FALL 2014

CENTRAL Banker

NEWS AND VIEWS FOR EIGHTH DISTRICT BANKERS

Bitcoin and Beyond

The Possibilities and Pitfalls of Virtual Currencies

Virtual currencies have taken center stage in the media, with the currency bitcoin making a number of headlines so far this year:

- In January, the Sacramento Kings of the NBA announced it would accept bitcoin as payment for tickets and merchandise from the team store.
- In February, the bitcoin exchange Mt. Gox halted all withdrawals and announced it had lost almost 850,000 bitcoins, which had a total value of about $480 million at the time.
- In March, the IRS ruled that bitcoins would be treated as property, not a currency, for tax purposes.
- In July, computer company Dell announced it would accept bitcoins as payment through its website.

With public interest in virtual currencies piqued, the Federal Reserve Bank of St. Louis presented "Bitcoin and Beyond: The Possibilities and the Pitfalls of Virtual Currencies" as part of its *Dialogue with the Fed* series earlier this year. *Dialogue with the Fed* was started in the fall of 2011 to address key economic and financial issues of the day and to provide the public with the opportunity to ask questions of Fed experts.

In this session, David Andolfatto, a vice president and economist with the St. Louis Fed, discussed the rising popularity of virtual currencies, focusing specifically on bitcoin. He explained what bitcoins are and how they work, and he addressed some commonly asked questions about the currency.

> For the system to work, participants must trust the integrity of the blockchain. It's absolutely critical. The power to alter or fabricate the history of transactions is the power to steal.

What Is Bitcoin?

Andolfatto explained that he thinks of bitcoin as a computer program designed to do two things:

- Create and manage a supply of digital currency units called bitcoins
- Process payments between anonymous users by debiting and crediting digital accounts with these bitcoin units

Credit for developing this program is given to Satoshi Nakamoto, though many information technology industry watchers believe the name is likely a pseudonym for a programmer or a group of programmers. The bitcoin program is open source, meaning that the program is developed in a public, cooperative manner and anyone can read the program and work to fix bugs and make improvements.

How Bitcoin Works

To begin using bitcoins, Andolfatto explained that users must down-

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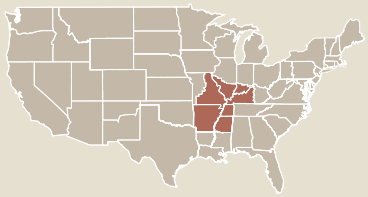

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FRED® (Federal Reserve Economic Data)
www.research.stlouisfed.org/fred2

Center for Household Financial Stability® www.stlouisfed.org/HFS

CENTRAL VIEW

Fed Banks Complete Research on Payment System Improvements

By David Sapenaro

David Sapenaro is the first vice president of the Federal Reserve Bank of St. Louis and chair of the Executive Management Group under the Fed's Financial Services Policy Committee.

Changes in the U.S. payment system over the past few decades—even over the past few years—have been truly remarkable. With these changes comes opportunity, which is why the Federal Reserve has been collaborating with key stakeholders to evaluate how the payment system can be improved to keep pace with these and future innovations.

In the coming months, the Fed will release a payment system improvement roadmap. The report is the culmination of significant research and analysis conducted over the past two years. In the fall of 2012, the Fed's Financial Services Policy Committee began reviewing the current state of the payment system and gathering feedback from stakeholders. In September 2013, the Fed released a public consultation paper that solicited comments from stakeholders on the gaps and opportunities present within the current payment system, as well as desired outcomes, strategies and tactics to shape the future of U.S. payments. The paper also described the Fed's role in implementing the strategies and tactics.

Driving this evolution of change is the desire to increase payment speed while improving the safety and security of the system. One of our subsequent research efforts explored needs related to faster retail payments and included insights on end-user demand for specific payment attributes and a consultant-led assessment of alternatives for speeding up U.S. payments.

Additional initiatives involved identifying gaps and opportunities related to payment system security and analyzing the business case to adopt the ISO 20022 international payment standard for the U.S. payment marketplace. The business case analysis was conducted in collaboration with three other industry organizations:

- The Clearing House Payments Co.
- NACHA—The Electronic Payments Association
- The Accredited Standards Committee X9

The responses we received on the public consultation paper indicated strong support for the desired outcomes but differing views on how these outcomes should be accomplished. Accordingly, the Fed spent the past several months discussing and debating potential strategies we would pursue in support of the desired outcomes and vetting potential strategies with various payment stakeholders. The Fed plans

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Earnings, Asset Quality and Capital: Community Banks and Thrifts

	2013:Q2	2014:Q1	2014:Q2
RETURN ON AVERAGE ASSETS[1]			
All US Banks	1.06%	0.97%	1.01%
All Eighth District Banks	0.99	1.01	1.08
Arkansas Banks	1.28	1.31	1.38
Illinois Banks	0.80	0.77	0.84
Indiana Banks	1.03	0.87	0.97
Kentucky Banks	0.90	0.94	0.96
Mississippi Banks	0.86	0.91	0.94
Missouri Banks	0.99	1.06	1.06
Tennessee Banks	0.84	0.93	0.95
NET INTEREST MARGIN			
All US Banks	3.72%	3.74%	3.76%
All Eighth District Banks	3.78	3.83	3.84
Arkansas Banks	4.33	4.48	4.53
Illinois Banks	3.41	3.44	3.47
Indiana Banks	3.70	3.73	3.68
Kentucky Banks	3.80	3.75	3.80
Mississippi Banks	3.97	3.84	3.87
Missouri Banks	3.58	3.65	3.61
Tennessee Banks	3.81	3.81	3.85
NET NONINTEREST EXPENSE RATIO			
All US Banks	1.86%	1.97%	1.94%
All Eighth District Banks	1.91	1.99	1.97
Arkansas Banks	1.80	1.98	1.90
Illinois Banks	1.79	1.98	1.95
Indiana Banks	1.77	1.96	1.82
Kentucky Banks	2.08	2.10	2.14
Mississippi Banks	2.14	2.11	2.10
Missouri Banks	1.80	1.80	1.88
Tennessee Banks	2.14	2.16	2.14
LOAN LOSS PROVISION RATIO			
All US Banks	0.19%	0.14%	0.14%
All Eighth District Banks	0.19	0.11	0.12
Arkansas Banks	0.23	0.15	0.17
Illinois Banks	0.25	0.16	0.13
Indiana Banks	0.14	0.06	0.07
Kentucky Banks	0.23	0.13	0.12
Mississippi Banks	0.24	0.10	0.11
Missouri Banks	0.18	0.08	0.10
Tennessee Banks	0.21	0.10	0.11

	2013:Q2	2014:Q1	2014:Q2
NONPERFORMING LOAN RATIO [2]			
All US Banks	2.32%	1.90%	1.74%
All Eighth District Banks	1.96	1.61	1.48
Arkansas Banks	2.35	1.92	1.79
Illinois Banks	2.95	2.68	2.45
Indiana Banks	1.89	1.42	1.23
Kentucky Banks	2.23	1.91	1.70
Mississippi Banks	2.27	1.58	1.57
Missouri Banks	2.10	1.63	1.51
Tennessee Banks	2.19	1.75	1.62
PROBLEM ASSETS RATIO[3]			
All US Banks	3.28%	2.69%	2.45%
All Eighth District Banks	3.32	2.69	2.48
Arkansas Banks	4.34	3.47	3.20
Illinois Banks	4.34	3.84	3.48
Indiana Banks	2.45	1.83	1.60
Kentucky Banks	3.29	2.86	2.63
Mississippi Banks	3.65	2.80	2.70
Missouri Banks	3.60	2.87	2.61
Tennessee Banks	3.76	3.04	2.82
RETURN ON AVERAGE EQUITY			
All US Banks	9.12%	8.38%	8.67%
All Eighth District Banks	9.20	9.37	9.89
Arkansas Banks	10.82	10.86	11.30
Illinois Banks	7.52	7.20	7.83
Indiana Banks	9.19	7.91	8.79
Kentucky Banks	8.15	8.58	8.63
Mississippi Banks	8.01	8.61	8.75
Missouri Banks	8.82	9.60	9.44
Tennessee Banks	7.55	8.35	8.53
TIER 1 LEVERAGE RATIO			
All US Banks	10.73%	10.77%	10.78%
All Eighth District Banks	10.02	10.20	10.39
Arkansas Banks	10.78	10.96	11.09
Illinois Banks	9.81	9.95	10.01
Indiana Banks	9.97	10.03	10.32
Kentucky Banks	10.47	10.67	10.83
Mississippi Banks	9.80	9.87	9.98
Missouri Banks	10.74	10.69	10.84
Tennessee Banks	10.45	10.63	10.63

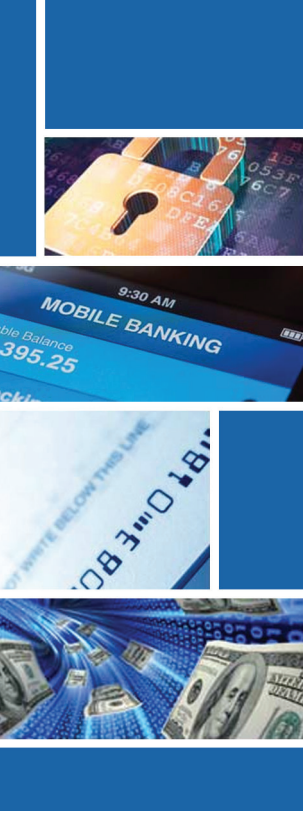
SOURCE: Reports of Condition and Income for Insured Commercial Banks

NOTE: Community banks and thrifts are those institutions with assets of less than $10 billion.

[1] All earnings ratios are annualized and use year-to-date average assets or average earning assets in the denominator.

[2] Nonperforming loans are loans 90 days past due or in nonaccrual status.

[3] Problem assets consist of nonperforming loans plus other real estate owned (OREO).



IN PURSUIT OF A BETTER PAYMENT SYSTEM

The "Payment System Improvement—Public Consultation Paper" shares Federal Reserve perspectives on the key gaps and opportunities in the current U.S. payment system and identifies the desired outcomes that close these gaps and capture these opportunities. The paper, along with additional details regarding the payment system improvement project, is available at http://fedpaymentsimprovement.org/.

Central View

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to use these research conclusions and the stakeholder feedback to prepare the roadmap for payment system improvements.

As we continue working to release the roadmap, I'm reminded that there is still a long way to go. While the plan is the result of significant effort over the past few years, its release will signify that the work is just beginning. Implementing the strategies outlined in the plan will require significant commitment and continued collaboration with all users and stakeholders over the next several years. While change is required, it's important to keep focused on the perspective of the end users, namely consumers and businesses, and fully embrace responding to their continually evolving needs.

Homeownership Declining among Young Families

In a 2014 issue of the Federal Reserve Bank of St. Louis' *In the Balance*, Senior Economic Adviser William Emmons and Policy Analyst Bryan Noeth, both of the St. Louis Fed's Center for Household Financial Stability, examined why young families (defined as those with a head of household younger than 40) have lagged their older counterparts during

TABLE 1

Homeownership Rate in Percent of Households by Age and Year of Birth of Family Head

Age of Family Head at Time of Observation	2004–06 Average Rate (%)	Year of Birth of Family Head									
		1924-28	1929-33	1934-38	1939-43	1944-48	1949-53	1954-58	1959-63	1964-68	1969-73
Under 25	25.2										14.0
25-29	41.0									34.0	36.2
30-34	56.7								50.0	53.6	56.5
35-39	66.4							60.5	63.7	65.1	64.6
40-44	71.6						67.8	70.1	71.3	69.4	64.3
45-49	75.4					73.8	73.9	75.5	73.6	69.6	
50-54	78.1				76.7	77.8	78.0	76.5	72.8		
55-59	80.7			78.1	79.8	80.9	79.4	75.7			
60-64	81.9		79.9	82.2	82.0	80.9	77.8				
65-69	82.8	80.2	81.9	82.6	81.6	80.4					
70-74	83.1	82.2	82.1	81.7	82.8						
75 and older	78.8	78.7	78.6	79.8							

SOURCE: U.S. Census Bureau's Current Population Survey.

NOTE: The observations for a given five-year birth cohort were in the years 1993, 1998, 2003, 2008 and 2013. The homeownership rates for 1993 have been estimated based on data and trends reported for 1994-97.

the economic recovery. They found that young families have recovered only about one-third of the wealth they lost during the recession, while middle-aged and older families have nearly recovered to precrisis levels. Emmons and Noeth concluded that one of the most significant reasons involved declining homeownership among younger families. Those declining levels may not rebound quickly, if at all, they noted.

The U.S. homeownership rate has been declining for nearly a decade. It peaked at 69 percent in 2004, but has fallen nine consecutive years, reaching 65.1 percent in 2013.[1]

To be sure, they noted that young families aren't the only ones retreating from homeownership. The homeownership rate for middle-aged families (those with a head of household between 40 and 61 years old) has dropped from 76.9 percent in 2005 to 72.1 percent in 2013. However, this decrease is notably smaller than the nearly 8 percentage point drop (50.1 percent to 42.2 percent) experienced by young families over the same period. The homeownership rate of older families (those headed by someone 62 or older) actually increased by almost a full percentage point.

Table 1 displays movements in age-specific homeownership rates by various birth-year cohorts reported by the Census Bureau at five points during the past 20 years (1993, 1998, 2003, 2008 and 2013). Reading down any column shows that homeownership rates generally increased for a given cohort as they aged. For example, the column regarding family heads born in 1964-68 shows that about 34 percent of these families owned homes when the head was age 25-29. By the time these heads of household were age 40-44, 69.4 percent owned a home.

Reading across each row shows declines related to the housing crash for given age groups. For example, the homeownership rates for families headed by someone age 35-39 rose from 60.5 percent to 65.1 percent over the first three observations (which would be in 1993, 1998 and 2003). However, the percentage fell over the next two observations to 64.6 percent (2008), then 55.4 percent (2013).

The table also includes the average homeownership rates for each age group for the period 2004 through 2006, when the housing boom and homeownership rate reached their peaks. Subtracting the 2004-06 rates from the annual observations shows that families headed by someone between the ages of 24 and 38 experienced the largest declines in homeownership rates from peak levels for their stage in the life cycle. Middle-aged families had notable declines as well, though the declines were less steep than those for young families. Older families experienced much smaller declines or even increases.

Emmons and Noeth wrote that the declines among young and middle-aged families were continuing as of 2013 but that it was reasonable to expect them to eventually level off. However, a leveling off of homeownership rate declines obviously means a lower overall rate than what was experienced during the 2004-06 peak. Emmons and Noeth noted that this "likely represented unusual conditions in housing and mortgage markets that we will never see again. Thus, it appears unlikely that the overall homeownership rate will return to its peak level any time soon, if ever."

1974-78	1979-83	1984-88	1989-93
18.2	22.8	23.6	21.8
39.8	40.0	34.5	
53.5	48.4		
55.4			

ENDNOTES

1 U.S. Census Bureau's Current Population Survey.

Bitcoin and Beyond

continued from Page 1

load a free virtual wallet, which is an encrypted computer file used to store bitcoins. This wallet can be stored anywhere a typical computer file can be stored, and users can have multiple wallets, just like having multiple banking accounts. A key difference according to Andolfatto is that all wallets are publicly observable, though the owner's identity remains hidden. Andolfatto likened these wallets to a glass post office box. Anyone can see what is in there, but they don't know who it belongs to and cannot access it without a key. Only the owner has the key to get into the box and take money out.

Andolfatto compared the potential for losing access to the wallet to carrying cash in a physical wallet. Losing the key to opening the wallet or losing the wallet itself (for example, storing it on a USB drive and losing the drive) means no longer having access to that account, which is a serious concern for people with wallets containing large sums in bitcoins. He said, "What if you lost your USB drive? What would you do? If the security key was in there with the USB drive, the person who found it could use your wallet and spend it. If the security key wasn't there … that money is gone. It will never be used."

Andolfatto explained that one way of guarding against this risk is to use an intermediary to store bitcoins, similar to how people who don't want to carry large amounts of cash store their money in banks.

Transacting with Bitcoins

From a user perspective, Andolfatto explained that the experience of using bitcoins to buy something is no different from typical online banking. However, the processing of payments is handled quite differently. Volunteers called "miners" review individual transactions and approve or decline them.

Once approved, transactions are added to a public ledger called the blockchain. Andolfatto explained that this blockchain contains the historical record of all bitcoin transactions in the currency's history. Andolfatto remarked, "For the system to work, participants must trust the integrity of the blockchain. It's absolutely critical. The power to alter or fabricate the history of transactions is the power to steal."

The blockchain does not, however, contain the identities of the transactors or a record of the items being purchased or sold. Andolfatto explained that it only shows the amount in bitcoins that have been transferred from a specific wallet to another specific wallet.

Is Bitcoin a "Bubble"?

To discuss whether bitcoin is experiencing a bubble, Andolfatto first provided a definition of a bubble as an object's value having a liquidity premium. He said by this definition, bitcoin was indeed in a bubble, as it has no intrinsic value.

"If you think about decomposing the market price of any security into components—some measure of its intrinsic or fundamental value—and if you take a look at the difference between the market price, if it's trading above its intrinsic value, we could ascribe the difference to a liquidity premium. That is to say, most assets are valued not only for their intrinsic use, but how easily they can be liquidated, how easily they can be passed along in future transactions. … Most assets, like I said though, have this property, at least a bit of a liquidity premium, even gold."

Is Bitcoin a "Good Investment"?

Andolfatto began discussing whether bitcoin is a good investment by pointing out: "We have very good economic theory that tells us that asset price changes are difficult to forecast. A lot of people have lost a lot of money not listening to this theory."

He said in his opinion it really depends on future outlooks for this product, like any new product. Investors considering bitcoin as an investment should ask a lot of questions:

- How rapidly and extensively will it penetrate the market?
- How might government regulations evolve over time?
- How easy is it to replicate the product?
- What sort of competing products might emerge now and in the future?

Is Bitcoin a "Good Money"?

Similar to how he discussed whether bitcoin was a bubble, Andolfatto

discussed whether bitcoin was a "good money," specifically, whether bitcoin as a medium of exchange would maintain a stable purchasing power over short periods of time. To demonstrate, he plotted the purchasing power of four currencies since 1990, normalizing the purchasing power of each currency to 100: the yen, the euro, the U.S. dollar and the Zimbabwean dollar.

As Figure 1 shows, the Zimbabwean dollar experienced hyperinflation until its purchasing power essentially fell to zero. The yen, dollar and euro, on the other hand, have remained relatively stable. Andolfatto said, "The striking thing about those lines, in my view, is that they're relatively stable. They don't exhibit wild fluctuations. Sure, there's a 2 percent inflation in the United States, but it's forecastable. It's something you can predict, you can bet on."

Figure 2 plots the purchasing power of bitcoin against that of the U.S. dollar over a much shorter time period (November 2013 through July 2014). Andolfatto concluded that the purchasing power of bitcoin has shown significant volatility over the short term.

Nominal Exchange Rate Indeterminacy

Andolfatto next turned to the issue of nominal exchange rate indeterminacy, or the inability to determine the exchange rate between two intrinsically worthless objects.

Andolfatto pointed out that there is nothing in economic theory that would explain the value of one intrinsically worthless object relative to another. He gave an example of casino chips, asking how consumers would determine the value of a red versus a blue chip if the values weren't already fixed. He then applied the example to determining the exchange rate between two virtual currencies.

"The evidence is that exchange rates of fiat currencies are excessively volatile. And as I just alluded to, the problem is that there's no fundamental economic force that pins down the relative price of two intrinsically worthless objects."

Does Bitcoin Facilitate Illegal Trading?

Andolfatto explained that the identities of bitcoin wallet owners are disguised, "so in that sense, they're very similar to using U.S. cash in facilitating illegal trades." However, the blockchain's public availability means transactions could still potentially be linked to users. For example, discovering a wallet on someone's computer would then allow transaction history to be viewed.

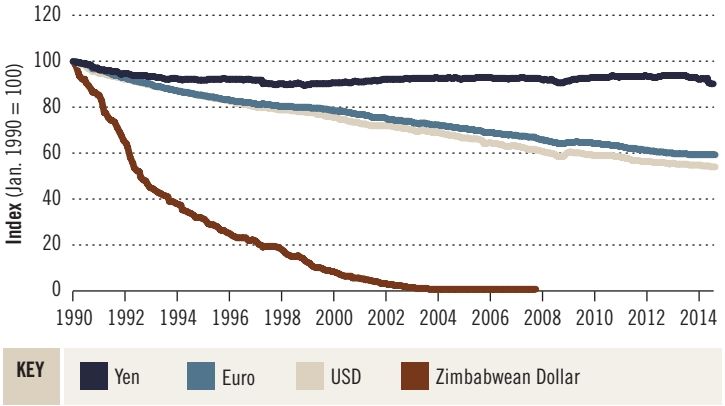
"If I'm some government authority, you're going to have some explaining to do. That's not a property of a U.S. cash transaction."

Can Bitcoin Be Regulated?

Andolfatto noted that some countries have banned the use of bitcoins and that banning currencies has been a common practice for countries aiming to protect their local currencies. However, the fact that bitcoin does not have a central authority makes regulating the currency challenging. "It's like trying to slay the hydra. You cut off one head, and three other heads appear. I mean, it's this distributed network out there in the world. How are you supposed to regulate something like that?"

FIGURE 1

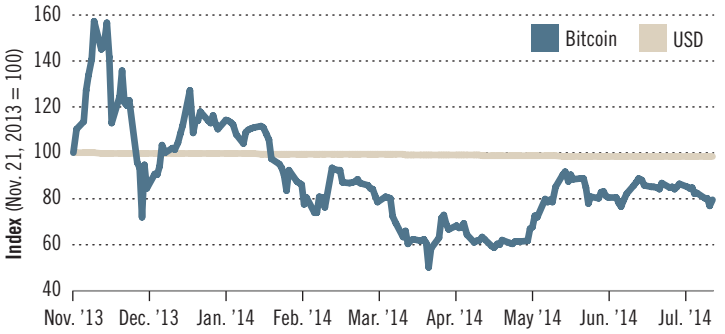
Purchasing Power of Currencies



SOURCES: Bureau of Labor Statistics, Euro Stats, International Monetary Fund and Ministry of Internal Affairs.

FIGURE 2

Purchasing Power of Bitcoin and the US Dollar



SOURCES: Bureau of Labor Statistics, Haver Analytics and Bitcoincharts.com.

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- Comparing International Bond Yields
- The Cost of Chasing Returns
- What's Behind—and Beyond—the Default Rate on Student Loans?
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- Delinquency Rates on Credit Card Loans at Historical Low
- The Great Recession Casts a Long Shadow on Family Finances

RULES AND REGULATIONS

- Fed Issues Final Rule on Capital Framework of Capital Plan and Stress Test Rules

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INSIDE THE ECONOMY™ MUSEUM

AT THE FEDERAL RESERVE BANK OF ST. LOUIS

The Federal Reserve Bank of St. Louis opened its doors this fall to the *Inside the Economy*™ Museum. Through nearly 100 exhibits, games, sculptures and videos, the museum helps visitors better understand how the economy works, and their role in it, in a fun and interactive way.

The museum covers topics such as banking, inflation, markets, the global economy, barter, trade and money. Walk-in visitors are welcome, and groups of 11 or more can register on the museum website. The museum is an ideal location for a class field trip for students in middle school through college.

The *Inside the Economy* Museum is located inside the St. Louis Fed at Broadway and Locust Street in downtown St. Louis. Admission is free. For hours and other information, go to stlouisfed.org/economymuseum.

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https://www.stlouisfed.org/publications/central-banker/fall-2014/recent-st-louis-fed-banking-and-economic-research

Recent St. Louis Fed Banking and Economic Research

Community Banking in the 21st Century

The Federal Reserve System and the Conference of State Bank Supervisors (CSBS) hosted the second annual community banking research and policy conference, "Community Banking in the 21st Century," on Sept. 23-24, 2014. Community bankers, academics, policymakers and bank supervisors discussed current challenges and opportunities facing community banks. Research of note was presented, along with the findings of a new comprehensive survey being conducted this spring and summer with the participation of community bankers across the country.

U.S. Income Inequality May Be High, but It Is Lower Than World Income Inequality

While income inequality in the U.S. is high, it is much lower than income inequality across countries. A more significant problem for America may be wealth inequality—the growing disparity in net worth between those at the top and everyone else.

Despite Aggressive Deleveraging, Generation X Remains "Generation Debt"

The average member of Generation X (born between 1965 and 1980) today owes about 60 percent more debt (adjusted for inflation) than his or her counterpart of the same age did in 2000. No other generation's average debt burden increased that much between 2000 and 2014.

Comparing International Bond Yields

Spanish and Italian government bond yields are not directly comparable to those of U.S. Treasuries because the bonds are paid in different currencies.

The Cost of Chasing Returns

Market mistiming reduces profits.

What's Behind—and Beyond—the Default Rate on Student Loans?

Deferment or forbearance may be masking the true student loan default rates in recent years.

The Deleveraging of U.S. Households Since the Financial Crisis

While households decreased credit card debt between 2007 and 2010, the process varied by education level between the extensive margin (how many households borrowed) and the intensive margin (how much households borrowed).

Delinquency Rates on Credit Card Loans at Historical Low

Credit card loan delinquency rates are at historical lows, even lower than during strong economic times such as 2004-06.

The Great Recession Casts a Long Shadow on Family Finances

The gains made in income and net worth of the typical American family in the 1990s and 2000s were erased by the Great Recession. Economically vulnerable groups fared even worse.

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https://www.stlouisfed.org/publications/central-banker/fall-2014/rules-and-regulations

Rules and Regulations

Agencies Request Comments on the Following Proposed Rules

NCUA proposes amending fixed assets rule

The NCUA is proposing to amend the current version of its fixed assets rule, which was adopted on Sept. 18, 2013. The fixed assets rule 1) limits federal credit unions' (FCUs) investments in fixed assets, 2) establishes occupancy, planning, and disposal requirements for acquired and abandoned premises, and 3) prohibits certain transactions. The proposed rule would allow FCUs to exceed the current five percent aggregate investment limit on fixed assets without prior NCUA approval, provided FCUs establish their own fixed assets management policies and programs. The proposed rule also simplifies the partial occupancy requirement for premises that are acquired for future expansion purposes, and eliminates or streamlines certain aspects of the fixed assets waiver requirement in certain circumstances. Comments are due by **Oct. 10**.

SEC reproposes removing references to credit ratings and amending money market fund rule's issuer diversification requirement

This is one of several releases relating to the use of security ratings by credit rating agencies in SEC rules and forms. The SEC is reproposing amendments to rule 2a-7 and Form N-MFP to remove credit rating references. The reproposal includes amendments related to rule 2a-7's issuer diversification provisions. In March 2011, the SEC originally proposed to replace references to credit references from two rules and four forms, including rule 2a-7 and Form N-MFP. On Sept. 2, 2014, the SEC published a correction to the RIN number. Comments are due by **Oct. 14**.

FRS proposes repealing Regulation AA, Unfair or Deceptive Acts or Practices

The Dodd-Frank Act eliminated the rulemaking authority of the Board of Governors under the Federal Trade Commission Act (FTC Act) to issue rules applicable to banks to define and prevent unfair or deceptive acts or practices. Accordingly, the Board proposes to repeal its Regulation AA. Notwithstanding the repeal of rule writing authority, the Board continues to have supervisory and enforcement authority regarding unfair or deceptive acts or practices under the FTC Act and the Dodd-Frank Act. Concurrent with this proposed repeal, the CFPB, FDIC, FRS, NCUA, and OCC are issuing a statement to clarify that the unfair or deceptive acts described in former credit practices rules remain unlawful. The interagency guidance clarifies that the agencies have supervisory and enforcement authority regarding the practices previously addressed in the former credit practices rules. Comments are due by **Oct. 27**.

FHFA proposes rule regarding housing goals for Fannie Mae and Freddie Mac

The FHFA is required to establish annual housing goals for mortgages purchased by Fannie Mae and Freddie Mac. The housing goals include separate categories for single-family and multifamily mortgages on housing that is affordable to low-income and very low-income families, among other categories. The proposed rule

would update the benchmark levels for each of the housing goals and subgoals for 2015 through 2017. FHFA would adopt one of three different approaches for determining whether Fannie Mae or Freddie Mac has met one of the single-family housing goals. A number of changes and clarifications to the existing rules are also proposed concerning whether a particular mortgage purchase may be counted for purposes of the housing goals. Comments are due by **Oct. 28**.

CFPB proposes amendments to home mortgage disclosure rules

The proposed rule amends Regulation C to implement changes to the Home Mortgage Disclosure Act (HMDA) made by section 1094 of the Dodd-Frank Act. The CFPB proposes to revise the tests for determining which financial institutions and housing-related credit transactions are covered under HMDA. Also, the CFPB proposes to require financial institutions to report new data points identified in the Dodd-Frank Act, as well as other data points that the CFPB believes may be necessary to carry out the purposes of HMDA. Other changes are proposed to better align the requirements of Regulation C to existing industry standards where practicable. To improve the quality and timeliness of HMDA data, the CFPB is proposing to require financial institutions with large numbers of reported transactions to submit their HMDA data on a quarterly, rather than an annual, basis. Additional changes are proposed to clarify and provide additional guidance on existing requirements of Regulation C that financial institutions and other stakeholders have identified as confusing or unclear. Comments are due by **Oct. 29**.

Several agencies propose revisions to interagency Q&A regarding community reinvestment

The FDIC, FRS and OCC are requesting comment on proposed revisions to their Interagency Questions and Answers Regarding Community Reinvestment. The agencies proposed to revise three questions and answers that address alternative systems for delivering retail banking services and add examples of innovative or flexible lending practices. Other proposed revisions would address community development-related issues, including guidance on economic development and lending activities that are considered to revitalize or stabilize an underserved nonmetropolitan middle-income geography. The agencies also propose to add four new questions and answers clarifying how community development services are evaluated and providing general guidance on how examiners evaluate the responsiveness and innovativeness of an institution's loans, qualified investments, and community development services. Comments are due by **Nov. 10**.

FHFA proposes revision of FHLB membership regulations

The FHFA is proposing to revise its regulations governing Federal Home Loan Bank (FHLB) membership. The revisions primarily require each applicant and member to hold one percent of its assets in "home mortgage loans" initially and on an ongoing basis in order to satisfy the statutory requirement that an institution make long-term home mortgage loans. Each member would also be required on an ongoing basis to have at least 10 percent of its assets in "residential mortgage loans." The revisions would also define the term "insurance company" to exclude from FHLB membership captive insurers, but permit existing captive members to remain members for five years with certain restrictions on their ability to obtain advances. In addition, each FHLB would be required to review an insurance company’s audited financial statements when considering it for membership. The proposal also clarifies the standards by which an insurance company’s "principal place of business" is to be identified in determining the appropriate FHLB district for membership. Comments are due by **Nov. 12**.

Several agencies propose establishing swap margin and capital requirements

The FCA, FDIC, FHFA, FRS and OCC are seeking comment on a revised proposed joint rule to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers and major security-based swap participants for which one of the agencies is the prudential

regulator. The Dodd-Frank Act requires the agencies to adopt rules jointly to establish capital requirements and margin requirements for swap dealers and participants and their counterparts for non-cleared security-based swaps. The agencies previously published a proposed rule on this subject on May 11, 2011, which was extended and reopened. In light of the significant differences from the 2011 proposal, the agencies are seeking comment on this revised proposed rule. Comments are due by **Nov. 24**.

Final Rules

Several agencies issue final rule revising the definition of eligible guarantee under the advanced approaches risk-based capital rule

The FDIC, FRS and OCC are adopting a final rule revising the definition of eligible guarantee in the agencies' advanced approaches risk-based capital rule, adopted in the agencies' regulatory 2013 capital rules. The FDIC's interim capital rule was published on Sept. 10, 2013 and adopted as a final rule on April 14, 2014. The FRS' and OCC's final rule was published on Oct. 11, 2013. This final rule removes the requirement that an eligible guarantee be made by an eligible guarantor for purposes of calculating the risk-weighted assets of an exposure (other than a securitization exposure) under the advanced approaches risk-based capital rule. The change to the definition of eligible guarantee applies to all banks, savings associations, bank holding companies, and savings and loan holding companies that are subject to the advanced approaches. The proposed rule was published in the Federal Register on May 1, 2014.

FDIC issues final rule rescinding OTS requirements for state savings associations to report CRA-related agreements

The FDIC is rescinding the rule, which was transferred from the OTS in 2011, requiring state savings associations to disclose and report all CRA-related agreements. FDIC regulations in Part 346 concerning reporting of CRA-related agreements will apply to all insured depository institutions for which the FDIC has been designated as the appropriate federal banking agency. The proposed rule was published on Dec. 19, 2013.

FDIC issues final rule rescinding regulations regarding post-employment activities of senior examiners

The FDIC is rescinding the rule, which was transferred from the OTS in 2011, regarding post-employment activities of senior examiners. The restrictions for post-employment activities of senior examiners of all insured depository institutions for which the FDIC has been designated as the appropriate federal banking agency will be found at 12 CFR part 336, subpart C. The proposed rule was published on Sept. 4, 2013.

CFPB issues rule clarifying applicability of Ability-to-Repay rule in certain situations involving successors-in-interest

The CFPB's interpretive rule clarifies that where a successor-in-interest (successor) who has previously acquired title to a dwelling agrees to be added as obligor or substituted for the existing obligor on a consumer credit transaction secured by that dwelling, the creditor's written acknowledgement of the successor as obligor is not subject to the Bureau's Ability-to-Repay Rule (ATR Rule) because such a transaction does not constitute an assumption as defined by Regulation Z. The ATR rule is found at 12 CFR §1026.43 and was issued in January 2013.

OCC issues final rule increasing marginal assessment rates for certain national banks and federal savings associations

The OCC is increasing marginal assessment rates for national banks and federal savings associations with assets of more than $40 billion. The increased rates will range between 0.32% and approximately 14%,

depending on each institution's total assets as of its June 30, 2014 Call Report. The increased rates will be effective for the assessment due on Sept. 30, 2014. The OCC is also amending 12 CFR part 8 to make it consistent with the increased marginal assessment rates.

SEC issues rules and guidance on cross-border security-based swap activities

The SEC is adopting the first in a series of rules and guidance addressing the application of the Dodd-Frank Act to cross-border security-based swap activities. This rulemaking focuses on the application of a de minimis exception from the definition of "security-based swap dealer" in the cross-border context, and on the application of thresholds related to the definition of "major security-based swap participant" in the cross-border context. The SEC rule also allows market participants to satisfy certain Dodd-Frank obligations by complying with comparable foreign regulatory requirements. The proposed rule was published on May 23, 2013.Other matters included in the proposed rule will be addressed in subsequent rulemakings.

Treasury issues final rule replacing references to credit ratings in the liquid capital rule

The amendment to Treasury regulations issued under the Government Securities Act of 1986 provides a substitute standard of creditworthiness for use in the liquid capital rule and removes references to or requirement of reliance on credit ratings. It also finalizes several non-substantive, technical amendments to Government Security Act rules. The proposed rule was published on Sept. 27, 2011.

FHFA issues supplemental order regarding publication of stress-testing results

The FHFA has amended the template used by each of the twelve Federal Home Loan Banks to submit stress testing reports to the FHFA. Previous orders were effective on Nov. 26, 2013 and Dec. 13, 2013.

NCUA issues final rule amending voluntary liquidation regulation

The NCUA is issuing a final rule to amend its voluntary liquidation regulation to reduce administrative burdens on voluntarily liquidating federal credit unions (FCUs). Specifically, the final rule raises the asset-size thresholds that determine the frequency of required creditor notice publication; allows FCUs to use electronic media to meet the publication requirement while also enabling FCUs to issue share payouts to members by electronic payment methods; clarifies the existing calculation of pro rata distributions to members; and it requires that preliminary pro rata distributions to members, which voluntarily liquidating FCUs may issue pending the final payout, be limited to the National Credit Union Share Insurance Fund (NCUSIF) insured amount applicable to any given account or accounts. The proposed rule was published on March 3, 2014.

Several agencies issue final addendum to Interagency Policy Statement on Income Tax Allocation Agreements in a Holding Company Structure

The Addendum instructs insured depository institutions (IDIs) and their holding companies to review and revise their tax allocation agreements to expressly acknowledge that the holding company receives a tax refund as agent for the IDI. These agreements should also be consistent with laws applicable to transactions between IDIs and their affiliates. The Addendum includes a sample paragraph that IDIs could include in their tax allocation agreements to facilitate compliance. The original proposal was published in the Federal Register on Dec. 19, 2013.

CFPB issues rules of practice for issuing temporary cease-and-desist orders

On Sept. 26, 2013, the CFPB published an interim final rule establishing procedures governing the issuance of a temporary cease-and-desist order. The CFPB is now adopting the interim procedures without change.

FRS issues amendment to the identity theft red flags rule

In 2007, the Board published final rules and guidelines on identity theft "red flags" (Red Flags Rule), which implements section 615(e) of the Fair Credit Reporting Act (FCRA). In 2010, a definition for the term creditor was added to Section 615(e) of the FCRA. The Board is now amending the Red Flags Rule creditor definition to reflect the current definition in the FCRA. The proposed rule was published on Feb. 20, 2014.

FRS repeals Regulation DD

The Board is repealing its Regulation DD, 12 CFR part 230, which was issued to implement the Truth in Savings Act. Rulemaking authority for a number of consumer protection laws was transferred from the Board to the CFPB, and the CFPB currently has its interim final Regulation DD, which substantially duplicated the Board's Regulation DD. Since all of the entities formerly subject to the Board's rule are covered by the CFPB interim rule, the Board's version of Regulation DD is no longer necessary. The proposed rule was published on Feb. 20, 2014.

FRS repeals Regulation P

The Board is repealing its Regulation P, 12 CFR part 216, which governed the disclosure of nonpublic personal information by financial institutions and privacy notices. Rulemaking authority for a number of consumer protection laws was transferred from the Board to the CFPB, and the CFPB currently has an interim final Regulation P, which substantially duplicated the Board's rule. Since all of the entities formerly subject to the Board's rule are covered by the CFPB interim rule, the Board's version of Regulation P is no longer necessary. The proposed rule was published on Feb. 20, 2014.

OCC integrates national bank and savings association regulations

In an effort to streamline rules and to reduce duplication, the OCC is integrating into a single set of rules certain regulations relating to consumer protection in insurance sales, Bank Secrecy Act compliance, management interlocks, appraisals, disclosure and reporting of Community Reinvestment Act-related agreements and the Fair Credit Reporting Act. This rulemaking will not result in any substantive changes in the rules, but it will create a single set of rules for all institutions supervised by the OCC.

Several agencies issue joint final rule established enhanced supplementary leverage ratio standards for large banking organizations

The FDIC, FRS and OCC are adopting a final rule enhancing the leverage ratio standards for large, interconnected U.S. banking organizations. The final rule applies to any U.S. top tier bank holding company with more than $700 billion in total consolidated assets or more than $10 trillion in assets under custody, and any insured depository institutions of these bank holding companies. The proposed rule was published on Aug. 20, 2013.

NCUA issues final rule requiring capital plans and annual stress tests of certain federally insured credit unions

The NCUA is adopting a final rule requiring federally insured credit unions (FICUs) with assets of $10 billion or more to develop and submit capital plans annually to the NCUA. The rule also requires annual stress tests. The NCUA will run the stress testing for the first three years; subsequent stress tests may be conducted by the FICUs as approved by the NCUA. The proposed rule was published on Nov. 1, 2013 and is now adopted, with some modifications.

FDIC issues final rule adopting restrictions on sales of assets of a covered financial company by the FDIC

The Dodd-Frank Act prohibits certain sales of assets held by the FDIC in the course of liquidating a covered financial company, including sales of equity stakes in subsidiaries. This final rule prohibits individuals or entities that have, or may have, contributed to the failure of a "covered financial company" from buying a covered financial company's assets from the FDIC. The final rule establishes a self-certification process that is a prerequisite to the purchase of assets of a covered financial company from the FDIC. The proposed rule was published on Nov. 6, 2013.

FDIC issues final rule implementing risk-based and leverage capital requirements for FDIC-supervised institutions

The FDIC is adopting as final an interim rule revising risk-based and leverage capital requirements for FDIC-supervised institutions. The final rule also amends the market risk capital rule to apply to state savings associations. The interim final rule was published on Sept. 10, 2013.

FRS issues final rule implementing enhanced prudential standards for bank holding companies and foreign banking organizations

The Federal Reserve is adopting amendments to Regulation YY to implement certain enhanced prudential standards for bank holding companies and foreign banking organizations with total consolidated assets of $50 billion or more. The proposed rule for bank holding companies was published on Jan. 5, 2012 and the proposed rule for foreign banking organizations was published on Dec. 28, 2012. The final rule implements elements of both the domestic and foreign proposed rules, but makes several modifications, including: modifying the threshold for forming a U.S. intermediate holding company; adjusting the timing requirements for foreign banking organizations to establish a U.S. intermediate holding company; and not applying enhanced prudential standards to nonbank financial companies supervised by the Federal Reserve through this final rule. Public comment is requested only on Paperwork Reduction Act burden estimates.

OCC issues final technical amendments removing rules that transferred to the CFPB

The OCC is removing regulations concerning registration of mortgage loan originators and regulations relating to the privacy of consumer financial information. The CFPB assumed rulemaking authority for these rules on July 21, 2011. The OCC is also updating its website address, Freedom of Information Act (FOIA) portal address, and its physical address to reflect its move to a new headquarters building.

Treasury issues final rule requiring contract clauses on minority and women inclusion in Treasury contracts

Pursuant to the Dodd-Frank Act, the Treasury is amending its regulations to include a contract clause on minority and women inclusion. The contract terms are required for all service contracts, including contracts originating from the Treasury Departmental Offices. The proposed rule was published on Aug. 12, 2012.

FRS issues final rule adopting revised capital framework to the capital plan and stress test rules

On Sept. 30, 2013, the FRS issued two interim final rules amending the capital plan rule and stress test rules. The first interim rule required a bank holding company with total consolidated assets of $50 billion or more to estimate its tier 1 common ratio using the Board's Basel-I methodology, and when a banking organization would estimate its minimum regulatory capital ratios using the advanced approaches rule. The second interim final rule provided a one-year transition period during which bank holding companies and most state member banks with more than $10 billion but less than $50 billion in total consolidated assets were not required to reflect the Board's revised capital framework in their stress tests for the cycle that began on Oct. 1, 2013. This final rule adopts both final rules, with the exception that the final rule provides an additional year (until Oct 1,

2015) for companies to incorporate the advance approaches rule into their capital planning and company-run stress tests, and for the FRS to incorporate the advanced approaches rule in its supervisory stress tests.