

**SUMMARY:** The Department of the Treasury, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and other Federal agencies to take this opportunity to comment on proposed and/or continuing information collections, as required by the Paperwork Reduction Act of 1995, Public Law 104-13 (44 U.S.C. 3506(c)(2)(A)). Currently, the IRS is soliciting comments concerning Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return.

**DATES:** Written comments should be received on or before September 6, 2011 to be assured of consideration.

**ADDRESSES:** Direct all written comments to Yvette B. Lawrence, Internal Revenue Service, room 6129, 1111 Constitution Avenue, NW., Washington, DC 20224.

**FOR FURTHER INFORMATION CONTACT:** Requests for additional information or copies of the form and instructions should be directed to Evelyn J. Mack, at (202) 622-7381, or at Internal Revenue Service, room 6231, 1111 Constitution Avenue, NW., Washington, DC 20224, or through the Internet, at [Evelyn.J.Mack@irs.gov](mailto:Evelyn.J.Mack@irs.gov).

**SUPPLEMENTARY INFORMATION:**

*Title:* U.S. Property and Casualty Insurance Company Income Tax Return.  
*OMB Number:* 1545-1027.

*Form Number:* Form 1120-PC.

*Abstract:* Property and casualty insurance companies are required to file an annual return of income and pay the tax due. The data is used to insure that companies have correctly reported income and paid the correct tax.

*Current Actions:* On Form 1120-PC line changes were made, within Schedules E and H, to clarify the new restrictions on the deduction of 100% of unearned premiums by section 833 organizations, enable section 833 organizations to determine whether they meet the 85% medical loss ratio mandated by IRC 833(c)(5) and for qualifying section 833 organizations to compute the special deduction and the ending adjusted surplus (Pub. L. 111-148, section 9016 and IRC 833(c)(5)). A question was added to Schedule I for corporations to indicate whether they have uncertain tax positions (Announcements 2010-9 and 2010-17, and 2010-30).

On Form 1120-PC (Schedule M-3) two lines were added to monitor IRC sections 174 and 118, respectively, at the request of LMSB.

*Type of Review:* Revision of a currently approved collection.

*Affected Public:* Business or other for-profit organizations.

*Estimated Number of Respondents:* 4,200.

*Estimated Time Per Respondent:* 164 hrs., 59 min.

*Estimated Total Annual Burden Hours:* 671,746.

The following paragraph applies to all of the collections of information covered by this notice:

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

*Request For Comments:* Comments submitted in response to this notice will be summarized and/or included in the request for OMB approval. All comments will become a matter of public record. Comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Approved: June 22, 2011.

**Yvette B. Lawrence,**  
*IRS Reports Clearance Officer.*

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**BILLING CODE 4830-01-P**

## DEPARTMENT OF THE TREASURY

### Office of Thrift Supervision

#### Monthly Median Cost of Funds Reporting, and Publication of Cost of Funds Indices

**AGENCY:** Office of Thrift Supervision (OTS), Treasury.

**ACTION:** Notice of Termination of OMB No. 1550-0021, Monthly Median Cost of Funds Reporting, and Publication of Cost of Funds Indices.

**SUMMARY:** The OTS is terminating the collection of data used to calculate and

publish the Monthly Median Cost of Funds Index (MMCOF), the Quarterly Cost of Funds Index (QCOF), the Semiannual Cost of Funds Index (SCOF), and other related cost of funds ratios currently published monthly in the OTS's Cost of Funds (COF) Report.<sup>1</sup>

**FOR FURTHER INFORMATION CONTACT:** For further information about the changes discussed in this notice, please contact Jim Caton, Managing Director—Economic and Industry Analysis, at (202) 906-5680.

Copies of the reporting form, OMB No. 1550-0021 (OTS Form 1568), and instructions for cost of funds reporting requirements are available on the OTS Web site through the following link: <http://www.ots.treas.gov/?p=StatisticalReleases>.

#### SUPPLEMENTARY INFORMATION:

##### Abstract

Some institutions currently submit MMCOF data to the OTS monthly for the OTS's use in calculating a monthly median cost of funds index. Additionally, the OTS publishes two indices based on calculations from data included in the Thrift Financial Report (TFR):<sup>2</sup>

1. A quarterly average cost of funds index, and
2. A semiannual average cost of funds index.

These indices are used by certain mortgage lenders as benchmarks from which to base rate adjustments for adjustable rate mortgages (ARMs).

##### Effect of Recent Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (the Dodd-Frank Act), was enacted into law on July 21, 2010. Title III of the Dodd-Frank Act abolishes the OTS, provides for its integration with the Office of the Comptroller of the Currency (OCC) effective as of July 21, 2011 (the "transfer date"), and transfers the OTS's functions to the OCC, the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC).

Under Title III of the Dodd-Frank Act, all functions of the OTS relating to Federal savings associations and rulemaking authority for all savings associations are transferred to the OCC. All functions of the OTS relating to state-chartered savings associations (other than rulemaking) are transferred

<sup>1</sup> Link to published COF reports: <http://www.ots.treas.gov/?p=StatisticalReleases>.

<sup>2</sup> Copies of the reporting forms and instructions for the TFR (OMB No. 1550-0023) can be obtained on the OTS Web site (<http://www.ots.treas.gov/?p=ThriftFinancialReports>).

to the FDIC. All functions of the OTS relating to supervision of savings and loan holding companies (including rulemaking) are transferred to the Board.

### Current Actions

On February 8, 2011, the OTS requested public comment (76 FR 7089)<sup>3</sup> on its notice of intent to discontinue data collection and publication of the monthly median cost of funds index and related indices. The changes to savings associations' data reporting requirements will be effective January 31, 2012. At that time savings associations currently regulated by the OTS shall cease filing data used to calculate the MMCOF index. Further publication of the MMCOF, the QCOF, the SCOF, and other related cost of funds ratios currently published monthly in the COF Report shall cease as of January 31, 2012. The final COF Report shall be for the month of December 2011. Until the effective date of these changes, savings associations shall continue to file MMCOF data in the current manner using existing processes.

The OTS received two comments regarding its notice of intent. One comment was from a bank/thrift trade association and the other comment was from a savings association. The bank/thrift trade association did not object to the proposed changes becoming effective as of January 31, 2012, but requested that "OTS provide guidance regarding converting ARM loans to an alternative index." In particular, the bank/thrift trade association requested that the guidance "recognize situations where loan contracts might address circumstances where use of an alternative index may be necessary, as well as certain legacy ARM contracts that we understand may be silent or non-specific regarding such circumstances."

The other comment was from a savings association. The commenter noted that there are "numerous adjustable interest rate home loans including loans sold to the Federal National Mortgage Association (FNMA or Fannie Mae) and to the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) that use these indices." The commenter expressed concern for the difficulty of consumers agreeing "on a substitution of indices as the cost of fund indices are generally considered to be a "lagging index" and stated it would be hard to replace that feature to the satisfaction of the consumer.

### Index Substitution

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Public Law 101-73 (FIRREA), was enacted into law on August 9, 1989. Section 402(e)(4) of FIRREA requires the OTS to designate acceptable substitute indices should it discontinue publication of indices used for ARM rate adjustments. The Director of OTS must determine, after notice and opportunity for comment, that (A) the new indices are based upon data substantially similar to that of the original indices; and (B) the substitution of the new indices will result in an interest rate substantially similar to the rate in effect at the time the original index became unavailable. Any such substitute index may be substituted by the holder of any such adjustable rate mortgage instrument upon notice to the borrower.

As described in the February 8, 2011 notice, the OTS analyzed the values and changes of 17 publicly available indices on a monthly basis from January 1990 through August 2010 to help designate acceptable substitute indices for the MMCOF, QCOF, and SCOF indices. The OTS compared the values and changes of the publicly available indices to those of the MMCOF, QCOF, and SCOF. Correlation coefficients<sup>4</sup> were calculated for each publicly available index value to the MMCOF, QCOF, and SCOF.

The bank/thrift trade association noted that each of the indices identified have adequately high correlation with the OTS's COF indices and did not express a particular preference for one substitute over the others. The bank/thrift trade association's members consider the Monthly Treasury Average (MTA) index to be less suitable as a direct substitute because of recent changes in interest rate relationships resulting from monetary policy actions. The OTS agrees.

The OTS also finds that the MTA is less of a lagging market index (LMI) than the 11th District COF or the Federal COF indices. Similarly, the National Average Contract Mortgage Rate index is less of an LMI than either of these COF indices.

The bank/thrift trade association commented that the 11th District COF index has the strongest correlation to the OTS COF indices, but is not as well known outside the 11th Federal Home

Loan Bank District as some other substitute indices that OTS analyzed. The OTS agrees with this comment. Further, the OTS notes that only Arizona, California, and Nevada savings associations that are members of the Federal Home Loan Bank of San Francisco are eligible to be considered for inclusion in this COF index. Thus, a limited number of savings associations in a limited geographic area participate in providing data for this index. Given that this is a weighted average index with a limited number of participating institutions, the resulting values can be skewed by a few very large institutions.

The bank/thrift trade association noted that the Federal COF index is well known and highly correlated to the OTS's MMCOF, QCOF, and SCOF indices, but the future of the Federal COF index may depend on the outcome of reform of government-sponsored enterprises (GSEs), including Freddie Mac. The OTS believes that any reform of the GSEs would by necessity provide for either a continuation of the Federal COF or an acceptable substitute index to the Federal COF similar to FIRREA's provision for substitutes for the OTS's COF indices.

The savings association commenter mentioned there may be a large volume of loans using the OTS COF indices that have been sold to FNMA and FHLMC. As described in the February 8, 2011 notice, the OTS analyzed the trends in savings associations' ARMs tied to LMIs and found the volumes of these ARMs declined precipitously over the past ten years to currently very low levels. Moreover, the OTS analyzed the usage and trends of various indices used to base rate adjustments for ARMs held by, or serviced by, lenders of all types throughout the United States from 1999 through 2010. This analysis, based on lenders of all types, confirmed the analysis based on savings association-specific data. For example, based on data analyzed from the CoreLogic/LoanPerformance Servicing Database,<sup>5</sup> OTS found that less than 0.05 percent of the number and 0.01 percent of the balances of ARMs loans outstanding as of December 31, 2010, use the MMCOF for the index rate.

The savings association commenter also expressed concern about the difficulty of obtaining borrowers' consent to substitute indices proposed

<sup>5</sup>Data were calculated from the CoreLogic/LoanPerformance Servicing Database. The database includes 44.1 million active first mortgages for a total of \$7.5 trillion active balances that are either held in portfolio as whole loans or securitized as of December 31, 2010. The data represent approximately 80 percent of outstanding first mortgages in the U.S.

<sup>3</sup>Link to 76 FR 7089: <http://www.ots.treas.gov/files/4830090.pdf>.

<sup>4</sup>The correlation coefficient is a single number that describes the degree of relationship between two variables. A perfect positive correlation (a correlation coefficient of +1) implies that as one index moves, either up or down, the other index will move in lockstep, in the same direction.

by the holders of their mortgages. The OTS notes that, pursuant to FIRREA, substitute indices designated by the Director may be substituted by the holder of any such adjustable rate mortgage instrument upon notice to the borrower.

Given the Federal COF index's close correlation with the indices to be terminated, and pursuant to the requirements of FIRREA, the OTS is designating the Federal COF index<sup>6</sup> as an acceptable substitute index effective with the termination date of the discontinued indices. Further, the calculation of the Federal COF does not depend on a separate data collection from a limited amount of participants and is easily calculated.

In summary, after considering the comments received on the notice of

<sup>6</sup> Link to Federal COF index data: [http://www.freddiemac.com/news/finance/cof\\_index.htm](http://www.freddiemac.com/news/finance/cof_index.htm).

intent, the OTS will terminate the collection of data used to calculate and publish the MMCOF, the QCOF, the SCOF, and other related cost of funds ratios currently published monthly in the OTS's COF Report. Savings associations shall cease filing the MMCOF data after the December 31, 2011, report date. Until the effective date of these changes, savings associations shall continue to file MMCOF data in the current manner using existing processes.

The holder of any adjustable rate mortgage instrument whose interest rate is adjusted based on the discontinued MMCOF, QCOF, and SCOF indices shall provide notice as soon as possible after publication of this termination notice to each affected borrower of the termination of such index.

Holders of MMCOF adjustable rate mortgage instruments shall begin using the Federal COF index for the index rate

at adjustment determination dates beginning after December 31, 2011. Holders of QCOF adjustable rate mortgage instruments shall begin using an index rate calculated as the average of the three monthly Federal COF index values that were published immediately previous to adjustment determination dates beginning after December 31, 2011. Holders of SCOF adjustable rate mortgage instruments shall begin using an index rate calculated as the average of the six monthly Federal COF index values that were published immediately previous to adjustment determination dates beginning after December 31, 2011.

Dated: June 29, 2011.

**John E. Bowman,**

*Acting Director, Office of Thrift Supervision.*

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