

FFIEC
Federal Financial Institutions Examination Council
Washington, D.C. 20037

CALL REPORT DATE: September 30, 1997

THIRD 1997 CALL, NUMBER 201

SUPPLEMENTAL INSTRUCTIONS

September 1997 Call Report Materials

The set of report forms that is enclosed in your September 30, 1997, Call materials is generally based on whether your bank has any "foreign offices" (including an International Banking Facility) and on the total assets reported by your bank in its June 30, 1996, Report of Condition (see pages 1 through 4 of the General Instructions section of the Call Report instructions).

Based on these criteria, in general:

- Banks of any size that have "foreign offices" must file the FFIEC 031 report;
- Banks without foreign offices and with assets of \$300 million or more must file the FFIEC 032 report;
- Banks without foreign offices and with assets of \$100 million or more but less than \$300 million must file the FFIEC 033 report; and
- Banks without foreign offices and with assets of less than \$100 million must file the FFIEC 034 report.

Please note that your Call Report materials for this quarter contain only one complete set of Call Report forms rather than two sets as in prior quarters.

Submission of Completed Reports

Each bank that had \$50 million or more in assets as of June 30, 1996, must file its September 30, 1997, and subsequent Call Reports in one of the following two ways:

- By using computer software to prepare its reports in automated form and then filing the reports directly with the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS), either by transmitting the Call Report data file electronically by modem or by sending EDS a computer diskette; or
- By completing its reports in hard-copy (paper) form and arranging with EDS, a Call Report software vendor, or another party to convert its paper reports to automated form. If a party other than EDS performs this service, that party must electronically transmit the bank's Call Report data file to EDS.

A bank that is not required to file its September 30, 1997, Call Report in automated form may choose to submit a hard-copy report form directly to the appropriate federal banking agency for the final time this quarter. The electronic filing requirement will apply to all banks for the December 31, 1997, and subsequent Call Reports.

Banks that electronically transmit their Call Reports to EDS or send a computer diskette to EDS should not mail hard copies of the Call Report to any federal bank supervisory agency unless specifically requested to do so. However, banks filing their Call Report data files directly with EDS must maintain in their files a signed and attested printout of the data file submitted to EDS showing at least the title of each Call Report item and the reported amount. The cover page of the agency-supplied printed report forms enclosed in the Call Report materials should be used to fulfill the signature and attestation requirement and this cover should be attached to the printout placed in the bank's files. For assistance in submitting Call Reports to EDS, contact EDS toll free on (800) 255-1571.

Banks that contract with another party to convert their Call Reports to automated form for electronic transmission to EDS should deliver their hard-copy reports to that party in sufficient time for EDS to receive their Call Report data files by the submission deadline.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; DPSC Software, Inc.; Information Technology, Inc.; Milas LLC; and Sheshunoff Information Services, Inc., have been certified for electronic submission by EDS. Information Technology's software operates on mainframe computers while the other vendors' software products run on personal computers. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

National banks and FDIC-supervised banks that are permitted to submit their hard-copy Call Report forms directly to the FDIC should return the original completed report only to the FDIC's data entry site in Crofton, Maryland, in the special return address envelope provided in the Call Report materials. Banks must affix their own postage to this return envelope since it is not a postage-paid envelope. If overnight delivery service is used (at a bank's expense) in lieu of the special return address envelope, the original report should be addressed to the FDIC, c/o Quality Data Systems, 2127 Espey Court, Suite 204, Crofton, MD 21114. Original completed report forms should *not* be mailed to OCC District or FDIC Regional Offices. *State member banks that are permitted to submit their hard-copy Call Report forms directly to the Federal Reserve* should return the original completed report and one copy to the appropriate Federal Reserve District Bank. The submission of a copy of the original signed and completed Call Report forms via telephone facsimile machine is not acceptable; the original forms must be delivered to the FDIC or to the Federal Reserve District Bank, as appropriate.

FFIEC Instruction Books

Each bank was scheduled to be mailed a complete revised Call Report instruction book in mid-September for use beginning with the reports for September 30, 1997. This book contains the instructions for all four versions of the Call Report forms (FFIEC 031, 032, 033, and 034) in a single volume. It incorporates all instructional updates issued through June 1997 and conforms certain other instructions with generally accepted accounting principles (GAAP) and the other reporting changes implemented in March 1997. The revised instructions also correct cross-references to specific items on the Call Report forms and clarify several instructions. The revised Call Report instruction book will be available on the FFIEC's Web site (<http://www.ffiec.gov>) no later than September 30, 1997. The FDIC's Web site () also will contain the instruction book by that date.

Reporting of Interest Rate Risk-Related Data

For the June 30, September 30, and December 31, 1997, report dates, banks may report a reasonable estimate for any *individual* new or revised interest rate risk-related item for which the requested information is not readily available. Please note that even if estimates are reported, banks must follow footnotes 4, 5, and 6 to Schedule RC-B, "Securities," as they apply to

Memorandum items 2.a, 2.b, and 2.c, respectively. Similarly, in Schedule RC-C, part I, "Loans and Leases," banks must follow the footnotes (footnotes 3 and 4 on the FFIEC 033 and 034; footnotes 2 and 3 on the FFIEC 031 and 032) as they apply to Memorandum items 2.a and 2.b on the FFIEC 034 and Memorandum items 3.a and 3.b on the FFIEC 031, 032, and 033. In other words, each sum of the components of the maturity and repricing data for debt securities reported in Memorandum item 2.a, in Memorandum item 2.b, and in Memorandum item 2.c of Schedule RC-B plus any nonaccrual debt securities of the appropriate category included in Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," *must foot* to amounts reported in the body of Schedule RC-B. Likewise, each sum of the components of the maturity and repricing data for loans and leases reported in Memorandum item 2.a and in Memorandum item 2.b on the FFIEC 034 and reported in Memorandum item 3.a and in Memorandum item 3.b on the FFIEC 031, 032, and 033, after appropriate adjustments for nonaccrual loans and leases included in Schedule RC-N, *must foot* to amounts reported in the body of Schedule RC-C, part I. Please refer to the instructions for these maturity and repricing items for further guidance.

Adoption of GAAP as the Reporting Basis for the Call Report

The FFIEC adopted generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules in the Call Report, effective with the March 31, 1997, report date. The revised Call Report instruction book conforms with GAAP, but retains certain specific reporting guidance that falls within the range of acceptable practice under GAAP (see page 11 of the General Instructions). Thus, when preparing your Call Report, your bank should follow GAAP, including the specific reporting guidance, for recognition and measurement purposes. However, banks must continue to follow the line item instructions in order to determine the specific Call Report line item on which assets, liabilities, income, expenses, and other items are to be reported.

Banks that engaged in transactions or activities prior to January 1, 1997, that they had to report in the Call Report prior to 1997 in accordance with previous instructions that differed from GAAP are permitted to report them in accordance with GAAP beginning in 1997. The effect of this retroactive application of GAAP on the amount of a bank's Call Report undivided profits as of January 1, 1997, net of applicable income taxes, (i.e., the amount of the "catch-up" adjustment) should be reported as a direct adjustment to equity capital in Schedule RI-A, item 9, and itemized in Schedule RI-E, item 5.a.

FASB Statement No. 125

Financial Accounting Standards Board (FASB) Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," issued in June 1996 and amended in December 1996, provides accounting and reporting standards for these types of transactions. These standards are based on consistent application of a financial-components approach that focuses on control. This means that after a bank transfers financial assets, it recognizes the financial and servicing assets it controls and the liabilities it has incurred, removes financial assets from the balance sheet when control has been surrendered, and removes liabilities from the balance sheet when they have been extinguished. Statement No. 125 provides consistent standards for determining whether transfers of financial assets should be treated as sales or secured borrowings. The statement includes implementation guidance for the accounting for loan participations and syndications, repurchase agreements including "dollar rolls," transfers of receivables with recourse, servicing of financial assets, securitizations, and securities lending transactions.

In general, Statement No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied

prospectively. Earlier or retroactive application is not permitted. However, the FASB has amended Statement No. 125 to defer until January 1, 1998, the effective date of this accounting standard's provisions governing the accounting for secured borrowings and collateral and the accounting for repurchase agreement, dollar-roll, securities lending, and similar transactions. Statement No. 125 also affects the accounting and reporting for servicing contracts in existence before January 1, 1997, and certain other financial assets held on January 1, 1997, that can be prepaid without the holder recovering substantially all of its recorded investment. Statement No. 125 also supersedes FASB Statement No. 122 on mortgage servicing.

Banks must adopt Statement No. 125 for Call Report purposes as of January 1, 1997, except for those provisions that have been deferred until 1998. *Thus, each bank should ensure that it prepares its September 30, 1997, Call Report in accordance with the applicable provisions of this accounting standard.* Glossary entries for "Transfers of financial assets," "Extinguishments of liabilities," and "Servicing assets and liabilities," which provide a summary of relevant provisions of this new accounting standard, are contained in the revised Call Report instruction book. Banks are encouraged to consult with their outside accountants for assistance in implementing Statement No. 125.

Securitized Consumer Installment Loans

In Schedule RC-L, Memorandum item 5, banks filing the FFIEC 031 and 032 report forms disclose the amount of their securitized consumer installment loans which have been reported as sold for Call Report purposes (with servicing retained) and removed from the balance sheet. With the adoption of GAAP as the reporting basis for the Call Report in 1997, the standards set forth in GAAP for determining whether asset transfers should be treated as sales or borrowings replaced the previous Call Report general rule that assets must be transferred without recourse in order to qualify for sale treatment in the Call Report. Accordingly, banks should report in Schedule RC-L, Memorandum item 5, the amount outstanding of consumer installment loans that they have securitized and transferred in transactions that they are reporting as sales (with servicing retained) for Call Report purposes, without regard to whether the transfers are with or without recourse.

When completing Schedule RC-L, Memorandum item 5.a, "Loans to purchase private passenger automobiles," banks should include installment loans to individuals for the purpose of purchasing sport-utility vehicles and minivans that have been securitized and sold (with servicing retained). In addition, banks may choose to include in Memorandum item 5.a securitized installment loans to individuals for the purpose of purchasing pickup trucks, vans, and similar light trucks for personal use instead of reporting such securitized loans in Memorandum item 5.c, "All other consumer installment credit."

Allowance for Credit Losses

The American Institute of Certified Public Accountants' Audit and Accounting Guide for Banks and Savings Institutions, issued as of April 1, 1996, requires the allocation on the balance sheet of the allowance for credit losses between on-balance sheet financial instruments and off-balance sheet credit exposures. Previously, these allowance components often were reported in the aggregate on the balance sheet in the allowance for loan and lease losses (ALLL).

Banks should allocate the allowance for credit losses on Schedule RC, "Balance Sheet," consistent with their allocation methodology for other financial reporting purposes. Portions of the allowance related to off-balance sheet credit exposures that are reported as liabilities should be reported in Schedule RC, item 20, "Other liabilities," and in item 4 of Schedule RC-G. However, until any future revisions are made to the Call Report forms, banks should aggregate these components of the allowance for credit losses when completing Schedule RI-B, part II,

"Changes in Allowance for Loan and Lease Losses." Banks are encouraged to disclose the amounts of these components in Schedule RI-E, item 9, "Other explanations."

Under the previous reporting standards, banks have been including the portion of the allowance related to off-balance sheet credit exposures in Tier 2 capital for risk-based capital purposes, subject to specified limits. This regulatory capital treatment remains in effect under the new reporting standards.

Optional Regulatory capital Worksheet

To assist banks in accurately reporting the items for certain capital and asset amounts used in calculating capital ratios in the Call Report's regulatory capital schedule (Schedule RC-R, items 3.a through 3.f), an *optional* regulatory capital worksheet is enclosed with this Call Report package. Although all banks must complete these six capital-related items, banks are *not* required to use the optional worksheet. Banks may use any reasonable approach to determining the requested capital-related items that is consistent with their primary federal regulator's capital standards.

Accounting for Income Taxes

All banks must report income taxes, including deferred taxes, in the Call Report in accordance with FASB Statement No. 109, "Accounting for Income Taxes," as discussed in the Glossary entry for "income taxes" in your Call Report instruction book. For assistance in calculating a reasonable estimate of year-to-date applicable income taxes, an *optional* worksheet geared toward smaller banks is **available upon request**. To request a copy of the worksheet, state member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Call Reports Analysis Section in Washington, D.C., toll free on (800) 688-FDIC.

Call Report Software Vendors

For information on available Call Report software, banks should contact:

DBI Financial Systems, Inc.
P.O. Box 1249
Cannon Beach, Oregon 97110
Telephone: (800) 774-3279

Milas LLC
753 Rancho Sinaloa Drive
Covina, California 91724
Telephone: (818) 247-4866

DPSC Software, Inc.
23501 Park Sorrento, Suite 105
Calabasas, California 91302
Telephone: (800) 825-3772

Sheshunoff Information Services, Inc.
P.O. Box 13203 Capitol Station
Austin, Texas 78711-3203
Telephone: (800) 505-8333

Information Technology, Inc.
1345 Old Cheney Road
Lincoln, Nebraska 68512
Telephone: (402) 423-2682

NOTE FOR DECEMBER SUPPLEMENTAL INSTRUCTIONS

Add back asset size tests and checklist sections on the final page. They were deleted for space reasons for the September Supplemental Instructions.