SCHEDULE RC-M -- MEMORANDA

Item No. **Caption and Instructions**

1 **Extensions of credit by the reporting bank to its executive officers, directors, principal shareholders, and their related interests as of the report date.** For purposes of this item, the terms "extension of credit," "executive officer," "director," "principal shareholder," and "related interest," are as defined in Federal Reserve Board Regulation O.

An "extension of credit" is a making or renewal of any loan, a granting of a line of credit, or an extending of credit in any manner whatsoever. Extensions of credit include, among others, loans, overdrafts, cash items, standby letters of credit, and securities purchased under agreements to resell. For lines of credit, the amount to be reported as an extension of credit is normally the total amount of the line of credit extended to the insider, not just the current balance of the funds that have been advanced to the insider under the line of credit. *See* Section 215.3 of Regulation O for further details.

An "executive officer" of the reporting bank generally means a person who participates or has authority to participate (other than in the capacity of a director) in major policymaking functions of the reporting bank, an executive officer of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) an executive officer of any other subsidiary of that bank holding company. *See* Section 215.2(e) of Regulation O for further details.

A "director" of the reporting bank generally means a person who is a director of a bank, whether or not receiving compensation, a director of a bank holding company of which the bank is a subsidiary, and (unless properly excluded by the bank's board of directors or bylaws) a director of any other subsidiary of that bank holding company. *See* Section 215.2(d) of Regulation O for further details.

A "principal shareholder" of the reporting bank generally means an individual or a company (other than an insured bank or foreign bank) that directly or indirectly owns, controls, or has the power to vote more than ten percent of any class of voting securities of the reporting bank. *See* Section 215.11(a)(1) of Regulation O for further details.

A "related interest" means (1) a company (other than an insured bank or a foreign bank) that is controlled by an executive officer, director, or principal shareholder or (2) a political or campaign committee that is controlled by or the funds or services of which will benefit an executive officer, director, or principal shareholder. *See* Section 215.11(a)(2) of Regulation O.

1.a **Aggregate amount of all extensions of credit to all executive officers, directors, principal shareholders, and their related interests.** Report the aggregate amount outstanding as of the report date of all extensions of credit by the reporting bank to all of its executive officers, directors, and principal shareholders, and to all of the related interests of its executive officers, directors, and principal shareholders.

Include each extension of credit by the reporting bank in the aggregate amount only *one* time, regardless of the number of executive officers, directors, principal shareholders, and related interests thereof to whom the extension of credit has been made.

1.b **Number of executive officers, directors, and principal shareholders to whom the amount of all extensions of credit by the reporting bank (including extensions of credit to related interests) equals or exceeds the lesser of $500,000 or 5 percent of total capital as defined for this purpose in agency regulations.** Report the number of executive officers, directors,

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1.b (cont.) and principal shareholders of the reporting bank to whom the amount of all extensions of credit by the reporting bank outstanding as of the report date equals or exceeds the lesser of $500,000 or five percent of total capital as defined for this purpose in regulations issued by the bank's primary federal bank supervisory authority.

For purposes of this item, the amount of all extensions of credit by the reporting bank to an executive officer, director, or principal shareholder includes all extensions of credit by the reporting bank to the related interests of the executive officer, director, or principal shareholder. Furthermore, an extension of credit made by the reporting bank to *more than one* of its executive officers, directors, principal shareholders, or related interests thereof must be included in full in the amount of all extensions of credit for *each* such executive officer, director, or principal shareholder.

2 **Federal funds sold and securities purchased under agreements to resell with U.S. branches and agencies of foreign banks.** (Item 2 is not applicable to banks filing the FFIEC 034 report forms.) Report the amount of federal funds sold and securities purchased under agreements to resell with U.S. branches and agencies of foreign banks (see the Glossary entry for "banks, U.S. and foreign" for the definition of this term) which are included in Schedule RC, item 3.

3.a **Noninterest-bearing balances due from commercial banks in the U.S.** (Item 3.a is not applicable to banks filing the FFIEC 031, 032, and 033 report forms.) Report the amount of noninterest-bearing balances due from commercial banks in the U.S. that is included in Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin." See the Glossary entry for "banks, U.S. and foreign" for the definition of commercial banks in the U.S.

Noninterest-bearing balances due from commercial banks in the U.S. include those noninterest-bearing funds on deposit at commercial banks in the U.S. for which the reporting bank has already received credit and which are subject to immediate withdrawal. Balances for which the bank has not yet received credit and balances representing checks or drafts for which immediate credit has been given but which are not subject to immediate withdrawal are considered "cash items in process of collection" and should *not* be reported in this item.

Include as noninterest-bearing balances due from commercial banks in the U.S.:

(1) Noninterest-bearing balances due from the reporting bank's correspondent commercial banks in the U.S., including amounts that its correspondent is to pass through or already has passed through to a Federal Reserve Bank on behalf of the reporting bank (see the Glossary entry for "pass-through reserve balances" for further discussion).

(2) Noninterest-bearing balances that reflect deposit credit received by the reporting bank because of credit or debit card sales slips that had been forwarded for collection. (Until credit has been received, report as noncash items in process of collection in Schedule RC-F, item 4, "Other" assets.)

Exclude from noninterest-bearing balances due from commercial banks in the U.S.:

(1) Balances due from Federal Reserve Banks.

(2) Deposit accounts "due to" other commercial banks in the U.S. that are overdrawn (report in Schedule RC-C, part I, item 2, "Loans to depository institutions").

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3.a (cont.) (3) All noninterest-bearing balances that the reporting bank's trust department maintains with other commercial banks in the U.S.

3.b **Currency and coin.** (Item 3.b is not applicable to banks filing the FFIEC 031, 032, and 033 report forms.) Report the amount of currency and coin included in Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin." Currency and coin include both U.S. and foreign currency and coin owned and held in all offices of the reporting bank, currency and coin in transit to a Federal Reserve Bank or to any other depository institution for which the reporting bank has not yet received credit, and currency and coin in transit from a Federal Reserve Bank or from any other depository institution for which the reporting bank's account has already been charged. Foreign currency and coin should be converted into U.S. dollar equivalents as of the report date.

4 **Outstanding principal balance of 1-4 family residential mortgage loans serviced for others.** Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others. Include those 1-to-4 family residential mortgage loans for which the reporting bank has purchased the servicing (i.e., purchased servicing) and those 1-to-4 family residential mortgages which the reporting bank has originated and sold (or swapped with FHLMC or FNMA) but for which it has retained the servicing duties and responsibilities (i.e., retained servicing).

4.a **Mortgages serviced under a GNMA contract.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Government National Mortgage Association (GNMA). GNMA contracts generally cover residential mortgage loans guaranteed by the Department of Veterans Affairs/Veterans Administration (VA) and insured by the Federal Housing Administration (FHA).

4.b **Mortgages serviced under a FHLMC contract.** Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Federal Home Loan Mortgage Corporation (FHLMC). FHLMC contracts cover VA, FHA, and conventional mortgages, i.e., mortgages that have not been guaranteed or insured by a U.S. Government agency. A seller sells (or swaps) mortgages to FHLMC with or without recourse, as elected by the seller, and endorses each mortgage note sold to (or swapped with) FHLMC accordingly. A seller electing to sell to (or swap with) FHLMC with recourse bears all risks and costs of a borrower default, including the costs of foreclosure. If the servicing of mortgages sold to (or swapped with) FHLMC with recourse is transferred, the transferee bears these risks and costs. If a seller elects to sell (or swap) mortgages without recourse, FHLMC assumes the risk of loss from borrower defaults to the extent of FHLMC's percentage of participation in the mortgages.

4.b.(1) **Serviced with recourse to servicer.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with FHLMC in which the mortgages being serviced have been sold to (or swapped with) FHLMC with recourse and the mortgage notes have been endorsed accordingly.

4.b.(2) **Serviced without recourse to servicer.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with FHLMC in which the mortgages being serviced have been sold to (or swapped with) FHLMC without recourse and the mortgage notes have been endorsed accordingly.

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4.c **Mortgages serviced under a FNMA contract.** Report in the appropriate subitem the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under servicing contracts entered into with the Federal National Mortgage Association (FNMA). FNMA contracts cover VA, FHA, and conventional mortgages that have been sold to (or swapped with) FNMA. Residential mortgages are serviced for FNMA under either the regular or special servicing option. Under a regular option contract, the servicer assumes the risk of loss from a mortgagor default. Under a special option contract, FNMA assumes the risk of loss from a mortgagor default.

4.c.(1) **Serviced under a regular option contract.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under regular servicing option contracts entered into with FNMA.

4.c.(2) **Serviced under a special option contract.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under special servicing option contracts entered into with FNMA.

4.d **Mortgages serviced under other servicing contracts.** Report the outstanding principal balance of 1-to-4 family residential mortgage loans serviced for others under other types of servicing contracts. Include mortgages serviced under all contracts other than GNMA, FHLMC, and FNMA contracts.

5 **Customers' liability to this bank on acceptances outstanding.** (Items 5.a and 5.b are to be completed only by banks with $1 billion or more in total assets that file the FFIEC 031 and 032 report forms.) The sum of items 5.a and 5.b must equal Schedule RC, item 9.

5.a **U.S. addressees (domicile).** Report the portion of Schedule RC, item 9, that represents liabilities of customers who are U.S. addressees, i.e., are domiciled in the United States (see the Glossary entry for "domicile").

5.b **Non-U.S. addressees (domicile).** Report the portion of Schedule RC, item 9, that represents liabilities of customers who are not U.S. addressees, i.e., are domiciled outside the United States (see the Glossary entry for "domicile").

6 **Intangible assets.** Report in the appropriate subitem the unamortized amount of intangible assets. Intangible assets primarily result from business combinations accounted for under the purchase method in accordance with Accounting Principles Board Opinion No. 16, as amended, from acquisitions of portions or segments of another institution's business such as branch offices, mortgage servicing portfolios, and credit card portfolios, and from the sale or securitization of financial assets with servicing retained. Consistent with Securities and Exchange Commission guidance, intangible assets should be amortized over their estimated useful lives, generally not to exceed 25 years.

6.a **Mortgage servicing assets.** Report the carrying value of mortgage servicing assets, i.e., the unamortized cost of acquiring contracts to service loans secured by real estate (as defined for Schedule RC-C, Part I, item 1, in the Glossary entry for "Loans secured by real estate") that have been securitized or are owned by another party, net of any related valuation allowances. Exclude servicing assets resulting from contracts to service financial assets other than loans secured by real estate (report nonmortgage servicing assets in Schedule RC-M, item 6.b.(1)). For further information, see the Glossary entry for "servicing assets and liabilities."

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6.a.(1) **Estimated fair value of mortgage servicing assets.** Report the estimated fair value of the capitalized mortgage servicing assets reported in Schedule RC-M, item 6.a, above.

According to FASB Statement No. 125, the fair value of mortgage servicing assets is the amount at which the assets could be bought or sold 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 the fair value of an asset and should be used to measure fair value if available. If quoted market prices are not available, the estimate of fair value should be based on the best information available in the circumstances, considering prices for similar assets and the results of valuation techniques such as the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved. Valuation techniques for measuring servicing assets should be consistent with the objective of measuring fair value and should incorporate assumptions that market participants would use. Estimates of expected future cash flows, if used to estimate fair value, should be the best estimate based on reasonable and supportable assumptions and projections.

For purposes of this item, the reporting bank should determine the fair value of mortgage servicing assets in the same manner that it determines the fair value of these assets for other financial reporting purposes, consistent with the guidance in FASB Statement No. 125.

6.b **Other identifiable intangible assets:**

6.b.(1) **Purchased credit card relationships and nonmortgage servicing assets.** Report the carrying value of purchased credit card relationships plus the carrying value of nonmortgage servicing assets.

Purchased credit card relationships represent the right to conduct ongoing credit card business dealings with the cardholders. In general, purchased credit card relationships are an amount paid in excess of the value of the purchased credit card receivables. Such relationships arise when the reporting bank purchases existing credit card receivables and also has the right to provide credit card services to those customers. Purchased credit card relationships may also be acquired when the reporting bank purchases an entire depository institution.

Purchased credit card relationships shall be carried at amortized cost, not in excess of the discounted amount of estimated future net cash flows. Management of the institution shall review the carrying value at least quarterly, adequately document this review, and adjust the carrying value as necessary. If unanticipated acceleration or deceleration of cardholder payments, account attrition, changes in fees or finance charges, or other events occur that reduce the amount of expected future net cash flows, a writedown of the book value of the purchased credit card relationships shall be made to the extent that the discounted amount of estimated future net cash flows is less than the asset's carrying amount.

The carrying value of *nonmortgage servicing assets* is the unamortized cost of acquiring contracts to service financial assets, other than loans secured by real estate (as defined for Schedule RC-C, part I, item 1), that have been securitized or are owned by another party, net of any related valuation allowances. For further information, see the Glossary entry for "servicing assets and liabilities."

6.b.(2) **All other identifiable intangibles.** Report the unamortized amount (book value) of all other specifically identifiable intangible assets such as core deposit intangibles and favorable leasehold rights.

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6.c **Goodwill.** Report the amount (book value) of unamortized goodwill. Goodwill represents the excess of the cost of a company over the sum of the fair values of the tangible and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase.

Goodwill and similar intangible assets ordinarily cannot be disposed of apart from an institution as a whole. Accordingly, a bank may not remove goodwill from its balance sheet by "selling" or "dividending" this asset to its parent holding company or another affiliate. An exception to the rule precluding the disposal of goodwill is made when a large segment or separable group of assets of an acquired company or an entire acquired company is sold or otherwise liquidated. In that case, some or all of the unamortized goodwill recognized in the acquisition should be included in the cost of the assets sold.

The amount of goodwill reported in this item should not be reduced by any negative goodwill. Any negative goodwill arising from a business combination accounted for as a purchase must be reported in Schedule RC-G, item 4, "Other" liabilities, and in Schedule RC, item 20, "Other liabilities."

6.d **Total.** Report the sum of items 6.a, 6.b.(1), 6.b.(2), and 6.c. This amount must equal Schedule RC, item 10, "Intangible assets."

6.e **Amount of intangible assets that have been grandfathered or are otherwise qualifying for regulatory capital purposes.** Report in this item the amount of intangible assets that, in accordance with the regulatory capital standards issued by the reporting bank's primary federal bank regulatory agency, have been grandfathered. Grandfathered intangibles are intangible assets that were allowed to be used to meet capital requirements under the bank's previous regulatory capital rules but which no longer qualify for this treatment under the current capital rules of the bank's primary federal regulatory agency. Do *not* include in this item the portion of any identifiable intangible asset that, under current regulatory capital rules, would count toward (i.e., not be deducted from) the bank's regulatory capital.

For state member banks, report the remaining book value as of the report date of all intangible assets (excluding goodwill, purchased mortgage servicing rights, and purchased credit card relationships) that were recorded on the balance sheet of the reporting bank on or before February 19, 1992. Examples of intangible assets that may be reported in this item are core deposit intangibles, favorable leasehold rights, and organization costs.

Also report in this item the amount of any deferred tax liability that is specifically related to an intangible asset (other than purchased mortgage servicing rights and purchased credit card relationships) acquired in a nontaxable purchase business combination that the reporting bank chooses to net against the intangible asset for regulatory capital purposes. However, a deferred tax liability that is reported in this item and netted in this manner may not also be netted against deferred tax assets when the reporting bank determines the amount of deferred tax assets that are dependent upon future taxable income and calculates the maximum allowable amount of such deferred tax assets for regulatory capital purposes.

7 **Mandatory convertible debt.** Report the total amount of outstanding mandatory convertible debt. Mandatory convertible debt is a form of subordinated debt, i.e., equity contract notes, which obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal.

8.a **Other real estate owned**. Report in the appropriate subitem the book value, less accumulated depreciation, if any, of all real estate other than bank premises owned or controlled by the bank and its consolidated subsidiaries. Do not deduct mortgages or other liens on such property (report in Schedule RC, item 16, "Other borrowed money"). Amounts should be reported net of any applicable valuation allowances.

Exclude any property necessary for the conduct of banking business (report in Schedule RC, item 6, "Premises and fixed assets").

8.a.(1) **Direct and indirect investments in real estate ventures**. Report the net book value of direct and indirect investments in real estate ventures that are reportable as other real estate owned.

NOTE: 12 USC 29 limits the authority of national banks to hold real estate. State member banks are not authorized to invest in real estate except with the prior approval of the Board of Governors of the Federal Reserve System under Federal Reserve Regulation H (12 CFR Part 208). In certain states, nonmember banks may invest in real estate.

Include as direct and indirect investments in real estate ventures:

(1) Any real estate acquired, directly or indirectly, by the bank or a consolidated subsidiary and held for development, resale, or other investment purposes. (Do not include real estate acquired in any manner for debts previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure. Report such real estate in Schedule RC-M, item 8.a.(2) below.)

(2) Real estate acquisition, development, or construction (ADC) arrangements which are accounted for as direct investments in real estate in accordance with guidance prepared by the American Institute of Certified Public Accountants (AICPA) in Notices to Practitioners issued in November 1983, November 1984, and February 1986.

(3) Real estate acquired and held for investment by the bank or a consolidated subsidiary that has been sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, "Accounting for Sales of Real Estate." Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance with FASB Statement No. 66.

(4) Any other loans secured by real estate and advanced for real estate acquisition, development, or investment purposes if the reporting bank in substance has virtually the same risks and potential rewards as an investor in the borrower's real estate venture.

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8.a.(1) (cont.) (5) Investments in corporate joint ventures, unincorporated joint ventures, and general or limited partnerships that are primarily engaged in the holding of real estate for development, resale, or other investment purposes and over which the bank does not exercise significant influence.

8.a.(2) **All other real estate owned**. Report the net book value of all other real estate owned. Include as all other real estate owned:

(1) Foreclosed real estate, i.e.,

(a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the bank has not yet received title to the property.

(b) Real estate collateral underlying a loan when the bank has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower.

Foreclosed real estate received in full or partial satisfaction of a loan should be recorded at the fair value less cost to sell of the property at the time of foreclosure. This amount becomes the "cost" of the foreclosed real estate. When foreclosed real estate is received in full satisfaction of a loan, the amount, if any, by which the recorded amount of the loan exceeds the fair value less cost to sell of the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC, item 16, "Other borrowed money."

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraph). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs. (For further information, see the Glossary entries for "foreclosed assets" and "troubled debt restructurings.")

(2) Property originally acquired for future expansion but no longer intended to be used for that purpose.

(3) Foreclosed real estate sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, "Accounting for Sales of Real Estate." Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion

8.a.(2) (cont.) method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the foreclosed real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance with FASB Statement No. 66. For further information, see the Glossary entry for "foreclosed assets."

Property formerly but no longer used for banking may be reported either in this item as "All other real estate owned" or in Schedule RC, item 6, as "Premises and fixed assets."

8.a.(2)(a) **Construction and land development (in domestic offices)**. Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, either land under development or structures or facilities under construction, whether or not development or construction is continuing or has ceased prior to completion. When construction is substantially completed and the structure or facility is available for occupancy or use, report the net book value in the subitem below appropriate to the completed structure or facility.

For further information on the meaning of the term "construction and land development," see the instruction to Schedule RC-C, part I, item 1.a. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, either land under development or structures or facilities under construction, not just real estate acquired through foreclosure on loans that were originally reported as "construction and land development loans" in Schedule RC-C, part I, item 1.a, (column B on the FFIEC 031).

8.a.(2)(b) **Farmland (in domestic offices)**. Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, farmland.

For further information on the meaning of the term "farmland," see the instruction to Schedule RC-C, part I, item 1.b. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, farmland, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by farmland" in Schedule RC-C, part I, item 1.b, (column B on the FFIEC 031).

8.a.(2)(c) **1-4 family residential properties (in domestic offices)**. Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, 1-to-4 family residential properties.

For further information on the meaning of the term "1-4 family residential properties," see the instruction to Schedule RC-C, part I, item 1.c. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, 1-to-4 family residential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by 1-4 family residential properties" in Schedule RC-C, part I, item 1.c, (column B on the FFIEC 031).

8.a.(2)(d) **Multifamily (5 or more) residential properties (in domestic offices)**. Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, multifamily residential properties.

8.a.(2)(d) (cont.) For further information on the meaning of the term "multifamily residential properties," see the instruction to Schedule RC-C, part I, item 1.d. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, multifamily residential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by multifamily residential properties" in Schedule RC-C, part I, item 1.d, (column B on the FFIEC 031).

8.a.(2)(e) **Nonfarm nonresidential properties (in domestic offices)**. Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties.

For further information on the meaning of the term "nonfarm nonresidential properties," see the instruction to Schedule RC-C, part I, item 1.e. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by nonfarm nonresidential properties" in Schedule RC-C, part I, item 1.e, (column B on the FFIEC 031).

8.a.(2)(f) **In foreign offices**. (Item 8.a.(2)(f) is not applicable to banks filing the FFIEC 032, 033, and 034 report forms.) Report the net book value of all other real estate owned which is held in foreign offices of the reporting bank.

8.a.(3) **Total**. On the FFIEC 032, 033, and 034, report the sum of items 8.a.(1) through 8.a.(2)(e). On the FFIEC 031, report the sum of items 8.a.(1) through 8.a.(2)(f). This amount must equal Schedule RC, item 7, "Other real estate owned."

8.b **Investments in unconsolidated subsidiaries and associated companies**. Report in the appropriate subitem the amount of the bank's investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence (collectively referred to as "investees"). Include loans and advances to investees and holdings of their bonds, notes, and debentures.

Investments in investees shall be reported using the equity method of accounting. Under the equity method the carrying value of the bank's investment in an investee is originally recorded at cost but is adjusted periodically to record as income the bank's proportionate share of the investee's earnings or losses and decreased by the amount of any cash dividends or similar distributions received from the investee. For purposes of these reports, the date through which the carrying value of the bank's investment in an investee has been adjusted should, to the extent practicable, match the report date of the Report of Condition, but in no case differ by more than 93 days from the report date.

Unconsolidated subsidiaries include those majority-owned subsidiaries that do not meet the significance standards for required consolidation that the bank chooses not to consolidate under the optional consolidation provisions. Refer to the General Instructions section of this book for a detailed discussion of consolidation. See also the Glossary entry for "subsidiaries."

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8.b.(1) **Direct and indirect investments in real estate ventures**. Report the amount of the bank's investments in investees (as defined above) that are primarily engaged in the holding of real estate for development, resale, or other investment purposes. Investments by the bank in these investees may be in the form of common or preferred stock, partnership interests, loans or other advances, bonds, notes, or debentures. Such investments shall be reported using the equity method of accounting as described above. Include in this item real estate acquisition, development, or construction (ADC) arrangements which are accounted for as real estate joint ventures in accordance with guidance prepared by the American Institute of Certified Public Accountants (AICPA) in Notices to Practitioners issued in November 1983, November 1984, and February 1986.

NOTE: 12 USC 29 limits the authority of national banks to hold real estate. State member banks are not authorized to invest in real estate except with the prior approval of the Board of Governors of the Federal Reserve System under Federal Reserve Regulation H (12 CFR Part 208). In certain states, nonmember banks may invest in real estate.

8.b.(2) **All other investments in unconsolidated subsidiaries and associated companies**. Report the amount of the bank's investments in investees (as defined above) that are not primarily engaged in the holding of real estate for development, resale, or other investment purposes. Investments by the bank in these investees may be in the form of common or preferred stock, partnership interests, loans or other advances, bonds, notes, or debentures. Such investments shall be reported using the equity method of accounting as described above.

8.b.(3) **Total**. Report the sum of items 8.b.(1) and 8.b.(2). This amount must equal Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies."

9 **Noncumulative perpetual preferred stock and related surplus included in Schedule RC, item 23, "Perpetual preferred stock and related surplus."** Report the amount of outstanding noncumulative perpetual preferred stock, including any amounts received in excess of its par or stated value, that is included in Schedule RC, item 23. Exclude noncumulative perpetual preferred stock issues where the dividend is reset periodically based, in whole or in part, upon the bank's current credit standing (including, but not limited to, auction rate, money market, and remarketable preferred stock).

10 **Mutual fund and annuity sales (in domestic offices) during the quarter.** Report in the appropriate subitem the amount of mutual fund and annuity sales activity (in domestic offices) during the quarter ending with the report date. These sales may be made by the reporting bank, through a bank subsidiary, or by affiliated[1] and unaffiliated entities. For purposes of this item, sales should generally be measured in terms of gross sales dollars, not sales revenue.

In general, banks should include all sales of proprietary, private label, and other (i.e., third party) mutual funds and annuities that take place on bank premises and all other sales for which the bank receives income at the time of the sale or over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees). Include sales conducted through the reporting bank's trust department that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator), but exclude sales

[1] Other than a bank subsidiary.

10 (cont.) conducted by the trust department that are executed in a fiduciary capacity. When reporting sales by affiliated and unaffiliated entities, banks may rely on the sales information provided by these entities when completing this item.

The following are some examples of the types of transactions to be reported as sales (when the above conditions are met): initial and subsequent mutual fund and annuity sales, exchanges within a family of funds, reinvestment of income (dividends and capital gains), and sweep account activity. Other examples (when the above conditions are met) include sales made on bank premises in space that is leased to or otherwise occupied by another entity, sales made by an entity that is not located on bank premises to customers referred to that entity by the bank, sales to retail customers and institutional investors, and sales of load and no-load products. Sales should be reported gross and not net of redemptions. However, with respect to sweep accounts, the bank should report the average amount of funds swept into the money market fund each day during the quarter and not the aggregate total amount of funds swept into the money market fund during the quarter. The average may be computed from the amount of funds swept into the money market fund for each day for the calendar quarter or from the amount of funds swept into the money market fund on each Wednesday during the calendar quarter.[2]

Mutual fund is the common name for an open-end investment company whose shares are sold to the investing public. An annuity is an investment product, typically underwritten by an insurance company, that pays either a fixed or variable payment stream over a specified period of time. Both proprietary and private label mutual funds and annuities are established in order to be marketed primarily to a bank's or banking organization's customers. A proprietary product is a product for which the reporting bank or a subsidiary or other affiliate of the reporting bank acts as investment adviser and may perform additional support services. In a private label product, an unaffiliated entity acts as the investment adviser. The identity of the investment adviser is normally disclosed in the prospectus for a mutual fund or annuity. Mutual funds and annuities that are not proprietary or private label products are considered third party products. For example, third party mutual funds and annuities include products that are widely marketed by numerous parties to the investing public and have investment advisers that are not affiliated with the reporting bank.

In a situation where Banks A, B, C, and D are subsidiaries of a holding company and Bank A advises a family of mutual funds sold by all four banks in the holding company and Bank A receives an advisory fee for mutual funds sold by all four banks, Bank A should not include the amount of mutual funds sold during the quarter (and reported) by Banks B, C, and D in the amount of mutual fund sales it reports during the quarter. Bank A should report only the mutual funds it has sold during the quarter. In addition, for all four banks, this family of mutual funds would be considered proprietary funds.

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[2] For example, the reporting bank has one sweep account and uses the Wednesday reporting option. There are 13 Wednesdays during the quarter. The following amounts were swept into the money market fund each Wednesday during the quarter: Week 1: $1,000; Week 2: $5,000; Week 3: $0; Week 4: $4,000; Week 5: $5,000; Week 6: $4,000; Week 7: $3,000; Week 8: $0; Week 9: $3,000; Week 10: $2,000; Week 11: $3,000; Week 12: $4,000; Week 13: $5,000. The average amount of funds swept into the money market fund on each Wednesday during the quarter was $3,000 (i.e., the sum of the amounts for weeks 1 - 13, $39,000, divided by 13). This average amount (i.e., $3,000) would be included in item 10.a of Schedule RC-M.

Item No. Caption and Instructions

10.a **Money market funds**. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as money market mutual funds. Money market mutual funds are mutual funds which invest exclusively in short-term debt securities with the objective of providing liquidity and preserving capital while also earning income.

10.b **Equity securities funds**. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as equity securities funds. Equity securities funds are mutual funds that invest primarily in equity securities (e.g., common stock).

10.c **Debt securities funds**. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as debt securities funds. Debt securities funds are mutual funds that invest primarily in debt securities (e.g., corporate bonds, U.S. Government securities, municipal securities, mortgage-backed securities).

10.d **Other mutual funds**. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, cannot properly be reported in one of the three preceding items. Other funds may include mutual funds that invest in a mix of debt and equity securities.

10.e **Annuities**. Report the amount of sales (in domestic offices) during the quarter ending with the report date of annuities, including variable annuities.

10.f **Sales of proprietary mutual funds and annuities**. Report the total sales (in domestic offices) during the quarter ending with the report date of proprietary mutual funds and annuities. These sales will also have been included in items 10.a through 10.e above.

A general description of a proprietary product is included in the instruction to item 10 above. Proprietary mutual funds and annuities are typically created by large banking organizations and offered to customers of the banking organization's subsidiary banks. Therefore, small, independent banks are not normally involved in the sale of proprietary mutual funds and annuities.

Banks that do not sell proprietary mutual funds and annuities should report a zero or the word "none" in this item.

11 **Net unamortized realized deferred gains (losses) on off-balance sheet derivative contracts included in assets and liabilities reported in Schedule RC.** Under generally accepted accounting principles (GAAP), realized gains and losses on derivatives that qualify as hedges of existing assets, liabilities, firm commitments, or anticipated transactions may be deferred from income and are generally recognized as adjustments to the carrying amount of the items hedged. These deferred gains and losses are generally amortized to income over the life of the hedged position.

Report in this item the net amount of unamortized, realized deferred gains and losses on derivatives (e.g., that are incorporated as adjustments to the book value of existing assets or liabilities). (The unrealized gains and losses on derivatives that qualify as hedges are not reported in this item, but are included in the gross positive and negative fair values reported in Schedule RC-L, item 17, on the FFIEC 031, 032, and 033.)

Item No. Caption and Instructions

12 **Amount of assets netted against nondeposit liabilities on the balance sheet (Schedule RC) in accordance with generally accepted accounting principles.** If the reporting bank offset or netted any recognized assets against recognized nondeposit liabilities (and deposits in foreign offices other than insured branches in Puerto Rico and U.S. territories and possessions) in accordance with generally accepted accounting principles (GAAP) when it prepared its Call Report balance sheet (Schedule RC), report in this item the amount of assets netted against liabilities, except as noted below. The accounting standards for offsetting (netting) are set forth in FASB Interpretations No. 39 and No. 41. For further information, see the Glossary entry for "Offsetting."

Include in this item:

(1) Borrowings against the cash surrender value of life insurance policies that have been netted against the cash surrender value asset on the balance sheet in accordance with GAAP.

(2) Securities purchased under agreements to resell that have been netted against securities sold under agreements to repurchase in accordance with GAAP.

(3) Receivables and payables arising from unsettled trades that have been reported on a net basis in accordance with GAAP.

(4) On the FFIEC 031, "back-to-back" loans that have been netted against deposits in foreign offices other than insured branches in accordance with GAAP.

Although not a netting of assets against liabilities, also include in this item the outstanding amount of assets removed from the reporting bank's balance sheet in connection with debt defeased prior to January 1, 1997. The amount to be reported for defeased debt should equal the amount of cash or risk-free securities, generally U.S. Government securities, placed in an "irrevocable" trust for the sole purpose of meeting all of the remaining debt service payments associated with the defeased obligations in accordance with FASB Statement No. 76, "Extinguishment of Debt."

Exclude from this item:

(1) Netted on-balance sheet amounts associated with off-balance sheet derivative contracts.

(2) Deferred tax assets netted against deferred tax liabilities.

(3) Assets netted against liabilities in accounting for pension plans and other postretirement benefit plans.

(4) Assets netted against liabilities in accounting for leveraged leases.

(5) Due from deposit balances and other assets netted against deposit liabilities in domestic offices (and in insured branches in Puerto Rico and U.S. territories and possessions) (report certain amounts netted against these deposit liabilities in Schedule RC-O, items 11 and 12).

Item No. **Caption and Instructions**

13 **Outstanding principal balance of loans other than 1-to-4 family residential mortgage loans that are serviced for others.** (Item 13 is applicable only to banks filing the FFIEC 031, 032, and 033 report forms.) If the reporting bank services for others loans (other than 1-4 family residential mortgage loans) with an aggregate unpaid principal balance of more than $10 million and this aggregate unpaid principal balance exceeds 10 percent of the bank's total assets as of the report date, report the aggregate unpaid principal balance of these serviced loans. Include those loans for which the reporting bank has purchased the servicing and those loans which the reporting bank has acquired (through origination or purchase) and sold or securitized with servicing retained. Loans (other than 1-4 family residential mortgage loans) serviced for others may include, but are not limited to, credit cards, automobile loans, and loans guaranteed by the Small Business Administration.

Memorandum

Item No. **Caption and Instructions**

1 **Reciprocal holdings of banking organizations' capital instruments**. (Memorandum item 1 is to be reported in the December report only.) Report the outstanding amount of reciprocal holdings of capital instruments (i.e., instruments that qualify as Tier 1 or Tier 2 capital under the risk-based capital guidelines) issued by other banking organizations (i.e., banks and bank holding companies). Reciprocal holdings are cross-holdings resulting from formal or informal arrangements in which two or more banking organizations intentionally swap, exchange, or otherwise agree to hold each other's capital instruments.

Exclude nonreciprocal holdings of other banking organizations' capital instruments and reciprocal holdings of capital instruments issued by other banking organizations but taken in satisfaction of debts previously contracted in good faith.