FDIC-FRB-OCC Banker Teleconference on Proposed Call Report Risk-Weighted Assets Reporting Changes

June 27, 2014

Coordinator: Welcome and thank you all for holding. I would like to remind all parties that your lines are on a listen only mode until the question and answer period of today's conference. Also today's call is being recorded, if you have any objections please disconnect at this time. I will now turn the call over to Mr. Daniel Bean. Sir, you may begin.

Daniel Bean: Thank you. Good afternoon everyone. Welcome to today's Risk Analysis Center teleconference entitled Proposed Call Report Risk-Weighted Assets Reporting Changes. There will be a discussion by our presenter followed by a question and answer period at the end.

The operator will come back on at that time and provide instructions for entering the queue to ask your questions. If you would like to ask a question by email during the presentation, please send your questions to rac@fdic.gov. That's R-A-C@F-D-I-C.gov.

I would like now to turn this call over to Robert Storch, Chief Accountant, Federal Deposit Insurance Corporation, Division of Risk Management Supervision.

Robert Storch: Thank you Dan and good afternoon everyone. I've been joined today for this Banker Teleconference by colleagues from the FDIC, the Federal Reserve, and the OCC. We appreciate your taking time out of your schedules to join this teleconference on the Proposed Call Report Risk-Weighted Asset Reporting Changes.

Presentation materials for this afternoon's teleconference were posted on the FFIEC's Web site yesterday afternoon. We hope you've been able to find the handout materials and have a copy available to you.

The purpose of this afternoon's teleconference is to provide you with a basic understanding of the proposed changes to the reporting of risk-weighted assets in Call Report Schedule RC-R, the regulatory capital schedule of the Call Report.

After going through the handout materials, as Dan Bean mentioned, we'll have a Q&A session. And, just to repeat, if there are questions you'd like to submit by email, the email address is rac@fdic.gov.

I'd also like to mention that we are planning to prepare a transcript of the teleconference. It will become available and be posted on the FFIEC's Web site in July. If you have colleagues that were unable to participate today, the transcript of the teleconference should be helpful to them in the future.

The specific Call Report proposal the agencies have issued comment was published this past Monday for a 60-day comment period. The comment deadline for the proposal is August 22, so we're just in the early stages of the comment period.

As for the proposal itself, the link to it is on Page 2 of the handout materials, and the proposal identifies the addresses to which you can send comments by email or regular mail, whichever is your pleasure.

To the extent that you have an interest in providing comments on the proposal, we would invite you to do so, and the agencies will take the comments into consideration after the close of the comment period when the reporting requirements are finalized.

The objective of the proposed changes to Schedule RC-R, Part II, Risk-Weighted Assets, is to incorporate into the Call Report the standardized approach to risk weighting that was included in the revised regulatory capital rules that the agencies adopted in July 2013.

All of the revisions to Schedule RC-R, Part II, that we'll be talking about today are intended to be consistent with the revised capital rules that the agencies have in place. Those rules will take effect January 1, 2015, for all institutions that are not advanced approaches institutions. For advanced approaches institutions, the revised regulatory capital definitions took effect this year.

In connection with the reporting changes to Schedule RC-R, the reporting of securities borrowed in Schedule RC-L, the derivatives and off-balance-sheet items schedule of the Call Report, will be revised somewhat. To highlight the nature of this change, right now securities borrowed are only reported in the all other off-balance liabilities item of Schedule RC-L, which is Item 9, if they exceed 10% of total equity capital and they're disclosed separately if they exceed 25% of total equity capital. The proposal would move the reporting of securities borrowed into a new Item 6.b of Schedule RC-L and all intuitions would report securities borrowed regardless of amount.

The proposed changes that are on the table for Part II of Schedule RC-R would take effect in the first quarter of 2015 in the March 31, 2015, Call Report. The changes would apply to all institutions whether they are an advanced approaches institution or not.

In addition, I’d like to remind you that the revised regulatory capital definitions also would begin to be reported in March of 2015 in Part I of Schedule RC-R. The advanced approaches institutions this year are completing new Part I.B, and all other institutions, including all community institutions, are using the long-standing version of the regulatory capital components and ratios portion of Schedule RC-R, which is labeled Part I.A during 2014.

When we get to 2015, one of the things that has been of interest to community institutions is the accumulated other comprehensive income, or AOCI, election. Part I of Schedule RC-R starting in March 2015 will be where a community institution will make this election.

The drafts of the proposed Schedule RC-R, Part II, reporting form and the draft instructions for Part II are available on the FFIEC’s Web site. Page 3 of the handout materials has the links for the draft form and instructions. Those materials also have drafts showing the Schedule RC-L change for securities borrowed that I mentioned.

Let’s talk now about how the new Schedule RC-R, Part II, has not changed from the current version of Schedule RC-R, Part II, where risk-weighted assets are reported. For most community institutions, I think much of the risk-weighted asset reporting you do today will be done the same way going forward beginning in 2015, even though the appearance of the schedule is different.

The general structure of revised Part II will remain the same as the current version. First, there's a section for reporting assets and allocating them to risk weights, then a section for reporting derivatives and off-balance-sheet items. Next is a section for calculating totals and arriving at your total risk-weighted assets. Finally, for institutions with derivative contracts, we continue to have memoranda data items for the derivative contracts.

Briefly looking at the asset categories at a high level, banks will continue to report the major asset categories from the Call Report balance sheet, Schedule RC. Generally speaking, the asset amounts in Column A, and particularly the total for total assets in Column A, will tie to the amounts reported on the Call Report balance sheet, but with a slight change from current practice with respect to the reporting of securitization exposures, which we'll talk about more during this presentation.

Column B on the asset side of Schedule RC-R, Part II, will be used as it is today to report various adjustments, deductions, and exclusions from the on-balance-sheet amount of assets, and to arrive at the amount that has to be allocated across the remaining columns for the risk-weight categories. The sum of the Column B amounts plus the risk-weighted allocations will continue to tie back to the Column A amounts from the balance sheet.

That's the current approach and concept for spreading the assets across risk-weight categories today and that approach will remain in place starting in 2015 in the revised version of Schedule RC-R, Part II.

When we move to the reporting of derivatives and off-balance-sheet items, the revised schedule, as is the case today, would have Column A as the location for reporting face amounts, notional amounts, or other amounts that then would have to be converted to credit equivalent amounts. The Column A amounts are multiplied by credit conversion factors to arrive at the credit equivalent amounts that are reported in Column B. As we do today, those credit equivalent amounts will then be allocated to the appropriate risk-weight categories.

Here again, the sum of all the columns by risk-weight category would equal the amount of the credit equivalent amounts in Column B, which is not a change in the practice from what banks do today.

Turning to Page 5 of the handout materials, the next section of Schedule RC-R, Part II, deals with totaling. On the revised version of Part II, after all the risk-weight allocations have been done, banks will calculate totals for assets and derivatives and off-balance-sheet items by risk-weight category, which is the same as is done today.

The risk-weighted asset allocations will then be multiplied by the appropriate risk-weight factor to arrive at risk-weighted assets by risk-weight category. Those amounts will be summed and then there's a deduction for any excess allowance for loan and lease losses to arrive at the amount of total risk-weighted assets that is used as the denominator for the various risk-based capital ratios.

Finally, Schedule RC-R, Part II, as revised would continue to provide memoranda data on derivative contracts, first the current credit exposure as a single amount for all of a bank's derivative contracts that are subject to the risk-based capital standards and then a breakdown of the derivative contracts by remaining maturity and underlying risk exposure.

Next, I would like to give you a high level overview of what has changed in the proposed revised Schedule RC-R. If you've printed out the revised proposed reporting forms you'll see that there are additional risk-weight categories compared to what you have today. However, many of those risk-weight categories, particularly for community institutions, will have very limited applicability.

The 0%, 20%, 50%, and 100% risk-weight categories that are on the current reporting form for Schedule RC-R will still be there on the revised form, and these risk-weight categories will still be the ones that are the most commonly used by community institutions beginning in 2015 with a few exceptions, for example, for past due and nonaccrual loans and high volatility commercial real estate.

There also is a new treatment for exposures to sovereign entities and foreign banks. These types of exposures may be something that few community banks have, but it's something to be aware of if your bank has some of these types of exposures.

The draft Schedule RC-R, Part II, instructional materials review the country risk classification methodology and there is a new risk-weight category of 150%, which is the highest risk-weight category for these types of exposures. The 150% risk weight would apply to countries that have defaulted on a sovereign debt within the past five years and those countries in the highest risk category in the country risk classification methodology.

Another change from the current reporting scheme in Schedule RC-R deals with securitization exposures. The first question may be, "What are securitization exposures under the new risk-based capital rules?" These are both on- and off-balance-sheet exposures arising from mortgage-backed, asset-backed, and structured securities with tranching of credit risk.

Securities such as mortgage-backed pass-through securities would not be considered securitization exposures. Exposures guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae would also have the same type of risk-weighting that they do today and would not be subject to the new securitization exposure calculations.

Because of their new risk-based capital treatment, exposures that meet the definition of a securitization exposure will be excluded from whatever on-balance-sheet asset category they're included in on the Call Report balance sheet, and they will be reported instead in Items 9 and 10 in Part II of Schedule RC-R. We will have more information on this subject when we go through the revised Schedule line-by-line.

Revised Schedule RC-R, Part II, will have additional detail on loans and leases, both held-for-sale loans and held-for-investment loans, that are reported in Items 4.a and 4.b on the Call Report balance sheet. These loans and leases will be reported in revised Part II, Items 4 and 5. The additional detail involves having separate line items for residential mortgage exposures, high volatility commercial real estate exposures, and exposures that are past due 90 days or more or in nonaccrual status, with some exceptions. Then all the remaining loan and lease exposures would be reported.

In the Derivatives and Off-balance-sheet Items section of revised Schedule RC-R, Part II, there is a new category for what are called repo-style transactions. This includes securities lent and securities borrowed, which may be off-balance-sheet items that are not commonly encountered at community institutions, but the definition of repo-style transactions also includes securities sold under agreements to repurchase, which actually are on-balance-sheet items, but they will now be treated as off-balance-sheet for risk-based capital purposes. Securities sold under agreements to repurchase are reported in Item 14.b of Schedule RC, the Call Report balance sheet.

With respect to unused commitments, there will be additional categories that would be reported in Schedule RC-R, Part II. The first new category deals with those unused commitments with an original maturity of one year or less. Under the existing risk-based capital standards that are being replaced by the new standardized approach, these unused commitments have had a 0% credit conversion factor, and they will now have to go through the credit conversion process using a 20% conversion factor.

Banks will also begin reporting the amount of unconditionally cancelable commitments, which generally speaking, would be commitments under home equity lines of credit and credit card accounts. These commitments continue to have a 0% credit conversion factor.

In the derivatives area, revised Schedule RC-R, Part II, includes separate reporting for over-the-counter versus centrally cleared derivatives, both for the risk-weight category allocations and the Memoranda items on remaining maturities.

So, at a high level, those are some of the key changes that have been proposed for Schedule RC-R, Part II, as well as some comments about what will still be the same. I hope that you will see that a lot of what is in the proposed revised version of Schedule RC-R, Part II, is not that much different than what your bank is doing currently when completing the Call Report each quarter.

Let’s go to Handout Slide 8 where we’ll start a line item review of revised Schedule RC-R, Part II. To set the framework for how I will be talking about the various line items, we are anticipating that virtually all community institutions will elect the AOCI, or Accumulated Other Comprehensive Income, opt-out election, which banks will make for the initial time in the March 2015 Call Report.

We will assume that this election has been made for purposes of describing what should be reported in Part II of Schedule RC-R. In addition, there are a limited number of large institutions that are subject to the Market Risk Capital Rule. So, for purposes of my comments about the handouts, we'll assume that your institution is not subject to the Market Risk Capital Rule.

One other overriding comment to keep in mind is that as the various asset items and off-balance-sheet items are slotted in Column A of revised Schedule RC-R, Part II, any exposures that meet the definition of a securitization exposure that I talked about before, that is, exposures where there is a tranching of credit risk, will be excluded from the Column A amount in Items 1 through 8 and Items 12 through 21. These securitization exposures instead will be reported in Column A for Items 9 and 10.

If you have the samples of the proposed Schedule RC-R, Part II, report forms that were posted on the FFIEC's Web site, Pages 1 and 2 of the sample forms cover the initial categories of on-balance-sheet assets.

For each of the asset categories, I will try to highlight some things to be aware of when your bank has to begin completing the revised schedule. Cash and balances due from depository institutions will be reported in Item 1. This is the first time that the new country risk classification methodology applies, although it applies throughout all the on and off-balance-sheet categories. This methodology is one of the reasons the 150% risk-weight column has been added.

As mentioned before, that higher risk-weight would apply to certain exposures to foreign banks and foreign central banks. When we get to certain other asset and off-balance sheet items, the 150% risk weight would also apply to certain claims on foreign governments and foreign public sector entities.

These types of exposures and claims may be something that most community banks do not have, but some institutions may have exposures to foreign governments, foreign central banks, and foreign banks. The County Risk Classification methodology comes into play for these foreign exposures and could result, potentially, in a risk-weight as high as 150%. Overall the Country Risk Classification methodology has a range of risk weights from 0% up to 150%.

Item 2.a deals with held-to-maturity securities. In Column A, we would exclude any securitization exposures that are reported on the Call Report balance sheet in the held-to–maturity securities asset category.

After excluding securitization exposure from Column A, what's left to be reported in Column A will be the amortized cost for the bank's remaining held-to-maturity securities. If there are any unrealized gains and losses in accumulated other comprehensive income, or AOCI, associated with held-to-maturity securities, which would typically arise because of the accounting for certain other-than-temporary impairment losses and transfers of securities from the available-for-sale account to the held-to–maturity account.

There would be an adjustment for those AOCI amounts associated with held-to-maturity securities in Column B to arrive at what's called the Exposure Amount, which is the amount that gets risk weighted.

If we look across the columns for Item 2.a, the held-to–maturity securities, we again see the 150% risk-weight category that may apply to certain foreign exposures.

Now we will move to Item 2.b for available-for-sale securities. Again, Column A picks up the balance sheet amount of these securities excluding any available-for-sale securities reported on the Call Report balance sheet that are securitization exposures. This means that the fair value of the available-for-sale securities that are not securitization exposures are reported in Column A.

Assuming that the institution has made the AOCI opt-out election, an adjustment will be made in Column B to transform the fair value amounts for the available-for-sale securities into amortized cost amounts that represent the exposure amounts that will be subject to risk-weighting.

So, Column B will pick up the same sorts of adjustments banks are making today to convert available-for-sale debt securities to amortized cost amounts. If your bank has equity securities that are in the available-for-Sale account and they have unrealized gains, there's an adjustment for these gains to the extent that some of the unrealized gains would be included in Tier 2 capital.

Some of the new risk-weight category columns may apply to available-for-sale securities. If you're looking at Page 2 of the Sample Forms, you'll see that there are 300% and 600% risk weights, which will apply to certain available-for-sale equity exposures.

The 300% risk-weight would apply to most available-for-sale equity exposures because they are publicly traded securities. The 600% would apply in the case where an equity exposure in the available-for-sale account is to a hedge fund or another type of investment firm with more than immaterial leverage.

The 100% risk-weight for equity securities would apply in the case where there are available-for-sale equity securities included in what are considered “non-significant equity exposures” where the aggregate adjusted carrying value of a bank’s equity exposures do not exceed 10% of Tier 1 plus Tier 2 capital.

A bank may have investments in mutual funds that it reports on the Call Report in the available-for-sale securities category, and these investments can be risk-weighted using a number of approaches. The simple risk-weight approach looks at the highest risk weight that applies to any exposure that the fund is permitted to hold, and the entire exposure amount would be slotted based on that risk weight.

There are also look-through approaches that consider the actual composition of the mutual fund to determine what risk weights to apply, but there’s always a 20% risk-weight floor. This means that no mutual fund could have a risk weight lower than 20% even if it invested solely in U.S. Treasury securities.

Finally, the available-for-sale securities in Item 2.b include a 1250% risk-weight category. This risk weight would apply to certain credit-enhancing interest-only strips that are not after tax gains on sales or securitization exposures. However, this risk-weight category may have limited applicability to community institutions.

Item 3 covers Fed funds sold and securities purchased under agreements to resell. Here again, the 150% risk-weight column may be applicable if the counterparties to the transactions are certain foreign banks or foreign central banks. There are also new columns for 2% and 4% risk weights, which would probably apply in fairly limited situations to community institutions because they would cover certain centrally cleared transactions.

Next we get to the two items in Schedule RC-R, Part II, that cover loans, Items 4 and 5. Item 4 is shown on Pages 1 and 2 of the draft report forms, and Item 5 is shown on Pages 3 and 4. However, the methodology that applies to Items 4 and 5 is really the same regardless of whether the loans are held for sale or held for investment. So we'll cover both types of loan portfolios at the same time.

As mentioned before, the proposal includes more detailed reporting on the loan portfolio, regardless of whether the loans are held for sale or held for investment, than we have today in Schedule RC-R. Let's look at the individual categories within the two portfolios.

Items 4.a and 5.a covered residential mortgage exposures. How is that term defined under the instructions and the capital rules? Residential mortgage exposures would include a bank's loans secured by first and junior liens on one-to-four family residential properties. It also includes certain smaller balance multi-family residential mortgage loans, if certain conditions are met. These conditions are that the loans are $1 million or less in size and they have to be managed as part of a homogeneous segment and not individually managed. Even the one-to-four family residential and qualifying multifamily residential loans that are 90 days or more past due or are in nonaccrual status would be reported as residential mortgage exposures.

The highest risk weight that would apply to the residential mortgage exposures would be 100%, so this was an area that the agencies, in adopting their final revised regulatory capital rules, essentially kept the same as under the current risk-based capital rules for residential mortgages.

The other type of exposure that would be included in Items 4.a and 5.a for residential mortgage exposures are what are known as Statutory Multifamily Mortgages. These are multifamily residential mortgages that would not necessarily be subject to the $1 million size limit, but they do have to meet certain criteria to be eligible for a 50% risk weight, including that the loans must be less than 90 days past due and they cannot be in nonaccrual status. The other criteria deal with loan-to-value ratios, repayment performance by the borrower, length of the amortization period, the original maturity of the loan, debt service coverage ratio requirements, and other factors.

Statutory Multifamily Mortgages is a category of multifamily mortgages that already exists in the risk-based capital standards that we've had in place for a number of years and the category has been carried forward in the revised risk-based capital rules the agencies adopted last year. These Statutory Multifamily Mortgages would be reported in Items 4.a and 5.a as part of residential mortgage exposures.

However, if for some reason one of these multifamily mortgages became 90 days or more past due or was placed on nonaccrual, it would no longer meet the definition of a Statutory Multifamily Mortgage, so it would no longer be reported in Item 4.a or 5.a. It would be reported instead at that point with the bank's other past due exposures.

Items 4.b and 5.b cover the new category of High Volatility Commercial Real Estate Exposures. The complete definition of these exposures is in the revised regulatory capital standards, but it has also been included in a footnote in the draft instructions for these items in revised Part II of Schedule RC-R.

As a generalization, the definition of High Volatility Commercial Real Estate Exposures would be, "Acquisition, development, or construction loans that are not for the purpose of financing one-to-four family residential properties, agricultural land, or certain types of commercial real estate projects that meet specified loan-to-value ratio requirements and requirements dealing with the amount of contributed capital that the borrower has to have invested in the project and keep in the project for the length of the project."

To the extent that your bank has individual loans that meet the High Volatility Commercial Real Estate Exposure definition, a 150% risk-weight would apply to the exposure, including for those that are past due or in nonaccrual status. That means that for Items 4.b and 5.b, a bank would really be using only the 150% risk-weight column.

Let's move on to Items 4.c and 5.c, which cover loans and leases that are 90 days or more past due or in nonaccrual status. These items have some exclusions. The residential mortgage exposures that are past due or on nonaccrual would be reported in Items 4.a and 5.a. The high volatility commercial real estate exposures and any sovereign claims that are 90 days or more past due or are on nonaccrual also will be excluded from Items 4.c and 5.c.

So, generally speaking, the past due and nonaccrual exposures reported in Items 4.c and 5.c would be assigned a 150% risk weight, except to the extent they were fully or partially covered by qualifying collateral or eligible guarantees. Having qualifying collateral or guarantees could result in the exposure being allocated either fully or partially to the 0%, 20%, 50%, or 100% risk-weight category depending on the collateral or guarantee.

Finally, in Items 4.d and 5.d, banks would report all the loan and lease exposures that are reported in the loan and lease items on the Call Report balance sheet, but have not been reported in any of the preceding three categories for Loans and Leases and do not meet the definition of a securitization exposure. If you look at the draft Schedule RC-R reporting forms, you'll see the 0%, 20%, 50% and 100% risk weight categories that have been in place for quite a long time. They would be the main risk weight categories in which the remaining loans and leases would be reported.

However, if you have claims on foreign banks and foreign governments in the loan portfolio, they could potentially have a risk weight as high as 150%. Additionally, any credit-enhancing interest-only strips that might be in the loan account would fall in the 1250% risk weight category, assuming they're not after tax gains on sales or securitization exposures.

If we move now to Pages 3 and 4 of the sample revised Schedule RC-R, Part II, forms, after Item 5 on loans and leases held for investment we have Item 6 for the allowance for loan and lease losses. The treatment that applies today where the balance sheet amount is reported in Column A and then it's treated as an adjustment in Column B is going to be carried forward.

We then get to Item 7 on trading assets. This asset category is not all that frequently encountered at community institutions, but to the extent your organization has trading assets, the fair value of those trading assets reported on the Call Report balance sheet would be reported in Column A of Item 7 with the exclusion of any trading assets that meet the definition of a securitization exposure, which would be reported in Column A of Item 9.c.

In Item 7, a bank would be risk weighting the fair values of its trading assets. The risk-weight categories that would be used would follow the same risk-weighting scheme that would apply to held-to-maturity and available-for-sale securities based on the type of counterparty and so forth. If a bank has loans in the trading account, the risk weights that would apply to loans would be used.

In other words, the fact that an asset is in a trading account doesn't change how the asset is allocated to a risk weight category; however, it would be the fair value rather than the amortized cost of an asset being allocated to the appropriate risk weight.

That brings us to the last of the asset categories before we get to securitization exposures. All other assets, just As is currently done in Schedule RC-R, the "All other assets" category picks up the remaining Call Report balance sheet asset categories, including bank premises, other real estate owned, intangible assets, and other assets.

To the extent that adjustments to the balance sheet asset amounts reported in Column A are needed in Column B, the types of amounts that a bank would report in Column B would include, as is done today, items like intangible assets and disallowed deferred tax assets that are deducted from regulatory capital. In other words, amounts that are included in all other assets on the balance sheet, but are treated as regulatory capital adjustments when calculating the numerators of the regulatory capital ratios, would be included in Column B.

And in addition, if your bank has any derivative contracts that are held for purposes other than trading and their fair value is an asset amount that is reported in "Other assets" on the Call Report balance sheet, these and all other derivatives are covered in the Off-balance-sheet Items section of Schedule RC-R. Therefore, any derivatives with positive fair value amounts that are reported in "Other assets" would need to be reported in Column B of

Item 8. The derivative contracts will be covered later on when we get to the reporting of derivatives and off-balance-sheet exposures in Schedule RC-R, Part II.

For equity securities reported in "All Other Assets," if we look on Page 4 of the proposed revised Schedule RC-R, Part II, you'll see some high risk-weight categories. For example, the 400% risk weight would apply to those equity exposures that are included in other assets other than those that qualify for the 600% risk weight. Similar to the treatment of equity securities in the available-for-sale account, equities reported in other assets would include investments in hedge funds or other investment firms that have greater than immaterial leverage.

With respect to the 100% risk weight, as was the case when we talked about available-for-sale equity securities, if there are equity investments included in "All other assets" that would fit within the nonsignificant equity exposure aggregate limit of 10% of Tier 1 plus Tier 2 capital, they would be reported in the 100% risk weight.

You will also see some very high risk-weights, 625%, 937-1/2% and 1250%, for "All other assets." These high risk weights would apply to what the revised regulatory capital rules call "Unsettled Transactions." If there are unsettled transactions reported in the balance sheet in the Other Assets category, these transactions would go in these high risk-weight category columns. Again, unsettled transactions are probably something that community institutions typically would not have.

Now if we can move to securitization exposures. These exposures are covered on Page 5 of the sample Schedule RC-R, Part II, reporting forms. When we look at how securitization exposures will be reported in the revised version of Part II, there is a somewhat different approach compared to what banks have been accustomed to doing when risk weighting assets and credit equivalent amounts of off-balance-sheet items.

When reporting securitization exposures in Schedule RC-R, we start by using Column A for the balance sheet totals, which we'll report in Item 9, but with a breakdown between the balance sheet amounts of held-to-maturity, available-for-sale, and trading assets and plus any other on-balance-sheet items that meet the definition of a securitization exposure.

As mentioned earlier, securitization exposures include those mortgage-backed securities, asset-backed securities, and structured financial products with a tranching of credit risk, excluding such instruments as pass-throughs and securities guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac.

For these on-balance-sheet securitization exposures there are three possible methods for risk weighting, but there are also some rules that apply when a method has been selected. An institution would choose to use either the Simplified Supervisory Formula Approach, referred to as the SSFA, or the Gross-Up Approach to determine what the amount of risk-weighted assets is for an institution.

When there is a choice between those two methods, you have to choose one method or the other and apply them to all such exposures. Nevertheless, when you have selected one of the two methods, there's also an ability to apply a 1250% risk weight at an individual securitization exposure level, or potentially to all exposures, a 1250% risk-weight. Columns Q, R, and S of Item 9 cover these three risk-weight methodologies, i.e., the 1250% risk-weight, the Simplified Supervisory Formula Approach and the Gross-Up Approach.

If you've glanced at the revised risk-based capital rules or even at the draft instructions for revised Schedule RC-R, Part II, the Simplified Supervisory Formula Approach requires numerous data inputs in order to apply the models that are used to determine the risk-weighted asset amount for a particular securitization exposure.

The few institutions that are subject to the market risk capital rule are required to use the Simplified Supervisory Formula approach when risk weighting securitization exposures. However, for community institutions, the availability on a timely basis of the information necessary to implement the SSFA is probably something that would not often occur.

As a result, a community institution would probably want to use either the Gross-Up Approach for its securitization exposures, which is essentially the same as the Gross-Up Approach that exists today for handling certain securitizations, or the 1250% risk-weight. Under the Gross-Up Approach, senior securitization tranches are assigned the associated weighted average risk-weight of the underlying exposures. However, for securitization tranches that are subordinate, the institution would hold capital for the subordinated tranche as well as for all the more senior tranches for which the subordinated tranche provides support. The Gross-Up calculation would also take into account the proportion of the subordinated tranche the institution holds so it can determine the proportionate amount of the senior tranches supported by the subordinated tranche.

The draft instructions for Schedule RC-R, Part II, include examples as well as a table showing the steps to be taken when a bank performs the gross-up calculation. Some institutions are doing this calculation today under the existing reporting requirements for Schedule RC-R, Part II. Once revised

Part II takes effect for community institutions, it's likely the Gross-Up Approach and, possibly for certain securities, the 1250% approach would be the securitization exposure approaches most likely to be used.

As previously stated, Column A of Item 9 covers the on-balance-sheet amounts from Schedule RC for securitization exposures in the four asset categories for which separate reporting is proposed in Schedule RC-R. Column B would again be used for adjustments to the amounts reported in Column A, but the adjustments here are rather limited and depend on the risk-weighting approach being applied to the securitization exposures.

To the extent an institution is using the 1250% risk-weight, any difference between the on-balance-sheet amount of the securitization exposure and what's deemed to be the exposure amount under the revised capital rules, would be reported as adjustments in Column B.

Let's first think of securitization exposures that are included in a bank's held-to-maturity and available-for-sale securities. For institutions that have made the AOCI opt-out election and are applying the 1250% risk weight to securitization exposures that are held-to-maturity securities, the adjustments to be reported in Column B of Item 9.a are likely to be just for the amounts reported in AOCI that are associated with these held-to-maturity securitization exposures. These adjustments would be limited to the portion of other-than-temporary impairment losses on held-to-maturity securitization exposures that were recognized in AOCI, and amounts remaining in AOCI from previous transfers from available-for-sale to held-to-maturity.

For securitization exposures that are available-for–sale securities to which the 1250% risk weight will be applied when a bank has elected the AOCI opt-out election, the bank would need to convert the fair value reported in Column A of Item 9.b to an amortized cost amount, and that difference would go in Column B.

When the 1250% risk weight is being elected for held-to-maturity and available-for-sale securitization exposures, then the exposure amount of the securitization, the Column A number adjusted for the amount in Column B, would be reported in Column Q of Item 9.a or 9.b for the 1250% risk weight.

If the institution is using the Gross-Up Approach or if for some reason it chooses to use the Simplified Supervisory Formula Approach for all of the other securitization exposures to which the 1250% risk weight is not being applied, then the balance sheet amount of those securitization exposures reported in Column A would also be reported in Column B.

When we then get to Column R or S, depending on which of the two risk-weighting approaches is being used, there is a difference from the traditional way of allocating on-balance sheet asset amounts to risk-weight categories when completing Schedule RC-R. The exposure amount itself, that is, the adjusted balance sheet amount, would not be reported in Column R or Column S.

What would be reported instead would be the actual risk-weighted asset amount after applying the necessary calculations to the exposure amount of each securitization exposure. Those risk-weighted asset amounts would be reported in Column R or S as appropriate.

As a simple example, under the Gross-Up Approach you might have a subordinated tranche in a securitization with a $100,000 exposure amount, which is the amortized cost of an available-for-sale securitization exposure in Item 9.b. When you perform the Gross-Up calculation, the risk weighted asset amount for this subordinated tranche, because it has to provide capital support to the senior tranches in the securitization, might be $470,000.

So you would need to report the $470,000 risk-weighted asset amount in Column S of Item 9.b for this available-for-sale securitization exposure, rather than reporting the $100,000 exposure amount of this available-for-sale subordinated securitization exposure in Column S.

Next on proposed Schedule RC-R, Part II, on Page 5 of the draft forms would be the off-balance-sheet securitization exposures in Item 10. This item would include any derivatives and off-balance-sheet items that are reported in Call Report Schedules RC-L or RC-S that meet the definition of a securitization exposure.

These may not be a type of securitization exposure that many community institutions have because they typically would not be sponsoring securitizations and they may not have much derivative activity. Nevertheless, to the extent off-balance-sheet securitization exposures are applicable to a particular bank, Item 10 would be where these exposures would be reported.

The Column A amount in Item 10 would pick up the notional amount of these off-balance-sheet securitization exposures. Then for other columns of Item 10, the comments that I’ve already made about reporting in Column B the adjustments needed to convert the amount reported in Column A to the exposure amount to be risk weighted and about the reporting of the exposure amount in Column Q when the 1250% risk weight is elected are also relevant to off-balance-sheet securitization exposures. If a bank is using the SSFA or Gross-Up approach to risk weight its securitization exposures, then the risk-weighted asset amounts for these off-balance-sheet exposures and not the exposure amounts would be reported in Column R or S, as appropriate.

That takes us through securitization exposures. From there we move to Item 11 on the form where we have total assets. As noted on Page 5 of the draft Schedule RC-R, Part II, report form, the asset totals would include only the sum of the amounts reported for the various columns of Items 1 through 9.

Item 10 is used for off-balance-sheet securitization exposures so we need to exclude amounts reported in that item from total assets, which is why just Items 1 through 9 would be added up for all of Columns A through Q, but not Columns R and S because they have the different reporting treatment in terms of the risk-weighted asset amounts rather than exposure amounts getting reported in those columns.

Column A of Item 11, which is the total amount of assets reported in Item 12 of the Call Report balance sheet, Schedule RC, must equal the sum of Columns B through Q of Item 11. That is the tie-in that exists today for total assets in the current version of Schedule RC-R, and that same tie-in for total assets will continue to exist going forward in proposed revised Part II of Schedule RC-R.

If we turn to Page 6 of the proposed Schedule RC-R, Part II, forms, and we're on Slide 16 of the handout materials, we're now looking at the Derivatives and Off-balance-sheet Items section of Part II. Again as a reminder, any off-balance-sheet items from Schedule RC-L or other places in the Call Report that are securitization exposures would not be included in Column A of the Derivatives and Off-balance-sheet Items section because they should have been picked up instead in Item 10 that we talked about a few moments ago as securitization exposures.

The first category of off-balance sheet items, Item 12, deals with financial standby letters of credit. For those financial standbys that are a form of credit enhancement but do not meet the definition of a securitization exposure, the amount that should be reported in Column A of Item 12 is going to depend on the nature of the credit support the standbys are providing to the assets. So in this case, Column A will typically reflect a larger amount than just the unused amount of the financial standby letter of credit. For all the other standbys that are not credit enhancements of assets, the amount unused and outstanding would be reported in Column A.

Looking across the various risk-weight categories that may apply to financial standbys, we again see the 150% risk weight. This risk weight would apply to exposures in the form of financial standby letters of credit that represent claims on certain foreign banks or foreign central banks.

Item 13 covers performance standby letters of credit. Here the face amount, which is the amount outstanding and unused as reported in Schedule RC-L, would be included in Column A. As with all of the categories of off-balance-sheet items, a bank would multiply the amount reported in Column A by the credit conversion factor to get to the credit equivalent amount that is reported in Column B. the credit equivalent amount is then what gets allocated to the various risk-weight columns.

Item 14 deals with commercial letters of credit. Here, in a change from what's currently done, a distinction is made based on original maturity. Commercial letters of credit with an original maturity of one year or less would be reported in Item 14, and the unused amount would be reported in Column A.

If you have commercial letters of credit with an original maturity exceeding one year, they would be viewed as an unused commitment and would be reported down in Item 18.c for unused commitments with an original maturity exceeding one year.

After the 20% credit conversion factor is applied to the commercial letters of credit in Column A of Item 14you would have the credit equivalent amount of these off-balance-sheet items, which would be assigned to the risk-weight categories of 0%, 20%, 50%, or 100%, and potentially the 150% category for some claims that are foreign exposures.

Item 15 deals with retained recourse on small business obligations sold with recourse. There is a statutorily mandated risk-based capital requirement for these recourse obligations that has been in place for quite a while. For these retained recourse transactions, where risk-based capital must be maintained only against the recourse retained, that amount would be reported in Column A of Item 15. There will be no change compared to the reporting treatment that currently applies to these types of exposures in Schedule RC-R.

We now move to Item 16 on repo-style transactions. As mentioned earlier, this is a new term in the regulatory capital rules. It covers securities lent, which would be reported in Item 6.a of Schedule RC-L; securities borrowed, for which as previously indicated the RC-L reporting is changing, they will be reported in a new Item 6.b of Schedule RC-L; and then the on-balance-sheet amount of securities sold under agreements to repurchase from the Call Report balance sheet, Schedule RC, Item 14.b. The total of these three amounts would be reported in Column A of Item 16, a100% credit conversion factor would then be applied to arrive at the credit equivalent amount to be reported in Column B. This credit equivalent amount would then be slotting in the various risk-weight category columns based on the counterparty, collateral, and any other relevant factor.

For the repo-style transactions in Item 16, we have the 2% and 4% risk-weight category columns available here like we had for the Fed funds sold and securities purchased under agreements to resell on the balance sheet. These favorable risk weights would be available for certain centrally cleared transactions through qualified central counterparties.

Item 17 deals with all other off-balance-sheet liabilities. The amount to be included in Column A would come, at least initially, from the types of items reported in Schedule RC-L, Item 9, that are covered by the regulatory capital rules. Item 17 would also include amounts for risk participations in bankers' acceptances that the reporting bank has acquired. These risk participations are currently reported in their own separate item in Schedule RC-R, Part II, today, but in proposed revised Part II this separate reporting will end and if your bank has any of these risk participations they will be reported with all other off-balance-sheet liabilities.

In addition, to the extent your bank has loans that it has sold, and the transfer qualifies for sale accounting, but the bank has provided credit-enhancing representation and warranties for the transaction, and those representations and warranties do not meet the definition of a securitization exposure, the credit-enhancing representations and warranties would also be included in Item 17 as part of all other off-balance-sheet liabilities. There is an example near the beginning of the draft instructions for Schedule RC-R, Part II, of these credit-enhancing representation and warranties that would be included in Item 17.

The off-balance-sheet liabilities reported in Column A of Item 17 are subject to a 100% credit conversion factor to arrive at the credit equivalent amount that then gets allocated to various risk-weight columns.

Now we move to unused commitments. We're talking about unused commitments in Items 18.a through 18.c and also in Item 19 on Page 7 of the proposed revised Schedule RC-R, Part II, forms. Item 19 covers unused commitments that are unconditionally cancelable.

In contrast, Items 18.a through 18.c cover all unused commitments that are not unconditionally cancelable with a further distinction based on the original maturity of these commitments. These commitments would typically be reported in Schedule RC-L, Item 1. The amount outstanding and unused of these commitments would generally be reported in Column A of Items 18.a, 18.b, or 18.c, as appropriate. There are different credit conversion factors depending on the original maturity, which is why there's all the detail in Item 18.

At present, unused commitments with an original maturity of one year or less are not reported in Schedule RC-R, assuming they are not issued to support asset-backed commercial paper conduits. These unused commitments will now have a 20% conversion factor and they will be reported in new Item 18.a.

Item 18.b covers those commitments to asset-backed commercial paper conduits, which is an arrangement that community institutions are probably not likely to have. Next, consistent with the current risk-based capital rules, those unused commitments with an original maturity exceeding one year continue to have a 50% credit conversion factor and are reported in Item 18.c.

We get to the credit equivalent amounts for unused commitments in Column B by multiplying the amount reported in Column A by the appropriate credit conversion factor and then allocate the credit equivalent amounts to the various risk-weight categories. Again, the new 150% risk-weight category would apply to certain foreign exposures, for example, to a foreign bank.

Item 19 would cover a bank's unconditionally cancelable commitments. This typically includes unused portions of home equity lines of credit and unused portions of retail credit cards. The amount of these unused commitments would be reported in Item 19, Column A, but they have a 0% credit conversion factor so the credit equivalent amount ends up to be zero, which means there's no need to do any risk-weight allocations for unconditionally cancelable commitments.

Then finally on the Derivatives and Off-balance-sheet Item section of Schedule RC-R, Part II, we get to derivative contracts in Items 20 and 21. As mentioned when we gave the overview of changes to Part II, over-the-counter derivatives would be reported separately from any derivatives that are centrally cleared.

The centrally cleared derivatives may include some interest rate swaps at some banks. Compared to over-the-counter derivatives, centrally cleared do potentially have the advantage of risk weights as low as 2% and 4%.

For derivatives, there is no amount to be reported in Column A because the credit equivalent amount methodology for derivatives involves certain specified calculations. The current credit exposure first has to be determined, which is the fair value of the derivative if it is positive, which means that the derivative is an asset rather than a liability on the balance sheet.

Next there is a potential future exposure amount, which is based on the remaining maturity and the underlying exposure of a derivative. For all derivatives that's the first piece of the credit equivalent amount calculation, but for the centrally cleared derivatives the credit equivalent amount could also include the fair value of collateral.

The credit equivalent amount that is reported in Column B of Items 20 and 21 for these two categories of derivatives would then get allocated to the various risk-weight categories, which includes a change from the current risk-based capital standards. The highest risk weight that applies to derivatives today is 50%, but that cap has been removed under the revised regulatory capital rules and there now could be risk weights as high as 100% or 150% depending on the type of counterparty.

That covers the allocations by risk-weight category of the various line items for assets, off-balance-sheet items, and derivatives. If we turn to Page 8 of the revised proposed Schedule RC-R, Part II, forms we arrive at the Totals section of Part II.

And as is done today, a bank would now have to total by risk-weight category in each of Columns C through Q the total assets plus the off-balance-sheet items and derivatives. Then the bank would multiply the risk-weight category totals in Item 22 by the various risk-weight factors shown in Item 23 to arrive in Item 24 at the risk-weighted asset amount by risk-weight category.

From there, on Page 9 of proposed Part II, the Totals section continues. As mentioned on Page 21 in the handout materials, Item 25 is where a bank would calculate the risk-weighted asset base used to calculate how much of the bank's allowance for loan and lease losses, if any, exceeds the 1-1/4% limit on the amount of the allowance that can be included in Tier 2 capital.

The risk-weighted asset base for this calculation includes the total risk-weighted assets by risk-weight category, which is the sum of Columns C through Q of Item 24 from the preceding page of the Part II report form, plus, to the extent a bank has securitization exposures to which it has applied either the Simplified Supervisory Formula Approach or the Gross-Up Approach, the amounts reported in Column R or S for Items 9 and 10.

Under the revised regulatory capital rules there are adjustments to the risk-weighted asset base for certain assets that are not risk weighted, but have been deducted from capital. The draft instructions for Schedule RC-R, Part II, cover some of the specifics of these additional amounts to include in the risk-weighted asset base for calculating the 1-1/4% threshold for the allowance for loan and lease losses eligible for inclusion in Tier 2 capital.

Next, since we're assuming that your institution is not subject to market risk capital rules, Item 26 for standardized market-risk weighted assets would have a zero amount in it.

Item 27 is then the starting point for actually determining your total risk-weighted assets. This is potentially a different number than the risk-weighted asset base number used for the 1-1/4% regulatory capital limit on the allowance.

The starting point for Item 27 would be the same as it was in Item 25, which is the sum of all the risk-weighted asset amounts reported in Columns C through Q of Item 24 plus the securitization exposure risk-weighted asset amounts from Column R or Column S of Items 9 and 10. If your bank were subject to the market risk capital rules, it would include the standardized market-risk weighted assets in Item 26. The total of these amounts would give you the risk-weighted assets before deducting any excess allowance and any allocated transfer risk reserve.

As is true today under the regulatory capital standards, the allowance for loan and lease losses for risk-based capital purposes includes the allowance for loan and lease losses that is reported on the Call Report balance sheet in Schedule RC, Item 4.c, but if an institution has allocated transfer risk reserves that are included in the allowance for loan and lease losses, as reported in Memorandum item 1 in Schedule RI-B, Part II, these reserves will be subtracted out. Then, if an institution reports any allowance for credit losses on off-balance-sheet credit exposures in Schedule RC-G, Item 3, that allowance is also included within the overall allowance amount that is compared to the 1-1/4% of risk-weighted assets limit.

This means that if you calculated in Item 25 your risk-weighted asset base for the 1-1/4% threshold and you then determine the 1-1/4% amount, the portion of the overall allowance in excess of that limit, if any-, should be reported in Item 28. If your institution has an allocated transfer risk reserve, that amount then goes in Item 29. Then Item 30, total risk-weighted assets, which will be used as the denominator in your risk-based capital ratios, is simply Item 27 minus Items 28 and 29.

Just briefly turning to Page 10 in the proposed Schedule RC-R, Part II, forms, many community institutions don't have derivative contracts, but as is the case today in Schedule RC-R, those that do would report the current credit exposure for those contracts covered by the regulatory capital rules, excluding those that meet the definition of a securitization exposure, should be reported in Memorandum Item 1.

Then we come to Memo Items 2 and 3, which are two matrices for separately reporting the remaining maturities by underlying risk exposure for over-the-counter versus centrally cleared derivatives.

That takes us through the proposed revised Schedule RC-R, Part II. Before we get to the Q&A session, I will touch briefly on revised Part I of Schedule RC-R. As a reminder, if you have questions you'd like to submit by email they can be submitted to the following email address: rac@fdic.gov.

Slide 24 in the handout materials is included as a summary of the status of revised Part I of Schedule RC-R. I mentioned Part I briefly at the outset of this teleconference almost an hour ago. The Regulatory Capital Components and Ratios section of Schedule RC-R has already been finalized.

Most institutions are not using this new version yet, which is labeled Part I.B during 2014. Part I.A is what all institutions that are not advanced approaches institutions are completing throughout 2014 to report on their regulatory capital components and ratios. When we get to March of 2015, Part I.A will be removed and all institutions, whether they're advanced approaches institutions or not, will complete what's now labeled Part I.B, but it will be labeled Part I starting in March of 2015.

Part I.B, if you're interested in looking at it, is already included in the sample Call Report forms that will be in use throughout 2015, even if your bank doesn't have to complete Part I.B this year. In addition, the instructions for Part I.B were included in the March 2014 Call Report Instruction Book Update. So if you would like to plan ahead for next March, the Part I that will take effect at that time has already been finalized and the reporting form and instructions are available on the FFIEC's Web site.

Just as a reminder, if you're not an advanced approaches institution it's in Part I that your bank will make the AOCI or Accumulated Other Comprehensive Income opt-out election that will begin in March 2015. It's a permanent election and it's in the March 2015 Call Report forms, but the election will be reported each quarter thereafter as well.

At this point in the teleconference, we appreciate your listening for the past hour as we've walked through the presentation materials and explained the highlights of the changes that the banking agencies are proposing to make to the reporting of risk-weighted assets in Call Report Schedule RC-R. We again invite you, to the extent you have an interest in some or all parts of the proposal, to submit comments to the agencies at the addresses that are provided in the Federal Register notice.

A reminder again too that a transcript of the teleconference will be available in July. Now we're ready to move to the question and answer session. I see we've already had some questions come in by email.

Coordinator: Yes. Questions on the phone lines, please depress star 1 and record your name when prompted. Star 1 please.

Robert Storch: While we're waiting for the first phone question, do we have a question from email that we're in a position to answer at this stage?

Mark Ginsberg: Yes, I have a question here and the question is, "Can you discuss the impact of the AOCI election?"

Generally speaking, the AOCI opt-out election pertains to the neutralization of the unrealized gains and losses that are reported in Accumulated Other Comprehensive Income or AOCI. Effectively, if you elect the AOCI opt-out, this means you will not include AOCI in regulatory capital, and the effect should be that you would do what you currently do with respect to AOCI.

So generally, with a couple of exceptions, AOCI is neutralized from the definition of capital in the numerator of the regulatory capital ratios, and it is neutralized in the measure of risk-weighted assets in the denominator. So, if you make the AOCI opt-out election, you will effectively get to the point where you are today under the agencies' current regulatory capital rules.

There's another question here that asks, "The draft instructions refer to subsections of the rule, but never gives the full citation. I know it's 12 CFR and what is the rest of it?"

The answer depends on whether the institution is a national bank or a federally charted savings association versus a state member bank or state nonmember bank. I'll give the cite for the national banks and the federally charted savings associations, which is 12 CFR Part 3. I'll let the FDIC give it for state nonmember banks and state savings associations and the Federal Reserve give it for state member banks.

Robert Storch: For institutions supervised by the FDIC it will be 12 CFR Part 324. The cite would be 12 CFR 208 for state member banks.

Do we have any questions on the line?

Coordinator: Yes, Sir.

Daniel Bean: Operator do we have any questions in queue?

Coordinator: Yes, Sir. Our first question comes from Paul Murphy. Your line is open.

Paul Murphy: Yes, my question's related to the 150% risk-weight for high volatility commercial real estate facilities. For CRE lines where the loan to value exceeds the supervisory limits, do we have to include these made for the abundance of caution ORE purchase or workout lines, typically those that we can exclude from reporting to our board or regulators?

Mark Ginsberg: You know, first of all I'm not sure I fully heard the question, but let me just say as a general matter the purpose of this call is for the reporting and the instructions. It sounded to me as if that call was calling for an interpretation of the conditions under which an exposure would be considered HVCRE under the agencies' rules.

What I can say is that the agencies have received numerous questions from banks and from examiners and the respective capital policy divisions of each of the agencies have been working together to try to develop an FAQ for the purpose of getting out some guidance on these questions. A lot of them have come up with respect to the HVCRE designation, which I understand does have a significant effect on a number of the community banks.

What I would recommend that you do is to talk to your examiners and ask them to forward your question to the appropriate capital policy staff people so that we can start considering these questions and developing responses.

Paul Murphy: Okay, sounds good. I appreciate it.

Coordinator: We'll go on to Mike Gullette. Your line is open.

Mike Gullette: Hi, hopefully these are two quick questions. And the first might indicate that I wasn't fully paying attention.

On the securitization exposures where we have the 1250%, the SSFA, and the Gross-Up, on the sample report it talks about total risk-weighted exposure by calculation methodology but on the presentation it says, "Not the exposure amount." I imagine it is not the exposure amount and it is the calculated amount, even though it does say exposure on the draft report, right?

Robert Storch: Right, on Slide 14 we're talking about...

Mike Gullette: Yes, it's Slide 14, right.

Robert Storch: The exposure amount is not what would be reported in Schedule RC-R, Column R or Column S, depending on which of the two methods you're using.

Mike Gullette: Yes.

Robert Storch: You would actually do the calculation of what the risk-weighted asset amount is for that exposure amount and report the risk-weighted asset amount in Column R or S, which is different than Column Q, which is for the 1250% risk-weight. You would report the exposure amount in Column Q if that's the methodology being used for the risk weighting of the securitization. So if you follow on down on the forms you'll see there isn't a column in the total assets line or in Item 24 for the totals in Columns R and S because the amounts in those columns are actually risk-weighted asset amounts. Columns R and S do get added in when we get to the totals for risk-weighted assets. There's a different approach for Columns R and S than for the rest of Schedule RC-R, Part II, where it is the exposure amounts that get slotted into the various risk-weight category columns.

Mike Gullette: Okay, yes.

Robert Storch: And did you have a second question?

Mike Gullette: Yes, that's very helpful. Yes, the second question was from Page 17 of the presentation on Line 16, just in regard to repo-style transactions. I was just wondering, would any of the information coming from there apply to any information required under the new FASB repo standard that just came out in regard to some disclosures or was it...

Robert Storch: I don't think it would relate to those types of disclosures since Item 16 is primarily picking up just the balance sheet amount of the securities sold under agreements to repurchase. The other aspect of that repo standard was for repos to maturity. I'm not sure how many community institutions do repos to maturity, but they would be treated as on-balance-sheet items. To the extent you were doing a borrowing transaction through a repo to maturity, that would show up in the liabilities going forward as it's probably off-balance-sheet now.

Mike Gullette: Right.

Robert Storch: So once that standard takes effect, that borrowing would be included on the balance sheet in Item 14.b and it'd be subject to the risk-based capital standards.

Mike Gullette: Great. Okay, thanks Bob.

Coordinator: And I have nothing further on the phone lines.

Robert Storch: Do we have any other email questions at this point? Our experts are trying to sort out the answer to one.

Sean Healey: Yes, so we had a question via email about instructions about how assets of financial subsidiaries are supposed to be treated in the risk-weighted assets schedule and they asked, "Will these be deductions in Column B?"

So as we have it - if I'm reading this question right - I believe this is related to Line Item 8, Other Assets. And in Column B we would include excess amounts pertaining to threshold deductions and then also the bank's investments in unconsolidated banking and financial subsidiaries that have been deducted in Schedule RC-R, Part I.B, Item 33.

So that would be on the capital schedule in Part I.B. So yes, we're confirming that where you would report that would be in Column B as the original audience member asked.

Robert Storch: We have a question that came in by email that asks where the actual sample Call Report pages that I was referring to throughout the presentation are located. And it says, "Not the presentation," so I'm hoping the person who asked the question has the presentation.

On Page 3 of the presentation we have the links to where the forms and instructions for proposed Schedule RC-R, Part II, are located. They are also on the FFIEC's Web site. If you go to either of those links you'll find the draft reporting form and the draft instructions.

Briefly, if you don't have those links, if you go to the FFIEC's Home page, www.ffiec.gov, toward the middle of the page you'll see a link that says Reporting Forms. If you click on that link it will take you to a Web page that lists all the FFIEC report forms. The Call Reports of course are FFIEC 031 and 041.

You can click on either the 031 or 041 link and it will take you to a page that has links to instructions and forms and so forth, and the proposed revised forms and proposed revised instructions for Part II are there. But the links are shown directly on Page 3 of the handout materials.

Do we have any other questions on the phone?

Daniel Bean: Operator, do we have any questions in queue?

Coordinator: No, Sir, we do not.

Mark Ginsberg: We have a question with respect to Schedule RC-R, Part II, Line 18, relating to the unused commitments for HVCRE and the question is, “Whether these unused commitments would be subject to the 150% risk-weight.”

And the answer is, “You would apply the appropriate credit conversion factor to the unused commitment and then you would assign the exposure, if it’s an HVCRE exposure, to the risk-weight assigned to an HVCRE exposure, which is 150%.”

Robert Storch: If that’s not clear in the instructions it seems like a good thing to add to the instructions actually.

Sean Healey: We have another question here via email. One commenter had a question on timely repayment performance of statutory multi-family mortgages. The question relates to, “If the borrower has been making the agreed-upon payments for 12 months, which is what is in the definition, that’s what they have to have done, where the loan is originally made.”

"But when it's a refinance can the bank consider the repayment history of the statutory multi-family borrower at the prior financial institution?" The question to that is "Yes." This is actually explicitly stated. If you're looking at the Federal Register notice for our revised regulatory capital rules that came out last year, it would be on Page 62168 under the Statutory Multi-Family Mortgage definition, Paragraph 3.

It says, "In the case where an existing owner is refinancing a loan on the property all principal and interest payments on the loan being refinanced must have been made on a timely basis in accordance with the terms of the loan for at least one year prior to applying the preferential 50% risk-weight."

Robert Storch: And the page reference you gave is for the version of the rules published by the OCC and the Federal Reserve.

Sean Healey: Yes, that is correct.

Robert Storch: The FDIC has a different page reference.

Sean Healey: Yes, that is correct.

David Riley: The definitions are at the front of the rule. For the FDIC I can look up a page number, but for everybody the definitions are at the front of the rule and the definitions are in alphabetical order. This particular definition I believe is Statutory Multi-Family Mortgage.

Robert Storch: We received a question about the 1-1/4% of risk-weighted assets limit on the allowance for loan and lease losses. The questioner is observing that the level of the allowance changes over time in relation to the collectability of loan portfolio and so forth, and asks about the raising of the limit.

The limit is actually something that's been agreed upon internationally through the Basel Committee. So the U.S., for better or worse, is part of this 1-1/4% limit. But while only 1-1/4% gets included in Tier 2 capital, the excess isn't lost entirely because the excess is used to reduce the risk-weighted asset amount. So there is a benefit, although perhaps not as great, for the excess amount of the allowance for loan and lease losses.

David Riley: I believe I have a page number here for that definition of Statutory Multi-Family Mortgage. For the FDIC it was in the Federal Register on Tuesday, September 10, 2013, Volume 78, Number 175, and the page number is 55483.

If you look at these today, the rules are now in the electronic version of the Code of Federal Regulations and for the FDIC it's Part 324. As was mentioned earlier, for each agency it's a different part of the Code. But the rules for the other agencies are also on the electronic Code of Federal Regulations.

Ben Bosco: We received another question via email that's asking, "If the total of Items 18.a to 18.c, plus Item 19 on the RC-R Schedule are equal to the total reported on RC-L Items 1.a through 1.e.(3)?" And the answer to that is, "No."

They could be – and they will probably be within the vicinity of each other. But if you go into the Call Report Instructions and look into the instructions for Item 18.c, you'll see that there are additional items from Schedule RC-L that will also tie in, specifically from Schedule RC-L, Item 4.

Therefore, while we think the –totals of those two collections of items will be similar, there are going to be differences there. So they will not tie 100% to each other. Thank you.

Robert Storch: And the amounts from Item 4 would be the commercial letters of credit with an original maturity exceeding one year?

Ben Bosco: Yes, that's right.

Robert Storch: Have we covered all the email questions at this point? Okay, and there are no other questions in the queue?

David Riley: There are some other email questions that the agencies might want to consider and then answer subsequently because they're more interpretations of the rule and not so much to do with reporting. There are some excellent questions in there. So those are some questions we probably would look at and then try to clarify a little bit later on.

Robert Storch: Okay, thank you. Well, if there are no further questions, on behalf of all my colleagues, this is Bob Storch from the FDIC. We appreciate your participation this afternoon and your interest in this subject.

Again, we invite you to submit comments on the proposal to any or all of the three banking agencies using the addresses in the Federal Register notice proposal that was published this past Monday, and the notice is also on the FFIEC's Web site. If you have additional questions, the Financial Institution Letter that announced this teleconference has addresses to which questions about the reporting proposal can be sent as well.

So thank you very much and we appreciate your interest this afternoon. Again, a transcript should be available in July for this teleconference. Thank you.

Coordinator: That concludes today's conference. Thank you all for joining. You may now disconnect.

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