

December 15, 1995

REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORTS) FOR 1996

Deletions and Reductions in Detail

Certain deletions and reductions in detail will be made to the Call Report in 1996.

The level of detail will be reduced in two areas for banks with foreign offices or with \$100 million or more in total assets that file the FFIEC 031, 032, and 033 report forms. (Smaller banks that file the FFIEC 034 report forms do not provide these detailed data.) First, the breakdown of nontransaction accounts by type of depositor in Schedule RC-E, "Deposit Liabilities," will contain fewer categories. As shown below, the separate items for nontransaction accounts of "U.S. branches and agencies of foreign banks" and "Other commercial banks in the U.S." in column C will be combined into a single item (item 4). Similarly, the separate items for nontransaction accounts of "Foreign branches of other U.S. banks" and "Other banks in foreign countries" in column C will be combined (item 6).

Revised format:

Second, a single item for trading revenue will replace items 5.c, "Trading gains (losses) and fees from foreign exchange transactions," and 5.e, "Other gains (losses) and fees from trading assets and liabilities," in Schedule RI, "Income Statement." The income statement memorandum items (Memorandum items 8.a through 8.d) providing a four-way breakdown of trading revenue by risk exposure (interest rate, foreign exchange, equity, and commodity and other), which were added in March 1995, will continue to be collected. The sum of the memorandum items will equal the new single income statement item, which will be designated item 5.c.

Revised format:

Call Report items in the four following areas will be deleted:

- (1) The memorandum items for total deposits, total demand deposits, and total time and savings deposits (in domestic offices) that have been collected in the deposit schedule for deposit insurance assessment purposes (Schedule RC-E, Memorandum items 4, 4.a, and 4.b).
- (2) The deposit schedule memorandum item for total deposits (in domestic offices) denominated in foreign currencies (Schedule RC-E, Memorandum item 1.d).
- (3) The income statement memorandum item for foreign tax credits (Schedule RI, Memorandum item 3). This item has been completed only by banks with foreign offices or with \$100 million or more in total assets that file the FFIEC 031, 032, and 033 report forms.
- (4) The income statement memorandum item for the taxable equivalent adjustment to pretax income (Schedule RI, Memorandum item 4). This item has been applicable only to banks with foreign offices and \$1 billion or more in total assets that file the FFIEC 031 report forms.

New Call Report Items

New items will be added to the Call Report forms beginning March 31, 1996, to disclose certain capital and asset amounts that are used in calculating regulatory capital ratios and to provide better data on short-term liabilities and assets for liquidity analysis. Other new items involve small business obligations sold with recourse and credit losses on off-balance sheet derivative contracts. For larger banks, the frequency of reporting on securitized credit card receivables will be changed from annually to quarterly. For the March 31, 1996, report date, banks may report a reasonable estimate for any new Call Report item for which the requested information is not readily available. A more detailed description of these new

items follows. Illustrations of the new items are also presented, although the actual format in which they will appear in the March 31, 1996, Call Report forms may differ from the illustrations.

Capital and Asset Amounts Used in Calculating Regulatory Capital Ratios

At present, the Call Report includes a variety of items in several schedules which the agencies use to calculate the leverage and risk-based capital ratios for individual banks. However, a comparison of the agencies' regulatory capital standards to the information currently reported in the Call Report reveals that the Call Report does not collect all of the information that the agencies need to calculate each bank's Tier 1, Tier 2, and total capital in strict accordance with the definitions in the agencies' capital standards. Nevertheless, informal input from bankers indicates that banks routinely calculate their regulatory capital ratios at least quarterly for internal management purposes.

Thus, rather than introducing new Call Report items for specific elements of the regulatory capital ratio calculations that are not currently reported to enable the banking agencies to further refine their formulas for calculating capital ratios, all banks will begin to report the end results of their own internal regulatory capital analyses. Six new items will be added to the regulatory capital schedule, Schedule RC-R, and will cover (1) Tier 1 capital (the numerator of the Tier 1 risk-based and Tier 1 leverage capital ratios, i.e., net of deductions), (2) Tier 2 capital, (3) total risk-based capital (the numerator of the total risk-based capital ratio, i.e., net of deductions), (4) the excess amount of the allowance for loan and lease losses (if any), (5) total risk-weighted assets (the denominator of the risk-based capital ratio, i.e., net of deductions), and (6) "average total assets" (the denominator of the Tier 1 leverage capital ratio, i.e., net of deductions).

3. Amounts used in calculating regulatory capital ratios (report amounts determined by the bank for its own internal regulatory capital analyses):

- | | |
|---|---------|
| a. Tier 1 capital | _ _ _ _ |
| b. Tier 2 capital | _ _ _ _ |
| c. Total risk-based capital | _ _ _ _ |
| d. Excess allowance for loan and lease losses | _ _ _ _ |
| e. Risk-weighted assets | _ _ _ _ |
| f. "Average total assets" | _ _ _ _ |

Banks that already calculate their capital ratios for internal management purposes generally will not be required to go to greater lengths to identify and determine the amounts to be reported in the six new capital-related items. Beginning to collect the six regulatory capital items in 1996 may provide a basis for eliminating at a later date some items now reported in the Call Report solely for risk-based capital calculation purposes. To assist banks in accurately reporting these capital items, an optional regulatory capital worksheet would be developed, provided regularly to banks, and updated as necessary.

In addition, the agencies understand that bankers and other interested parties have found it difficult and time-consuming to calculate the regulatory capital ratios for other banks using existing Call Report data. Consequently, the addition of these six items should simplify bankers' calculations of other banks' capital ratios as well as regulatory capital calculations made by other public users of bank Call Reports.

Short-Term Liabilities and Assets

The banking agency staffs plan to revise the liquidity ratios in the Uniform Bank Performance Report (UBPR) to focus on short-term and total non-core liabilities (instead of so-called "volatile liabilities") as well as short-term assets and liabilities. As a result, changes will be made to the reporting of maturity and repricing data for certain categories of liabilities and assets. The following changes will be implemented:

Other borrowed money -- On the Call Report balance sheet, the two-way breakdown of "Other borrowed money" based on the original maturity of the borrowing will be changed to a breakdown based on remaining maturity (Schedule RC, item 16).

Time deposits -- For commercial banks, a number of changes will be made in the reporting of the maturity and repricing data in Memorandum items 5 and 6 of Schedule RC-E, "Deposit Liabilities." Memorandum items 5 and 6 are not applicable to FDIC-supervised savings banks that must complete the Call Report's supplemental Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories." Changes in the reporting of time deposit data by savings banks that must complete Schedule RC-J are discussed after the illustration of the changes for commercial banks. For purposes of these new memorandum items (and for those discussed below for brokered deposits and foreign office time deposits), "remaining maturity" is defined as the amount of time remaining from the report date until the final contractual maturity of a time deposit.

For commercial banks, first, the maturity and repricing data for open-account time deposits of \$100,000 or more, which are currently included with the maturity and repricing data for time deposits of less than \$100,000 (in Schedule RC-E, Memorandum item 5), will be switched so that these data are included with the maturity and repricing data for time certificates of deposit of \$100,000 or more (in Schedule RC-E, Memorandum item 6).

Second, the maturity and repricing data for fixed rate and floating rate time deposits of less than \$100,000, which are currently reported on a combined basis (in Schedule RC-E, Memorandum item 5), will be split so that the remaining maturity of fixed rate time deposits of less than \$100,000 will be reported separately from the repricing frequency of floating rate time deposits of less than \$100,000. A new time interval will also be added for these time deposits. Fixed rate time deposits of less than \$100,000 will contain a remaining maturity category of over one year and floating rate time deposits of less than \$100,000 will include a repricing interval of less frequently than annually.

Third, two new memorandum items will be collected in the deposit schedule for floating rate time deposits of less than \$100,000 with a remaining maturity of one year or less and for floating rate time deposits of \$100,000 or more with a remaining maturity of one year or less.

Memoranda

5. Maturity and repricing data for time deposits of less than \$100,000 (sum of Memorandum items 5.a.(1) through 5.b.(3) must equal Memorandum item 2.b above):*1

- a. Fixed rate time deposits of less than \$100,000 with a remaining maturity of:
 - (1) Three months or less |_|_|_|_|
 - (2) Over three months through 12 months |_|_|_|_|
 - (3) Over one year |_|_|_|_|
- b. Floating rate time deposits of less than \$100,000 with a repricing frequency of:
 - (1) Quarterly or more frequently |_|_|_|_|
 - (2) Annually or more frequently, but less frequently than quarterly |_|_|_|_|
 - (3) Less frequently than annually |_|_|_|_|
- c. Floating rate time deposits of less than \$100,000 with a remaining maturity of one year or less (included in Memorandum items 5.b.(1) through 5.b.(3) above) |_|_|_|_|

6. Maturity and repricing data for time deposits of \$100,000 or more (i.e., time certificates of deposit of \$100,000 or more and open-account time deposits of \$100,000 or more) (sum of Memorandum items 6.a.(1) through 6.b.(4) must equal the sum of Memorandum items 2.c and 2.d above):*1

- a. Fixed rate time deposits of \$100,000 or more with a remaining maturity of:
 - (1) Three months or less |_|_|_|_|
 - (2) Over three months through 12 months |_|_|_|_|
 - (3) Over one year through five years |_|_|_|_|
 - (4) Over five years |_|_|_|_|
- b. Floating rate time deposits of \$100,000 or more with a repricing frequency of:
 - (1) Quarterly or more frequently |_|_|_|_|
 - (2) Annually or more frequently, but less frequently than quarterly |_|_|_|_|
 - (3) Every five years or more frequently, but less frequently than annually |_|_|_|_|
 - (4) Less frequently than every five years |_|_|_|_|

c. Floating rate time deposits of \$100,000 or more with a remaining maturity of one year or less (included in Memorandum items 6.b.(1) through 6.b.(4) above)

*1 Memorandum items 5 and 6 are not applicable to savings banks that must complete supplemental Schedule RC-J.

For FDIC-supervised savings banks, two new memorandum items will be collected in supplemental Schedule RC-J for time deposits of less than \$100,000 with a remaining maturity of one year or less and for time deposits of \$100,000 or more with a remaining maturity of one year or less.

Part II. Memoranda

2. Time deposits of less than \$100,000 with a remaining maturity of one year or less (included in Part II, item 6.b above)

3. Time deposits of \$100,000 or more with a remaining maturity of one year or less (included in Part II, items 6.a and 6.b above)

Brokered deposits -- In Schedule RC-E, "Deposit Liabilities," new Memorandum items 1.d.(1) and 1.d.(2) will be created for brokered deposits issued in denominations of less than \$100,000 with a remaining maturity of one year or less and brokered deposits issued in denominations of \$100,000 or more with a remaining maturity of one year or less.

d. Maturity data for brokered deposits:

(1) Brokered deposits issued in denominations of less than \$100,000 with a remaining maturity of one year or less included in Memorandum item 1.c.(1) above)

(2) Brokered deposits issued in denominations of \$100,000 or more with a remaining maturity of one year or less (included in Memorandum item 1.b above)

Foreign office time deposits -- For banks with foreign offices that file the FFIEC 031 report forms, a new memorandum item will be added to Schedule RC-E, Part II, "Deposits in Foreign Offices," for time deposits in foreign offices with a remaining maturity of one year or less.

Part II. Deposits in Foreign Offices (including Edge and Agreement subsidiaries and IBFs)

Memorandum

1. Time deposits with a remaining maturity of one year or less (included in Part II, item 7 above)

Loans -- For commercial banks, a single memorandum item for floating rate loans with a remaining maturity of one year or less will be added to Schedule RC-C, Part I, "Loans and Leases." This new memorandum item will provide maturity data for the floating rate loans that are reported by repricing frequency in Memorandum item 2.b on the FFIEC 034 report forms and Memorandum item 3.b on the FFIEC 031, 032, and 033 report forms. For purposes of this new memorandum item, the definition of "remaining maturity" will be the same as the definition that is used for reporting the remaining maturity of fixed rate loans in Memorandum item 2.a on the FFIEC 034 report forms and Memorandum item 3.a on the FFIEC 031, 032, and 033 report forms.

NOTE: Maturity and repricing data for loans and leases are reported in Memorandum item 2 on the FFIEC 034 report forms and in Memorandum item 3 on the FFIEC 031, 032, and 033 report forms.

d. Floating rate loans with a remaining maturity of one year or less (included in Memorandum items 2.b.(1) through 2.b.(4) above)

For FDIC-supervised savings banks, a single memorandum item for loans and leases with a remaining maturity of one year or less will be added to supplemental Schedule RC-J. This new memorandum item will provide maturity data for the loans and leases that are reported in items 1 through 3 of Part I of Schedule RC-J. For purposes of this new memorandum item, "remaining maturity" is defined as the amount of time remaining from the report date until the final contractual maturity of a loan or lease without regard to the loan's or lease's repayment schedule, if any. This is consistent with the manner in which fixed rate loans and leases are currently reported in items 1 through 3 of Part I of Schedule RC-J. The new memorandum item is illustrated on the next page with the new debt securities memorandum item for savings banks.

Debt securities -- For FDIC-supervised savings banks, a single memorandum item for debt securities with a remaining maturity of one year or less will be added to supplemental Schedule RC-J. Savings banks will begin to complete this new item instead of existing Memorandum item 6 in Schedule RC-B, "Securities," on floating rate debt securities with a remaining maturity of one year or less. Commercial banks will continue to complete existing Memorandum item 6 in Schedule RC-B.

In the new memorandum item for savings banks, held-to-maturity securities would be reported at amortized cost and available-for-sale securities would be reported at fair value, consistent with the method of reporting these two categories of securities in Schedule RC-B, Memorandum item 6. The definition of "remaining maturity" will be the same as has been used for Schedule RC-B, Memorandum item 6.

Part I. Memoranda

5. Loans and leases with a remaining maturity of one year or less (included in Part I, items 1 through 3 above)

6. Debt securities with a remaining maturity of one year or less (included in Part I, item 4 above)

Small Business Obligations Sold with Recourse

The banking agencies recently issued rules to implement section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994. Section 208 provides that a qualifying insured depository institution that sells small business loans and leases on personal property with recourse is required to include only the amount of the retained recourse in its risk-weighted assets when calculating its risk-based capital ratios, provided two conditions are met. First, the transaction must qualify as a sale under generally accepted accounting principles (GAAP). Second, the selling institution must establish a non-capital reserve sufficient to meet its reasonably estimated liability under the recourse arrangement. Therefore, qualifying institutions should report these transactions in accordance with GAAP in the Call Report.

To be a qualifying institution, a bank must be well capitalized based on capital ratio calculations made without regard to the preferential capital treatment that Section 208 authorizes for these transactions. In addition, in general, for purposes of determining a bank's capital category under the prompt corrective action rules, the capital ratio calculations must be made without regard to the preferential Section 208 treatment.

The Glossary entry for "sales of assets" in the Call Report instructions will be revised to incorporate the GAAP reporting treatment for sales of small business obligations with recourse by qualifying institutions. Additionally, to enable the agencies to determine the capital ratios of institutions that have engaged in transactions covered by Section 208 on the "without regard to" basis mentioned above, new items 9.d.(1) and 9.d.(2) will be added to Schedule RC-L, "Off-Balance Sheet Items," for (1) the outstanding principal balance of small business obligations sold with recourse and (2) the amount of retained recourse on these obligations as of the report date.

9. Loans transferred (i.e., sold or swapped) with recourse that have been treated as sold for Call Report purposes:

d. Small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994:

(1) Outstanding principal balance of small business obligations transferred as of the report date

(2) Amount of retained recourse on these obligations as of the report date

Credit Losses on Off-Balance Sheet Derivative Contracts

Banks with foreign offices or with \$300 million or more in total assets that file the FFIEC 031 and 032 report forms began to report information about past due derivatives in the Call Report in 1994. However, some banks have incurred credit losses on their derivative contracts, but the agencies cannot track these losses for individual institutions or for the industry as a whole. Therefore, a new Memorandum item 6 will be added to Schedule RI-B, Part I, "Charge-offs and Recoveries," on the FFIEC 031 and 032 report forms in which banks will report their year-to-date credit losses on derivatives. The instructions will indicate that banks should include such credit losses in Memorandum item 6 regardless of whether, under the bank's accounting policies, the losses were charged directly to operating income or to another account (e.g., the allowance for loan and lease losses). This new memorandum item will not be collected from banks that file the FFIEC 033 and 034 report forms.

Part I. Memoranda

6. Credit losses on off-balance sheet derivatives

On a related matter, the Call Report instructions for reporting amounts associated with derivatives that are past due 90 days or more in Memorandum item 4 on Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," on the FFIEC 031 and 032 report forms will be revised. As part of the information they report on 90-day-or-more past due derivatives, larger banks will now be required to include asset amounts and positive replacement costs for derivatives that, while not technically 90 days past due, are with counterparties that are not expected to pay the full amounts owed to the institution under the derivative contracts.

Change in Frequency of Reporting on Securitized Credit Card Receivables

Banks with foreign offices or with \$300 million or more in total assets that file the FFIEC 031 and 032 report forms report annually as of September 30 the outstanding amount of "Credit cards and related plans" that have been securitized and sold without recourse with servicing retained (Schedule RC-L, Memorandum item 5.b). In order to better evaluate the financial performance of banks with extensive credit card operations that have securitized and sold such receivables in light of the growth in the volume of securitizations, banks filing the FFIEC 031 and 032 report forms will begin to report the outstanding amount of securitized credit card receivables that they service on a quarterly rather than annual basis.

Memoranda

5. Installment loans to individuals for household, family, and other personal expenditures that have been securitized and sold without recourse (with servicing retained), amounts outstanding by type of loan:

a. Loans to purchase private passenger automobiles (to be completed for the September report only)

b. Credit cards and related plans (TO BE COMPLETED QUARTERLY)

c. All other consumer installment credit (including mobile home loans) (to be completed for the September report only)

Instructional Matters

The Examination Council has approved a number of instructional changes for 1996. Existing Call Report instructions for mortgage servicing rights and trading accounts will be revised to bring them into conformity with GAAP. New or revised Call Report instructions also will address the reporting of low-level recourse transactions and accrued receivables related to derivatives for risk-based capital purposes, quarterly averages following the application of push down accounting, the determination of past due status for residential mortgages, the separate entity method of accounting for income taxes, checks or drafts drawn on zero-balance and similar accounts, and capitalization of interest cost. A more detailed discussion of these instructional matters follows. Revisions to certain other Call Report instructions that are not discussed below are also under consideration.

Mortgage Servicing Rights

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 122, "Accounting for Mortgage Servicing Rights." This new accounting standard amended FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities," and is effective for fiscal years beginning after December 15, 1995. Statement No. 122 must be adopted for Call Report purposes as of its effective date based on each bank's fiscal year. Early adoption is also permitted to the extent allowable under Statement No. 122.

The existing Glossary entry for "mortgage servicing rights" was written based on the provisions of Statement No. 65. It will be revised to incorporate the amendments to Statement No. 65 that were made by Statement No. 122.

In addition, Statement No. 122 requires that mortgage servicing rights be considered impaired whenever their fair value is less than their amortized cost. A valuation allowance is required for the amount of any impairment, which must be measured by stratifying mortgage servicing rights based on one or more of the predominant risk characteristics of the underlying loans. These characteristics may include loan type, size, note rate, date of origination, term, and geographic location. This differs from the impairment guidance currently set forth in the Call Report instructions for Schedule RC- M, item 6.a, "Mortgage servicing rights." These instructions call for a writedown of the book value of mortgage servicing rights if the discounted amount of future net cash flows is less than the carrying amount of the servicing rights. The discount rate used for this calculation must not be less than the original discount rate inherent in the servicing rights at the time of acquisition. The Call Report instructions on impairment of mortgage servicing rights will be revised to conform to the impairment provisions of Statement No. 122.

"Trading Account" Glossary Entry

This Glossary entry's discussion on the accounting for transfers to or from a trading account reflects the accounting guidance that was in effect prior to FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The discussion of transfers will be revised to conform with the requirements of Statement No. 115. The Glossary entry also will be updated to incorporate Call Report changes implemented since 1994 with respect to the reporting of trading assets and liabilities and the treatment of off-balance sheet derivatives held for trading purposes.

Reporting of Low-Level Recourse Transactions for Risk-Based Capital Purposes

The three banking agencies amended their risk-based capital standards earlier this year to incorporate the so-called "low-level recourse" rule. Under this rule, when a bank has transferred assets with recourse, the amount of risk-based capital that must be maintained is limited to the bank's maximum contractual exposure under the recourse agreement if this is less than the amount of capital that would have to be held against the outstanding amount of the transferred assets.

In the Supplemental Instructions that have been included in the Call Report materials distributed to banks for the first three quarters of this year, interim guidance has been provided on how low-level recourse transactions should be reported in the risk-based capital schedule (Schedule RC-R). Under this interim guidance, a bank's maximum contractual exposure in a low-level recourse transaction is multiplied by a

factor that is a function of the risk weight category applicable to the transferred assets. The resulting amount is then reported in the Schedule RC-R item for the applicable risk weight and is thereby included in the bank's risk-weighted assets. This interim guidance will now be formally incorporated into the Call Report instructions.

Please refer to the Supplemental Instructions your bank has received as part of the March, June, and September 1995 Call Report materials for this interim guidance. This guidance will also be included in the Supplemental Instructions that will accompany the December 31, 1995, Call Report forms.

Reporting Accrued Receivables Related to Derivatives for Risk-Based Capital Purposes

The instructions for Schedule RC-R, item 8, "On-balance sheet asset values excluded from the calculation of the risk-based capital ratio," currently indicate that the amount reported in item 8 should include any positive fair values carried on the balance sheet for interest rate, foreign exchange, equity derivative, and commodity and other contracts that are treated as off-balance sheet instruments for risk-based capital purposes. Because the fair values of such contracts, if positive, are included in the calculation of their credit equivalent amounts for risk-based capital purposes, the reporting of these amounts in item 8 ensures that they are not "double counted" when the agencies calculate a bank's risk-weighted assets.

In contrast, the existing instructions indicate that accrued receivables associated with off-balance sheet derivative contracts are to be excluded from item 8 and assigned to the appropriate risk weight category in the same manner as other on-balance sheet items. However, consistent with GAAP, institutions may include accrued receivables related to derivative contracts in the fair value of such contracts. Thus, the Schedule RC-R instructions will be revised to permit institutions to report accrued receivables in item 8 when these amounts are included in a bank's credit equivalent amount calculations.

Reporting of Quarterly Averages in a Quarter When Push Down Accounting Has Been Applied

The instructions for the quarterly average calculations in Schedule RC-K will be clarified to indicate that banks acquired in push down transactions should calculate quarterly averages using only the dollar amounts for the days since the acquisition in the numerator and the number of days since the acquisition in the denominator.

Past Due Status for Residential Mortgages

The definition of past due in the instructions for Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," indicates that amortizing loans secured by real estate are to be reported as past due when the borrower is in arrears two or more monthly payments. The definition also states that banks may use 30 days as a proxy for a month if they prefer, but this option has apparently not been fully understood by banks. As a result, this 30-day language will be replaced with a statement to the effect that, at a bank's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

Separate Entity Method of Accounting for Income Taxes

The section of the Glossary entry for "income taxes" that discusses income taxes of a bank subsidiary of a holding company states that a bank should generally report income tax amounts in its Call Report as if it were a separate entity. When the reporting bank has subsidiaries of its own, there have been questions about how the separate entity method should be applied. In this situation, the bank, together with its consolidated subsidiaries, is treated as a separate taxpayer for purposes of computing the bank's applicable income taxes and the amount of any disallowed deferred tax assets. The "income taxes" Glossary entry will be clarified in this manner.

Checks or Drafts Drawn on Zero-Balance and Similar Accounts

The instructions for Schedule RC-E, "Deposit Liabilities," were revised in 1993 to describe how funds received or held in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another institution on a zero-balance or similar account should be reported. When this revision was made, the instructions for the balance sheet items for "Other borrowed money" (Schedule RC, item 16) and "Cash and balances due from depository institutions" (Schedule RC, item 1) and the Glossary entry for "overdraft" were not also updated to describe the treatment of any zero-balance or similar accounts that the reporting bank maintains at other institutions. Appropriate changes to these instructions will now be made.

Capitalization of Interest Cost

Both GAAP and the Call Report instructions require material interest costs associated with the construction of a building to be capitalized as part of the cost of the building. When a bank has a specific borrowing to finance the construction of a building, interest expense is reduced by the amount of capitalized interest. However, for internally-financed projects, the Call Report instructions currently require banks to report the credit resulting from the capitalization of imputed interest as a reduction of "Other noninterest expense." This reporting treatment for imputed interest does not appear to be consistent with GAAP. Accordingly, the instructions advising banks to credit "Other noninterest expense" for the amount of capitalized imputed interest will be eliminated.