FFIEC

Federal Financial Institutions Examination Council
Washington, D.C. 20006

CALL REPORT DATE: June 30, 2001

SECOND 2001 CALL, NUMBER 216

SUPPLEMENTAL INSTRUCTIONS

June 2001 Call Report Materials

A sample set of the June 30, 2001, report form applicable to your bank is enclosed. Banks with domestic offices only must file the FFIEC 041 report form. Banks with domestic and foreign offices must file the FFIEC 031 report form.

Please retain the enclosed sample report form for reference. Sample forms also are available on both the FFIEC's Web site (www.ffiec.gov) and the FDIC's Web site (www.fdic.gov). A paper copy of the Call Report forms, including the cover (signature) page, can be printed from the Web sites. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software.

FFIEC Instruction Books

Enclosed with this quarter's Call Report materials is an update to your Call Report instruction book. These revised instructions include the Glossary and Index as well as revisions to certain pages that were distributed to you in the March 31, 2001, Call Report materials. Please follow the filing instructions at the beginning of the updated instruction book pages.

The principal revisions to the Glossary include a rewritten entry for "derivative contracts" that incorporates a summary of the principal provisions of Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and updated entries for "transfers of financial assets," "repurchase/resale agreements," and "securities borrowing/lending transactions" that reflect the provisions of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that amended FASB Statement No. 125, which has the same title.

Copies of the Call Report instructions may be obtained from the FDIC's Reports Analysis and Quality Control Section (telephone toll free at 800-688-FDIC) or from your Federal Reserve District Bank. The Call Report instructions are also available on both the FFIEC's and the FDIC's Web sites.

Submission of Completed Reports

All banks must submit their Call Reports electronically to the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS), using one of the two methods described in the agencies' cover letter for the June 30, 2001, report date. Banks are no longer permitted to send completed hard-copy (paper) Call Report forms directly to the federal banking agencies. For assistance in submitting Call Reports to EDS, contact EDS toll free at (800) 255-1571.

Banks are required to maintain in their files a signed and attested record of the completed Call Report that has been submitted to EDS showing at least the title of each Call Report item and the reported amount. Either the cover page of the enclosed sample set of report forms, a photocopy of the cover page, or a copy of the cover page printed from Call Report software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the Call Report that is placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Financial Architects US; FRS, an S1 Corporation Business; Information Technology, Inc.; The InterCept Group; Jack Henry & Associates, Inc. (Banker-II Data Center); Milas LLC; and Sheshunoff Information Services have been certified for electronic submission by EDS. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

Proper Reporting of Brokered Deposits

As defined in Section 29 of the Federal Deposit Insurance Act and in the Call Report instructions, a "deposit broker," in general, is "any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions." The term "deposit broker" also includes a bank that is not well capitalized, and any employee of such a bank, which engages, directly or indirectly, in the solicitation of deposits by offering rates of interest significantly higher than prevailing rates on deposits offered in the bank's normal market area. Brokered deposits are deposits obtained, directly or indirectly, by or through a deposit broker.

In their May 11, 2001, Joint Agency Advisory on Brokered and Rate-Sensitive Deposits, the banking agencies advised institutions that make use of significant amounts of such deposits to ensure that proper risk management practices are in place. These risk management practices include having management information systems that identify non-relationship or higher cost funding sources, such as brokered deposits, and allow the bank to manage and monitor these funds and report them properly on the Call Report. In some cases, brokered deposits are issued in the name of the depositor whose funds have been placed in a bank by a deposit broker. In other cases, a bank's deposit account records may indicate that the funds have been deposited in the name of a third party custodian for the benefit of others (e.g., "XYZ Corporation as custodian for the benefit of others," or "Custodial account of XYZ Corporation"). Unless the custodian meets one of the specific exemptions from the "deposit broker" definition in Section 29 and the Call Report instructions, these custodial accounts should be reported as "brokered deposits" in Call Report Schedule RC-E, Deposit Liabilities.

A deposit listing service whose only function is to provide information on the availability and terms of accounts is not facilitating the placement of deposits and therefore is not a deposit broker per se. However, if a deposit broker uses a deposit listing service to identify an institution offering a high rate on deposits and then places its customers' funds at that institution, the deposits would be "brokered deposits" and the institution should report them as such in the Call Report. This classification of the deposits is based not on the broker's use of the listing service but on the placement of the deposits in the institution by the deposit broker.

In items 1 through 7 of Schedule RC-E, banks report separate breakdowns of their transaction and nontransaction accounts by category of depositor. When reporting brokered deposits in these items, the funds should be categorized based on the beneficial owners of the funds that the broker has placed in the bank. The business structure of the deposit broker (i.e., whether the broker is, for example, a bank, an individual, a partnership, or a nonbank corporation) should have no bearing on the categorization of the deposit. Thus, deposits placed in a bank by a deposit broker that is a nonbank corporation should not be reported in their entirety as deposits of "individuals, partnerships, and corporations" when in fact the beneficial owners of the deposits are, for example, individuals, local governments, and other commercial banks. Instead, the bank should report these deposits in Schedule RC-E according to the appropriate beneficial owner categories as deposits of "Individuals, partnerships, and corporations," "States and political subdivisions in the U.S.," and "Commercial banks and other depository institutions in the U.S." based on the proportionate amount of funds from each category of depositor included in the brokered deposits the bank has received.

Investments in Trust Preferred Securities

A number of banks have invested in trust preferred securities, which are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to a mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a bank is permitted to invest in trust preferred securities, banks should report these investments as debt securities for Call Report purposes (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115). If not held for trading purposes, trust preferred securities issued by U.S. business trusts should be reported in Schedule RC-B, item 6.a, "Other domestic debt securities."

Loans and Leases Held for Sale

On March 26, 2001, the banking agencies issued Interagency Guidance on Certain Loans Held for Sale to provide instruction about the appropriate accounting and reporting treatment for certain loans that are sold directly from the loan portfolio or transferred to a held-for-sale account. The guidance applies when:

- an institution decides to sell loans that were not originated or otherwise acquired with the intent to sell, and

- the fair value of those loans has declined for any reason other than a change in the general market level of interest or foreign exchange rates.

The guidance reminds institutions to appropriately report reductions in the value of loans transferred to held for sale through a write-down of the recorded investment to fair value upon transfer. At the same time, there should be a charge to the institution's allowance for loan and lease losses. In addition, loans transferred to a held-for-sale account should continue to be accorded the same past due and nonaccrual treatment as other loans.

FASB Statement No. 140

In September 2000, the FASB adopted Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as a replacement for FASB Statement No. 125, which has the same title. Statement No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral, but it carries over most of the provisions of Statement No. 125 without change.

Statement No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The statement is effective for recognition and reclassification of collateral for fiscal years ending after December 15, 2000. Banks must adopt Statement No. 140 for Call Report purposes in accordance with these effective dates. For further information, please refer to the Glossary entry for "transfers of financial assets" in the enclosed revised Call Report instructions. Banks are encouraged to consult with their outside accountants concerning their implementation of Statement No. 140.

FASB Statement No. 133

FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, is now in effect and must be adopted by banks for Call Report purposes. For a summary of Statement No. 133, please refer to the Glossary entry for "derivatives contracts" in the enclosed revised Call Report instructions. Banks are encouraged to consult with their outside accountants concerning their implementation of this accounting standard.

Optional Tax Worksheet

For assistance in calculating year-to-date applicable income taxes in accordance with FASB Statement No. 109, Accounting for Income Taxes, an optional worksheet geared toward smaller banks is available upon request. For a copy of this worksheet, state member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Reports Analysis and Quality Control Section in Washington, D.C., toll free at (800) 688-FDIC or call (202) 898-6607. The optional tax worksheet for June 30, 2001, also is expected to be available on the FDIC's Web site by that date.

Call Report Software Vendors

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

DBI Financial Systems, Inc.
P.O. Box 90360
Santa Barbara, California
93190

Financial Architects US
35 Corporate Drive, 4th Floor
Burlington, Massachusetts
01803

FRS, an S1 Corporation
Business
2815 Coliseum Centre Drive,
Suite 300

Telephone: (800) 774-3279
www.e-dbi.com

Telephone: (781) 685-4956
www.finarch.com

Charlotte, North Carolina
28217
Telephone: (704) 423-0394
frs.s1.com

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

The InterCept Group
27200 Agoura Road, Suite 100
Calabasas Hills, California
91301
Telephone: (800) 825-3772
www.intercept.net

Jack Henry & Associates, Inc.
Banker-II Data Center
2405 Schneider Avenue, Suite
A
Menomonie, Wisconsin 54751
Telephone: (715) 235-8420

Milas LLC
2936 Graceland Way
Glendale, California 91206
Telephone: (888) 862-7610

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