Appendix C:

Reporting Regulatory Capital Adjustments Related to Losses on Fannie Mae and Freddie Mac Preferred Stock in the September 30, 2008, Thrift Financial Report

As stated in the Interagency Statement, for purposes of the regulatory capital calculations in the Thrift Financial Report (TFR) for September 30, 2008, a savings association may elect to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock as if Section 301 of the Emergency Economic Stabilization Act of 2008 (EESA) had been enacted in the third quarter of 2008. These adjustments will affect the measurement and reporting of certain components of the numerator and the denominator of the leverage and risk-based capital ratios in TFR Schedule CCR (Consolidated Capital Requirement).

To determine the adjustments to the September 30, 2008, regulatory capital calculations, a savings association should first calculate the amount by which the equity capital reported in accordance with generally accepted accounting principles (GAAP) on its September 30 TFR balance sheet (Schedule SC, item 80 and thus, Schedule CCR, item 100) would have increased if the savings association's loss on Fannie Mae and Freddie Mac preferred stock had been treated as an ordinary loss rather than a capital loss as of that date. The savings association should also calculate the amount, if any, by which the total assets reported in accordance with GAAP on its September 30 TFR balance sheet (Schedule SC, item 60, and thus Schedule CCR, item 205) would have increased as a result of this change in tax treatment due to an increase in a current income tax receivable and/or a deferred tax asset (net of any deferred tax liability). Depending on a savings association's tax position, the increase in reported equity capital may differ from the increase in reported total assets, for example, when the change in tax treatment reduces current income tax payable and/or a deferred tax liability (net of any deferred tax asset).

Savings associations should not adjust the amounts reported for any balance sheet items on Schedule SC of the September 30, 2008, TFR. Adjustments should be reported only on Schedule CCR.

1. <u>Direct Impact of Tax Benefit</u>. Savings associations that elect to include the tax effect of Section 301 of EESA in their September 30, 2008, regulatory capital calculation should include the computed amount on Schedule CCR, item 195 (Other) as an addition in arriving at Tier 1 (core) capital. The computed amount will be the current income tax receivable recognized and/or the deferred tax asset valuation allowance reversed or the reduction in income tax payable and/or the deferred tax liability. In addition, if the adjustment would increase the income tax receivable and/or deferred tax asset, then this amount is included on Schedule CCR, item 290 (Other) as an addition to adjusted total assets.

2. <u>Indirect Impact of Tax Benefit</u>. For purposes of calculating the disallowed deferred tax assets on Schedule CCR, item 133 (Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets) and Schedule CCR, item 270 (Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual

Interests, and Other Disallowed Assets), savings associations must follow current TFR instructions and TB 56, taking into consideration any increases in deferred tax assets included in regulatory capital as a result of making the election permitted under the Interagency Statement. Also, savings associations should take the adjustment to Tier 1 (core) capital that resulted from the election of Section 301 of EESA into consideration when calculating the regulatory capital limits for the following assets reported on Schedule CCR, item 133: Servicing assets and purchased credit card relationships; Deferred tax assets; and Credit-enhancing interest-only strips. The instructions to Schedule CCR, item 133 provide the approaches that a savings association should follow to determine the amounts of these assets that are disallowed for regulatory capital purposes. Finally, a savings association that elects to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock in its September 30, 2008, regulatory capital calculations should also incorporate the effect of this adjustment in its measurements of the asset-based denominator of the leverage ratio and the risk-weighted assets denominator of the risk-based capital ratios for purposes of reporting the ratios on Schedule CCR.