

REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORT) FOR 2002

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Presented below is a schedule-by-schedule discussion of the revisions to the Call Report that will take effect March 31, 2002, which compares the revisions to the reporting requirements in effect through December 31, 2001. In the first quarter 2002 Call Report, banks may report a reasonable estimate for any new or revised item for which the requested information is not readily available. In addition, the wording of the instructions presented below should be regarded as preliminary. The FFIEC Reports Task Force invites comments on these instructions. Comments should be submitted by electronic mail to ffiec-suggest@frb.gov (to the attention of Mr. John Smullen). An update to the Call Report instruction book will be distributed with the March 31, 2002, Call Report materials.

To assist you in understanding these revised reporting requirements, samples of the schedules that are being revised, or portions thereof, are shown at the end of this document to illustrate the specific reporting changes. These samples are taken from the FFIEC 041 report forms, except for Schedule RC-H, which is taken from the FFIEC 031 report forms. Draft copies of the FFIEC 031 and 041 report forms for March 31, 2002, are available on the FFIEC's Web site (www.ffiec.gov) and as an attachment to the electronic version of the Financial Institution Letter (FIL) to which this document is attached on the FDIC's Web site (www.fdic.gov/news/news/financial/2002/index.html).

Schedule RC, Balance Sheet

At present on the Call Report balance sheet (Schedule RC), federal funds sold and securities purchased under agreements to resell are reported together as a single asset category in item 3. Similarly, federal funds purchased and securities sold under agreements to repurchase are currently reported as a single liability category in item 14.

In order to distinguish between transactions taking place in the federal funds market and the securities resale/repurchase markets for liquidity and other analytical purposes, the agencies are revising the reporting treatment of these transactions. On the balance sheet (Schedule RC) as it will be revised, all securities resale/repurchase agreements, regardless of maturity, that are accounted for as financings

under generally accepted accounting principles will be reported separately from federal funds transactions. Banks will disclose their federal funds sold and purchased (in domestic offices) in asset item 3.a and liability item 14.a, respectively. Securities resale agreements will be reported in asset item 3.b, while securities repurchase agreements will be reported in liability item 14.b.

In conjunction with this balance sheet change, the definition of "federal funds transactions" in the Glossary section of the Call Report instructions is being revised. As currently defined, federal funds transactions are the lending and borrowing of immediately available funds for one business day or under a continuing contract, regardless of the nature of the collateral, if any. As they will be reported in revised items 3.a and 14.a, federal funds sold and purchased will not include:

- any securities resale/repurchase agreements;
- overnight Federal Home Loan Bank advances; and
- lending and borrowing transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract.

Overnight Federal Home Loan Bank advances will begin to be included on the balance sheet in liability item 16, "Other borrowed money," and will also be reported in Schedule RC-M, item 5.a.(1), Federal Home Loan Bank advances "With a remaining maturity of one year or less."

For banks filing the FFIEC 031 report form, lending and borrowing transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract that are not securities resale/repurchase agreements will begin to be reported on the balance sheet (Schedule RC) in asset item 4.b, "Loans and leases, net of unearned income," and liability item 16, "Other borrowed money," respectively. These foreign office borrowing transactions must also be included in Schedule RC-M, item 5.b.(1), Other borrowings "With a remaining maturity of one year or less."

The revised instructions for the balance sheet (Schedule RC) items affected by these revisions are as follows:

Item 3.a, Federal funds sold (in domestic offices). Report the outstanding amount of federal funds sold, i.e., immediately available funds lent (in domestic offices) under agreements or contracts that **have an original maturity of one business day or roll over under a continuing contract**, excluding such funds lent in the form of securities purchased under agreements to resell (which should be reported in Schedule RC, item 3.b) and overnight loans for commercial and industrial purposes (which generally should be reported in Schedule RC, item 4.b). Transactions that are to be reported as federal funds sold may be secured or unsecured or may involve an agreement to resell loans or other instruments that are not securities.

Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed. A continuing contract, regardless of the terminology used, is an agreement that remains in effect for more than one business day, but has no specified maturity and does not require advance notice of the lender or the borrower to terminate.

Report federal funds sold on a gross basis, i.e., do **not** net them against federal funds purchased, except to the extent permitted under FASB Interpretation No. 39.

Also exclude from federal funds sold:

- (1) Sales of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions") (report in Schedule RC, item 4.b, "Loans and leases, net of unearned income").
- (2) Securities resale agreements that **have an original maturity of one business day or roll over under a continuing contract**, if the agreement requires the bank to resell the identical security

purchased or a security that meets the definition of substantially the same in the case of a dollar roll (report in Schedule RC, item 3.b, "Securities purchased under agreements to resell").

(3) Lending transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract that are not securities resale agreements (report in Schedule RC, item 4.b, "Loans and leases, net of unearned income").

For further information, **see** the Glossary entry for "federal funds transactions."

Item 3.b, Securities purchased under agreements to resell. Report the outstanding amount of:

(1) Securities resale agreements, regardless of maturity, if the agreement requires the bank to resell the identical security purchased or a security that meets the definition of substantially the same in the case of a dollar roll.

(2) Purchases of participations in pools of securities, regardless of maturity.

Report securities purchased under agreements to resell on a gross basis, i.e., do **not** net them against securities sold under agreements to repurchase, except to the extent permitted under FASB Interpretation No. 41.

Exclude from this item:

(1) Resale agreements involving assets other than securities (report in Schedule RC, item 3.a, "Federal funds sold," or item 4.b, "Loans and leases, net of unearned income," as appropriate, depending on the maturity and office location of the transaction).

(2) Due bills representing purchases of securities or other assets by the reporting bank that have not yet been delivered and similar instruments, whether collateralized or uncollateralized (report in Schedule RC, item 4.b). See the Glossary entry for "due bills."

(3) So-called yield maintenance dollar repurchase agreements (see the Glossary entry for "repurchase/resale agreements").

For further information, **see** the Glossary entry for "repurchase/resale agreements."

Item 14.a, Federal funds purchased (in domestic offices). Report the outstanding amount of federal funds purchased, i.e., immediately available funds borrowed (in domestic offices) under agreements or contracts that **have an original maturity of one business day or roll over under a continuing contract**, excluding such funds borrowed in the form of securities sold under agreements to repurchase (which should be reported in Schedule RC, item 14.b) and Federal Home Loan Bank advances (which should be reported in Schedule RC, item 16). Transactions that are to be reported as federal funds purchased may be secured or unsecured or may involve an agreement to repurchase loans or other instruments that are not securities.

Immediately available funds are funds that the purchasing bank can either use or dispose of on the same business day that the transaction giving rise to the receipt or disposal of the funds is executed. A continuing contract, regardless of the terminology used, is an agreement that remains in effect for more than one business day, but has no specified maturity and does not require advance notice of the lender or the borrower to terminate.

Report federal funds purchased on a gross basis, i.e., do **not** net them against federal funds sold, except to the extent permitted under FASB Interpretation No. 39.

Also exclude from federal funds purchased:

(1) Purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions") (report in Schedule RC, item 16, "Other borrowed money").

(2) Securities repurchase agreements that **have an original maturity of one business day or roll over under a continuing contract**, if the agreement requires the bank to repurchase the

identical security sold or a security that meets the definition of substantially the same in the case of a dollar roll (report in Schedule RC, item 14.b, "Securities sold under agreements to repurchase").

- (3) Borrowings from a Federal Home Loan Bank or a Federal Reserve Bank (report those in the form of securities repurchase agreements in Schedule RC, item 14.b, and all other borrowings in Schedule RC, item 16).
- (4) Borrowing transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract that are not securities repurchase agreements (report in Schedule RC, item 16).

For further information, **see** the Glossary entry for "federal funds transactions."

Item 14.b, Securities sold under agreements to repurchase. Report the outstanding amount of:

- (1) Securities repurchase agreements, regardless of maturity, if the agreement requires the bank to repurchase the identical security sold or a security that meets the definition of substantially the same in the case of a dollar roll.
- (2) Sales of participations in pools of securities, regardless of maturity.

Report securities sold under agreements to repurchase on a gross basis, i.e., do **not** net them against securities purchased under agreements to resell, except to the extent permitted under FASB Interpretation No. 41.

Exclude from this item:

- (1) Repurchase agreements involving assets other than securities (report in Schedule RC, item 14.a, "Federal funds purchased," or item 16, "Other borrowed money," as appropriate, depending on the maturity and office location of the transaction).
- (2) Borrowings from a Federal Home Loan Bank or a Federal Reserve Bank other than in the form of securities repurchase agreements (report in Schedule RC, item 16).
- (3) Obligations under due bills that resulted when the bank sold securities or other assets and received payment, but has not yet delivered the assets, and similar obligations, whether collateralized or uncollateralized (report in Schedule RC, item 16). See the Glossary entry for "due bills."
- (3) So-called yield maintenance dollar repurchase agreements (see the Glossary entry for "repurchase/resale agreements").

For further information, **see** the Glossary entry for "repurchase/resale agreements."

NOTE: Conforming changes will be made to the instructions for Schedule RC-M, items 5, "Other borrowed money," 5.a, "Federal Home Loan Bank advances," and 5.b, "Other borrowings," and to the Glossary entries for "federal funds transactions" and "repurchase/resale agreements."

Schedule RC-H, Selected Balance Sheet Items for Domestic Offices (FFIEC 031 only)

As a consequence of the balance sheet change discussed above under which federal funds transactions will include only transactions in domestic offices, the scope of existing items 3 and 4 on Schedule RC-H will be modified so that they exclude federal funds transactions. As a result, revised items 3 and 4 will cover only "Securities purchased under agreements to resell" and "Securities sold under agreements to repurchase" in domestic offices, respectively. The revised instructions for these items are as follows:

Item 3, Securities purchased under agreements to resell. Report the amount of securities purchased under agreements to resell (as defined for Schedule RC, item 3.b) held in domestic offices of the reporting bank. See the Glossary entry for "repurchase/resale agreements" for further information.

Item 4, Securities sold under agreements to repurchase. Report the amount of securities sold under agreements to repurchase (as defined for Schedule RC, item 14.b) held in domestic offices of the reporting bank. See the Glossary entry for "repurchase/resale agreements" for further information.

Schedule RC-K, Quarterly Averages

As the FFIEC announced in its notification to banks about the Call Report changes that would be implemented on a phased-in schedule beginning March 31, 2001, banks with less than \$25 million in total assets were not required to report quarterly averages of loans by loan category in Schedule RC-K on the FFIEC 041 report form until the March 31, 2002, report date. During 2001, these banks were permitted to report only a quarterly average for total loans.

Thus, beginning with the first quarter 2002 Call Report, banks with less than \$25 million in assets that file the FFIEC 041 report form, like all other banks that file the FFIEC 041 report form, will report a quarterly average for total loans and for the four following categories of loans:

- "Loans secured by real estate" as defined for Schedule RC-C, part I, item 1, column B.
- "Commercial and industrial loans" as defined for Schedule RC-C, part I, item 4, column B.
- "Credit cards" to individuals for household, family, and other personal expenditures as defined for Schedule RC-C, part I, item 6.a, column B.
- "Other" consumer loans as defined for Schedule RC-C, part I, items 6.b and 6.c, column B.

In addition, banks with less than \$25 million in assets, like all other banks that file the FFIEC 041 report form, will begin to report a quarterly average for "Loans to finance agricultural production and other loans to farmers," as defined for Schedule RC-C, part I, item 3, column B, if these agricultural loans are more than 5 percent of total loans.

Schedule RC-L, Derivatives and Off-Balance Sheet Items

New items for the fair value of credit derivatives and for merchant credit card sales volume are being added to Schedule RC-L.

Credit Derivatives

The notional amounts of credit derivatives have been reported in the Call Report since 1997. These amounts are reported separately for contracts where the reporting bank is the guarantor (Schedule RC-L, item 7.a) and for contracts where the bank is the beneficiary (Schedule RC-L, item 7.b). However, there are no disclosures in the Call Report for the fair value of these contracts. In contrast, banks disclose both the notional amounts and fair values of four other types of derivatives in Schedule RC-L: interest rate contracts, foreign exchange contracts, equity derivative contracts, and commodity and other contracts. Gross positive and gross negative fair values are reported for each of these four types of derivatives, with separate values provided for contracts held for trading and for contracts held for purposes other than trading.

Although notional amounts are useful as an overall indicator of the volume of credit derivatives, these amounts do not reveal the credit or market risk to which banks are exposed from such contracts. Therefore, the agencies are adding four new items to Schedule RC-L, Derivatives and Off-Balance Sheet Items, to capture the gross positive and gross negative fair values of credit derivatives where the bank is the guarantor (items 7.a.(1) and (2)) and where the bank is the beneficiary (items 7.b.(1) and (2)).

Schedule RC-L, item 7, Credit derivatives. Report in the appropriate subitem the notional amount and fair value of all credit derivatives. Credit derivatives are arrangements that allow one party (the "beneficiary") to transfer the credit risk of a "reference asset" to another party (the "guarantor"). Banks should include the notional amounts of credit default swaps, total rate of return swaps, and other credit derivative instruments.

All transactions within the consolidated bank should be reported on a net basis, i.e., intrabank transactions should not be reported in this item. No other netting of contracts is permitted for purposes of this item. Therefore, do not net: (1) credit derivatives with third parties on which the reporting bank is the beneficiary against credit derivatives with third parties on which the reporting bank is the guarantor, or (2) contracts subject to bilateral netting agreements. The notional amount of credit derivatives should not be included in Schedule RC-L, items 11 through 13, and the fair value of credit derivatives should not be included in Schedule RC-L, item 14.

As defined in FASB Statement No. 133, fair value is the amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and should be used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units times that market price. If a quoted market price is not available, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider prices for similar assets or similar liabilities and the results of valuation techniques to the extent available in the circumstances. For purposes of this item and Schedule RC-L, item 15, the reporting bank should determine the fair value of its derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.

Item 7.a., Notional amount of credit derivatives on which the reporting bank is the guarantor. Report the notional amount (stated in U.S. dollars) of all credit derivatives on which the bank has extended credit protection to other parties.

Item 7.a.(1), Gross positive fair value. Report the total fair value of those credit derivatives reported in Schedule RC-L, item 7.a, above, with positive fair values.

Item 7.a.(2), Gross negative fair value. Report the total fair value of those credit derivatives reported in Schedule RC-L, item 7.a, above, with negative fair values. Report the total fair value as an absolute value; do **not** enclose the total fair value in parentheses or use a minus (-) sign.

Item 7.b., Notional amount of credit derivatives on which the reporting bank is the beneficiary. Report the notional amount (stated in U.S. dollars) of all credit derivatives on which the bank has obtained a guarantee against credit losses from other parties.

Item 7.b.(1), Gross positive fair value. Report the total fair value of those credit derivatives reported in Schedule RC-L, item 7.b, above, with positive fair values.

Item 7.b.(2), Gross negative fair value. Report the total fair value of those credit derivatives reported in Schedule RC-L, item 7.b, above, with negative fair values. Report the total fair value as an absolute value; do **not** enclose the total fair value in parentheses or use a minus (-) sign.

Merchant Credit Card Sales Volume

In general, merchant processing activities involve the gathering of sales information from merchants, obtaining authorization for sales transactions, collecting funds from the card-issuing banks, and crediting the merchants' accounts for their sales. The off-balance sheet risk associated with merchant processing can be significant. For both "acquiring banks" and "agent banks with risk," the primary risks associated with the merchant acquirer business are credit risk and transaction risk, although liquidity and reputation risks are also present. "Acquiring banks" contract with merchants for the settlement of credit card transactions. Acquiring banks can contract to process a merchant's credit card transactions either directly with the merchant or indirectly through an agent bank or another third-party organization. In contrast, "agent banks with risk" arrange for an acquiring bank to process a merchant's credit card transactions and, in effect, guarantee that merchant's transactions.

With respect to credit risk, an acquiring bank and an agent bank with risk both rely on the creditworthiness of the merchant to pay chargebacks. Chargebacks can result, for example, from a customer's dispute of a transaction (e.g., the customer never received the merchandise) or from an invalid transaction (i.e., a transaction with an improper authorization). Chargebacks are a recurring

element in the merchant processing business, and a merchant must be financially capable to pay for them. However, when the merchant is unable or unwilling to pay, merchant chargebacks become a credit exposure to the acquiring bank. If a merchant's transactions have been guaranteed by an agent bank with risk or another third party, the acquiring bank will look to this guarantor for reimbursement. If a merchant does not honor its chargebacks, the acquiring bank or the agent bank with risk, if one is associated with the merchant, will incur losses.

Because sales volume is a risk indicator, the agencies are adding items on year-to-date merchant credit card sales volume to Schedule RC-L, one for acquiring banks (item 11.a) and another for agent banks with risk (item 11.b). These new items will enable the agencies to identify and monitor institutions that are involved in the merchant credit card sales acquiring business, the volume of sales transactions being processed or guaranteed, particularly in relation to an institution's capital, significant changes in sales volume at individual institutions, and new entrants to the business.

With these new items on merchant credit card sales volume designated as items 11.a and 11.b of Schedule RC-L, existing items 11 through 14 on derivatives will be renumbered as items 12 through 15.

Item 11, Year-to-date merchant credit card sales volume. Merchant processing is the settlement of credit card transactions for merchants. It is a separate and distinct business line from credit card issuing. Merchant processing activity involves obtaining authorization for credit card sales transactions, gathering sales information from the merchant, collecting funds from the card-issuing bank or business, and crediting the merchants' accounts for their sales.

An **acquiring bank** is a bank that initiates and maintains contractual agreements with merchants, agent banks, and third parties (e.g., independent sales organizations and member service providers) for the purpose of accepting and processing credit card transactions. An acquiring bank has liability for chargebacks for the merchants' sales activity.

An **agent bank with risk** is a bank that, by agreement, participates in another bank's merchant credit card acceptance program. An agent bank with risk assumes liability for chargebacks for all or a portion of the loss for the merchants' sales activity.

For purposes of items 11.a and 11.b, banks should include credit card sales transactions involving bank credit cards, e.g., MasterCard and Visa.

For banks with total assets of \$10 billion or more, the year-to-date sales volume may be reported to the nearest million, with zeros reported in the thousands column, rather than to the nearest thousand.

Item 11.a, Sales for which the reporting bank is the acquiring bank. Report the year-to-date volume of sales (in U.S. dollars) generated through the bank's merchant processing activities where the reporting bank is the acquiring bank. This will include amounts processed for merchants contracted directly by the acquiring bank, amounts processed for agent banks with risk, and amounts processed for third parties (e.g., independent sales organizations and member service providers). Banks that are required to report sales data to the credit card associations of which they are members (e.g., MasterCard and Visa) should measure sales volume in the same manner for purposes of this item.

Item 11.b, Sales for which the reporting bank is the agent bank with risk. Report the year-to-date volume of sales (in U.S. dollars) generated through the bank's merchant processing activities where the reporting bank is acting as an agent bank with risk. Include all sales transactions for which the acquiring bank with whom the reporting bank contracted may hold the bank responsible.

Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets

The agencies are revising Schedule RC-N by splitting the existing items for past due and nonaccrual closed-end loans secured by first mortgages on 1-4 family residential properties (in domestic offices) into separate items for loans secured by first liens (item 1.c.(2)(a)) and loans secured by junior liens (item 1.c.(2)(b)). In addition, a new Memorandum item 5 will be added for held-for-sale loans and leases that are past due or in nonaccrual status.

Past Due and Nonaccrual Closed-End Residential Mortgage Loans

Currently, all closed-end residential mortgage loans, both first and junior liens, are combined for purposes of reporting past due and nonaccrual loan data. By revising Schedule RC-N to have banks report these data separately for first and junior lien residential mortgages, the information on these loans in Schedule RC-N 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).

Over the past several years, there has been an enormous growth in home equity lending, which includes closed-end loans secured by junior liens on 1-4 family residential properties as well as open-end loans secured by such properties (home equity lines of credit), which are generally junior liens. However, because closed-end first and junior lien residential mortgage loans are reported on a combined basis in Schedule RC-N, differences in the delinquency and loss rates for these two different types of closed-end residential mortgages cannot be discerned at present. This change will permit the agencies to monitor the performance of home equity lending in the form of closed-end junior lien residential mortgage loans in the same manner as they currently do for revolving, open-end 1-4 family residential mortgage loans.

Item 1.c.(2), Closed-end loans secured by 1-4 family residential properties. Report in the appropriate subitem and column the amount of all closed-end loans secured by 1-4 family residential properties (in domestic offices), as defined for Schedule RC-C, part I, item 1.c.(2), column B, that are past due 30 days or more or are in nonaccrual status as of the report date.

Item 1.c.(2)(a), Secured by first liens. Report in the appropriate column the amount of all closed-end loans secured by first liens on 1-4 family residential properties (in domestic offices), as defined for Schedule RC-C, part I, item 1.c.(2)(a), column B, that are past due 30 days or more or are in nonaccrual status as of the report date.

Item 1.c.(2)(b), Secured by junior liens. Report in the appropriate column the amount of all closed-end loans secured by junior liens on 1-4 family residential properties (in domestic offices), as defined for Schedule RC-C, part I, item 1.c.(2)(b), column B, that are past due 30 days or more or are in nonaccrual status as of the report date. 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.

Past Due and Nonaccrual Loans and Leases Held for Sale

Currently the category-by-category breakdown of a bank's loans and leases that are past due or in nonaccrual status in Schedule RC-N includes loans and leases held for sale together with loans and leases "held for investment." While this combined reporting in the body of Schedule RC-N will continue, the agencies are adding new Memorandum item 5 to specifically identify held-for-sale loans and leases that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status. Existing Memorandum item 5 on past due derivative contracts will be renumbered as Memorandum item 6.

Selling loans, in whole or in part, has become an increasingly important portfolio risk management tool for institutions seeking to manage concentrations, change risk profiles, improve returns, and generate liquidity. Separately disclosing the repayment performance of held-for-sale loans will enable the agencies to better understand the quality of loans in banks' held-for-sale portfolios and held-for-investment portfolios. It will also give an indication of banks' held-for-sale strategies over time. In addition, because loans held for sale are carried on the balance sheet at the lower of cost or fair value and loan loss allowances are not established for these loans, the new Memorandum items will ensure that the relationship between banks' loan loss allowances for loans held for investment and the volume of such loans that are in past due or nonaccrual status can be readily ascertained.

Memorandum item 5, Loans and leases held for sale. Report in the appropriate column the amount of all loans and leases held for sale, as defined for Schedule RC, item 4.a, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and leases will have been included in one or more of the loan and lease categories in items 1 through 8 of Schedule RC-N above.

Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments

The FDIC relies on Call Report information to estimate the amount of insured and uninsured deposits in banks. The FDIC uses estimates of insured deposits to determine the reserve ratios of the deposit insurance funds. The reserve ratios are measured against the funds' "designated reserve ratio," as defined in the Federal Deposit Insurance Act (FDI Act), in determining assessment rates to be paid by insured institutions. Thus, having accurate information on insured and uninsured deposits is critical to managing the insurance funds and assessing deposit insurance premiums. In this regard, Section 7(a)(9) of the FDI Act directs the FDIC to "take such action as may be necessary" to ensure that each insured bank maintains and regularly reports "information on the total amount of all insured deposits, preferred deposits, and uninsured deposits at the institution."

Memorandum items 2.a and 2.b of Schedule RC-O are currently used to satisfy this statutory requirement. In Memorandum item 2.a, each bank is asked whether it has "a method or procedure for determining a better estimate of uninsured deposits than" the so-called "simple estimate" of uninsured deposits (in domestic offices). The simple estimate of uninsured deposits is derived by multiplying the number of deposit accounts of more than \$100,000 (reported in Schedule RC-O, Memorandum item 1.b.(2)) by \$100,000 and subtracting the result from the amount of deposit accounts of more than \$100,000 (reported in Schedule RC-O, Memorandum item 1.b.(1)). If a bank answers Memorandum item 2.a affirmatively, thereby reporting that it has a method or procedure for better estimating uninsured deposits, the bank is directed to report this estimate in Schedule RC-O, Memorandum item 2.b. The estimate of insured deposits is then the difference between total deposits (in domestic offices) and estimated uninsured deposits.

With only about two percent of all banks reporting that they have a "better estimate" of uninsured deposits, this has raised concerns about the accuracy of the aggregate insured deposit estimate for banks that the FDIC has had to derive primarily from simple estimates. For example, the simple estimate overstates a bank's insured deposits when a single depositor holds multiple accounts in the same capacity at the bank and these accounts in the aggregate exceed \$100,000. In contrast, the simple estimate understates a bank's insured deposits when multiple parties participate in the ownership of a single account of more than \$100,000 or when there is "pass-through" coverage on an account of more than \$100,000 that is owned by multiple depositors. Consequently, the "simple estimate" may either overstate or underestimate the amount of a bank's insured deposits.

In addition, on Schedule RC-O on the FFIEC 031 report form for banks with foreign offices, Memorandum items 1.a and 1.b for the number and amount of deposit accounts and Memorandum item 2 for the better estimate of uninsured deposits cover only domestic offices. However, domestic offices exclude insured branches in Puerto Rico and U.S. territories and possessions, which are considered foreign offices for Call Report purposes. As a result, even the simple estimate of uninsured deposits does not consider the deposits in these insured branches, an omission that biases the simple estimate toward understatement. Therefore, the scope of Memorandum items 1.a and 1.b will be expanded to include deposits in insured branches in Puerto Rico and U.S. territories and possessions.

In order to better satisfy the statutory requirement that banks maintain and the FDIC regularly receive information on insured and uninsured deposits while also considering the associated reporting burden, the agencies are revising Schedule RC-O, Memorandum item 2, "Estimated amount of uninsured deposits of the bank," to improve the FDIC's estimation of insured deposits. As revised, Memorandum item 2 will no longer ask whether the reporting bank, in essence, can estimate its uninsured deposits and, if so, to report this estimate. Instead, all banks will be required to report the estimated uninsured portion of their deposits, subject to certain criteria that are discussed below in the instruction for this revised item. In this regard, this revision and the reporting criteria are intended to take advantage of banks' automated systems to the extent that they are in place today and as they improve over time. The instructions for these revised Schedule RC-O items are as follows:

Memorandum item 1, Total deposits (in domestic offices) of the bank (and in insured branches in Puerto Rico and U.S. territories and possessions). Memorandum items 1.a.(1), 1.b.(1), and 1.b.(2) are to be completed each quarter. Memorandum item 1.a.(2) is to be completed for the June report only. When determining the number and size of deposit accounts, each individual certificate, passbook, account, and other evidence of deposit is to be treated as a separate account. For purposes of

completing this Memorandum item, multiple accounts of the same depositor should not be aggregated. In situations where a bank assigns a single account number to each depositor so that one account number may represent multiple deposit contracts between the bank and the depositor (e.g., one demand deposit account, one money market deposit account, and three certificates of deposit), each deposit contract is a separate account.

On the FFIEC 041 report form, the sum of Memorandum items 1.a.(1) and 1.b.(1) must equal Schedule RC, item 13.a, "Deposits in domestic offices." On the FFIEC 031 report form, the sum of Memorandum items 1.a.(1) and 1.b.(1) must equal the sum of Schedule RC, item 13.a, "Deposits in domestic offices," plus Schedule RC-O, items 5.a, "Demand deposits in insured branches" in Puerto Rico and U.S. territories and possessions, and 5.b, "Time and savings deposits in insured branches" in Puerto Rico and U.S. territories and possessions.

NOTE: The existing instructions for Memorandum items 1.a, 1.a.(1), 1.a.(2), 1.b, 1.b.(1), and 1.b.(2) of Schedule RC-O are not being revised.

Memorandum item 2, Estimated amount of uninsured deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions). Report the estimated amount of the bank's deposits (in domestic offices and in insured branches in Puerto Rico and U.S. territories and possessions) that is not covered by federal deposit insurance. The reporting of this information is mandated by Section 7(a)(9) of the Federal Deposit Insurance Act, which directs the FDIC to ensure that each insured institution maintains information on the total amount of uninsured deposits and provides this information to the FDIC on a regular basis.

The bank's estimate of its uninsured deposits should be reported in accordance with the following criteria. In this regard, it is recognized that a bank may have multiple automated information systems for its deposits and that the capabilities of a bank's information systems to provide an estimate of its uninsured deposits will differ from bank to bank at any point in time and, within an individual institution, may improve over time.

- (1) If the bank has brokered deposits, which must be reported in Schedule RC-E, Memorandum item 1.b, "Total brokered deposits," it must use the information it has developed for completing Schedule RC-E, Memorandum item 1.c, "Fully insured brokered deposits," to determine its best estimate of the uninsured portion of its brokered deposits.
- (2) If the bank has deposit accounts with balances of \$100,000 or more whose ownership is based on a fiduciary relationship, Part 330 of the FDIC's regulations generally states that the titling of the deposit account (together with the underlying records) must indicate the existence of the fiduciary relationship in order for insurance coverage to be available on a "pass-through" basis. Fiduciary relationships include, but are not limited to, relationships involving a trustee, agent, nominee, guardian, executor, or custodian.

A bank with fiduciary deposit accounts with balances of \$100,000 or more must diligently use the available data on these deposit accounts, including data indicating the existence of different principal and income beneficiaries, to determine its best estimate of the uninsured portion of these accounts.

- (3) If the bank has deposit accounts with balances of \$100,000 or more of employee benefit plans and eligible deferred compensation plans, Part 330 of the FDIC's regulations states that these accounts are insured on a "pass-through" basis for the non-contingent interest of each plan participant provided, in general, that the bank met each applicable regulatory capital standard at the time the deposit was accepted. In some instances, eligibility for this "pass-through" coverage is subject to written notification requirements.

A bank with employee benefit plan and eligible deferred compensation plan deposit accounts

with balances of \$100,000 or more must diligently use the available data on these deposit accounts to determine its best estimate of the uninsured portion of these accounts.

- (4) If the bank's deposit accounts include benefit-responsive "Depository Institution Investment Contracts," which must be reported in Schedule RC-O, item 10, these deposit liabilities are not eligible for federal deposit insurance pursuant to Section 11(a)(8) of the Federal Deposit Insurance Act. A bank with benefit-responsive "Depository Institution Investment Contracts" must include the entire amount of these contracts in the estimated amount of uninsured deposits it reports in this Memorandum item 2.
- (5) If the bank has deposit accounts with balances in excess of the federal deposit insurance limit that it has collateralized by pledging assets, such as deposits of the U.S. Government and of states and political subdivisions in the U.S. (which must be reported in Schedule RC-E, items 2 and 3, and, on the FFIEC 031 report form, in Schedule RC-E, part II, item 5), the bank should make a reasonable estimate of the portion of these deposits that is uninsured using the data available from its information systems.
- (6) If the bank has deposit accounts with balances in excess of the federal deposit insurance limit for which it has acquired private deposit insurance to cover this excess amount, the bank should make a reasonable estimate of the portion of these deposits that is not insured by the FDIC using the data available from its information systems.
- (7) For all other deposit accounts, the bank should make a reasonable estimate of the portion of these deposits that is uninsured using the data available from its information systems. In developing this estimate, if the bank has automated information systems in place that enable it to identify jointly owned accounts and estimate the deposit insurance coverage of these deposits, the higher level of insurance afforded these joint accounts should be taken into consideration. Similarly, if the bank has automated information systems in place that enable it to classify accounts by deposit owner and/or ownership capacity, the bank should incorporate this information into its estimate of the amount of uninsured deposits by aggregating accounts held by the same deposit owner in the same ownership capacity before applying the \$100,000 insurance limit. Ownership capacities include, but are not limited to, single ownership, joint ownership, business (excluding sole proprietorships), revocable trusts, irrevocable trusts, and retirement accounts.

In the absence of automated information systems, a bank may use nonautomated information such as paper files or less formal knowledge of its depositors if such information provides reasonable estimates of appropriate portions of its uninsured deposits. A bank's use of such nonautomated sources of information is considered appropriate unless errors associated with the use of such sources would contribute significantly to an overall error in the FDIC's estimate of the amount of insured and uninsured deposits in the banking system.

Schedule RC-R, Regulatory Capital

In items 1 through 11 of Schedule RC-R, Regulatory Capital, banks report their computation of Tier 1 capital. Items 8 and 9 are used to disclose any disallowed servicing assets and purchased credit card relationships and any disallowed deferred tax assets, respectively. These disallowed amounts are calculated, in part, by reference to a subtotal of Tier 1 capital components. The instructions for Schedule RC-R explain how this subtotal should be derived by adding and subtracting, as appropriate, amounts reported in items 1 through 7 of Schedule RC-R, but the amount of the subtotal is not directly reported in the schedule itself. To help ensure that banks are using the proper subtotal when determining whether they have any disallowed amounts, existing items 8 and 9 will be renumbered as items 9.a and 9.b and item 8 will become the subtotal of items 1 through 7 (i.e., the sum of items 1 and 6, less items 2, 3, 4, 5, and 7). For banks using commercially available Call Report software to complete their reports, the software should automatically calculate the correct subtotal and include it in new item 8.

In addition, under the Gramm-Leach-Bliley Act of 1999, banks that have financial subsidiary must deconsolidate these subsidiary and deduct their aggregate outstanding equity investment in them from

capital and assets when calculating their regulatory capital ratios. Banks with financial subsidiaries currently use items 28 through 30 of Schedule RC-R to report the amount of their adjustments to total risk-based capital, risk-weighted assets, and average total assets. These adjustments enter into the calculation of the three capital ratios reported in items 31 through 33: the Tier 1 leverage ratio, the Tier 1 risk-based capital ratio, and the total risk-based capital ratio. However, although two of these ratios use Tier 1 capital in the numerator, banks with financial subsidiaries do not currently report the adjustment that they must make to Tier 1 capital for these subsidiaries. Therefore, a new item 28.a will be added to Schedule RC-R in which banks with financial subsidiaries will report the amount by which the Tier 1 capital figure reported in item 11 of Schedule RC-R must be adjusted to eliminate those amounts included in Tier 1 capital that are associated with the financial subsidiaries. Existing item 28, "Adjustment to total risk-based capital," will be renumbered as item 28.b.

Final Rule on Recourse and Direct Credit Substitutes

On November 29, 2001, the agencies published a final rule revising the regulatory capital treatment of recourse arrangements and direct credit substitutes, including residual interests and credit-enhancing interest-only strips, as well as asset-backed and mortgage-backed securities. This final rule took effect on January 1, 2002. Any transactions settled on or after that date are subject to the rule. However, for transactions settled before January 1, 2002, that result in increased capital requirements under the final rule, banks may delay the application of the final rule to those transactions until December 31, 2002.

The final rule applies a ratings-based approach that sets the risk-based capital requirements for asset-backed and mortgage-backed securities and other positions in securitization transactions (except credit-enhancing interest-only strips) according to their relative risk using credit ratings from nationally recognized statistical rating organizations, i.e., rating agencies, to measure the level of risk. (The ratings-based approach does **not** apply to corporate bonds, municipal bonds, or other debt securities that have been rated by a rating agency.) In general, under the ratings-based approach, the risk-based capital requirement for a position in a securitization is computed by multiplying the face amount of the position by the risk weight appropriate for the credit rating of the position. For example, the risk weights for long-term ratings are as follows:

Long-Term Rating Category	Examples	Risk Weight (In Percent)
Highest or second highest investment grade	AAA or AA	20
Third highest investment grade	A	50
Lowest investment grade	BBB	100
One category below investment grade	BB	200
More than one category below investment grade, or unrated	B or unrated	Not eligible for ratings-based approach

As the table shows, the final rule creates a new 200 percent risk weight category for asset-backed and mortgage-backed securities and other positions in asset securitizations that are rated one category below investment grade by a rating agency. The instructions for Schedule RC-R are being revised for this ratings-based approach. In particular, the instructions will explain how banks with securities or other positions in securitizations that should be risk-weighted 200 percent should report these exposures within the existing structure of Schedule RC-R. In essence, banks will have to multiply the amount subject to the 200 percent risk weight by 2 and report the resulting product in the 100 percent risk weight column (column F) to achieve the effect of this higher risk weight category.

Another provision of the final rule establishes a concentration limit for credit-enhancing interest-only strips (both retained and purchased). This limitation requires banks to deduct the amount of credit-enhancing interest-only strips in excess of 25 percent of Tier 1 capital (before disallowed servicing assets, purchased credit card relationships, deferred tax assets, and credit-enhancing interest-only strips) from Tier 1 capital and from assets. Banks are permitted to deduct disallowed credit-enhancing interest-only strips on a basis that is net of a proportional amount of any associated deferred tax liability recorded on the balance sheet. Banks with disallowed credit-enhancing interest-only strips should include this disallowed amount in Schedule RC-R, items 10, "Other additions to (deductions from) Tier 1 capital," and 26, "LESS: Other deductions from assets for leverage capital purposes."

The final rule also requires banks to hold one dollar in total risk-based capital against every dollar of a residual interest that is not eligible for the ratings-based approach, except for credit-enhancing interest-only strips that have already been deducted from Tier 1 capital under the concentration limit. This means that the capital requirement for a residual interest can exceed the full risk-based capital charge (e.g., 8 percent on 100 percent risk-weighted assets) on the transferred assets that are supported by the residual interest. In general, residual interests include any retained on-balance sheet asset that functions as a credit enhancement in a securitization as well as purchased credit-enhancing interest-only strips. This dollar-for-dollar capital charge currently applies to financial assets sold with low-level recourse, which are reported in Schedule RC-R, item 50. Accordingly, the scope of item 50 will be expanded to include all recourse transactions subject to the dollar-for-dollar risk-based capital requirement.

Instructions

As a result of the changes discussed above, new or revised Schedule RC-R instructions are presented below.

Item 8, Subtotal. Report the sum of Schedule RC-R, items 1 and 6, less items 2, 3, 4, 5, and 7. The amount reported in this item should be used to determine the limitations on servicing assets and purchased credit card relationships for Schedule RC-R, item 9.a; deferred tax assets for Schedule RC-R, item 9.b; and credit-enhancing interest-only strips for Schedule RC-R, item 10, below.

Item 9.a, LESS: Disallowed servicing assets and purchased credit card relationships.

NOTE: The only change to this instruction is to line (a) in the *Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation*, which will be revised to read:

(a) Enter the amount from Schedule RC-R, item 8 _____

Item 9.b, LESS: Disallowed deferred tax assets.

NOTE: The only changes to this instruction are to the *Disallowed Deferred Tax Assets Calculation*, which will be revised as follows:

(a) Enter the amount from Schedule RC-R, item 8 _____

(b) Enter 10% of the amount in (a) above _____

(c) Enter the amount of deferred tax assets reported in Schedule RC-F, item 2 _____

(d) Enter the amount of taxes previously paid that the bank could recover through loss carrybacks if the bank's temporary differences (both deductible and taxable) fully reverse at the report date _____

(e) Amount of deferred tax assets that is dependent upon future taxable income:
subtract (d) from (c); enter 0 if the result is a negative amount _____

(f) Enter the portion of (e) that the bank could realize within the next 12 months based on its projected future taxable income. Future taxable income should not include net operating loss carryforwards to be used during the next 12 months or existing temporary differences that are expected to reverse over the next 12 months. _____

(g) Enter the lesser of (b) and (f) _____

(h) Disallowed net deferred tax assets: subtract (g) from (e); enter 0 if the result is a negative amount _____

Item 10, Other additions to (deductions from) Tier 1 capital. Report the amount of any additions to or deductions from Tier 1 capital based on the capital guidelines of the reporting bank's primary federal supervisory authority that are not included in Schedule RC-R, items 1 through 9.b, above.

For example, include the portion of credit-enhancing interest-only strips included in the bank's total assets that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. A credit-enhancing interest-only strip is defined in the capital guidelines as "an on-balance sheet asset that, in form or in substance: (i) represents the contractual right to receive some or all of the interest due on transferred assets; and (ii) exposes the bank to credit risk directly or indirectly associated with the transferred assets that exceeds a pro rata share of the bank's claim on the assets, whether through subordination provisions or other credit enhancement techniques." In general, credit-enhancing interest-only strips are limited to 25 percent of Tier 1 capital. Banks may use the following approach to determine the amount of disallowed credit-enhancing interest-only strips.

Disallowed Credit-Enhancing Interest-Only Strips Calculation

(a) Enter the amount from Schedule RC-R, item 8 _____

(b) Enter 25% of the amount in (a) above _____

(c) Retained credit-enhancing interest-only strips from Schedule RC-S, items 2.a and 12: enter the fair value of those strips included in Schedule RC, item 5, "Trading assets," and the amortized cost of those strips not held for trading _____

(d) Purchased credit-enhancing interest-only strips included in Schedule RC-S, item 9:² enter the fair value of those strips included in Schedule RC, item 5, "Trading assets," and the amortized cost of those strips not held for trading¹ _____

(e) Total credit-enhancing interest-only strips: enter the sum of (c) and (d) _____

(f) Enter the lesser of (b) and (e) _____

(g) Disallowed credit-enhancing interest-only strips: subtract (f) from (e); enter 0 if the result is a negative amount _____

If the bank has disallowed credit-enhancing interest-only strips, i.e., line (g) in the preceding calculation is a positive amount, include this amount as a deduction from Tier 1 capital in this item. Banks are permitted, but not required, to deduct disallowed credit-enhancing interest-only strips, i.e., the amount from line (g) above, on a basis that is net of a proportional amount of any associated deferred tax liability recorded on the **balance** sheet. 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.

In addition, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations should deduct from Tier 1 capital, as appropriate: (a) any equity investment in the subsidiary, (b) any debt issued by the subsidiary that is held by the bank or guarantees by the bank of any debt issued by the subsidiary, and (c) any extensions of credit from the bank to the subsidiary. (Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.)

Banks with financial subsidiaries should exclude from this item adjustments to Tier 1 capital for the deconsolidation of such subsidiaries. Adjustments to Tier 1 capital for financial subsidiaries should be reported in Schedule RC-R, item 28.a, below.

If the amount to be reported in this item is a net deduction, enclose the amount in parentheses.

Item 11, Tier 1 capital. Report the sum of Schedule RC-R, items 8 and 10, less items 9.a and 9.b. If the bank has no financial subsidiaries, the amount reported in this item is the numerator of the bank's Tier 1 risk-based capital ratio and its Tier 1 leverage ratio.

Item 26, LESS: Other deductions from assets for leverage capital purposes. Report the amount of any other assets that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority. Include the amount of any disallowed credit-enhancing interest-only strips from Schedule RC-R, item 10, above.

Banks with financial subsidiaries should exclude from this item adjustments to average total assets for the deconsolidation of such subsidiaries. Adjustments to average total assets for financial subsidiaries should be reported in Schedule RC-R, item 30, below.

Item 28.a, Adjustment to Tier 1 capital reported in item 11. Report one half of the bank's aggregate outstanding equity investment in financial subsidiaries as of the report date, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank for purposes of these reports, one half of the bank's aggregate outstanding equity investment in the subsidiary is one half of the amount of the bank's ownership interest accounted for under the equity method of accounting. The bank's ownership interest will have been included in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies." However, the bank's ownership interest in a financial subsidiary should exclude any loans and advances to the subsidiary and any holdings of the subsidiary's bonds, notes, and debentures, which are included in Schedule RC, item 8.

If one or more financial subsidiaries are consolidated into the bank for purposes of these reports, the bank may use the following approach to determine one half of the bank's aggregate outstanding equity investment in these consolidated financial subsidiaries.

One Half of the Aggregate Outstanding Equity Investments in Consolidated Financial Subsidiaries

- (a) Enter the total assets of consolidated financial subsidiaries included in Schedule RC, item 12 _____
- (b) Enter the total liabilities of consolidated financial subsidiaries included in Schedule RC, item 21 _____
- (c) Enter the sum of the amounts included in Schedule RC-R, items 2, 3, 4, 5, 7, 9.a, and 9.b, that are attributable to the bank's consolidated financial subsidiaries (e.g., goodwill on a financial subsidiary's balance sheet that was included in the disallowed goodwill reported on Schedule RC-R, item 7) _____
- (d) Enter the amount of "Other additions to (deductions from) Tier 1 capital" included in Schedule RC-R, item 10, that is attributable to the bank's consolidated financial subsidiaries _____
- (e) Enter the amount of any minority interests in consolidated financial subsidiaries included in Schedule RC, item 22 _____

(f) Enter the sum of (a) and (d) less (b), (c), and (e); enter 0 if the amount is a negative number _____

(g) Adjustment to Tier 1 capital reported in Schedule RC-R, item 11 (one half of the bank's aggregate outstanding equity investment for the bank's consolidated financial subsidiaries): enter 50% of the amount in (f) above _____

Item 28.b, Adjustment to total risk-based capital reported in item 21. Report the bank's aggregate outstanding equity investment in financial subsidiaries as of the report date, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank for purposes of these reports, the bank's aggregate outstanding equity investment in the subsidiary is the amount of the bank's ownership interest accounted for under the equity method of accounting. The bank's ownership interest will have been included in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies." However, the bank's ownership interest in a financial subsidiary should exclude any loans and advances to the subsidiary and any holdings of the subsidiary's bonds, notes, and debentures, which are included in Schedule RC, item 8.

If one or more financial subsidiaries are consolidated into the bank for purposes of these reports, the bank may use the following approach to determine the aggregate outstanding equity investments in these consolidated financial subsidiaries

Aggregate Outstanding Equity Investments in Consolidated Financial Subsidiaries

(a) Enter the amount from line (f) in the calculation of the adjustment to Tier 1 capital for consolidated financial subsidiaries in the instructions for Schedule RC-R, item 28.a, above _____

(b) Enter the sum of the amounts included in Schedule RC-R, items 12, 13, 14, 15, 16, and 19 that are attributable to the bank's consolidated financial subsidiaries _____

(c) Enter the amount of "Deductions for total risk-based capital" included in Schedule RC-R, item 20, that is attributable to the bank's consolidated financial subsidiary _____

(d) Adjustment to total risk-based capital reported in Schedule RC-R, item 21, for the bank's consolidated financial subsidiaries:
enter the sum of (a) and (b) less (c) _____

Item 29, Adjustment to risk-weighted assets reported in item 62. Report the amount of the adjustment to risk-weighted assets for financial subsidiaries, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank, the adjustment to risk-weighted assets for the subsidiary will equal the bank's ownership interest accounted for under the equity method of accounting that is included in Schedule RC-R, item 62, "Total risk-weighted assets."

If a financial subsidiary is consolidated into the bank, the adjustment to risk-weighted assets for the subsidiary will be the total amount of the subsidiary's individual assets, derivatives, and off-balance sheet items as they have been allocated by risk weight across the risk weight categories in Schedule RC-R, item 57, less the risk-weighted amount of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. These eliminated assets will not have been included in the amounts reported in Schedule RC-R, item 57.

Item 30, Adjustment to average total assets reported in item 27. Report the amount of the adjustment to average total assets for financial subsidiaries, which should be determined in the following manner.

If a financial subsidiary is not consolidated into the bank, the adjustment to average total assets for the subsidiary will be the quarterly average of the bank's ownership interest accounted for under the equity method of accounting that is included in Schedule RC-R, item 27.

If a financial subsidiary is consolidated into the bank, the adjustment to average total assets for the subsidiary will be the quarterly average of the assets of the subsidiary that have been included in the consolidated assets of the bank, as reported in Schedule RC-R, item 22; less any disallowed intangible assets and deferred tax assets of the subsidiary that have been included in Schedule RC-R, items 23, 24, and 25; less any other assets of the subsidiary that have been included as other deductions in Schedule RC-R, item 26; and less the quarterly average of bank assets representing claims on the financial subsidiary, other than the bank's ownership interest in the subsidiary, that were eliminated in consolidation. These eliminated assets will not have been included in the amount reported in Schedule RC-R, item 22.

Balance Sheet Asset Categories – The first paragraph of this section of the Schedule RC-R instructions, which is entitled "Assets Sold with Recourse" and currently appears on page RC-R-14 of the Call Report instructions, will be revised. A new paragraph on "Assets Subject to a 200% Risk Weight" will also be added to this section of the Schedule RC-R instructions.

Assets Sold with Recourse and Purchased Credit-Enhancing Interest-Only Strips – When an on-balance sheet asset that is a position in an asset securitization qualifies for the ratings-based approach, the asset should be reported in the appropriate asset category in Schedule RC-R (items 34 to 42) and risk-weighted 20%, 50%, 100%, or 200% according to its rating. (See the paragraph below for further information on assets subject to a 200% risk weight.)

Otherwise, in an asset sale with recourse in which a bank has retained on-balance sheet assets that act as credit enhancements (including retained credit-enhancing interest-only strips) that do not qualify for the ratings-based approach, these assets should be reported in column B, "Items Not Subject to Risk-Weighting," of the appropriate Schedule RC-R asset category (items 34 to 42). Similarly, purchased credit-enhancing interest-only strips should be reported in column B. Depending on the nature of the individual recourse transactions, the risk-weighting of these transactions will take place in Schedule RC-R, item 49, "Retained recourse on small business obligations sold with recourse," item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement," or item 51, "All other financial assets sold with recourse." Purchased credit-enhancing interest-only strips are to be risk-weighted in Schedule RC-R, item 50.

Assets Subject to a 200% Risk Weight – Asset-backed and mortgage-backed securities and other on-balance sheet positions in asset securitizations that are rated one category below investment grade (e.g., BB) by a rating agency are subject to a 200% risk weight. Because Schedule RC-R does not have a column for the 200% risk weight, assets in this risk weight category should be reported in the following manner in Schedule RC-R:

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) at amortized cost, e.g., in "Held-to-maturity securities," report (1) the asset's amortized cost multiplied by 2 in column F-100% risk weight, and (2) the asset's amortized cost as a negative number in column B.
- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like an "Available-for-sale debt security," i.e., at fair value with unrealized gains (losses) reported in "Other comprehensive income," report (1) the difference between the asset's fair value and amortized cost in column B as a positive number if fair value exceeds cost or as a negative number if cost exceeds fair value, (2) the asset's amortized cost multiplied by 2 in column F-100% risk weight, and (3) the asset's amortized cost as a negative number in column B

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like a "Trading asset," i.e., at fair value with unrealized gains (losses) included in current earnings, report (1) the asset's fair value multiplied by 2 in column F-100% risk weight, and (2) the asset's fair value as a negative number in column B.

Item 44, Financial standby letters of credit. For financial standby letters of credit reported in Schedule RC-L, item 2, that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A*:

- (1) the amount outstanding and unused of those letters of credit subject to a risk weight of 100% or less and
- (2) two times the amount outstanding and unused of those letters of credit subject to a 200% risk weight.

For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.

For all other financial standby letters of credit reported in Schedule RC-L, item 2, report *in column A*:

- (1) the amount outstanding and unused of those letters of credit for which this amount is less than the effective risk-based capital requirement for the assets that are credit-enhanced by the letter of credit. These financial standby letters of credit are subject to the low-level exposure rule. For these financial standby letters of credit, report as the credit equivalent amount *in column B* their amount outstanding and unused multiplied by either 12.5 or by the institution-specific factor determined in the manner described in the instructions for Schedule RC-R, item 50.
- (2) the full amount of the assets that are credit-enhanced by those letters of credit that are not subject to the low-level exposure rule. For these financial standby letters of credit, report *in column B* 100% of the amount reported in column A.

- *In column D—20% risk weight*, include the credit equivalent amount of the portion of financial standby letters of credit reported in Schedule RC-L, item 2.a, that has been conveyed to U.S. and other OECD depository institutions (and to non-OECD depository institutions for letters of credit with remaining maturities of one year or less). Also include in column D the credit equivalent amount of financial standby letters of credit to which the ratings-based approach applies that are rated in the highest or second highest investment grade category, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.
- *In column E—50% risk weight*, include the credit equivalent amount of financial standby letters of credit to which the ratings-based approach applies that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.
- *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

Item 50, Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement. As defined in the agencies' risk-based capital standards,

- "Recourse" means an arrangement in which a bank retains, in form or in substance, any credit risk directly or indirectly associated with an asset it has sold (in accordance with generally accepted accounting principles) that exceeds a pro rata share of the bank's claim on the asset.
- "Direct credit substitute" means an arrangement in which a bank assumes, in form or in substance, credit risk directly or indirectly associated with an on- or off-balance sheet asset or

exposure that was not previously owned by the bank (third-party asset) and the risk assumed by the bank exceeds the pro rata share of the bank's interest in the third party asset.

- "Residual interest" means any on-balance sheet asset that represents an interest (including a beneficial interest) created by a transfer that qualifies as a sale (in accordance with generally accepted accounting principles) of financial assets, whether through a securitization or otherwise, and that exposes a bank to credit risk directly or indirectly associated with the transferred asset that exceeds a pro rata share of the bank's claim on the asset, whether through subordination provisions or other credit enhancement techniques. In general, residual interests include credit-enhancing interest-only strips (both retained and purchased), spread accounts, cash collateral accounts, retained subordinated interests, other forms of overcollateralization, accrued but uncollected interest on transferred assets that (when collected) will be available to serve in a credit-enhancing capacity, and similar on-balance sheet assets that function as a credit enhancement.

Under these definitions, all recourse arrangements in the form of on-balance sheet assets are residual interests. The only type of residual interest that is not a recourse arrangement is a purchased credit-enhancing interest-only strip. Purchased credit-enhancing interest-only strips are a type of direct credit substitute. Recourse arrangements not in the form of on-balance sheet assets (e.g., off-balance sheet recourse obligations, which may have an associated on-balance sheet recourse liability) are not residual interests.

The banking agencies' risk-based capital standards include a low-level exposure rule, which states that if the maximum exposure to loss retained or assumed by a bank in connection with a recourse arrangement, a direct credit substitute, or a residual interest is less than the effective risk-based capital requirement for the credit-enhanced assets (generally, four percent for qualifying first lien 1-4 family residential mortgages and eight percent for most other assets), the risk-based capital requirement is limited to the bank's maximum contractual exposure, less any recourse liability account established in accordance with generally accepted accounting principles.

However, for residual interests (other than credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets) not eligible for the ratings-based approach, a bank must maintain risk-based capital equal to the face amount of the residual interest (net of any existing associated deferred tax liability recorded on the balance sheet), even if the amount of risk-based capital required to be maintained exceeds the full risk-based capital requirement for the assets transferred. The effect of this requirement is that, notwithstanding the low level exposure rule, a bank must hold one dollar in total risk-based capital against every dollar of the face amount of its residual interests that are not eligible for the ratings-based approach (a dollar-for-dollar capital requirement), except for any credit-enhancing interest-only strips that are required to be deducted from Tier 1 capital and assets.

Because all residual interests (including all retained and purchased credit-enhancing interest-only strips) are on-balance sheet assets, the on-balance sheet amount of a bank's residual interests not eligible for the ratings-based approach should be reported in column B of the Balance Sheet Asset Category section of Schedule RC-R. Similarly, when a direct credit substitute is carried as an asset on the bank's Call Report balance sheet and the low level exposure rule applies, the on-balance sheet asset amount should be reported in column B of the Balance Sheet Asset Category section of Schedule RC-R.

For purposes of this item, the "maximum contractual dollar amount of exposure" of a residual interest and a direct credit substitute that is an on-balance sheet asset is its "face amount" as of the report date, i.e., its amortized cost if it is not held for trading purposes and its fair value if it is held for trading purposes. In determining the "maximum contractual dollar amount of exposure" for a residual interest, a bank is permitted, but not required, to reduce the face amount by the amount of any existing associated deferred tax liability ³. The "maximum contractual dollar amount of exposure" of a recourse arrangement and a direct credit substitute that is not in the form of an on-balance sheet asset is the maximum contractual amount of the bank's exposure as of the report date, less the balance of any associated recourse liability account established in accordance with generally accepted accounting principles and reported in Schedule RC-G, item 4, "Other" liabilities.

Banks that have entered into (a) recourse arrangements and direct credit substitutes (other than financial standby letters of credit) that are subject to the low level exposure rule and (b) residual interests subject to a dollar-for-dollar capital requirement should report these transactions in this item (Schedule RC-R, item 50) using either the "direct reduction method" or the "gross-up method" in accordance with the existing Call Report instructions for item 50 that begin in the paragraph after the second bullet on page RC-R-23. References in the existing instructions to the "maximum contractual dollar amount of recourse exposure" should be read as "maximum contractual dollar amount of exposure."

Item 51, All other financial assets sold with recourse. Include in this item all recourse arrangements (as defined in Schedule RC-R, item 50, above) in which the bank's exposure has not already been included in Schedule RC-R, item 44, "Financial standby letters of credit," item 49, "Retained recourse on small business obligations sold with recourse," or item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement." For example, include in this item recourse arrangements where the bank is obligated to repurchase a loan or otherwise compensate the purchaser of a loan in the event of the borrower's failure to pay when due (unless the loan is a small business obligation sold with recourse that has been reported in Schedule RC-R, item 49, above).

For those recourse arrangements that must be included in this item that are not eligible for the ratings-based approach, report *in column A* the outstanding principal balance of the loans or other financial assets that were sold with recourse, minus the amount of any recourse liability account associated with these transactions that is included in Schedule RC-G, item 4, "Other" liabilities. For those recourse arrangements that must be included in this item that act as credit enhancements for asset-backed or mortgage-backed securities and to which the ratings-based approach applies, report *in column A*:

- (1) the maximum contractual remaining amount of the bank's recourse exposures that are subject to a risk weight of 100% or less, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4, and
- (2) two times the maximum contractual remaining amount of the bank's recourse exposures that are subject to a 200% risk weight, minus the amount of any recourse liability account associated with these exposures that is included in Schedule RC-G, item 4.
 - *In column B*, report 100 percent of the amount reported in column A.
 - *In column C—0% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
 - *In column D—20% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column D the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the highest or second highest investment grade category, e.g., AAA or AA, in the case of long-term ratings, or in the highest rating category, e.g., A-1 or P-1, in the case of short-term ratings.
 - *In column E—50% risk weight*, include the credit equivalent amount of financial assets sold with recourse (not eligible for the ratings-based approach) that, if they were carried as assets on the balance sheet, would meet the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Also include in column E the credit equivalent amount of those recourse arrangements to which the ratings-based approach applies that are rated in the third highest investment grade category, e.g., A, in the case of long-term ratings, or in the second highest rating category, e.g., A-2 or P-2, in the case of short-term ratings.

- *In column F—100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

Schedule RC-T, Fiduciary and Related Services

Beginning with the year-end 2001 Call Report, institutions that exercise fiduciary powers and have fiduciary assets or accounts began providing data on their trust activities by completing Schedule RC-T in place of previously separate annual trust reports. However, in 2002, the largest trust institutions must start reporting information on their trust assets and accounts and their fiduciary and related services income in Schedule RC-T, items 4 through 19, in their March 31, June 30, and September 30 Call Reports.

This quarterly trust reporting requirement applies to institutions with more than \$250 million in total fiduciary assets as of the preceding December 31 or with gross fiduciary and related services income of more than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year. To determine whether your bank must complete items 4 through 19 of Schedule RC-T in the three quarterly Call Reports prior to the December 31, 2002, report, use the data your bank reported in its December 31, 2001, Call Report. Total fiduciary assets is the sum of item 9, columns A and B, of Schedule RC-T. Gross fiduciary and related services income is reported in Schedule RC-T, item 19, while revenue is the sum of Schedule RI, items 3 and 5.m.

Schedule RI, Income Statement

The agencies are revising the reporting of expenses associated with intangible assets in the Call Report income statement. In addition, banks with less than \$25 million in total assets must begin to report loan income by loan category.

Interest and Fee Income on Loans

As the FFIEC announced in its notification to banks about the Call Report changes that would be implemented on a phased-in schedule beginning March 31, 2001, banks with less than \$25 million in total assets were not required to report loan income by loan category in Schedule RI on the FFIEC 041 report form until the March 31, 2002, report date. During 2001, these banks were permitted to report only the total amount of their loan income.

Beginning with the first quarter 2002 Call Report, banks with less than \$25 million in assets that file the FFIEC 041 report form, like all other banks that file the FFIEC 041 report form, will report a breakdown of their total interest and fee income on loans. Total loan income will be broken down into the six following categories of loans:

- "Loans secured by real estate" as defined for Schedule RC-C, part I, item 1, column B.
- "Commercial and industrial loans" as defined for Schedule RC-C, part I, item 4, column B.
- "Credit cards" to individuals for household, family, and other personal expenditures as defined for Schedule RC-C, part I, item 6.a, column B.
- "Other" consumer loans as defined for Schedule RC-C, part I, items 6.b and 6.c, column B.
- "Loans to foreign governments and official institutions" as defined for Schedule RC-C, part I, item 7, column B.
- "All other loans." This category of loan income will include income on "Loans to depository institutions and acceptances of other banks," "Loans to finance agricultural production and other loans to farmers," "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," and "Other loans" as defined for Schedule RC-C, part I, items 2, 3, 8, and 9, respectively.

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."

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.