In addition, in Memorandum item 6 of Schedule RI, banks with less than $25 million in total assets will, like other banks with less than $300 million in total assets, report the amount of income on "Loans to finance agricultural production and other loans to farmers" that is included in the interest and fee income on "All other loans" if their agricultural loans exceed 5 percent of total loans.

Amortization Expense of and Impairment Losses on Intangible Assets

In July 2001, the FASB issued Statement No. 142, *Goodwill and Other Intangible Assets*, which, in general, is effective for fiscal years beginning after December 15, 2001. Under this standard, goodwill will no longer be amortized, regardless of when it was acquired, but it will be tested for impairment annually or more frequently. Other intangible assets will also be tested for impairment in accordance with this new standard and intangible assets with finite lives (such as core deposit intangibles) must be amortized. In addition, any unidentifiable intangible asset recorded in accordance with FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, i.e., when the fair value of liabilities assumed exceeds the fair value of the tangible and identified intangible assets acquired, must continue to be amortized in the manner specified in that standard. Statement No. 142 also states that "goodwill impairment losses shall be presented as a separate line item in the income statement before the subtotal *income from continuing operations* (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation."

At present, banks report the amortization expense of intangible assets, including goodwill amortization, in item 7.c of the Call Report income statement (Schedule RI). In response to the accounting and reporting changes mandated by Statement No. 142, the agencies are replacing existing item 7.c with two items: item 7.c.(1), "Goodwill impairment losses," and item 7.c.(2), "Amortization expense and impairment losses for other intangible assets." This change will conform the reporting of the amortization expense of and impairment losses on intangibles in the Call Report to Statement No. 142.

Statement No. 142 does not apply to goodwill and intangible assets acquired in business combinations between two or more mutual institutions until the FASB issues interpretive guidance related to the application of the purchase method to such transactions. Until this interpretive guidance is issued and takes effect, goodwill and intangible assets acquired in combinations of mutual institutions will continue to be accounted for in accordance with the previously applicable accounting standard, Accounting Principles Board Opinion No. 17. However, for Call Report income statement presentation purposes, mutual institutions should report goodwill amortization expense and any goodwill impairment losses in new item 7.c.(1) and the amortization expense of and any impairment losses on other intangible assets in new item 7.c.(2).

Item 7.c.(1), Goodwill impairment losses. Report any impairment losses recognized during the period on goodwill (as defined for Schedule RC, item 10.a). Exclude the amortization expense of and any impairment losses on any unidentifiable intangible assets recorded in accordance with FASB Statement No. 72 (report such amortization expense in Schedule RI, item 7.c.(2)). Also exclude goodwill impairment losses associated with discontinued operations (report such losses on a net-of-tax basis in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes").

Until interpretive guidance concerning the application of the purchase method of accounting for business combinations between two or more mutual institutions is issued by the FASB and takes effect, mutual institutions must continue to amortize goodwill and test goodwill for impairment in accordance with APB Opinion No. 17. Mutual institutions should report this goodwill amortization expense and any goodwill impairment losses in this item.

Item 7.c.(2), Amortization expense and impairment losses for other intangible assets. Report the amortization expense of and any impairment losses on "Other intangible assets" (as defined for Schedule RC, item 10.b). Include the amortization expense of and any impairment losses on any unidentifiable intangible assets recorded in accordance with FASB Statement No. 72. However, exclude the amortization expense of and any impairment losses on servicing assets, which should be netted against the servicing income reported in Schedule RI, item 5.f, "Net servicing fees," above.

Schedule RI-B, Part I, Charge-offs and Recoveries on Loans and Leases

As is also the case with Schedule RC-N as discussed above, all closed-end residential mortgage loans (in domestic offices), both first and junior liens, are currently combined for purposes of reporting charge-offs and recoveries in Schedule RI-B, part I. The agencies are making a change to Schedule RI-B, part I, comparable to the one they are making to Schedule RC-N. As a result, banks will report charge-offs and recoveries separately for first and junior lien closed-end residential mortgages, which means that the information on these loans in Schedule RI-B, part I, will parallel the reporting for these types of loans (in domestic offices) in Schedule RC-C, part I, Loans and Leases, items 1.c.(2)(a) and (b).

Item 1.c.(2), Closed-end loans secured by 1-4 family residential properties. Report in the appropriate subitem and column closed-end loans secured by 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c.(2), column B) charged-off and recovered.

Item 1.c.(2)(a), Secured by first liens. Report in columns A and B, as appropriate, closed-end loans secured by first liens on 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c.(2)(a), column B) charged-off and recovered.

Item 1.c.(2)(b), Secured by junior liens. Report in columns A and B, as appropriate, closed-end loans secured by junior liens on 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c.(2)(b), column B) charged-off and recovered. Include loans secured by junior liens in this item even if the bank also holds a loan secured by a first lien on the same 1-4 family residential property and there are no intervening junior liens.

Schedule RI-B, Part II, Changes in Allowance for Loan and Lease Losses

On March 26, 2001, the 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 (HFS) 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 a held-for-sale account through a write-down of the recorded investment to fair value upon transfer. The guidance further explains that this write-down should be reported as a charge-off in Schedule RI-B, part I, Charge-offs and Recoveries on Loans and Leases. As Schedule RI-B, part II, is currently structured, the corresponding reduction in the allowance should be reported as an "Adjustment" to the allowance in item 5. Because each type of "Adjustment" reported in Schedule RI-B, part II, item 5, must be disclosed and described in item 6 of Schedule RI-E, Explanations, the guidance also states that write-downs included in part II, item 5, should be disclosed in Schedule RI-E and described as "Write-downs arising from transfers of loans to HFS." A preprinted caption to that effect was inserted in Schedule RI-E, item 6.a, in the Call Report forms for June 30, 2001.

To simplify the reporting of these write-downs, the agencies are moving the disclosure now made in Schedule RI-E, item 6.a, directly into Schedule RI-B, part II. This will be accomplished by separating the reporting of these write-downs from the reporting of other adjustments to the allowance through the creation of a new item 4, "LESS: Write-downs arising from transfers of loans to a held-for-sale account," and then renumbering existing items 4 through 6 as items 5 through 7. Amounts included in renumbered item 6, "Adjustments," must continue to be disclosed and described in Schedule RI-E, item 6, but these disclosures will no longer need to cover write-downs arising from transfers of loans to HFS.

The instructions for these revised Schedule RI-B, part II, items are as follows:

Item 3, LESS: Charge-offs. Report the amount of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date. The amount reported in this item must equal Schedule RI-B, part I, item 9, column A, "Total" charge-offs, less Schedule RI-B, part II, item 4, "LESS: Write-downs arising from transfers of loans to a held-for-sale account."

Item 4, LESS: Write-downs arising from transfers of loans to a held-for-sale account. Report the amount of write-downs to fair value charged against the allowance for loan and lease losses resulting from transfers of loans and leases to a held-for-sale account during the calendar year-to-date that occurred when:

- the reporting bank decided to sell loans and leases that were not originated or otherwise acquired with the intent to sell, and

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

Item 5, Provision for loan and lease losses. Report the amount expensed as the provision for loan and lease losses during the calendar year-to-date. The provision for loan and lease losses represents the amount needed to make the allowance for loan and lease losses adequate to absorb estimated loan and lease losses, based on management's evaluation of the bank's current loan and lease exposures. The amount reported in this item must equal Schedule RI, item 4. If the amount reported in this item is negative, enclose it in parentheses.

Item 6, Adjustments. Report the allowance for loan and lease losses of a bank or other business acquired in a business combination during the calendar year-to-date reporting period. Determine the amount to be reported in this item in accordance with the General Instructions at the beginning of part II. If the bank was acquired in a transaction which became effective during the reporting period and push down accounting was used to account for the acquisition, report the change in the balance of the allowance for loan and lease losses from the end of the previous calendar year through the effective date of the bank's acquisition in this item.

For those banks required to establish and maintain an allocated transfer risk reserve, report all allowable adjustments made during the reporting period between the regular allowance for loan and lease losses and the allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Federal Reserve Regulation K, Part 347 of the FDIC Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies.

For banks with foreign offices that file the FFIEC 031 report forms, report any increases or decreases resulting from the translation into dollars of any portions of the allowance for loan and lease losses that are denominated in a foreign currency.

If the amount reported in this item is negative, enclose it in parentheses.
State the dollar amount of and describe each transaction included in this item in Schedule RI-E, Explanations, item 6.

Item 7, Balance end of current period. Report the sum of items 1, 2, 5, and 6, less items 3 and 4. The amount reported in this item must equal Schedule RC, item 4.c, "Allowance for loan and lease losses."

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[1] While credit-enhancing interest-only strips not held for trading are reported at fair value in Schedule RC-S, the amortized cost of these strips should be used in this calculation.

[2] Also include any purchased interest-only strips that act as credit enhancements for assets that have not been securitized because these strips are not reported in Schedule RC-S, item 9.

[3] Any deferred tax liability used in this manner would not be available for the bank to use in determining the amount of disallowed deferred tax assets in Schedule RC-R, item 9.b, above.