for eight quarterly reviews by FHFA over a two-year review cycle, with a new process of FHFA reviewing all applicable members at the same time every two years.

**DATES:** This final rule will become effective on June 29, 2015.

**FOR FURTHER INFORMATION CONTACT:**

Melissa Allen, Principal Program Analyst, (202) 649-3130, Charles McLean, Special Assistant to the Deputy Director, (202) 649-3155, #HMGCommunitySupportProgram@fhfa.gov, Division of Housing Mission and Goals, or Kevin Sheehan, Associate General Counsel, (202) 649-3086, Office of General Counsel, 400 Seventh Street SW., Washington, DC 20024. (These are not toll-free numbers.) The telephone number for the Telecommunications Device for the Hearing Impaired is (800) 877-8339.

**SUPPLEMENTARY INFORMATION:**

## I. Background

### A. Community Support Regulation Established Under the Bank Act

Section 10(g) of the Federal Home Loan Bank Act (Bank Act) requires FHFA to adopt regulations establishing standards of community investment or service for members of Banks to maintain access to long-term Bank advances. 12 U.S.C. 1430(g). Section 10(g) states that such regulations “shall take into account factors such as a member’s performance under the Community Reinvestment Act of 1977 [(CRA)] and the member’s record of lending to first-time homebuyers.”

FHFA’s current community support regulation implements section 10(g). 12 CFR part 1290. The regulation details the CRA and first-time homebuyer standards that have been established pursuant to section 10(g). Each Bank member, except as provided in the regulation, must meet these standards in order to maintain access to long-term Bank advances. A long-term Bank advance is defined as an advance with a term to maturity greater than one year. 12 CFR 1290.1. The regulation sets forth the process that FHFA follows in reviewing, evaluating, and communicating each member’s community support performance.<sup>1</sup>

### B. CRA and First-Time Homebuyer Standards Under the Current Regulation

A member meets the CRA standard if the rating in the member’s most recent CRA evaluation was “Outstanding” or “Satisfactory.” 12 CFR 1290.3(b). Only members subject to the CRA must meet the CRA standard. *Id.*

A member meets the first-time homebuyer standard if it has an established record of lending to first-time homebuyers or if it performs one or more of the first-time homebuyer support activities specified in the regulation. 12 CFR 1290.3(c). A member that is subject to the CRA is deemed to meet the first-time homebuyer standard if its most recent CRA rating was “Outstanding.” *Id.* All members subject to community support review, including those not subject to the CRA (*e.g.*, insurance companies and credit unions), must meet the first-time homebuyer standard. *Id.*

Members that have been certified as community development financial institutions (CDFIs) are deemed to be in compliance with the community support requirements and are not

<sup>1</sup> In addition, the community support regulation requires each Bank to establish and maintain a community support program that provides technical assistance to its members and promotes and expands affordable housing finance.

subject to community support review, unless the CDFI member is also an insured depository institution or a CDFI credit union. 12 CFR 1290.2(e).

### C. Review Process Under the Current Regulation

#### 1. Quarterly Reviews and Notices to Members

The current regulation requires FHFA to select a member for community support review approximately once every two years. Approximately one-eighth of all members are required to be reviewed in each calendar quarter of a two-year review cycle. FHFA does not review a member until it has been a member of a Bank for at least one year. Each member selected for review is required to submit a Community Support Statement to FHFA evidencing the member's most recent CRA rating, if any, and its first-time homebuyers support activities.

Members selected for review are notified in two ways of the requirement to submit Community Support Statements to FHFA. First, FHFA publishes a quarterly Notice in the **Federal Register** of the members selected for community support review and the deadline for submission of their Community Support Statements to FHFA, and notifies each Bank of the members within its district selected for community support review during the calendar quarter. Second, within 15 days of the publication of the Notice in the **Federal Register**, each Bank must provide written notice to its members selected for community support review of the deadline for submission of the Community Support Statements to FHFA. The **Federal Register** Notice requires each Bank to provide to members a blank Community Support Statement Form, which also is available on FHFA's Web site and, upon a member's request, to assist the member in completing the Community Support Statement. Many of the Banks maintain regular contacts with their members throughout the community support review process.

#### 2. Public Comments on Members' Community Support Performance

FHFA reviews each member's completed Community Support Statement for compliance with the community support standards. 12 CFR 1290.4. As part of its review, FHFA is also required to take into consideration any public comments received concerning the member. 12 CFR 1290.2(d). The **Federal Register** Notice informs the public that comments may be submitted to FHFA on the selected

members' community support performance. The Notice and regulation also provide that, to encourage the submission of public comments, each Bank shall provide written notice to its Advisory Council, and to nonprofit housing developers, community groups, and other interested parties in its district, of the members selected for community support review. 12 CFR 1290.2(b)(2)(ii). FHFA has received relatively few public comments on members' community support performance, and most have been supportive of their performance.

#### 3. Sanctions for Failure To Comply With the Current Regulation

A member that does not meet the requirements of the community support regulation may be placed "on probation" or "on restriction." Typically, less than one percent of members are on probation or restriction at any given time. The regulation provides for members to be placed on probation if: (i) Their most recent CRA rating is "Needs to Improve"; or (ii) their first-time homebuyer performance is unsatisfactory. If a member is placed on probation, the member may continue to obtain long-term Bank advances. A member that is on probation as a result of its CRA rating will remain on probation until its next CRA review. If the new rating for the member fails to meet the CRA standard, the member will be placed on restriction. 12 CFR 1290.3(b)(2). A member that is on probation due to a failure to meet the first-time homebuyer standard will remain on probation for one year. If the member fails to demonstrate compliance with the first-time homebuyer standard at the end of the probationary period, the member will be placed on restriction. 12 CFR 1290.3(c)(2).

Under the regulation, a member is placed on restriction if: (i) It does not submit a Community Support Statement; (ii) it provides no evidence of first-time homebuyer performance; (iii) its most recent CRA rating is "Substantial Noncompliance"; or (iv) it fails to comply with either the CRA standard or the first-time homebuyer standard at the end of a probationary period. If a member is placed on restriction, it may not obtain long-term Bank advances until it meets the requirements for CRA ratings or first-time homebuyers activities. 12 CFR 1290.3(b)(3), (c)(3); 1290.5(a).

## II. Proposed Rule and Comments

On November 10, 2011, FHFA published in the **Federal Register** a proposed rule that would have made substantive and administrative changes

to the community support regulation. 76 FR 70069. The proposed rule would have replaced the requirement for members to submit their most recent CRA ratings in Community Support Statements to FHFA with a requirement that the Banks verify members' CRA ratings using publicly available information from the Federal Financial Institutions Examination Council or the member's primary Federal banking regulatory agency. Members would still have been required to submit a statement every two years describing their first-time homebuyer support activities, but the Banks rather than FHFA would have been responsible for reviewing those statements to evaluate members' compliance with the first-time homebuyer support requirements.

In conjunction with the proposed transfer of responsibility for community support review and evaluation, the proposed rule would have eliminated the quarterly FHFA reviews of selected members and the accompanying **Federal Register** Notices. The proposed rule would have added a requirement that the Banks post notices on their public Web sites soliciting public comments on members' community support performance. The proposed rule would have required the Banks to notify their members of the results of the Banks' community support reviews by providing that a Bank could not approve a member's request for long-term advances unless the Bank had determined that the member complies with the first-time homebuyer standard and the CRA standard, as applicable.

FHFA received 114 comments on the proposed rule. The twelve Banks submitted a joint comment letter, and a majority of the other comments were submitted by Bank members or by associations representing Bank members. Comments were also submitted by nonprofits, Bank Advisory Council members, and state housing agencies. Most of the comments, including those of the twelve Banks, opposed the proposed shift in responsibility for reviewing and assessing members' community support compliance from FHFA to the Banks. Commenters contended that the determination of whether a member complies with the community support requirements is a regulatory function best suited to FHFA and that the Banks should not be evaluating their own members. Commenters stated that each Bank would be required to adopt its own standards and procedures, resulting in unnecessary duplication of effort among the Banks. Commenters also objected to the Banks soliciting public comments on members'

community support performance because they did not support transferring the responsibility to determine compliance to the Banks. Commenters were generally silent on the proposed administrative changes, including the discontinuation of the quarterly review rounds and accompanying **Federal Register** Notices.

### III. Analysis of Final Rule

The final rule does not make any of the changes to substantive requirements that were proposed in the 2011 proposed rule. FHFA will continue to be responsible for reviewing and assessing member compliance with the community support requirements, with members continuing to be reviewed every two years. However, consistent with the proposed rule, the final rule makes a number of revisions that streamline and simplify the administrative process requirements, which will facilitate the use of electronic submissions and evaluations.

The specific administrative changes are the following: Eliminating the eight quarterly review rounds; eliminating the accompanying quarterly FHFA **Federal Register** Notices; requiring the Banks to solicit public comments (to be sent to FHFA) on their public Web sites; requiring the Banks, rather than FHFA, to communicate FHFA's review results to members; and eliminating specific deadlines for FHFA's review of members' Community Support Statements and notifications of the results to members.

The final rule also makes organizational and other technical language changes in the regulation for greater clarity in administering the review process. These technical changes include codifying FHFA's long-standing policy for treatment of new Bank members, which has been to exclude members from community support reviews until they have been Bank members for more than one year. The technical changes also include codifying long-standing agency practice with respect to the consequences for failure to comply with the first-time homebuyer standard, by eliminating provisions that suggested some failures to comply would result in probation rather than restriction for the member.

The changes in the final rule will make it easier for FHFA to transition from a paper-based administrative process to a fully electronic process. An electronic submission process will further reduce the administrative process requirements. FHFA will work with the Banks to ensure that all members are able to comply with any such changes.

The specific changes made by the final rule are described in the section-by-section analysis below.

#### A. Definitions—§ 1290.1

Section 1290.1 of the final rule continues to set forth definitions applicable to the community support requirements in part 1290. The final rule removes the definitions for "appropriate Federal banking agency" and "appropriate State regulator" from § 1290.1 because those terms are defined in 12 CFR part 1201, which includes general definitions applicable to all FHFA regulations.

#### B. Community Support Requirements—§ 1290.2

Section 1290.2 of the final rule sets forth administrative process requirements applicable to the Banks and members under the community support regulation.

##### 1. Bank Notices to Members

Section 1290.2(a) of the final rule provides that by the effective date of the final rule, and by March 31, 2017, and every two years thereafter, each Bank must provide written notice to all of its members subject to community support review that each such member must submit to FHFA a completed Community Support Statement in accordance with paragraph (b) of this section. As further discussed under paragraph (b), FHFA will no longer review selected members' community support performance on a quarterly schedule, and instead will review all members subject to community support review at approximately the same time every two years. Accordingly, FHFA will no longer be required to notify the Banks, or publish quarterly Notices in the **Federal Register**, of the members selected for community support review and the submission deadlines for the Community Support Statements. Paragraph (a) retains the requirement in current paragraph (b)(2) for the Banks to provide notices to members, but simplifies the requirement because all members will receive the same notice at the same time, with the same deadline for submission of their Community Support Statements.

Section 1290.2(a) also provides that, unless instructed otherwise by FHFA, the Bank shall provide to members a blank Community Support Statement Form, which also is available on FHFA's Web site. Section 1290.2(a) further provides that at the request of a member the Bank shall assist the member in completing the Community Support Statement. These requirements, which currently are in the quarterly **Federal**

**Register** Notices, are included in the final rule because the Notices will be discontinued.

#### 2. Members' Submission of Community Support Statements to FHFA

Currently, § 1290.2(a) provides that FHFA will select a member for community support review approximately once every two years. Section 1290.2(b)(1) of the final rule does not change the frequency of this review. However, instead of requiring FHFA to select members for review, the paragraph is revised to specify the deadline for members to submit to FHFA their completed Community Support Statements and any other information FHFA may require. These Statements will be due to FHFA no later than December 31, 2015, and December 31 every two years thereafter. The final rule also simplifies the existing regulatory language by incorporating current paragraph (c) on signing of the Statement in revised paragraph (b)(1).

This change means that, instead of different members being required to submit their Community Support Statements in different quarters spread over a two-year period, all members subject to community support review will be required to submit their Community Support Statements by the same deadline every two years. This change is consistent with the 2011 proposed rule, which provided for review of members' first-time homebuyers performance every two years but did not require that the Banks conduct the reviews on a quarterly basis. Reviewing all members subject to community support review on the same schedule every two years will significantly simplify and streamline the current administrative process. It will eliminate the need for FHFA to maintain and track eight separate lists of members for each quarterly round, as well as the need to publish quarterly Notices in the **Federal Register** identifying the members subject to review in that quarter. It will simplify FHFA tracking of members' Community Support Statement submissions and compliance, and it will simplify compliance for the members by avoiding any possible confusion among the Banks and members about whether a member is subject to review in a particular quarter. The change to a single submission deadline every two years will also eliminate the administrative complications of preparing for a new quarterly round while still processing member Community Support Statement submissions from the previous round.

### 3. Transition Provision

FHFA is in the middle of the review cycle covering 2014 and 2015 under the current community support regulation. Starting on the effective date of the final rule, FHFA will apply the final rule's new review process for the remainder of the 2014–2015 review period. New § 1290.2(b)(2) of the final rule provides for a transition period for members that were selected for review during the 2014–2015 review cycle under the current regulation. Members that were selected for review prior to the effective date of the final rule are required to submit completed Community Support Statements as provided in the applicable **Federal Register** Notice. Members that have submitted or submit completed Community Support Statements to FHFA as required by such **Federal Register** Notice are not required to submit a second Community Support Statement to FHFA by the December 31, 2015 deadline. Instead, these members will be required to submit their next Community Support Statements to FHFA by December 31, 2017. Based on past community support review experience, the likelihood of members changing status from compliance to noncompliance is very small. Members determined to be in noncompliance are permitted under the regulation to submit subsequent evidence of compliance to FHFA at any time. After this transition period, all members subject to community support review will be required to submit their Community Support Statements to FHFA on the same schedule, once every two years. The first review to be conducted entirely under the new review process will be in 2017.

### 4. Notices to Public

Section 1290.2(c)(1) of the final rule continues the requirement in current paragraph (b)(2) that the Banks notify their Advisory Councils, nonprofit housing developers, community groups, and other interested parties in their districts, of the community support review of members. However, the process is simplified in that, unlike under the current regulation, the notice is only required to be provided every two years rather than quarterly, reflecting the elimination of the quarterly review schedule.

Consistent with the proposed rule, § 1290.2(c)(1) of the final rule requires the Banks to also post notices on their Web sites inviting public comments on any member's community support programs and activities. Because FHFA will continue to conduct the community support reviews under the final rule, the

Bank's notices shall include instructions for the public to submit any comments to FHFA.

Section 1290.2(c)(2) of the final rule provides that FHFA may publish a notice in the **Federal Register** as an additional means of notifying the public of the opportunity to submit comments on any member's community support programs and activities. FHFA currently includes this notice in the quarterly **Federal Register** Notices under the existing regulation. The final rule allows FHFA to publish a similar notice as necessary, while allowing FHFA flexibility to forego the notice if it is no longer an effective means of informing the public of the opportunity to submit comments on individual members.

Section 1290.2(c)(3) of the final rule provides that FHFA will consider any comments it receives in reviewing members for compliance with the community support requirement. This provision is substantially the same as the provision currently located in paragraph (d).

### 5. Non-Depository Community Development Financial Institutions

Section 1290.2(d) of the final rule continues to provide that members that have been certified as CDFIs by the CDFI Fund and that are not insured depository institutions or CDFI credit unions are deemed to be in compliance with the community support requirements. Accordingly, such non-depository CDFIs are not required to submit Community Support Statements to FHFA and are not subject to review by FHFA under the community support regulation. The final rule renumbers existing paragraph (e) as paragraph (d) and makes non-substantive changes to the paragraph for greater clarity. For additional discussion of this provision, see the **Federal Register** notice describing the final rule entitled "Federal Home Loan Bank Membership for Community Development Financial Institutions." 75 FR 678, 689–690 (Jan. 5, 2010).

### 6. New Bank Members

The final rule adds a new § 1290.2(e) that incorporates into the regulation the long-standing agency policy that new members of a Bank are not subject to community support review until after the first year of Bank membership. The **Federal Register** notice describing the 1996 proposed rule on the community support regulation stated that an institution would be subject to review "only after it has been a [Bank] member for one year." 61 FR 60229. The **Federal Register** notice describing the 1997 final community support rule noted that

several commenters supported this approach, 62 FR 28983, and the policy has been followed consistently since that time.

Section 1290.2(e) of the final rule provides that a member of a Bank is not required to submit a Community Support Statement under paragraph (b) unless the institution has been a member of a Bank for at least one year as of March 31 of the year in which submissions are due under paragraph (b). An institution that becomes a member after the applicable cut-off date will be subject to community support review during the succeeding review.

### C. Community Support Standards— § 1290.3

Current § 1290.3 sets forth the standards for member compliance with the community support regulation, as well as the circumstances under which a member will be placed on probation or restriction from access to long-term Bank advances. Current § 1290.5 sets forth additional provisions and procedures related to restricting access to long-term advances based on noncompliance with the community support regulation. The final rule maintains the existing standards for compliance and circumstances giving rise to probation or restriction, but these sections have been reorganized for greater clarity. As reorganized, § 1290.3 sets out the standards for member compliance with the community support regulation, and § 1290.5 sets out the circumstances under which a member will be placed on probation or restriction, as well as the procedures applicable in those circumstances.

#### 1. CRA Standard

Section 1290.3(b) of the final rule continues to provide that a member meets the CRA standard if it received a rating of "Outstanding" or "Satisfactory" in its most recent CRA evaluation. As under the current regulation, members such as credit unions and insurance companies that are not subject to the CRA will not have a CRA rating and, therefore, are subject only to the first-time homebuyer standard.

#### 2. First-Time Homebuyer Standard

Section 1290.3(c) of the final rule continues to set forth the specific first-time homebuyer programs and activities that are eligible to meet the first-time homebuyer standard and clarifies some of the language consistent with current practice. The final rule provides that a member meets the first-time homebuyer standard if the member received a rating of "Outstanding" in its most recent CRA

evaluation. For other members, FHFA evaluates whether the member has engaged in at least one of the listed eligible first-time homebuyer programs or activities.

Section 1290.3(c)(4)(vii) of the final rule clarifies that the first-time homebuyer standard can be met by participating or investing in service organizations that assist credit unions in providing mortgages to first-time homebuyers or to low- or moderate-income households. This clarification is consistent with FHFA's current interpretation of the regulation, which considers mortgages to low- or moderate-income households a proxy for mortgages to first-time homebuyers under the community support regulation.

The final rule also includes a new paragraph (c)(5) for other member activities supporting first-time homebuyer financing that may not be covered by the list of specified activities in the regulation. This "other activities" category is currently included in the Community Support Statement Form and is added in the final rule so that all eligible activities are set forth comprehensively in one place in the rule.

The final rule also moves the language in current § 1290.3(c)(1) on mitigating factors affecting a member's ability to meet the first-time homebuyer standard to new § 1290.3(c)(6). FHFA may determine that mitigating factors affect a member's ability to engage in activities to assist first-time or potential first-time homebuyers as described in paragraphs (c)(1) through (c)(5).

The final rule also simplifies the current regulatory language in § 1290.3 by deleting redundant language describing the various elements of the Community Support Statement and information that FHFA must consider in its evaluation of a member's community support performance. FHFA will continue to evaluate all information submitted by a member, as well as any public comments or other information, as relevant to the member's performance under the first-time homebuyer standard.

#### *D. FHFA Review and Decision on Community Support Statements—§ 1290.4*

Section 1290.4 of the final rule continues to set forth the process for FHFA review and evaluation of member compliance with the community support requirements. Currently, § 1290.4 includes specific timeframes applicable to FHFA's review. Consistent with the current regulation, § 1290.4(a) of the final rule provides that FHFA will

review each member approximately once every two years for compliance with the community support requirements. The final rule simplifies the existing regulatory language by eliminating unnecessarily detailed descriptions of each step in the review process, including the deadlines for FHFA review, which will no longer be applicable as members will be able to submit their Community Support Statements to FHFA for review and decision at any time after being notified by the Bank up until the December 31st deadline.

Section 1290.4(b) of the final rule continues to provide that a Community Support Statement is considered complete when a member has provided to FHFA all of the information required by this part.

Section 1290.4(c) of the final rule provides that FHFA will notify the Banks of the results of FHFA's community support determinations. Section 1290.4(c) of the final rule also requires the Banks to promptly notify their members of FHFA's determinations. Under current § 1290.4(b), FHFA notifies the members and their Banks of the results. Requiring the Banks, rather than FHFA, to notify their members of FHFA's determinations is consistent with the proposed rule. The Banks have the customer relationships with their members, and it is the Banks' responsibility to make or restrict advances to their members and communicate the status of members' access to advances.

Section 1290.4(c) of the final rule clarifies that FHFA's written notice of determination on a Community Support Statement will identify the reasons for FHFA's determination only if a member is being placed on probation or restriction. The notice will not provide specific reasons if a member is in compliance with the community support standards. The community support regulation clearly states the criteria for compliance with the community support requirements, so it is unnecessary for FHFA to further describe its rationale if FHFA determines that a member is in compliance with the community support requirements.

#### *E. Probation or Restriction on Member Access to Long-Term Bank Advances—§ 1290.5*

Currently, § 1290.5 sets out requirements and procedures applicable to restrictions on access to long-term Bank advances. As discussed above, the final rule revises § 1290.5 to consolidate the various provisions in current

§§ 1290.3 and 1290.5 applicable to both probation and restriction. The final rule does not make any substantive changes to the criteria or procedures applicable to either probation or restriction.

#### 1. Probation

The final rule adds a new § 1290.5(a) listing the circumstances under which FHFA will place a member on probation. Currently, § 1290.3(b)(2) provides that a member with a most recent CRA rating of "Needs to Improve" continues to have access to long-term advances but is placed on probation, which extends until the member receives its next CRA rating. The final rule includes this provision in § 1290.5(a).

Separately, current § 1290.5(d)(2) provides that a member on restriction due to a CRA rating of "Substantial Noncompliance" will be moved to probationary status if the member's subsequent CRA rating is "Needs to Improve," and the member either had not previously received a CRA rating or had received an "Outstanding" or "Satisfactory" rating immediately prior to the CRA rating leading to restriction. The final rule includes this provision in § 1290.5(d)(3), restated for clarity and to remove a cross-reference that is no longer necessary.

Section 1290.3(c)(2) currently provides that a member is subject to probation if FHFA deems the evidence of first-time homebuyer performance to be unsatisfactory, while § 1290.3(c)(3) currently provides that a member is subject to restriction if the member provides no evidence of first-time homebuyer performance. These provisions are replaced by § 1290.5(b)(5) in the final rule, as further discussed under the restriction criteria below.

#### 2. Restriction on Access to Long-Term Bank Advances

The final rule reorders existing paragraph (a) of § 1290.5 as paragraph (b), listing the circumstances under which FHFA will restrict a member's access to long-term Bank advances.

Section 1290.5(b)(1) of the final rule provides that members that fail to submit completed Community Support Statements will be placed on restriction from access to long-term advances. This provision is relocated from § 1290.5(a) in the current regulation. The final rule clarifies that a member will be placed on restriction if it: (i) Submits a Community Support Statement to FHFA that has not been signed; (ii) submits a Community Support Statement to FHFA that fails to include a CRA rating if the member is subject to the CRA; or (iii)

fails to submit a Community Support Statement at all to FHFA.

Sections 1290.5(b)(2), (b)(3), and (b)(4) of the final rule provide that a member is required to be placed on restriction from access to long-term advances if it has: (i) A CRA rating of “Substantial Noncompliance” on its most recent CRA evaluation; (ii) CRA ratings of “Needs to Improve” on its two most recent consecutive CRA evaluations; or (iii) CRA ratings of “Substantial Noncompliance” and a subsequent “Needs to Improve” on its two most recent consecutive CRA evaluations, if the CRA rating preceding the “Substantial Noncompliance” rating was “Needs to Improve” or “Substantial Noncompliance.” These provisions are relocated from §§ 1290.3(b)(3) and 1290.5(a)(3), respectively, in the current regulation.

Section 1290.5(b)(5) of the final rule provides that a member that fails to demonstrate compliance with the first-time homebuyer standard is required to be placed on restriction from access to long-term advances. This provision replaces §§ 1290.3(c)(2), 1290.3(c)(3), and 1290.5(a)(4) in the current regulation. Section 1290.3(c)(2) currently provides that a member is subject to probation if FHFA deems the evidence of first-time homebuyer performance to be unsatisfactory, while § 1290.3(c)(3) currently provides that a member is subject to restriction if the member provides no evidence of first-time homebuyer performance. Section 1290.5(a)(4) currently addresses the status of members at the end of a probationary period under § 1290.3(c)(2).

In practice, FHFA has found there to be no meaningful distinction between “unsatisfactory evidence” and “no evidence” of first-time homebuyer performance because under either criterion the member has not demonstrated compliance with the first-time homebuyer standard, resulting in restriction under the regulation (and would have resulted in restriction under the 2011 proposed rule). Either term could be interpreted to cover many of the same situations, potentially creating confusion about the proper application of the regulation. To minimize confusion and codify FHFA’s long-standing practice, the final rule eliminates the distinction between “unsatisfactory evidence” and “no evidence.” Section 1290.5(b)(5) of the final rule simplifies and clarifies the existing regulatory language and provides that a member that fails to demonstrate compliance with the first-time homebuyer standard will be placed on restriction.

Section 1290.5(c) of the final rule revises current paragraph (c), which sets forth the effective date for members placed on restriction, to include the effective dates applicable for both probation and restriction. Paragraph (c)(1) provides that the probationary period under § 1290.5(a) will extend until the member’s appropriate Federal banking agency completes its next CRA evaluation and issues a rating. The member will be eligible to receive long-term advances during the probationary period. At the end of the probationary period, the member would either meet the CRA standard under § 1290.3(b) or would be placed on restriction pursuant to § 1290.5(b)(3). Probation will take effect on the date the notice required under § 1290.4(c) is sent by FHFA to the Bank.

Paragraph (c)(2) provides that a restriction on access to long-term advances will take effect 30 days after notice is sent by FHFA to the Bank, unless the member demonstrates compliance before the end of the 30-day period.

### 3. Removal of Restriction on Access to Long-Term Bank Advances

Currently, § 1290.5(d) sets out the criteria and procedures for removing restrictions on members’ access to long-term Bank advances. The final rule consolidates the substance of paragraph (d)(2) with the rest of the provisions regarding probation and restriction in paragraphs (a) and (b) of that section.

Section 1290.5(d)(1) of the final rule retains the current provision that a restriction may be removed if FHFA determines, upon written request from a member, that application of the restriction may adversely affect the safety and soundness of the member.

Section 1290.5(d)(2) of the final rule retains the current provision that a restriction may be removed if FHFA determines, upon written request from a member, that the member subsequently has complied with the requirements of this part, *e.g.*, the member has received a CRA rating of “Outstanding” or “Satisfactory” on its next CRA evaluation, or the member has demonstrated compliance with the first-time homebuyer standard.

Section 1290.5(d)(3) of the final rule provides that FHFA will remove a restriction on a member’s access to long-term advances and place the member on probation if the member is subject to the CRA and the member received a rating of “Needs to Improve” in its most recent CRA evaluation, its immediately preceding CRA rating was “Substantial Noncompliance,” and either the member has not received any other CRA

rating or the CRA rating before the rating of “Substantial Noncompliance” was “Outstanding” or “Satisfactory.” This provision retains the requirements in current § 1290.5(d)(2).

Section 1290.5(d)(4) of the final rule retains the provision in current § 1290.5(d)(3) requiring FHFA to provide written notice to the member’s Bank of a determination by FHFA to remove a restriction on the member’s access to long-term advances. The final rule revises the current provision by requiring the Bank, rather than FHFA, to provide notice promptly to the member of FHFA’s determination to remove a restriction. The determination to remove a restriction takes effect on the date the notice is sent by FHFA to the Bank.

### 4. Bank Affordable Housing Programs and Other Bank Community Investment Cash Advance Programs

Section 1290.5(e) of the current regulation provides that a member that is subject to restriction on access to long-term Bank advances due to a failure to meet the community support requirements is not eligible to submit new applications under the Bank’s Community Investment Cash Advance (CICA) programs under 12 CFR part 1291 or 12 CFR part 952. Section 1290.5(e) of the final rule retains the current provision, with two technical clarifications. The final rule states explicitly that part 1291 is the regulation for the Bank Affordable Housing Programs (AHP). The AHP is included under the definition of CICA program, as described in 12 CFR 1292.1. The final rule also updates the cross-reference to the CICA regulation from part 952 to part 1292.

### F. Bank Community Support Programs—§ 1290.6

Section 1290.6 of the final rule sets out the requirements for the Banks’ community support programs, including requirements that each Bank’s program: provide technical assistance to members; promote and expand affordable housing finance; and include an annual Targeted Community Lending Plan. The final rule does not make any changes to current § 1290.6.

### G. Bank Advisory Council Annual Reports—§ 1290.7

Section 1290.7 of the final rule sets out a requirement that each Annual Report submitted by a Bank’s Advisory Council to FHFA pursuant to section 10(j)(11) of the Bank Act (12 U.S.C. 1430(j)(11)) must include an analysis of the Bank’s targeted community lending and affordable housing activities. The final rule makes non-substantive

changes to current § 1290.7 for greater clarity.

#### IV. Notice and Public Participation

Most of the specific administrative changes in the final rule have already been subject to prior public notice and comment as part of the 2011 proposed rule. 76 FR 70069. As discussed in more detail above, in adopting this final rule, FHFA has considered all of the comments that were received on the 2011 proposed rule. However, even if the changes in the final rule had not been included in the 2011 proposed rule, they would be exempt from the prior public notice and comment requirements of the Administrative Procedure Act (APA).

Section 553(b)(A) of the APA provides that when a regulation involves matters of agency organization, procedure, or practice, the agency may publish the regulation in final form without prior public notice and comment. 5 U.S.C. 553(b)(A). This final rule involves matters of agency procedure and practice. The final rule does not make any change to the substantive standards for compliance with the community support regulation. The changes in the final rule are limited to administrative changes in the process that FHFA itself uses to evaluate members. As a result, FHFA finds that the final rule is exempt from the public notice and comment provisions of section 553.

In addition, section 553(b)(B) of the APA provides that when an agency for good cause finds that notice and comment are impracticable, unnecessary or contrary to the public interest, the agency may publish the regulation in final form without prior public notice and comment. 5 U.S.C. 553(b)(B). Many of the changes in this final rule are limited to reorganizing and restating existing provisions for clarity and, therefore, are insignificant in nature and impact. As a result, FHFA finds that public notice and comment on those changes are unnecessary.

#### V. Regulatory Impacts

##### A. Paperwork Reduction Act

FHFA currently collects information from Bank members regarding their compliance with the community support requirements under existing part 1290. Existing part 1290 also permits Bank members whose access to long-term advances has been restricted for failure to meet the community support requirements to apply directly to FHFA to remove the restriction under certain circumstances. The current collection of information has been approved by the Office of Management

and Budget (OMB), and the control number, OMB No. 2590-0005, will expire on February 29, 2016. The final rule amends the community support provisions in part 1290 but does not substantively or materially modify the approved information collection with respect to the members' information collection burden. Therefore, FHFA has not submitted any request to revise the information collection to OMB for review and approval.

##### B. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) requires that a regulation that has a significant economic impact on a substantial number of small entities, small businesses, or small organizations must include an initial regulatory flexibility analysis describing the regulation's impact on small entities. Such an analysis need not be undertaken if the agency has certified that the regulation will not have a significant economic impact on a substantial number of small entities. 5 U.S.C. 605(b). FHFA has considered the impact of this final rule under the Regulatory Flexibility Act. FHFA certifies that the final rule will not have a significant economic impact on a substantial number of small business entities because the regulation is applicable only to the Banks, which are not small entities for purposes of the Regulatory Flexibility Act.

##### List of Subjects in 12 CFR Part 1290

Credit, Federal home loan banks, Housing, Mortgages, Reporting and recordkeeping requirements.

Accordingly, for the reasons stated in the Supplementary Information, and under the authority of 12 U.S.C. 4526, FHFA revises part 1290 of title 12, chapter XII of the Code of Federal Regulations to read as follows:

#### PART 1290—COMMUNITY SUPPORT REQUIREMENTS

Sec.

- 1290.1 Definitions.
- 1290.2 Community support requirements.
- 1290.3 Community support standards.
- 1290.4 FHFA review and decision on Community Support Statements.
- 1290.5 Probation or restriction on member access to long-term Bank advances.
- 1290.6 Bank community support programs.
- 1290.7 Bank Advisory Council Annual Reports.

**Authority:** 12 U.S.C. 1430(g), 4511, 4513.

##### § 1290.1 Definitions.

For purposes of this part:  
*Advisory Council* means the Advisory Council each Bank is required to establish pursuant to section 10(j)(11) of

the Federal Home Loan Bank Act (12 U.S.C. 1430(j)(11)), and part 1291 of this chapter.

*CDFI Fund* means the Community Development Financial Institutions Fund established under section 104(a) of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4703(a)).

*Community development financial institution or CDFI* means an institution that is certified as a community development financial institution by the CDFI Fund under the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4701 *et seq.*).

*CRA* means the Community Reinvestment Act of 1977, as amended (12 U.S.C. 2901, *et seq.*).

*CRA evaluation* means the public disclosure portion of the CRA performance evaluation provided by a member's appropriate Federal banking agency.

*Displaced homemaker* means an adult who has not worked full-time, full-year in the labor force for a number of years, and during that period, worked primarily without remuneration to care for a home and family, and currently is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

*First-time homebuyer* means:

(1) An individual and his or her spouse, if any, who has had no present ownership interest in a principal residence during the three-year period prior to purchase of a principal residence.

(2) A displaced homemaker who, except for owning a residence with his or her spouse or residing in a residence owned by his or her spouse, meets the requirements of paragraph (1) of this definition.

(3) A single parent who, except for owning a residence with his or her spouse or residing in a residence owned by his or her spouse, meets the requirements of paragraph (1) of this definition.

*Long-term advance* means an advance with a term to maturity greater than one year.

*Restriction on access to long-term advances* means a member may not borrow long-term advances or renew any maturing advance for a term to maturity greater than one year.

*Single parent* means an individual who is unmarried or legally separated from a spouse and has custody or joint custody of one or more minor children or is pregnant.

*Targeted community lending* means providing financing for economic

development projects for targeted beneficiaries.

**§ 1290.2 Community support requirements.**

(a) *Bank notice to members.* By June 29, 2015, and by March 31, 2017, and every two years thereafter, each Bank must provide written notice to all of its members subject to community support review that each such member must submit to FHFA a completed Community Support Statement in accordance with the requirements of paragraph (b) of this section. Unless instructed otherwise by FHFA, the Bank must provide to each member a blank Community Support Statement Form, which will also be available on FHFA's Web site. Upon a member's request, the Bank must provide assistance to the member in completing the Community Support Statement.

(b) *Community Support Statement.*—  
(1) *Submission requirements.* Except as provided in paragraph (b)(2) of this section, each member that is subject to community support review must submit to FHFA a completed Community Support Statement and any other related information FHFA may require by December 31, 2015, and by December 31 every two years thereafter. The member's completed Community Support Statement must be executed by an appropriate senior officer of the member and must be submitted to FHFA pursuant to FHFA's submission instructions.

(2) *Transition provision.* Members that were selected for community support review during the 2014–2015 review cycle prior to June 29, 2015 are required to submit completed Community Support Statements as provided in the applicable **Federal Register** Notice. Members that have submitted or submit completed Community Support Statements to FHFA as required in the applicable **Federal Register** Notice for the 2014–2015 review cycle are not required to submit a second Community Support Statement to FHFA by the December 31, 2015 deadline.

(c) *Notice to public.*—(1) *By the Banks.* By June 29, 2015, and by March 31, 2017, and every two years thereafter, each Bank must provide written notice to its Advisory Council, and to interested nonprofit housing developers, community groups, and other interested parties in its district, and include a notice on its public Web site, of the opportunity to submit comments on the community support programs and activities of Bank members, with the name and address of each member subject to community support review

and the deadline and FHFA contact information for submission of any comments to FHFA.

(2) *By FHFA.* FHFA may publish a notice in the **Federal Register** notifying the public of the opportunity to submit comments on the community support programs and activities of Bank members, with the deadline and FHFA contact information for submission of any comments to FHFA.

(3) *Consideration of comments.* In reviewing a member for compliance with the community support requirements, FHFA will take into consideration any public comments it has received concerning the member.

(d) *Non-Depository Community Development Financial Institutions.* A member that has been certified as a community development financial institution by the CDFI Fund, other than a member that also is an insured depository institution or a CDFI credit union (as defined in 12 CFR 1263.1), is deemed to be in compliance with the community support requirements of section 10(g) of the Federal Home Loan Bank Act (12 U.S.C. 1430(g)) and this part, by virtue of that certification. Such non-depository CDFIs, therefore, are not required to submit Community Support Statements to FHFA under paragraph (b) of this section and are not subject to community support review under this part.

(e) *New Bank members.* A member of a Bank is not required to submit a Community Support Statement under paragraph (b) of this section unless the institution has been a member of a Bank for at least one year as of March 31 of the year in which submissions are due under paragraph (b) of this section.

**§ 1290.3 Community support standards.**

(a) *In general.* A member subject to community support review meets the community support requirements of this part if it submits a completed Community Support Statement that demonstrates to FHFA's satisfaction that the member complies with both the CRA standard, if the member is subject to the requirements of the CRA, and the first-time homebuyer standard.

(b) *CRA standard.* A member meets the CRA standard if it is subject to the requirements of the CRA and the rating in the member's most recent CRA evaluation is "Outstanding" or "Satisfactory."

(c) *First-time homebuyer standard.* A member meets the first-time homebuyer standard if at least one of the following is satisfied:

(1) The member is subject to the requirements of the CRA and the rating

in the member's most recent CRA evaluation is "Outstanding";

(2) The member has an established record of lending to first-time homebuyers;

(3) The member has a program whereby it actively seeks to lend or support lending to first-time homebuyers, including, but not limited to, the following—

(i) Providing special credit products with flexible underwriting standards for first-time homebuyers;

(ii) Participating in Federal, State, or local government, or nationwide homeownership lending programs that benefit, serve, or are targeted to, first-time homebuyers; or

(iii) Participating in loan consortia for first-time homebuyer loans or loans that serve predominantly low- or moderate-income borrowers;

(4) The member has a program whereby it actively seeks to assist or support organizations that assist potential first-time homebuyers to qualify for mortgage loans, including, but not limited to, the following—

(i) Providing, participating in, or supporting special counseling programs or other homeownership education activities that benefit, serve, or are targeted to, first-time homebuyers;

(ii) Providing or participating in marketing plans and related outreach programs targeted to first-time homebuyers;

(iii) Providing technical assistance or financial support to organizations that assist first-time homebuyers;

(iv) Participating with or financially supporting community or nonprofit groups that assist first-time homebuyers;

(v) Holding investments or making loans that support first-time homebuyer programs;

(vi) Holding mortgage-backed securities that may include a pool of loans to low- and moderate-income homebuyers;

(vii) Participating or investing in service organizations that assist credit unions in providing mortgages to first-time homebuyers or low- or moderate-income households; or

(viii) Participating in a Bank Affordable Housing Program or other Bank targeted community investment or development program;

(5) The member engages in other activities, not covered by paragraphs (c)(1) through (c)(4) of this section, that demonstrate to FHFA's satisfaction the member's support for first-time homebuyers financing; or

(6) FHFA determines that mitigating factors affect the member's ability to engage in activities to assist first-time or potential first-time homebuyers as

described in paragraphs (c)(1) through (c)(5) of this section.

**§ 1290.4 FHFA review and decision on Community Support Statements.**

(a) *Review by FHFA.* FHFA will review each member approximately once every two years for compliance with the community support requirements of this part.

(b) *Complete Community Support Statements.* A Community Support Statement is complete when a member has provided to FHFA all of the information required by this part.

(c) *Decision on Community Support Statements.* FHFA will provide written notice to the member's Bank of FHFA's determination regarding the Community Support Statement submitted by the member. A notice placing a member on probation or restricting the member's access to long-term Bank advances will identify the reasons for FHFA's determination. The Bank must promptly notify the member of FHFA's determination regarding the member's Community Support Statement.

**§ 1290.5 Probation or restriction on member access to long-term Bank advances.**

(a) *Probation.* FHFA will place a member on probation if the member is subject to the CRA, its most recent CRA rating was "Needs to Improve," and either the member has not received any other CRA rating or its second-most recent CRA rating was "Outstanding" or "Satisfactory."

(b) *Restriction.* FHFA will restrict a member's access to long-term advances if:

(1) The member failed to sign its Community Support Statement submitted to FHFA pursuant to § 1290.2(b)(1), failed to include its CRA rating in its Community Support Statement submitted to FHFA if subject to the CRA, or failed to submit a Community Support Statement at all to FHFA;

(2) The member is subject to the CRA and its most recent CRA rating was "Substantial Noncompliance";

(3) The member is subject to the CRA, its most recent CRA rating was "Needs to Improve," and its second-most recent CRA rating was "Needs to Improve";

(4) The member is subject to the CRA, its most recent CRA rating was "Needs to Improve," its second-most recent CRA rating was "Substantial Noncompliance," and its third-most recent CRA rating was "Needs to Improve" or "Substantial Noncompliance"; or

(5) The member has not demonstrated compliance with the first-time homebuyer standard.

(c) *Effective dates.—(1) Probation.* A probationary period under § 1290.5(a) will extend until the member's appropriate Federal banking agency completes its next CRA evaluation and issues a rating for the member. Probation will take effect on the date the notice required under § 1290.4(c) is sent by FHFA to the Bank. The member will be eligible to receive long-term advances during the probationary period.

(2) *Restriction.* A restriction on access to long-term advances will take effect 30 days after the date the notice required under § 1290.4(c) is sent by FHFA to the Bank, unless the member demonstrates compliance with the requirements of this part before the end of the 30-day period.

(d) *Removing a restriction.—(1) FHFA* may remove a restriction on a member's access to long-term advances imposed under this section if FHFA determines that application of the restriction may adversely affect the safety and soundness of the member. A member may submit a written request to FHFA to remove a restriction on access to long-term advances under this paragraph (d)(1). The written request must include a clear and concise statement of the basis for the request and a statement that application of the restriction may adversely affect the safety and soundness of the member from the member's appropriate Federal banking agency or the member's appropriate State regulator for a member that is not subject to regulation or supervision by a Federal regulator. FHFA will consider each written request within 30 calendar days of receipt.

(2) FHFA may remove a restriction on a member's access to long-term advances imposed under this section if FHFA determines that the member subsequently has complied with the requirements of this part. A member may submit a written request to FHFA to remove a restriction on access to long-term advances under this paragraph (d)(2). The written request must state with specificity how the member has complied with the requirements of this part. FHFA will consider each written request within 30 calendar days of receipt.

(3) FHFA may remove a restriction on a member's access to long-term advances imposed under this section and place the member on probation if the member is subject to the CRA, its most recent CRA rating was "Needs to Improve," its second-most recent CRA rating was "Substantial Noncompliance," and either the member has not received any other CRA rating or its third-most recent CRA

rating was "Outstanding" or "Satisfactory."

(4) FHFA will provide written notice to the member's Bank of any determination to remove a restriction under this paragraph (d). The Bank shall promptly notify the member of FHFA's determination to remove a restriction. FHFA's determination shall take effect on the date the notice is sent by FHFA to the Bank.

(e) *Bank Affordable Housing Programs and other Bank Community Investment Cash Advance Programs.* A member that is subject to a restriction on access to long-term advances under this part is not eligible to participate in the Bank's Affordable Housing Program (AHP) under part 1291 of this chapter or in other Bank Community Investment Cash Advance (CICA) programs offered under part 1292 of this chapter. The restriction in this paragraph (e) does not apply to AHP or other CICA applications or funding approved before the date the restriction is imposed.

**§ 1290.6 Bank community support programs.**

(a) *Requirement.* Consistent with the safe and sound operation of the Bank, each Bank shall establish and maintain a community support program. A Bank's community support program shall:

(1) Provide technical assistance to members;

(2) Promote and expand affordable housing finance;

(3) Identify opportunities for members to expand financial and credit services in underserved neighborhoods and communities;

(4) Encourage members to increase their targeted community lending and affordable housing finance activities by providing incentives such as awards or technical assistance to nonprofit housing developers or community groups with outstanding records of participation in targeted community lending or affordable housing finance partnerships with members; and

(5) Include an annual Targeted Community Lending Plan, approved by the Bank's board of directors and subject to modification, which shall require the Bank to—

(i) Conduct market research in the Bank's district;

(ii) Describe how the Bank will address identified credit needs and market opportunities in the Bank's district for targeted community lending;

(iii) Consult with its Advisory Council and with members, housing associates, and public and private economic development organizations in the Bank's district in developing and

implementing its Targeted Community Lending Plan; and

(iv) Establish quantitative targeted community lending performance goals.

(b) *Notice.* A Bank shall provide annually to each of its members a written notice:

(1) Identifying CICA programs and other Bank activities that may provide opportunities for a member to meet the community support requirements and to engage in targeted community lending; and

(2) Summarizing targeted community lending and affordable housing activities undertaken by members, housing associates, nonprofit housing developers, community groups, or other entities in the Bank's district that may provide opportunities for a member to meet the community support requirements and to engage in targeted community lending.

#### § 1290.7 Bank Advisory Council Annual Reports.

Each Annual Report submitted by a Bank's Advisory Council to FHFA pursuant to section 10(j)(11) of the Bank Act (12 U.S.C. 1430(j)(11)) must include an analysis of the Bank's targeted community lending and affordable housing activities.

Dated: May 19, 2015.

**Melvin L. Watt,**

*Director, Federal Housing Finance Agency.*

[FR Doc. 2015-12807 Filed 5-27-15; 8:45 am]

BILLING CODE 8070-01-P

## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

#### 14 CFR Part 39

[Docket No. FAA-2014-0940; Directorate Identifier 2014-NE-15-AD; Amendment 39-18162; AD 2015-10-06]

RIN 2120-AA64

#### **Airworthiness Directives; Lycoming Engines Reciprocating Engines (Type Certificate Previously Held by Textron Lycoming Division, AVCO Corporation)**

**AGENCY:** Federal Aviation Administration (FAA), DOT.

**ACTION:** Final rule.

**SUMMARY:** We are adopting a new airworthiness directive (AD) for certain Lycoming TIO-540-AJ1A reciprocating engines. This AD was prompted by several reports of cracked engine exhaust pipes. This AD requires inspection of the engine exhaust pipes for cracks and replacement of the turbocharger mounting bracket. We are

issuing this AD to prevent failure of the exhaust system due to cracking, which could lead to uncontrolled engine fire, harmful exhaust gases entering the cabin resulting in crew incapacitation, and damage to the airplane.

**DATES:** This AD is effective July 2, 2015.

The Director of the Federal Register approved the incorporation by reference of a certain publication listed in this AD as of July 2, 2015.

**ADDRESSES:** For service information identified in this AD, contact Lycoming Engines, 652 Oliver Street, Williamsport, PA 17701; phone: 800-258-3279; fax: 570-327-7101; Internet: [www.lycoming.com/Lycoming/SUPPORT/TechnicalPublications/ServiceBulletins.aspx](http://www.lycoming.com/Lycoming/SUPPORT/TechnicalPublications/ServiceBulletins.aspx). You may view this service information at the FAA, Engine & Propeller Directorate, 12 New England Executive Park, Burlington, MA. For information on the availability of this material at the FAA, call 781-238-7125. It is also available on the Internet at <http://www.regulations.gov> by searching for and locating Docket No. FAA-2014-0940.

#### **Examining the AD Docket**

You may examine the AD docket on the Internet at <http://www.regulations.gov> by searching for and locating Docket No. FAA-2014-0940; or in person at the Docket Management Facility between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The AD docket contains this AD, the regulatory evaluation, any comments received, and other information. The address for the Docket Office (phone: 800-647-5527) is Document Management Facility, U.S. Department of Transportation, Docket Operations, M-30, West Building Ground Floor, Room W12-140, 1200 New Jersey Avenue SE., Washington, DC 20590.

#### **FOR FURTHER INFORMATION CONTACT:**

Norm Perenson, Aerospace Engineer, New York Aircraft Certification Office, FAA, Engine & Propeller Directorate, 1600 Stewart Avenue, Suite 410, Westbury, NY 11590; phone: 516-228-7337; fax: 516-794-5531; email: [norman.perenson@faa.gov](mailto:norman.perenson@faa.gov).

#### **SUPPLEMENTARY INFORMATION:**

#### **Discussion**

We issued a notice of proposed rulemaking (NPRM) to amend 14 CFR part 39 by adding an AD that would apply to certain Lycoming TIO-540-AJ1A reciprocating engines. The NPRM published in the **Federal Register** on February 2, 2015 (80 FR 5489). The NPRM was prompted by several reports of cracked engine exhaust pipes. The

NPRM proposed to require inspection of the engine exhaust pipes for cracks and replacement of the turbocharger mounting bracket. We are issuing this AD to prevent failure of the exhaust system due to cracking, which could lead to uncontrolled engine fire, harmful exhaust gases entering the cabin resulting in crew incapacitation, and damage to the airplane.

#### **Related Service Information Under CFR Part 51**

We reviewed Lycoming Engines Mandatory Service Bulletin No. 614A, dated October 10, 2014. This service bulletin describes procedures for exhaust system inspection and turbocharger mounting bracket replacement. It also provides for the return of the turbocharger mounting bracket to Lycoming. This service information is reasonably available because the interested parties have access to it through their normal course of business or by the means identified in the **ADDRESSES** section of this AD.

#### **Comments**

We gave the public the opportunity to participate in developing this AD. We received no comments on the NPRM (80 FR 5489, February 2, 2015) or on the determination of the cost to the public.

#### **Conclusion**

We reviewed the relevant data and determined that air safety and the public interest require adopting this AD as proposed.

#### **Costs of Compliance**

We estimate that this AD affects about 111 engines installed on airplanes of U.S. registry. We also estimate that it will take about 8 hours per engine to comply with this AD. The average labor rate is \$85 per hour. Parts replacement will cost about \$6,782 per engine. Based on these figures, we estimate the cost of this AD on U.S. operators to be \$828,282. Our cost estimate is exclusive of possible warranty coverage.

#### **Authority for This Rulemaking**

Title 49 of the United States Code specifies the FAA's authority to issue rules on aviation safety. Subtitle I, section 106, describes the authority of the FAA Administrator. Subtitle VII: Aviation Programs, describes in more detail the scope of the Agency's authority.

We are issuing this rulemaking under the authority described in Subtitle VII, Part A, Subpart III, Section 44701: "General requirements." Under that section, Congress charges the FAA with promoting safe flight of civil aircraft in