

SUPPLEMENTAL INSTRUCTIONS

December 2013 Call Report Forms

Sample Call Report forms for December 2013 are available on both the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the FDIC's Web site (<http://www.fdic.gov/callreports>). There is no instruction book update this quarter. Call Report forms, including the cover (signature) page, and instructional materials can be printed and downloaded from the FFIEC's and the FDIC's Web sites. In addition, institutions that use Call Report software generally can print paper copies of blank forms from their software. Please ensure that the person responsible for preparing Call Reports at your institution has been notified about the electronic availability of the December 2013 report forms as well as these Supplemental Instructions. The locations of changes to the text of the previous quarter's Supplemental Instructions (except references to the quarter-end report date) are identified by a vertical line in the right margin.

Submission of Completed Reports

Each institution's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies' Financial Institution Letter for the December 30, 2013, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at CDR.Help@ffiec.gov.

Institutions are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the sample report forms on the FFIEC's Web site, but the hard-copy record should show at least the caption of each Call Report item and the reported amount. A copy of the cover page printed from Call Report software or from the FFIEC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the hard-copy record of the Call Report data file that must be placed in the institution's files.

Currently, Call Report preparation software products marketed by Axiom Software Laboratories, Inc.; Cardinal Software; DBI Financial Systems, Inc.; Fed Reporter, Inc.; FIS Compliance Solutions; FiServ, Inc.; Jack Henry & Associates, Inc.; Lombard Risk; and Wolters Kluwer Financial Services meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. The addresses and telephone numbers of these vendors are listed on the final page of these Supplemental Instructions.

Status of Call Report Revisions Proposed in 2013

In February 2013, the FFIEC and its member agencies proposed several revisions to the Call Report for implementation in June and December 2013 (see FFIEC Financial Institution Letter FIL-8-2013, dated March 8, 2013, at <http://www.fdic.gov/news/news/financial/2013/fil13008.html>). A limited number of these proposed revisions took effect on June 30, 2013 (see FIL-29-2013, dated June 28, 2013, at <http://www.fdic.gov/news/news/financial/2013/fil13029.html>). The FFIEC announced in June 2013 that none of the remaining Call Report changes proposed in February 2013 would take effect before year-end 2013 (see FIL-24-2013, dated June 6, 2013, at <http://www.fdic.gov/news/news/financial/2013/fil13024.html>). Please note that no revisions are being made to the Call Report this quarter.

In addition, the FFIEC and the agencies proposed in August 2013 to revise the regulatory capital components and ratios portion of Call Report Schedule RC-R, Regulatory Capital (see FIL-41-2013, dated September 24, 2013, at <http://www.fdic.gov/news/news/financial/2013/fil13041.html>). These revisions, which are consistent with the revised regulatory capital rules approved by the banking agencies during July 2013, were proposed

to take effect as of March 31, 2014, for advanced approaches institutions and as of March 31, 2015, for all other institutions.

The FFIEC and the agencies have now finalized the Call Report changes from these two proposals pending approval by the U.S. Office of Management and Budget. The proposed reporting changes have been modified in response to comments received on the proposals, including concerns about reporting burden. The FFIEC and the agencies are not proceeding at this time with the proposed annual reporting by institutions with a parent holding company that is not a bank or savings and loan holding company of the amount of the parent holding company's consolidated total liabilities.

The reporting changes to Call Report schedules other than Schedule RC-R, which would involve quarterly reporting unless otherwise indicated, are summarized as follows:

- Effective March 31, 2014, institutions would begin to report:
 - Information about international remittance transfers, which would be collected initially as of March 31, 2014, and, in general, semiannually thereafter as of each June 30 and December 31 (new item 16 of Schedule RC-M, Memoranda). All institutions would respond to yes-no questions about remittance transfer activity, and institutions with more than 100 transactions per calendar year would report the estimated number and dollar value of remittance transfers;
 - Any trade names (other than an institution's legal title) used to identify physical offices and the addresses of any public-facing Internet Web sites (other than the institution's primary Internet Web site address, which is currently reported) at which the institution accepts or solicits deposits from the public (revised item 8 of Schedule RC-M);
 - A response to a yes-no question asking whether the reporting institution offers any deposit account products (other than time deposits) primarily intended for consumers (new Memorandum item 5 of Schedule RC-E, Deposit Liabilities); and
 - For institutions with \$1 billion or more in total assets that offer one or more deposit account products (other than time deposits) primarily intended for consumers, the total balances of these consumer deposit account products (new Memorandum items 6 and 7 of Schedule RC-E).
- Effective March 31, 2015, institutions with \$1 billion or more in total assets that offer one or more deposit account products (other than time deposits) primarily intended for consumers would begin to report the amount of income earned from each of three categories of service charges on their consumer deposit account products (new Memorandum item 15 of Schedule RI, Income Statement). This income is included in total year-to-date service charges on deposit accounts.

The regulatory capital components and ratios portion of Schedule RC-R would include the following changes:

- Existing items 1 through 33 of Schedule RC-R would be designated Part I.A, Regulatory Capital Components and Ratios, in March 2014. All institutions except advanced approaches institutions would complete Part I.A in their Call Reports for March 31 through December 31, 2014. No changes would be made to Part I.A in 2014.
- A new Part I.B, Regulatory Capital Components and Ratios, would be added to Schedule RC-R in March 2014. Advanced approaches institutions would complete Part I.B in their Call Reports for March 31 through December 31, 2014.
- Effective March 31, 2015, Part I.A would be removed from Schedule RC-R and Part I.B would be designated Part I, Regulatory Capital Components and Ratios. All institutions would then complete Part I of the schedule.

In addition, existing items 34 through 62 and Memorandum items 1 and 2 of Schedule RC-R would be designated Part II, Risk-Weighted Assets, in March 2014. No changes would be made in 2014 to Part II, which all institutions would complete in their Call Reports for March 31 through December 31, 2014. The agencies expect to propose revisions to Part II of Schedule RC-R that would incorporate the standardized

approach for calculating risk-weighted assets under the revised regulatory capital rules. The revised version of Part II would be completed by all institutions beginning with the Call Report for March 31, 2015.

Drafts of the revised Call Report schedules and draft instructions for the new and revised Call Report items are available on the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm).

Determining the Fair Value of Derivatives

Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), defines fair value and establishes a framework for measuring fair value. As stated in ASC Topic 820, fair value is a market-based measurement, not an entity-specific measurement, and the fair value of a derivative position should be measured using the assumptions that market participants would use when pricing that position, including assumptions about risk. An entity should select inputs that are consistent with the characteristics of the derivative position that market participants would take into account in a transaction for the derivative asset or liability. In the absence of a Level 1 input, an entity should apply an adjustment, such as a premium or discount, when market participants would do so when determining the fair value of a derivative position, consistent with the unit of account. For derivatives, the unit of account generally is the individual transaction unless an entity has made an accounting policy decision to apply the exception in ASC Topic 820 pertaining to measuring the fair value of a group of financial instruments the entity manages on the basis of its net exposure to either market risks or credit risk.

When measuring the fair value of a derivative position that has a bid-ask spread, ASC Topic 820 does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for measuring the fair value within the bid-ask spread. An entity should determine the price within the bid-ask spread that is most representative of fair value, which is the price that would be received to sell the asset or paid to transfer the liability (i.e., an exit price), based on assumptions a market participant would use in a similar circumstance. An institution should maintain documented policies for determining the point within the bid-ask spread that is most representative of fair value and consistently apply those policies.

An entity is expected to apply all of its valuation policies and techniques for measuring fair value consistently over time. Nevertheless, ASC Topic 820 acknowledges that a change in valuation technique from one methodology to another that results in an equally or more representative measure of the fair value of a derivative position may be appropriate. However, it would be inappropriate for an entity to alter its valuation methodology or policies to achieve a desired financial reporting outcome. An example of an inappropriate change in valuation methodology that would result in a fair value estimate that would not be representative of a derivative position's exit price would be for an entity to migrate from a mid-market pricing convention to using a price within the bid-ask spread that is more advantageous to the entity to offset the impact of adverse changes in market prices or otherwise mask losses.

Unless its fair value measurement is categorized within Level 1, if there has been a change in valuation technique for a derivative position, ASC Topic 820 requires an entity to disclose that change and the reasons for making it in the notes to financial statements prepared in accordance with U.S. generally accepted accounting principles.

Prepaid Deposit Insurance Assessments

In November 2009, the FDIC adopted a final rule requiring insured depository institutions (except those that are exempted) to prepay an FDIC-determined estimate of their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. As required by the FDIC's 2009 regulation establishing the prepaid deposit insurance assessment program, this program ended with the 13th and final application of prepaid assessments to the quarterly deposit insurance assessments payable on March 29, 2013. The FDIC issued refunds of any unused prepaid deposit insurance assessments on June 28, 2013.

With the end of the prepaid deposit insurance assessment program and the refunds issued by the FDIC on June 28, 2013, no institution should have reported a prepaid assessments asset on its Call Report balance sheet for June 30, 2013. Accordingly, each institution should have closed out its prepaid assessments asset account, if any, to a zero balance as of June 28, 2013, by eliminating any balance remaining in this account after recognizing the effect of any unused prepaid assessments being refunded by the FDIC. An immaterial adjustment to eliminate any remaining prepaid assessments asset account balance as of June 28, 2013, should have been reported as an adjustment to the 2013 year-to-date deposit insurance assessment expense. For a material adjustment as of that date, any portion attributable to a difference in the institution's accrued estimate of and its actual first quarter 2013 deposit insurance assessment expense should have been reported as an adjustment to the 2013 year-to-date assessment expense in the June 30, 2013, Call Report and the remainder should have been reported as an accounting error correction, net of applicable income taxes, in Schedule RI-A, item 2, and described in Schedule RI-E, item 4.

Each institution should record the estimated expense for its deposit insurance assessment for the fourth quarter of 2013, which will be payable to the FDIC on March 30, 2014, through a charge to expense during the fourth quarter and a corresponding credit to an accrued expense payable. The year-to-date deposit insurance assessment expense for 2013 should be reported in Schedule RI, item 7.d, "Other noninterest expense." For further guidance on reporting regular quarterly deposit insurance assessments, institutions should refer to the Call Report Supplemental Instructions for September 30, 2009, at http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf.

"Purchased" Loans Originated By Others

When acquiring loans originated by others, institutions should consider whether the transaction should be accounted for as a purchase of the loans or as a secured borrowing (i.e., a loan to the originator) in accordance with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). For the transaction to qualify as a sale by the originator to the acquiring institution, certain conditions must be met:

- First, unless the transfer is of an entire financial asset, the transferred portion of the financial asset must meet the definition of a participating interest.
- Second, the transfer must meet all of the conditions set forth in ASC Subtopic 860-10 to demonstrate that the transferor has surrendered control over the transferred financial assets.

For example, some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported in Call Report Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions," and on the balance sheet in Schedule RC, item 4.a, "Loans and leases held for sale," or item 4.b, "Loans and leases, net of unearned income," as appropriate. For risk-based capital purposes, a loan to a mortgage loan originator secured by residential mortgages that is reported in Schedule RC-C, part I, item 9.a, should be assigned a 100 percent risk weight and included in column F of Schedule RC-R, item 38 or 39, based on its balance sheet classification.

In situations where the transaction between the mortgage loan originator and the transferee (acquiring) institution is accounted for as a secured borrowing with pledge of collateral, the transferee (acquiring) institution's designation of the financing provided to the originator as held for sale is appropriate only when the conditions in ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others") and the 2001 Interagency Guidance on Certain Loans Held for Sale have been met. In these situations, the mortgage loan originator's planned sale of the pledged collateral (i.e., the individual residential mortgage loans) to a takeout investor is not relevant to the transferee institution's designation of the loan to the originator as held for investment or held for sale. In situations where the transferee institution simultaneously extends a loan to the originator and transfers an interest (for example, a participation interest) in the loan to the originator to another party, the transfer to the other party also should be evaluated to determine whether the conditions in ASC Topic 860 for sale accounting treatment have been met. If this transfer qualifies to be accounted for as a sale, the portion of the loan to the originator that is retained by the transferee institution should be classified as held for investment when the transferee has the intent and ability to hold that portion for the foreseeable future or until maturity or payoff (which is generally in the near term).

Noninterest-bearing Transaction Accounts of More than \$250,000

Memorandum items 5.a and 5.b of Call Report Schedule RC-O collect data on the amount and number of noninterest-bearing transaction accounts of more than \$250,000. Although the temporary unlimited deposit insurance on these accounts ended on December 31, 2012, the agencies are monitoring the behavior of these deposit accounts following the change in insurance coverage. Accordingly, the agencies will collect these Memorandum items through the December 31, 2013, report date. The Memorandum items will then be eliminated.

Institutions with \$1 billion or more in total assets should ensure that the amount reported for "Estimated amount of uninsured deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid" (Schedule RC-O, Memoranda item 2), reflects the expiration of the temporary unlimited deposit insurance on noninterest-bearing transaction accounts of more than \$250,000. Additionally, if an institution's uninsured deposit estimate in one or more of its Call Reports for previous quarters in 2013 did not reflect the expiration of the unlimited deposit insurance coverage on these accounts, the institution should amend the estimate in the report for each affected quarter, if the adjustment would be material. (Please refer to the discussion of "Amended Reports" in the Call Report General Instructions for guidance on materiality.)

Indemnification Assets and Accounting Standards Update No. 2012-06

In October 2012, the FASB issued Accounting Standards Update (ASU) No. 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution," to address the subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution that includes an FDIC loss-sharing agreement. This ASU amends ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"), which includes guidance applicable to FDIC-assisted acquisitions of failed institutions.

Under the ASU, when an institution experiences a change in the cash flows expected to be collected on an FDIC loss-sharing indemnification asset because of a change in the cash flows expected to be collected on the assets covered by the loss-sharing agreement, the institution should account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in the value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2012. Early adoption of the ASU is permitted. For institutions with a calendar year fiscal year, the ASU took effect January 1, 2013. The ASU's provisions should be applied prospectively to any new

indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from an FDIC-assisted acquisition of a financial institution. Institutions with indemnification assets arising from FDIC loss-sharing agreements are expected to adopt ASU 2012-06 for Call Report purposes in accordance with the effective date of this standard.

For additional information, institutions should refer to ASU 2012-06, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

True-up Liability under an FDIC Loss-Sharing Agreement

As discussed above, an insured depository institution that acquires a failed insured institution may enter into a loss-sharing agreement with the FDIC under which the FDIC agrees to absorb a portion of the losses on a specified pool of the failed institution's assets during a specified time period. The acquiring institution typically records an indemnification asset representing its right to receive payments from the FDIC for losses during the specified time period on assets covered under the loss-sharing agreement.

Since 2009, most loss-sharing agreements have included a true-up provision that may require the acquiring institution to reimburse the FDIC if cumulative losses in the acquired loss-share portfolio are less than the amount of losses claimed by the institution throughout the loss-sharing period. Typically, a true-up liability may result because the recovery period on the loss-share assets (e.g., eight years) is longer than the period during which the FDIC agrees to reimburse the acquiring institution for losses on the loss-share portfolio (e.g., five years).

Consistent with U.S. GAAP and the Glossary entry for "Offsetting" in the Call Report instructions, institutions are permitted to offset assets and liabilities recognized in the Report of Condition when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts"), in general, a right of setoff exists when a reporting institution and another party each owes the other determinable amounts, the reporting institution has the right to set off the amounts each party owes and also intends to set off, and the right of setoff is enforceable at law. Because the conditions for the existence of a right of offset in ASC Subtopic 210-20 normally would not be met with respect to an indemnification asset and a true-up liability under a loss-sharing agreement with the FDIC, this asset and liability should not be netted for Call Report purposes. Therefore, institutions should report the indemnification asset gross (i.e., without regard to any true-up liability) in item 6 of Schedule RC-F, Other Assets, and any true-up liability in item 4 of Schedule RC-G, Other Liabilities.

Troubled Debt Restructurings and Current Market Interest Rates

Many institutions are restructuring or modifying the terms of loans through workout programs, renewals, extensions, or other means to provide payment relief for borrowers who have suffered deterioration in their financial condition. Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor's concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, such as a modification of terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

The stated interest rate charged to the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans to nontroubled borrowers at the time of the restructuring. Some institutions have concluded that these restructurings are not TDRs; however, this conclusion may be inappropriate. In reaching this conclusion, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. An interest rate on a modified loan greater than or equal to those available in the marketplace for similar loans to nontroubled borrowers does not in and of itself preclude a modification from being designated as a TDR. Rather, when evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether the institution has made a concession to the borrower with respect to the market interest rate or has made some other type of concession that could trigger TDR accounting and disclosure (for example, terms or conditions outside of the institution's policies or common market practices). If TDR accounting and disclosure is appropriate, the institution must determine how the modified or restructured loan should be reported in the Call Report.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

In the Call Report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported in the appropriate loan category in Schedule RC-C, part I, items 1 through 9, and in the appropriate loan category in:

- Schedule RC-C, part I, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule RC-N, Memorandum item 1, if it is not in compliance with its modified terms.

However, a loan that is a TDR (for example, because of a modification that includes a reduction in principal) that yields a market interest rate at the time of restructuring and is in compliance with its modified terms need not continue to be reported as a TDR in Schedule RC-C, part I, Memorandum item 1, in calendar years after the year in which the restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

A loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended), and the Glossary entry for "Loan Impairment." Consistent with ASC Subtopic 310-10, TDRs may be aggregated and measured for impairment with other impaired loans that share common risk characteristics by using historical statistics, such as average recovery period and average amount recovered, along with a composite effective interest rate. The outcome of applying such an aggregation approach must be consistent with the impairment measurement

methods prescribed in ASC Subtopic 310-10 and the “Loan Impairment” Glossary entry for loans that are individually considered impaired (i.e., the present value of expected future cash flows discounted at the loan's original effective interest rate or the loan's observable market price if the loan is not collateral dependent; the fair value of the collateral – less estimated costs to sell, if appropriate – if the loan is collateral dependent). Thus, an institution applying the aggregation approach to TDRs should not use the measurement method prescribed in ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”) for loans not individually considered impaired that are collectively evaluated for impairment. When a loan not previously considered individually impaired is restructured and determined to be a TDR, absent a partial charge-off, it generally is not appropriate for the impairment estimate on the loan to decline as a result of the change from the impairment measurement method prescribed in ASC Subtopic 450-20 to the methods prescribed in ASC Subtopic 310-10.

For further information, see the Glossary entry for “Troubled Debt Restructurings” and the instructions for Schedules RC-C, part I, and RC-N.

Troubled Debt Restructurings and Accounting Standards Update No. 2011-02

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring,” to provide additional guidance to help creditors determine whether a concession has been granted to a borrower and whether a borrower is experiencing financial difficulties. The guidance is also intended to reduce diversity in practice in identifying and reporting TDRs. This ASU was effective for public companies for interim and annual periods beginning on or after June 15, 2011, and should have been applied retrospectively to the beginning of the annual period of adoption for purposes of identifying TDRs. The measurement of impairment for any newly identified TDRs resulting from retrospective application should have been applied prospectively in the first interim or annual period beginning on or after June 15, 2011. (For most public institutions, the ASU took effect July 1, 2011, but retrospective application began as of January 1, 2011.) Nonpublic companies should apply the new guidance for annual periods ending after December 15, 2012, including interim periods within those annual periods. (For most nonpublic institutions, the ASU took effect January 1, 2012.)

Institutions are expected to continue to follow the accounting and reporting guidance on TDRs in the preceding section of these Supplemental Instructions and in the Call Report instruction book. To the extent the guidance in the ASU differs from an institution’s existing accounting policies and practices for identifying TDRs, the institution will be expected to apply the ASU for Call Report purposes in accordance with the standard’s effective date and transition provisions, which are outlined above. To the extent that an institution’s existing accounting policies and practices are consistent with guidance in the ASU, the institution should continue to follow its existing policies and practices.

ASU 2011-02 reiterates that the two conditions mentioned in the preceding section, “Troubled Debt Restructurings and Current Market Interest Rates,” must exist in order for a loan modification to be deemed a TDR: (1) an institution must grant a concession to the borrower as part of the modification and (2) the borrower must be experiencing financial difficulties. The ASU explains that an institution may determine that a borrower is experiencing financial difficulties if it is probable that the borrower will default on any of its debts in the foreseeable future. The borrower does not have to be in default at the time of the modification. Other possible factors that should be considered in evaluating whether a borrower is experiencing financial difficulties is if the borrower has declared (or is in the process of declaring) bankruptcy, the creditor does not expect the borrower’s cash flows to be sufficient to service its debt under the existing terms, or there is substantial doubt about an entity’s ability to continue as a going concern.

Another important aspect of the ASU is that it prohibits financial institutions from using the effective interest rate test included in the TDR guidance for borrowers in ASC Subtopic 470-60, Debt – Troubled Debt Restructurings by Debtors, when determining whether the creditor has granted a concession as part of a loan modification. However, as explained in ASU 2011-02, if a borrower does not have access to funds at a market rate of interest for similar debt, the rate on the modified loan is considered to be a below-market rate and may be an indicator that the institution has granted a concession to the borrower. In this situation, a

creditor must consider all aspects of the loan modification in determining whether it has granted a concession.

Furthermore, the ASU provides new guidance regarding insignificant delays in payment as part of a loan modification. If, after analysis of all facts and circumstances, a creditor determines that a delay in payment is insignificant, the creditor has not granted a concession to the borrower. This determination requires judgment and should consider many factors, including, but not limited to, the amount of the delayed payments in relation to the loan's unpaid principal or collateral value, the frequency of payments due on the loan, the original contractual maturity, and the original expected duration of the loan.

For additional information, institutions should refer to ASU 2011-02, which is available at <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498>.

Other-Than-Temporary Impairment of Debt Securities

Under ASC Subtopic 320-10, Investments-Debt and Equity Securities – Overall (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as amended), an individual debt security classified as either held-to-maturity or available-for-sale is considered impaired when the security's fair value is less than its amortized cost. If an individual security is impaired, an institution must assess whether the impairment is other-than-temporary. An impairment is considered other-than-temporary if the institution intends to sell the debt security or, after considering all available evidence, determines that it is more likely than not it will be required to sell the security before the recovery of its amortized cost basis. (This latter condition would be met, for example, if the institution's regulatory requirements, cash or working capital requirements, or contractual obligations indicate that the security will be required to be sold before a forecasted recovery occurs). In these circumstances, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date is the other-than-temporary impairment that the institution must recognize in earnings. An other-than-temporary impairment also occurs when an individual available-for-sale or held-to-maturity security sustains a credit loss. For further information, institutions should refer to ASC Subtopic 320-10 and the Glossary entry for "Securities Activities" in the Call Report instructions.

For regulatory capital purposes, any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit that are reported, net of applicable taxes, in Schedule RC, item 26.b, "Accumulated other comprehensive income," should be included in Schedule RC-R, item 2, together with the net unrealized gains (losses) on available-for-sale securities that are reported in item 2. Furthermore, when determining the regulatory capital limit for deferred tax assets, an institution may, but is not required to, adjust the reported amount of its deferred tax assets for any deferred tax assets arising from other-than-temporary impairment losses reported, net of applicable taxes, in Schedule RC, item 26.b in accumulated other comprehensive income. An institution must follow a consistent approach over time with respect to this adjustment to the reported amount of deferred tax assets.

In addition, when risk-weighting a held-to-maturity debt security for which an other-than-temporary impairment loss related to factors other than credit was previously recognized in other comprehensive income, include the carrying value of the debt security in column A of Schedule RC-R, item 35. Then, include the pre-tax amount of this impairment loss that has not yet been accreted from accumulated other comprehensive income to the carrying value of the security as a negative number in column B of Schedule RC-R, item 35, and include the amortized cost of the security in the appropriate risk-weight category column of item 35 (provided the security is not a purchased subordinated security that is not eligible for the ratings-based approach). For a security on which an other-than-temporary impairment loss has been recognized, amortized cost is the security's previous amortized cost as of the date of the most recently recognized other-than-temporary impairment loss less the amount of impairment loss recognized in earnings adjusted for subsequent accretion of interest income and payments received on the security.

Amending Previously Submitted Report Data

Should your institution find that it needs to revise previously submitted Call Report data, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' Financial Institution Letter for the December 31, 2013, report date. For technical assistance with the submission of amendments to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at CDR.Help@ffiec.gov.

Other Reporting Matters

For the following topics, institutions should continue to follow the guidance in the specified Call Report Supplemental Instructions:

- Small Business Lending Fund – Supplemental Instructions for March 31, 2013 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201303.pdf)
- Reporting purchased subordinated securities in Schedule RC-S – Supplemental Instructions for September 30, 2011 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf)
- Treasury Department's Capital Purchase Program – Supplemental Instructions for September 30, 2011 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_FFIEC041_suppinst_201109.pdf)
- Accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* – Supplemental Instructions for December 31, 2006 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf)
- Tobacco Transition Payment (Buyout) Program – Supplemental Instructions for March 31, 2006 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf)
- Commitments to originate and sell mortgage loans – Supplemental Instructions for March 31, 2006 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf) and June 30, 2005 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf)

Call Report Software Vendors

For information on available Call Report preparation software products, institutions should contact:

Axiom Software Laboratories, Inc.
67 Wall Street, 17th Floor
New York, New York 10005
Telephone: (212) 248-4188
<http://www.axiomsl.com>

Cardinal Software
6700 Pioneer Parkway
Johnston, Iowa 50131
Telephone: (888) 262-3348
<http://www.cardinal400.com>

DBI Financial Systems, Inc.
P.O. Box 14027
Bradenton, Florida 34280
Telephone: (800) 774-3279
<http://www.e-dbi.com>

Fed Reporter, Inc.
28118 Agoura Road, Suite 202
Agoura Hills, California 91301
Telephone: (888) 972-3772
<http://www.fedreporter.net>

FIS Compliance Solutions
16855 West Bernardo Drive,
Suite 270
San Diego, California 92127
Telephone: (800) 825-3772
<http://www.callreporter.com>

FiServ, Inc.
1345 Old Cheney Road
Lincoln, Nebraska 68512
Telephone: (402) 423-2682
<http://www.premier.fiserv.com>

Jack Henry & Associates, Inc.
Regulatory Filing Group
7600B North Capital of Texas
Highway, Suite 320
Austin, Texas 78731
Telephone: (800) 688-9191
<http://filing.jackhenry.com>

Lombard Risk
One Gateway Center,
26th Floor
Newark, New Jersey 07102
Telephone: (973) 648-0900
<http://www.lombardrisk.com>

Wolters Kluwer Financial Services
130 Turner Street, Building 3,
4th Floor
Waltham, Massachusetts 02453
Telephone (800) 261-3111
<http://www.wolterskluwerfs.com>