

Appendix B:

Reporting Regulatory Capital Adjustments Related to Losses on Fannie Mae and Freddie Mac Preferred Stock in September 30, 2008, Consolidated Financial Statements for Bank Holding Companies

As stated in the Interagency Statement, for purposes of the regulatory capital calculations in the FR Y-9C report for September 30, 2008, a bank holding company may elect to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock as if Section 301 of EESA had been enacted in the third quarter of 2008. These adjustments will affect the measurement and reporting of certain components of the numerator and the denominator of the leverage and risk-based capital ratios in FR Y-9C report Schedule HC-R, Regulatory Capital.

To determine the adjustments to the third quarter 2008 regulatory capital calculations, a bank holding company should first calculate the amount, if any, by which the equity capital reported in accordance with GAAP on its September 30 FR Y-9C balance sheet (Schedule HC, item 28) would have increased if the bank holding company's loss on Fannie Mae and Freddie Mac preferred stock had been treated as an ordinary loss rather than a capital loss as of that date. The bank holding company should also calculate the amount, if any, by which the total assets reported in accordance with GAAP on its September 30 FR Y-9C balance sheet (Schedule HC, item 12) would have increased as a result of this change in tax treatment including the portion of this increase, if any, represented by an increase in net deferred tax assets (which may comprise the entire increase in total assets). The reported amounts of equity capital and total assets would have increased, for example, from a reduction of a deferred tax asset valuation allowance or the recognition of a current income tax receivable. Depending on a bank holding company's tax position, the increase in reported equity capital may differ from the increase in reported total assets, for example, if the change in tax treatment would have reduced a current income tax payable.¹

A bank holding company should report the amount by which its equity capital would have increased as an addition to regulatory capital in Schedule HC-R, item 10, "Other additions to (deductions from) Tier 1 capital." The bank holding company should also take this addition to Tier 1 capital into consideration when determining the regulatory capital limits on servicing assets and purchased credit card relationships for Schedule HC-R, item 9.a; deferred tax assets for Schedule HC-R, item 9.b; and credit-enhancing interest-only strips and nonfinancial equity investments for Schedule HC-R, item 10. The instructions to these three Schedule HC-R items provide the approaches that a bank holding company should follow to determine the amounts of these assets that are disallowed for regulatory capital purposes. For the September 30, 2008, FR Y-9C reporting date, a bank holding company may use the modified approaches presented at the end of this appendix in its calculations of disallowed assets and nonfinancial equity investment deductions.

¹ The bank holding company should not adjust the amounts that it reports for any balance sheet items on Schedule HC of its September 30, 2008, FR Y-9C Report. Adjustments should be reported only in FR Y-9C Schedule HC-R.

A bank holding company that elects to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock in its third quarter 2008 regulatory capital calculations should also incorporate the effect of this adjustment in its measurements of the asset-based denominator of the leverage ratio and the risk-weighted assets denominator of the risk-based capital ratios. For the leverage ratio, the amount by which the total assets reported on the bank holding company's September 30 FR Y-9C balance sheet (Schedule HC, item 12) would have increased as a result of the change in tax treatment should be included – as a negative number – in Schedule HC-R, item 26, “LESS: Other deductions from assets for leverage capital purposes.” For risk-based capital purposes, the bank holding company should include the amount of this increase in total assets – as a negative number – in column B of Schedule HC-R, item 42, “All other assets.” As stated in the instructions for Schedule HC-R, item 42, the bank holding company should also include in column B of item 42 – as a positive number – the amount of disallowed deferred tax assets, if any, that it has calculated and reported in Schedule HC-R, item 9.b. If the amount of the increase in total assets resulting from the change in tax treatment that is included in column B of Schedule HC-R, item 42, is not fully offset by disallowed deferred tax assets, the remainder should be included in the 100 percent risk weight category in column F of Schedule HC-R, item 42.

Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation for Schedule HC-R, item 9.a, for September 30, 2008

- (a) Enter the amount from Schedule HC-R, item 8 _____
- (1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as “ordinary losses” for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) _____
- (2) Adjusted line (a) [sum of (a) and (a)(1)] _____
- (b) Enter 25% of the amount in (a)(2) above _____
- (c) Enter the amount of nonmortgage servicing assets and purchased credit card receivables (PCCRs) reported in Schedule HC-M, item 12.b _____
- (d) Enter 90% of the fair value of the nonmortgage servicing assets and PCCRs reported in (c) above _____
- (e) Enter the lesser of (b), (c), or (d) _____
- (f) Minimum amount of nonmortgage servicing assets and PCCRs to be deducted from Tier 1 capital: subtract (e) from (c); enter 0 if the result is a negative amount _____
- (g) Enter the amount of mortgage servicing assets reported in Schedule HC-M, item 12.a _____
- (h) Enter 90% of the estimated fair value of mortgage servicing assets reported in Schedule HC-M, item 12.a.(1) _____
- (i) Enter the lesser of (a)(2), (g), or (h) _____
- (j) Minimum amount of mortgage servicing assets to be deducted from Tier 1 capital: subtract (i) from (g); enter 0 if the result is a negative amount _____
- (k) Excess nonmortgage servicing assets, PCCRs, and mortgage servicing assets (i.e., the combined amount exceeding 100% of Tier 1 capital): sum of (e) and (i) minus (a); enter 0 if the result is a negative amount _____
- (l) Disallowed nonmortgage servicing assets, PCCRs, and mortgage servicing assets: enter the sum of (f), (j), and (k) _____

Disallowed Deferred Tax Assets Calculation for Schedule HC-R, item 9.b

- (a) Enter the amount from Schedule HC-R, item 8 _____
- (1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as “ordinary losses” for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) _____
- (2) Adjusted line (a) [sum of (a) and (a)(1)] _____
- (b) Enter 10% of the amount in (a)(2) above _____
- (c) Enter the amount of deferred tax assets reported in Schedule HC-F, item 2 _____
- (1) Enter the amount of the increase in net deferred tax assets that would result from the change in tax treatment (this amount may differ from the amount entered in (a)(1) above) _____
- (2) Adjusted line (c) [sum of (c) and (c)(1)] _____
- (d) Enter the amount of taxes previously paid that the bank holding company could recover through loss carrybacks if the bank holding company's temporary differences (both deductible and taxable) fully reverse at the report date _____
- (e) Amount of deferred tax assets that is dependent upon future taxable income: subtract (d) from (c)(2); enter 0 if the result is a negative amount _____
- (f) Enter the portion of (e) that the bank holding company could realize within the next 12 months based on its projected future taxable income. Future taxable income should not include net operating loss carryforwards to be used during the next 12 months or existing temporary differences that are expected to reverse over the next 12 months. _____
- (g) Enter the lesser of (b) and (f) _____
- (h) Disallowed net deferred tax assets - subtract (g) from (e); enter 0 if the result is a negative amount _____

The calculation above is solely for calculating regulatory capital for the September 30, 2008, FR Y-9C report. A bank holding company should not adjust the amount that it reports for net deferred tax assets in Schedule HC-F, item 2, in its September 30, 2008, FR Y-9C report.

Disallowed Credit-Enhancing Interest-Only Strips Calculation for Schedule HC-R, item 10, for September 30, 2008

- (a) Enter the amount from Schedule HC-R, item 8 _____
 - (1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) _____
 - (2) Adjusted line (a) [sum of (a) and (a)(1)] _____
- (b) Enter 25% of the amount in (a)(2) above _____
- (c) Retained credit-enhancing interest-only strips from Schedule HC-S, items 2.a and 12: enter the fair value of those strips included in Schedule HC, item 5, "Trading assets," and the amortized cost of those strips not held for trading _____
- (d) Purchased credit-enhancing interest-only strips included in Schedule HC-S, item 9: enter the fair value of those strips included in Schedule HC, item 5, "Trading assets," and the amortized cost of those strips not held for trading _____
- (e) Total credit-enhancing interest-only strips: enter the sum of (c) and (d) _____
- (f) Enter the lesser of (b) and (e) _____
- (g) Disallowed credit-enhancing interest-only strips: subtract (f) from (e); enter 0 if the result is a negative amount _____

Table for Determining Marginal Capital Charges for Nonfinancial Equity Investments for Schedule HC-R, item 10, for September 30, 2008

Deduction for Nonfinancial Equity Investments	
<p>Aggregate adjusted carrying value of all nonfinancial equity investments held directly or indirectly by the bank holding company (as a percentage of the sum of the bank holding company's Tier 1 capital as reported in Schedule HC-R, item 8, plus the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 [this increase is the same amount included in Schedule HC-R, item 10])</p>	<p>Deduction from Tier 1 capital as a percentage of the adjusted carrying value of the investment</p>
<p>Less than 15% Greater than or equal to 15% but less than 25% Greater than or equal to 25%</p>	<p style="text-align: center;">8% 12% 25%</p>