The Governor of the State of Minnesota has advised FSIS that on December 28, 1998, the State of Minnesota will be in a position to administer a State meat inspection program which includes requirements at least ''equal to'' those imposed under the Federal meat inspection program for products in interstate commerce. The Governor of the State of Minnesota also has advised FSIS that the State, at this time, will remain designated for poultry products inspection under the PPIA.

Section 301(c)(3) of the FMIA provides that whenever the Secretary of Agriculture determines that any designated State has developed and will enforce State meat inspection requirements at least ''equal to'' those imposed by the Federal Government under the FMIA, with regard to intrastate operations and transactions within the State, the Secretary will terminate the designation of such State. The Secretary has determined that the State of Minnesota has developed, and will enforce, such a State meat inspection program in accordance with such provisions of the FMIA. In addition, the Secretary has determined that the State of Minnesota also is in a position to enforce effectively the provisions of sections 202, 203, and 204 of the FMIA. Therefore, the designations of the State of Minnesota under Titles I, II, and IV of FMIA are hereby terminated. The designations of Minnesota under sections 1–4, 6–11, and 12–22 of the PPIA, however, at this time, will remain in effect, and are hereby not terminated.

Because it does not appear that public participation in this matter would make additional relevant information available to the Secretary under the administrative procedure provisions in 5 U.S.C. 553, it is found upon good cause that such public procedure is impracticable and unnecessary.

Executive Order 12866

This final rule is issued in conformance with Executive Order 12866 and has been determined not to be a major rule. It will not result in an annual effect on the economy of $100 million or more; a major increase in costs or prices for consumers, individual industries, Federal, State, or local governments agencies, or geographic regions; or significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of the United States-based enterprises to compete with foreign-based enterprises in domestic or export markets. Terminating the designation of the State of Minnesota will provide for the State to assume the responsibility, previously limited to the Federal Government, of administering a meat inspection program for intrastate operations and transactions and for ensuring compliance by persons, firms, and corporations engaged in intrastate commerce in specified kinds of businesses. Qualifying businesses will have the option to operate under State inspection as an alternative to Federal inspection. The State of Minnesota will be required to administer the meat inspection program in a manner that is at least ''equal to'' the inspection program administered by the Federal Government.

Effect on Small Entities

The Administrator of the Food Safety and Inspection Service (FSIS) has determined that this action will not have a significant economic impact on a substantial number of small entities, as defined by the Regulatory Flexibility Act, Pub. L. 96–354 (5 U.S.C. 601). As stated above, the State of Minnesota is assuming a responsibility, previously limited to the Federal Government, of administering the meat inspection program for intrastate meat operations and transactions. The State's poultry products inspection program, at this time, will remain designated. No additional requirements are being imposed on small entities.

List of Subjects in 9 CFR Part 331

Meat inspection.

Part 331 of the Federal meat inspection regulations (9 CFR Part 331) is amended to read as follows:

PART 331—[AMENDED]

1. The authority citation for Part 331 continues to read as follows:

Authority: 21 U.S.C. 601–695; CFR 2.17, 2.55.

§ 331.2 [Amended]

2. The table in § 331.2 of the Federal meat inspection regulations (9 CFR 331.2) is amended by removing the entry for ''Minnesota''.

§ 331.6 [Amended]

3. Section 331.6 of the Federal meat inspection regulations (9 CFR 331.6) is amended by removing the entry for ''Minnesota'' in all three places.

Done in Washington, DC, on November 18, 1998.

Thomas J. Billy,

Administrator.

[FR Doc. 98–31441 Filed 11–25–98; 8:45 am]

BILLING CODE 3410–DM–P

FEDERAL RESERVE SYSTEM

12 CFR Part 225

[Regulation Y; Docket No. R–0990]

Appraisal Standards for Federally Related Transactions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System has approved an amendment to Subpart G of the Board's Regulation Y, Appraisal Standards for Federally Related Transactions, which exempts from the Board's appraisal requirements transactions involving the underwriting or dealing of mortgage-backed securities. This amendment permits bank holding company subsidiaries engaged in underwriting and dealing in securities (so-called section 20 subsidiaries) to underwrite and deal in mortgage-backed securities without demonstrating that the loans underlying the securities are supported by appraisals that meet the Board's appraisal requirements.

EFFECTIVE DATE: December 28, 1998.

FOR FURTHER INFORMATION CONTACT: Norah M. Barger, Assistant Director (202/452–2402), or Virginia M. Gibbs, Senior Supervisory Financial Analyst, (202/452–2521), Division of Banking Supervision and Regulation; or Mark Van Der Weide, Attorney (202/452-2263), Legal Division; Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

Background

The Board is adopting an amendment to its appraisal regulation that exempts from the Board's appraisal regulation transactions involving the underwriting or dealing of mortgage-backed securities. The amendment is designed to address the concerns raised by bank holding companies regarding the extent to which the Board's appraisal regulation restricts the ability of section 20 subsidiaries to actively participate in the commercial mortgage-backed securities (CMBS) market.

In 1990, the Board adopted its appraisal regulation pursuant to the requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3331 *et seq.*). Title XI directed the federal banking agencies (the agencies) to publish appraisal rules for federally

related transactions [1] within the jurisdiction of each agency. The stated purpose of the legislation is to protect federal financial and public policy interests in real estate-related financial transactions by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, and by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.[2] In their appraisal regulations, the agencies exempted certain categories of real estate-related financial transactions that do not require the services of an appraiser in order to protect federal financial and public policy interests or to satisfy principles of safe and sound banking.

In June 1994, several existing exemptions to the agencies' appraisal regulations were modified and new exemptions were added. At that time, the agencies clarified that a regulated institution investing in, underwriting, or dealing in a mortgage-backed security or similar instrument need not obtain new Title XI appraisals for the underlying real estate-secured loans so long as the loans met regulatory appraisal requirements for the institution at the time the loans were originated.[3]

When the agencies adopted the 1994 amendments to their appraisal rules, the mortgage-backed securities market consisted of securitized 1-to-4 family residential loans, most of which were generated in accordance with the agencies' appraisal requirements. Since 1994, the commercial real estate market has recovered and a market in CMBS has emerged and expanded significantly with the wider acceptance of collateralized securities. Because many commercial mortgages are originated by non-regulated institutions, they often do not fully meet the agencies' appraisal regulations. As a result, banking organizations have effectively been restricted in their ability to participate in the CMBS market.

[1] Section 1121(4) of FIRREA, 12 U.S.C. 3350(4), defines a federally related transaction as a real estate-related financial transaction that is regulated or engaged in by a federal financial institutions regulatory agency and requires the services of an appraiser. Section 1121(5), in turn, defines a real estate-related financial transaction as any transaction that involves: (1) the sale, lease, purchase, investment in or exchange of real property, including interests in property, or the financing thereof; (2) the refinancing of real property or interests in real property; and (3) the use of real property or interests in real property as security for a loan or investment, *including mortgage-backed securities* (emphasis added).

[2] *See* Title XI's Statement of Purpose. 12 U.S.C. 3331.

[3] *See* 59 FR 29482 (1994).

In December 1997, the Board issued a proposal to amend its real estate appraisal regulation to permit bank holding companies and their nonbank subsidiaries to underwrite and deal in mortgage-backed securities without demonstrating that the loans underlying the securities are supported by appraisals that meet the Board's appraisal requirements.[4] In issuing this proposal, the Board acknowledged that the amendment would affect only section 20 subsidiaries because section 20 subsidiaries are the only nonbank entities subject to the Board's appraisal regulation that are permitted to underwrite or deal in mortgage-backed securities.

Summary of Comments and Description of the Final Rule

The Board received eleven comments on the proposed amendment to the appraisal regulation: four from banking associations, one from a bank holding company, one from a professional appraiser association, and five from Federal Reserve Banks. Ten of the commenters strongly favored the proposed amendment. The professional appraiser association did not express support for the proposal and urged the Board to consider whether a uniform due diligence standard should be developed for the CMBS market before adopting this amendment.

Several of the commenters stated that the appraisal regulation made it difficult for bank holding companies and their section 20 subsidiaries to participate in the CMBS market. As one commenter stated, the amendment would strengthen the competitiveness of bank holding companies by placing their section 20 subsidiaries on a more equal footing with nonbank competitors. Ten commenters stated that the public rating and due diligence required by the market for mortgage-backed securities provided sufficient information for the regulated institution to assess risks. One commenter noted that the rating agencies perform sophisticated stress tests of mortgage-backed securities, which examine the ability of the real estate collateral to meet the associated debt obligation under adverse market conditions, to ensure the soundness of their rating.

One commenter contended that the CMBS market attributed little value to appraisals and that other characteristics of the CMBS market, such as public ratings and due diligence requirements, typically provide more protection to investors than the appraisal requirement. Another commenter stated that obtaining appraisals is a costly and time-consuming process that is impossible to complete in the time constraints applicable to underwriting and dealing in CMBS.

[4] *See* 62 FR 64997 (1997).

One commenter suggested that the Board consider adopting additional exemptions from the appraisal regulation for transactions involving: (1) the investment in investment-grade CMBS by bank holding companies and their bank and nonbank affiliates and (2) the warehousing of commercial real estate loans by bank holding companies and their nonbank affiliates for the purpose of packaging and selling them as CMBS.

In contrast, the comment letter from the professional appraiser association contended that federal oversight and underwriting criteria, as well as due diligence procedures used by market participants, may not adequately address all safety and soundness issues that exist in the CMBS market. The commenter expressed concern that without guidance from the agencies regarding due diligence standards for CMBS, federally insured institutions could assume undue or unacceptable risk. Further, this commenter contended that many of the underwriting criteria and investment decisions involving CMBS require that an appraisal be performed to check the validity, quality, and quantity of cash flow from the underlying property. The commenter also expressed concern that increased competition in the commercial real estate market may lead to increased risk taking and raised concern about the use of federally-insured deposits to fund CMBS activity.

The Board believes that permitting section 20 subsidiaries to underwrite and deal in mortgage-backed securities without obtaining appraisals that meet the Board's appraisal requirements is not likely to create significant additional risks for bank holding companies or pose a systemic risk to the banking system. The Board notes that bank holding companies have substantial expertise in analyzing the risks associated with loans secured by residential and commercial real estate, and that section 20 subsidiaries have developed the necessary procedures to evaluate the credit risks involved in underwriting and dealing in mortgage-backed securities. In addition, section 20 subsidiaries that seek to underwrite or deal in CMBS are subject to an operational and managerial infrastructure inspection prior to being permitted to engage in such activities. Periodic inspections by the Federal Reserve verify that proper underwriting

and risk management procedures are in place at section 20 subsidiaries.

When a section 20 subsidiary serves as lead underwriter, it is responsible for performing adequate due diligence. In other instances, such as the dealing of an outstanding debt security, a section 20 subsidiary may rely on the due diligence performed by independent rating agencies. Due diligence efforts conducted by a section 20 subsidiary or an independent rating agency often include analyses of factors such as payment history, mortgage and security structure, borrower's income or property cash flow, credit enhancements, and seasoning. In most CMBS transactions, the underlying loans have demonstrated their ability to perform over a period of time. As the underlying commercial real estate loans in a CMBS pool season, appraisals obtained at origination become increasingly less relevant to an investor's decision to purchase the related CMBS because the market assumptions upon which the appraisals were based may have become obsolete. Further, the public rating or due diligence that must be obtained or conducted for CMBS provides investors with sufficient information to assess the risks associated with the CMBS. A majority of the commenters agreed with this assessment of the CMBS market.

In response to the concerns expressed by one commenter that exempting CMBS transactions from the appraisal regulation would pose undue or unacceptable risk to federally-insured depository institutions, the Board notes that the proposed amendment relates solely to section 20 subsidiaries of bank holding companies and would not affect the appraisal requirements applicable to any federally-insured depository institution. In addition, transactions between a federally-insured depository institution and an affiliated section 20 subsidiary would continue to be subject to applicable restrictions in section 23A and 23B of the Federal Reserve Act (12 U.S.C. 37k, 37k–1). At this time, the Board is not considering any additional exemptions from the appraisal regulation for other transactions related to the CMBS market. Further, since the agencies have uniform appraisal regulations, any proposal to exempt CMBS-related transactions for federally-insured depository institutions would be addressed on an interagency basis.

Regulatory Flexibility Act Analysis

This amendment is not expected to have a significant economic impact on a substantial number of small business entities within the meaning of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) because this amendment will only affect bank holding companies that have section 20 subsidiaries, which generally are among the largest bank holding companies. Further, the amendment is not expected to impose any additional burdens on regulated institutions.

Paperwork Reduction Act

No collection of information pursuant to section 3504(h) of the Paperwork Reduction Act (44 U.S.C. 3501 *et seq.*) is contained in this rulemaking.

List of Subjects in 12 CFR Part 225

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities.

For the reasons set forth in the preamble, the Board amends 12 CFR part 225 as set forth below:

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828o, 1831i, 1831p–1, 1843(c)(8), 1844(b), 1972(l), 3106, 3108, 3310, 3331–3351, 3907, and 3909.

2. In Subpart G, § 225.63 is amended by removing the word ''or'' at the end of paragraph (a)(11), by redesignating paragraph (a)(12) as paragraph (a)(13), and by adding a new paragraph (a)(12) to read as follows:

§ 225.63 Appraisals required; transactions requiring a State certified or licensed appraiser.

(a) * * *

(12) The transaction involves underwriting or dealing in mortgage-backed securities; or

* * * * *

By order of the Board of Governors of the Federal Reserve System.

Dated: November 20, 1998.

Robert deV. Frierson,

Associate Secretary of the Board.

[FR Doc. 98–31602 Filed 11–25–98; 8:45 am]

BILLING CODE 6210–01–P

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Parts 701, 722, 723 and 741

Organization and Operations of Federal Credit Unions; Appraisals; Member Business Loans; and Requirements for Insurance

AGENCY: National Credit Union Administration (NCUA).

ACTION: Interim final rule; extension of comment period.

SUMMARY: On September 23, 1998, the NCUA issued an interim final rule concerning member business loans and appraisals for federally insured credit unions' as well as implementing recent statutory limitations regarding member business loans. The interim final rule was published in the **Federal Register** on September 29, 1998 (see 63 FR 51793). The NCUA Board stated that comments on the interim final rule must be received by November 30, 1998. Due to a request made, the Board has decided to extend the comment period for an additional 60 days to January 29, 1999.

DATES: The comment period is being extended from November 30, 1998 to January 29, 1999. Comments must be postmarked or received by January 29, 1999.

ADDRESSES: Direct comments to Becky Baker, Secretary of the Board. Mail or hand-deliver comments to: National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314–3428. Fax comments to (703) 518–6319. Please send comments by one method only.

FOR FURTHER INFORMATION CONTACT: Michael J. McKenna, Senior Staff Attorney, Division of Operations, Office of General Counsel, at the above address or telephone: (703) 518–6540.

By the National Credit Union Administration Board on November 19, 1998.

Becky Baker,

Secretary of the Board.

[FR Doc. 98–31597 Filed 11–25–98; 8:45 am]

BILLING CODE 7535–01–U

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 708a

Conversion of Insured Credit Unions to Mutual Savings Banks

AGENCY: National Credit Union Administration (NCUA).

ACTION: Interim final rule with request for comments.

SUMMARY: The NCUA is revising its rules that govern the conversion of insured credit unions to mutual savings banks or savings associations, if the savings associations are in mutual form. These revisions will simplify the charter conversion process and reduce regulatory burden for insured credit unions that choose to convert. NCUA is making these revisions in compliance