

CALL REPORT

INSTRUCTION BOOK UPDATE

JUNE 2005

FILING INSTRUCTIONS

NOTE: The pages listed in the column below headed “Remove Pages” are no longer needed in the *Instructions for Preparation of Reports of Condition and Income* and should be removed and discarded. The pages listed in the column headed “Insert Pages” are included in this instruction book update and should be filed promptly in your instruction book.

Remove Pages

RI-5 – RI-6 (3-01)
RI-9 – RI-10 (6-03)
None
RC-C-1 – RC-C-4 (3-03 and 6-01)
RC-C-29 – RC-C-30 (3-03)
RC-E-17 – RC-E-18 (3-01)
RC-L-7 – RC-L-8 (3-02)
RC-L-11 – RC-L-12 (3-02)
RC-N-1 – RC-N-10 (3-01 and 3-02)
A-2a – A-4 (3-03 and 6-04)
A-49 – A-52 (6-03 and 6-01)
A-57 – A-62 (6-01, 3-04, and 6-04)
A-65 – A-66 (6-03)
A-79 – A-82 (6-01 and 3-02)
A-85 (6-02)

Insert Pages

RI-5 – RI-6 (6-05)
RI-9 – RI-10 (6-05)
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RC-C-1 – RC-C-4a (6-05)
RC-C-28a – RC-C-30 (6-05)
RC-E-17 – RC-E-18 (6-05)
RC-L-7 – RC-L-8 (6-05)
RC-L-11 – RC-L-12 (6-05)
RC-N-1 – RC-N-10 (6-05)
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FFIEC 031 and 041

Item No. Caption and Instructions

- 1.b Income from lease financing receivables.** Report all income from direct financing and leveraged leases reportable in Schedule RC-C, part I, item 10, "Lease financing receivables (net of unearned income)." (See the Glossary entry for "lease accounting.")

Exclude from income from lease financing receivables:

- (1) Any investment tax credit associated with leased property (include in Schedule RI, item 9, "Applicable income taxes (on item 8)").
- (2) Provision for possible losses on leases (report in Schedule RI, item 4, "Provision for loan and lease losses").
- (3) Rental fees applicable to operating leases for furniture and equipment rented to others (report as "Other noninterest income" in Schedule RI, item 5.I).

- 1.c Interest income on balances due from depository institutions.** Report all income on assets reportable in Schedule RC, item 1.b, "Interest-bearing balances due from depository institutions."

- 1.d Interest and dividend income on securities.** Report in the appropriate subitem all income on assets that are reportable in Schedule RC-B, Securities. Include accretion of discount and deduct amortization of premium on securities. Refer to the Glossary entry for "premiums and discounts."

Include interest and dividends on securities held in the bank's held-to-maturity and available-for-sale portfolios, even if such securities have been lent, sold under agreements to repurchase that are treated as borrowings, or pledged as collateral for any purpose.

Include interest received at the sale of securities to the extent that such interest had not already been accrued on the bank's books.

Do not deduct accrued interest included in the purchase price of securities from income on securities and do not charge to expense. Record such interest in a separate asset account (to be reported in Schedule RC-F, item 5, "Other assets") to be offset upon collection of the next interest payment.

Report income from detached U.S. Government security coupons and ex-coupon U.S. Government securities not held for trading in Schedule RI, item 1.d.(3), as interest and dividend income on "All other securities." Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS."

Exclude from interest and dividend income on securities:

- (1) Realized gains (losses) on held-to-maturity securities and on available-for-sale securities (report in Schedule RI, items 6.a and 6.b, respectively).
- (2) Net unrealized holding gains (losses) on available-for-sale securities (include the amount of such net unrealized holding gains (losses) in Schedule RC, item 26.b, "Accumulated other comprehensive income," and the calendar year-to-date change in such net unrealized holding gains (losses) in Schedule RI-A, item 10, "Other comprehensive income").

Item No. **Caption and Instructions**

1.d (3) Income from advances to, or obligations of, majority-owned subsidiaries not
(cont.) consolidated, associated companies, and those corporate joint ventures over which the
 bank exercises significant influence (report as "Noninterest income" in the appropriate
 subitem of Schedule RI, item 5).

1.d.(1) **Interest and dividend income on U.S. Treasury securities and U.S. Government agency obligations (excluding mortgage-backed securities).** Report income from all securities reportable in Schedule RC-B, item 1, "U.S. Treasury securities," and item 2, "U.S. Government agency obligations." Include accretion of discount on U.S. Treasury bills.

1.d.(2) **Interest and dividend income on mortgage-backed securities.** Report income from all securities reportable in Schedule RC-B, item 4, "Mortgage-backed securities."

1.d.(3) **Interest and dividend income on all other securities.** Report income from all securities reportable in Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.," item 5, "Asset-backed securities," item 6, "Other debt securities," and item 7, "Investments in mutual funds and other equity securities with readily determinable fair values."

Exclude from interest and dividend income on all other securities:

- (1) Income from equity securities that do not have readily determinable fair values (report as "Other interest income" in Schedule RI, item 1.g).
- (2) The bank's proportionate share of the net income or loss from its investments in the stock of unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank exercises significant influence (report income or loss before extraordinary items and other adjustments as "Noninterest income" in the appropriate subitem of Schedule RI, item 5, and report extraordinary items and other adjustments in Schedule RI, item 11).

1.e **Interest income on trading assets.** Report the interest income earned on assets reportable in Schedule RC, item 5, "Trading assets."

Include accretion of discount on assets held for trading that have been issued on a discount basis, such as U.S. Treasury bills and commercial paper.

Exclude gains (losses) and fees from trading assets, which should be reported in Schedule RI, item 5.c, "Trading revenue." Also exclude revaluation adjustments from the periodic marking to market of derivative contracts held for trading purposes, which should be reported as trading revenue in Schedule RI, item 5.c. The effect of the periodic net settlements on these derivative contracts should be included as part of the revaluation adjustments from the periodic marking to market of the contracts.

1.f **Interest income on federal funds sold and securities purchased under agreements to resell.** Report the gross revenue from assets reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."

Report the expense of federal funds purchased and securities sold under agreements to repurchase in Schedule RI, item 2.b; do not deduct from the gross revenue reported in this item. However, if amounts recognized as payables under repurchase agreements have been offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in Schedule RC, Balance Sheet, in accordance with FASB Interpretation No. 41, the income and expense from these agreements may be reported on a net basis in Schedule RI, Income Statement.

Item No. Caption and Instructions

2.e Total interest expense. Report the sum of Schedule RI, items 2.a through 2.d.

3 Net interest income. Report the difference between Schedule RI, item 2.e, "Total interest expense," and Schedule RI, item 1.h, "Total interest income." If the amount is negative, enclose it in parentheses.

4 Provision for loan and lease losses. Report the amount needed to make the allowance for loan and lease losses, as reported in Schedule RC, item 4.c, adequate to absorb estimated credit losses, based upon management's evaluation of the loans and leases that the reporting bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. Also include in this item any provision for allocated transfer risk related to loans and leases. The amount reported in this item must equal Schedule RI-B, part II, item 5, "Provision for loan and lease losses." Enclose negative amounts in parentheses.

Exclude any provision for credit losses on off-balance sheet credit exposures, which should be reported in Schedule RI, item 7.d, "Other noninterest expense."

The amount reported here may differ from the bad debt expense deduction taken for federal income tax purposes.

Refer to the Glossary entries for "allowance for loan and lease losses" and "loan impairment" for additional information.

5 Noninterest income:

5.a Income from fiduciary activities. Report gross income from services rendered by the bank's trust department or by any of its consolidated subsidiaries acting in any fiduciary capacity. Include commissions and fees on sales of annuities by the bank's trust department (or by a consolidated trust company subsidiary) that are executed in a fiduciary capacity. For banks required to complete Schedule RC-T, items 12 through 19, this item must equal the amount reported in Schedule RC-T, item 19.

Exclude commissions and fees received for the accumulation or disbursement of funds deposited to Individual Retirement Accounts (IRAs) or Keogh Plan accounts when they are not handled by the bank's trust department (report in Schedule RI, item 5.b, "Service charges on deposit accounts (in domestic offices)").

Report a zero or the word "none" if the bank has no trust department and no consolidated subsidiaries that render services in any fiduciary capacity.

5.b Service charges on deposit accounts (in domestic offices). Report in this item amounts charged depositors (in domestic offices):

- (1) For the maintenance of their deposit accounts with the bank, so-called "maintenance charges."
- (2) For their failure to maintain specified minimum deposit balances.
- (3) Based on the number of checks drawn on and deposits made in their deposit accounts.
- (4) For checks drawn on so-called "no minimum balance" deposit accounts.
- (5) For withdrawals from nontransaction deposit accounts.

Item No. Caption and Instructions

- 5.b**
(cont.)
- (6) For the closing of savings accounts before a specified minimum period of time has elapsed.
 - (7) For accounts which have remained inactive for extended periods of time or which have become dormant.
 - (8) For deposits to or withdrawals from deposit accounts through the use of automated teller machines or remote service units.
 - (9) For the processing of checks drawn against insufficient funds, so-called "NSF check charges," that the bank assesses regardless of whether it decides to pay, return, or hold the check. Exclude subsequent charges levied against overdrawn accounts based on the length of time the account has been overdrawn, the magnitude of the overdrawn balance, or which are otherwise equivalent to interest (report in the appropriate subitem of Schedule RI, item 1.a, "Interest and fee income on loans (in domestic offices)").
 - (10) For issuing stop payment orders.
 - (11) For certifying checks.
 - (12) For the accumulation or disbursement of funds deposited to Individual Retirement Accounts (IRAs) or Keogh Plan accounts when not handled by the bank's trust department. Report such commissions and fees received for accounts handled by the bank's trust department in Schedule RI, item 5.a, "Income from fiduciary activities."

Exclude penalties paid by depositors for the early withdrawal of time deposits (report as "Other noninterest income" in Schedule RI, item 5.I, or deduct from the interest expense of the related category of time deposits, as appropriate).

- 5.c** **Trading revenue.** Report the net gain or loss from trading cash instruments and derivative contracts (including commodity contracts) that has been recognized during the calendar year-to-date. For banks required to complete Schedule RI, Memorandum item 8, the amount reported in this item must equal the sum of Schedule RI, Memorandum items 8.a through 8.d.

Include as trading revenue:

- (1) Revaluation adjustments to the carrying value of cash instruments reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15, "Trading liabilities," resulting from the periodic marking to market of such instruments.
- (2) Revaluation adjustments from the periodic marking to market of interest rate, foreign exchange rate, commodity, and equity derivative contracts reportable in Schedule RC-L, item 13, "Total gross notional amount of derivative contracts held for trading," and credit derivative contracts reportable in Schedule RC-L, item 7, "Credit derivatives," that are held for trading purposes. The effect of the periodic net settlements on derivative contracts held for trading purposes should be included as part of the revaluation adjustments from the periodic marking to market of these contracts.
- (3) Incidental income and expense related to the purchase and sale of cash instruments reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15, "Trading liabilities," derivative contracts reportable in Schedule RC-L, item 13, "Total gross notional amount of derivative contracts held for trading," and credit derivative contracts reportable in Schedule RC-L, item 7, "Credit derivatives," that are held for trading purposes.

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

Part II. (cont.)**Memoranda****Item No. Caption and Instructions**

NOTE: Memorandum item 4 is to be completed by all banks.

- 4 **Amount of allowance for post-acquisition losses on purchased impaired loans accounted for in accordance with AICPA Statement of Position 03-3.** Report in this item the amount of any valuation allowances established after acquisition for decreases in cash flows expected to be collected on purchased impaired loans reported as held for investment in Schedule RC, item 4.b, and accounted for in accordance with AICPA Statement of Position 03-3. These post-acquisition allowances should be included in the bank's allowance for loan and lease losses as reported in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7. Under Statement of Position 03-3, if, upon evaluation subsequent to acquisition, based on current information and events, it is probable that the bank is unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition) on a purchased impaired loan held for investment (and not accounted for as a debt security), the loan should be considered impaired for purposes of establishing an allowance pursuant to FASB Statement No. 5 or No. 114, as appropriate.

SCHEDULE RC-C -- LOANS AND LEASE FINANCING RECEIVABLES

Part I. Loans and Leases

General Instructions for Part I

Loans and lease financing receivables are extensions of credit resulting from either direct negotiation between the bank and its customers or the purchase of such assets from others. See the Glossary entries for "loan" and for "lease accounting" for further information.

Report all loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e., loans and leases held for investment, in Schedule RC-C, part I. Also report in Schedule RC-C, part I, all loans and leases held for sale as part of the consolidated bank's mortgage banking activities or activities of a similar nature involving other types of loans. When a loan is acquired (through origination or purchase) with the intent or expectation that it may or will be sold at some indefinite date in the future, the loan should be reported as held for sale or held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles and related supervisory guidance. In addition, a loan acquired and held for securitization purposes should be reported as a loan held for sale. Loans held for sale shall be reported at the lower of cost or fair value as of the report date. The amount by which cost exceeds fair value, if any, shall be accounted for as a valuation allowance. For further information, see FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities," AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others," and the March 26, 2001, Interagency Guidance on Certain Loans Held for Sale.

On the FFIEC 041, Schedule RC-C, part I, has two columns for information on loans and leases: column B is to be completed by all banks and column A is to be completed by banks with \$300 million or more in total assets. On the FFIEC 031, this schedule has two columns: column A provides loan and lease detail for the fully consolidated bank and column B provides detail on loans and leases held by the domestic offices of the reporting bank. (See the Glossary entry for "domestic office" for the definition of this term.)

Report loans and leases held for investment in this schedule without any deduction for loss allowances for loans and leases or allocated transfer risk reserves related to loans and leases, which are to be reported in Schedule RC, item 4.c, "Allowance for loan and lease losses." Each item in this schedule should be reported net of (1) unearned income (to the extent possible) and (2) deposits accumulated for the payment of personal loans (hypothecated deposits). Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in this schedule in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in Schedule RC-C, part I, item 11, "LESS: Any unearned income on loans reflected in items 1-9 above." Net unamortized direct loan origination costs shall be added to the related loan balances in each item in this schedule. (See the Glossary entry for "loan fees" for further information.)

"Purchased impaired loans" are loans accounted for in accordance with AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," that a bank has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. Neither the accretable yield nor the nonaccretable difference associated with purchased impaired loans should be reported as unearned income in Schedule RC-C, part I, item 11. In addition, the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance.

If, as a result of a change in circumstances, the bank regains control of a loan previously accounted for appropriately as having been sold because one or more of the conditions for sale accounting in

General Instructions for Part I (cont.)

FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are no longer met, such a change should be accounted for in the same manner as a purchase of the loan from the former transferee (purchaser) in exchange for liabilities assumed. The rebooked loan must be reported as a loan asset in Schedule RC-C, part I, either as a loan held for sale or a loan held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles. This accounting and reporting treatment applies, for example, to U.S. Government-guaranteed or -insured residential mortgage loans backing Government National Mortgage Association (GNMA) mortgage-backed securities that a bank services after it has securitized the loans in a transfer accounted for as a sale. If and when individual loans later meet delinquency criteria specified by GNMA, the loans are eligible for repurchase, the bank is deemed to have regained effective control over these loans, and the delinquent loans must be brought back onto the bank's books as loan assets.

Exclude from Schedule RC-C, part I, all loans and leases held for trading purposes (report in Schedule RC, item 5, "Trading assets," and, in the appropriate items of Schedule RC-D, Trading Assets and Liabilities, if applicable).

All loans should be categorized in Schedule RC-C, part I, according to security, borrower, or purpose. Loans covering two or more categories are sometimes difficult to categorize. In such instances, categorize the entire loan according to the major criterion.

Report in Schedule RC-C, part I, all loans and leases on the books of the reporting bank even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the bank has sold or charged off. Also exclude assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the bank has obtained physical possession of the underlying collateral, regardless of whether formal foreclosure or repossession proceedings have been instituted against the borrower. Refer to the Glossary entries for "troubled debt restructurings" and "foreclosed assets" for further discussion of these topics.

Exclude, for purposes of this schedule, the following:

- (1) Federal funds sold (in domestic offices), i.e., all loans of immediately available funds (in domestic offices) that mature in one business day or roll over under a continuing contract, excluding funds lent in the form of securities purchased under agreements to resell. Report federal funds sold (in domestic offices) in Schedule RC, item 3.a. However, report overnight lending for commercial and industrial purposes as loans in this schedule. On the FFIEC 031, also report 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 as loans in this schedule.
- (2) Lending transactions in the form of securities purchased under agreements to resell (report in Schedule RC, item 3.b, "Securities purchased under agreements to resell").
- (3) All holdings of commercial paper (report in Schedule RC, item 5, if held for trading; report in Schedule RC-B, item 5, "Asset-backed securities," or item 6, "Other debt securities," as appropriate, if held for purposes other than trading).
- (4) Contracts of sale or other loans indirectly representing other real estate (report in Schedule RC, item 7, "Other real estate owned").
- (5) Undisbursed loan funds, sometimes referred to as incomplete loans or loans in process, unless the borrower is liable for and pays the interest thereon. If interest is being paid by the borrower on the undisbursed proceeds, the amount of such undisbursed funds should be included in both loans and deposits. (Do not include loan commitments that have not yet been taken down, even if fees have been paid; see Schedule RC-L, item 1.)

Item Instructions for Part I**Item No. Caption and Instructions**

- 1 Loans secured by real estate.** Report all loans secured by real estate. On the FFIEC 041, all banks should report in the appropriate subitems of column B a breakdown of these loans into seven categories. On the FFIEC 031, all banks should report the total amount of these loans for the fully consolidated bank in column A, but with a breakdown of these loans into seven categories for domestic offices in column B.

Include all loans (other than those to states and political subdivisions in the U.S.), regardless of purpose and regardless of whether originated by the bank or purchased from others, that are secured by real estate as evidenced by mortgages, deeds of trust, land contracts, or other instruments, whether first or junior liens (e.g., equity loans, second mortgages) on real estate. See the Glossary entry for "loan secured by real estate" for the definition of this term.

Include as loans secured by real estate:

- (1) Loans secured by residential properties that are guaranteed by the Farmers Home Administration (FmHA) and extended, collected, and serviced by a party other than the FmHA.
- (2) Loans secured by properties and guaranteed by governmental entities in foreign countries.
- (3) Participations in pools of Federal Housing Administration (FHA) Title I home improvement loans that are secured by liens (generally, junior liens) on residential properties.

Exclude from loans secured by real estate:

- (1) Obligations (other than securities and leases) of states and political subdivisions in the U.S. that are secured by real estate (report in Schedule RC-C, part I, item 8).
- (2) All loans and sales contracts indirectly representing other real estate (report in Schedule RC, item 7, "Other real estate owned").
- (3) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign non-governmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the bank but are merely pledged as collateral (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," or as all other loans in Schedule RC-C, part I, item 9).
- (4) Bonds issued by the Federal National Mortgage Association or by the Federal Home Loan Mortgage Corporation that are collateralized by residential mortgages (report in Schedule RC-B, item 2.b, Securities "Issued by U.S. Government-sponsored agencies").
- (5) Pooled residential mortgages for which participation certificates have been issued or guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation (report in Schedule RC-B, item 4.a). However, if the reporting bank is the seller-servicer of the residential mortgages backing such securities and, as a result of a change in circumstances, it must rebook any of these mortgages because one or more of the conditions for sale accounting in FASB Statement No. 140 are no longer met, the rebooked mortgages should be included in Schedule RC-C, part I, as loans secured by real estate.

Part I. (cont.)**Item No. Caption and Instructions**

1.a **Construction, land development, and other land loans.** Report in column B loans secured by real estate made to finance land development (i.e., the process of improving land -- laying sewers, water pipes, etc.) preparatory to erecting new structures or the on-site construction of industrial, commercial, residential, or farm buildings. For this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures.

Also include in this item:

- (1) Loans secured by vacant land, except land known to be used or usable for agricultural purposes, such as crop and livestock production (which should be reported in Schedule RC-C, part I, item 1.b, below, as loans secured by farmland).
- (2) Loans secured by real estate the proceeds of which are to be used to acquire and improve developed and undeveloped property.
- (3) Loans made under Title I or Title X of the National Housing Act that conform to the definition of construction stated above and that are secured by real estate.

Exclude loans to finance construction and land development that are not secured by real estate (report in other items of Schedule RC-C, part I, as appropriate).

1.b **Secured by farmland.** Report in column B loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.

Include loans secured by farmland that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by any party other than FmHA or SBA.

Exclude loans for farm property construction and land development purposes (report in Schedule RC-C, part I, item 1.a).

1.c **Secured by 1-4 family residential properties.** Report in the appropriate subitem of column B open-end and closed-end loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or other liens on:

- (1) Nonfarm property containing 1-to-4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- (2) Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- (3) Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.

Part I. (cont.)**Item No. Caption and Instructions**

1.c (4) Housekeeping dwellings with commercial units combined where use is primarily
(cont.) residential and where only 1-to-4 family dwelling units are involved.

Exclude loans for 1-to-4 family residential property construction and land development purposes (report in Schedule RC-C, part I, item 1.a). Also exclude loans secured by vacant lots in established single-family residential sections or in areas set aside primarily for 1-to-4 family homes (report in Schedule RC-C, part I, item 1.a).

1.c.(1) **Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report in column B the amount outstanding under revolving, open-end lines of credit secured by 1-to-4 family residential properties. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card.

1.c.(2) **Closed-end loans secured by 1-4 family residential properties.** Report in the appropriate subitem of column B the amount of all closed-end loans secured by 1-to-4 family residential properties (i.e., closed-end first mortgages and junior liens).

Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

NOTE: Memorandum item 5 is not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

- 5 Loans secured by real estate to non-U.S. addressees (domicile).** Report the amount of loans secured by real estate to non-U.S. addressees that are included in Schedule RC-C, part I, items 1.a through 1.e, column B, on the FFIEC 041; item 1, column A, on the FFIEC 031. For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile."

NOTE: Memorandum item 6 is to be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million as of the report date. Outstanding credit card receivables are the sum of:
- (a) Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031);
 - (b) Schedule RC-S, item 1, column C; and
 - (c) Schedule RC-S, item 6.a, column C.
- (Include comparable data on managed credit card receivables for any affiliated savings association.)

OR

- (2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those banks that exceed 50% for the following two criteria:
- (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
 - (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.

- 6 Outstanding credit card fees and finance charges.** Report the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule RC-C, part I, item 6.a (column A on the FFIEC 031; column B on the FFIEC 041).

Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

NOTE: Memorandum items 7.a and 7.b are to be completed by all banks.

- 7** **Purchased impaired loans held for investment accounted for in accordance with AICPA Statement of Position 03-3.** Report in the appropriate subitem the outstanding balance and carrying amount of "purchased impaired loans" reported as held for investment in Schedule RC-C, part I, items 1 through 9, and accounted for in accordance with AICPA Statement of Position 03-3. Purchased impaired loans are loans that a bank has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. Loans held for investment are those that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff.
- 7.a** **Outstanding balance.** Report the outstanding balance of all purchased impaired loans reported as held for investment in Schedule RC-C, part I, items 1 through 9. The outstanding balance is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loan, owed to the bank at the report date, whether or not currently due and whether or not any such amounts have been charged off by the bank. However, the outstanding balance does not include amounts that would be accrued under the contract as interest, fees, penalties, and other after the report date.
- 7.b** **Carrying amount included in Schedule RC-C, part I, items 1 through 9.** Report the carrying amount (before any allowances established after acquisition for decreases in cash flows expected to be collected) of, i.e., the recorded investment in all purchased impaired loans reported as held for investment. The recorded investment in these loans will have been included in Schedule RC-C, part I, items 1 through 9.

Schedule RC-C, Part II. Loans to Small Businesses and Small Farms

General Instructions

Schedule RC-C, part II, is to be completed only with the June 30 Report of Condition.

Schedule RC-C, part II, requests information on the number and amount currently outstanding of "loans to small businesses" and "loans to small farms," as defined below. This information is being collected pursuant to Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

For purposes of this schedule, "**loans to small businesses**" consist of the following:

- (1) Loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part I, item 1.e, column B, "Loans secured by nonfarm nonresidential properties" (in domestic offices), and
- (2) Loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, part I:
 - On the FFIEC 041 for banks with less than \$300 million in total assets, item 4, column B, "Commercial and industrial loans;"
 - On the FFIEC 041 for banks with \$300 million or more in total assets, item 4.a, "Commercial and industrial loans to U.S. addressees;" and
 - On the FFIEC 031, item 4.a, column B, "Commercial and industrial loans to U.S. addressees" in domestic offices.

For purposes of this schedule, "**loans to small farms**" consist of the following:

- (1) Loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 1.b, column B, "Loans secured by farmland (including farm residential and other improvements)" (in domestic offices), and
- (2) Loans with original amounts of \$500,000 or less that have been reported in Schedule RC-C, part I, item 3, column B, "Loans to finance agricultural production and other loans to farmers" (in domestic offices).

The following guidelines should be used to determine the "**original amount**" of a loan:

- (1) For loans drawn down under lines of credit or loan commitments, the "original amount" of the loan is the size of the line of credit or loan commitment when the line of credit or loan commitment was most recently approved, extended, or renewed prior to the report date. However, if the amount currently outstanding as of the report date exceeds this size, the "original amount" is the amount currently outstanding on the report date.
- (2) For loan participations and syndications, the "original amount" of the loan participation or syndication is the entire amount of the credit originated by the lead lender.
- (3) For all other loans, the "original amount" is the total amount of the loan at origination or the amount currently outstanding as of the report date, whichever is larger.

The "**amount currently outstanding**" for a loan is its carrying value, i.e., the amount at which the loan is reported in Schedule RC-C, part I, item 1.b, 1.e, 3, 4, or 4.a.

Schedule RC-E, Part II. Deposits in Foreign Offices (FFIEC 031 only)**General Instructions**

Part II of Schedule RC-E is not applicable to banks filing the FFIEC 041 report forms.

For purposes of this report, IBFs are to be treated as foreign offices and their deposit liabilities should be reported only in Schedule RC-E, part II. Also included in this part are deposits of all offices of Edge and Agreement subsidiaries and deposits of offices in foreign countries.

The definition of deposits in Schedule RC-E, part I, will apply directly to deposits of branches in Puerto Rico and U.S. territories and possessions and to the domestic offices of Edge and Agreement subsidiaries. However, for all other "foreign offices," the definition of deposits in Schedule RC-E, part I, must be adjusted for any differences in statutory and regulatory requirements and in institutional practices in foreign countries.

For these other foreign offices include as deposits:

- (1) Liabilities readily identifiable as deposits because of name or definition.
- (2) All foreign office liabilities identical to those described for domestic offices that have different names in different countries.
- (3) Liabilities that, owing to law, custom, or banking practice in foreign countries, have characteristics similar to those defined for Schedule RC-E, part I.
- (4) Any other foreign office liability that is treated as a deposit by the laws, local custom, or banking practice of the country in which it is booked.

Report any nondeposit borrowing of an office in a foreign country as a borrowing in Schedule RC-M, item 5.b, "Other borrowings," or in other items, as appropriate.

When it is not clear whether a liability in a foreign office should be treated as a deposit or as a borrowing, treat it as a deposit. Report all deposits in IBFs in Schedule RC-E, part II, whether in the form of deposits, borrowings, placements, or similar instruments. Exclude IBF liabilities in the form of securities sold under agreements to repurchase (report in Schedule RC, item 14.b), borrowings of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements (report in Schedule RC-M, item 5.b), and accrued liabilities, such as interest accrued but unpaid (report in Schedule RC-G, item 1.b).

For a discussion of deposits in foreign offices, see the Glossary entry for "borrowings and deposits in foreign offices."

Reciprocal balances between foreign offices of the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

Part II. Deposits in Foreign Offices (cont.)**Item Instructions****Item No. Caption and Instructions**

- 1 **Deposits of individuals, partnerships, and corporations (include all certified and official checks)**. Report all balances in foreign offices standing to the credit of individuals, partnerships, and corporations (as defined for Schedule RC-E, part I, item 1). Report all certified and official checks issued by foreign offices of the reporting bank (as defined for Schedule RC-E, part I, item 1). Also report all other liabilities that, owing to law, custom, or banking practice in foreign countries, have characteristics similar to those specified for domestic offices.
- 2 **Deposits of U.S. banks (including IBFs and foreign branches of U.S. banks) and other U.S. depository institutions**. Report all deposit balances in foreign offices of the reporting bank standing to the credit of banks and other depository institutions headquartered and chartered in the United States. Include both U.S. and non-U.S. branches of U.S. commercial banks and other depository institutions as well as IBFs established by U.S. commercial banks. Exclude U.S. branches and agencies of foreign banks and IBFs established by such branches and agencies. (See the Glossary entry for "banks, U.S. and foreign" for the definition of U.S. banks and the Glossary entry for "depository institutions in the U.S." for further discussion of this term).
- 3 **Deposits of foreign banks (including U.S. branches and agencies of foreign banks, including their IBFs)**. Report all balances in foreign offices of the reporting bank standing to the credit of banks headquartered and chartered in foreign countries. Include both U.S. and non-U.S. branches of foreign banks and IBFs established by U.S. branches and agencies of foreign banks. Exclude foreign offices of U.S. banks. (See the Glossary entry for "banks, U.S. and foreign" for the definition of foreign banks.)
- 4 **Deposits of foreign governments and official institutions**. Report all balances in foreign offices standing to the credit of foreign governments and official institutions, including foreign central banks. (See the Glossary entry for "foreign governments and official institutions" for the definition of this term.)
- 5 **Deposits of U.S. Government and states and political subdivisions in the U.S.** Report all balances in foreign offices standing to the credit of the U.S. Government and states and political subdivisions in the U.S. (as defined for Schedule RC-E, part I, items 2 and 3).
- 6 **Total**. Report the sum of items 1 through 5. This item must equal Schedule RC, item 13.b, "Deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs."

Memorandum**Item No. Caption and Instructions**

- 1 **Time deposits with a remaining maturity of one year or less**. Report all time deposits in foreign offices with remaining maturities of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit. The time deposits included in this item will also have been reported in Schedule RC-E, part II, item 6, above.

Item No. Caption and Instructions

8 A spot contract is an agreement for the immediate delivery, usually within two business days, (cont.) of a foreign currency at the prevailing cash market rate. Spot contracts are considered outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying currencies.

Only one side of a spot foreign exchange contract is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank enters into a spot contract which obligates the bank to purchase U.S. dollar exchange against which it sells Japanese yen, then the bank would report (in U.S. dollar equivalent values) the amount of Japanese yen sold in this item. In cross-currency spot foreign exchange transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported (in U.S. dollar equivalent values).

9 **All other off-balance sheet liabilities.** Report all significant types of off-balance sheet liabilities not covered in other items of this schedule. Exclude all items which are required to be reported as liabilities on the balance sheet of the Report of Condition (Schedule RC), contingent liabilities arising in connection with litigation in which the reporting bank is involved, commitments to purchase property being acquired for lease to others (report in Schedule RC-L, item 1.e, above), and signature and endorsement guarantees of the type associated with the regular clearing of negotiable instruments or securities in the normal course of business.

Report only the aggregate amount of those types of "other off-balance sheet liabilities" that individually exceed 10 percent of the bank's total equity capital reported in Schedule RC, item 28. If the bank has no types of "other off-balance sheet liabilities" that individually exceed 10 percent of total equity capital, report a zero or the word "none."

Disclose in items 9.a through 9.f each type of "other off-balance sheet liabilities" reportable in this item, and the dollar amount of the off-balance sheet liability, that individually exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 28. For each type of off-balance sheet liability that exceeds this disclosure threshold for which a preprinted caption has not been provided, describe the liability with a clear but concise caption in items 9.c through 9.f. These descriptions should not exceed 50 characters in length (including spacing between words).

Include as other off-balance sheet liabilities:

- (1) Securities borrowed against collateral (other than cash), or on an uncollateralized basis, for such purposes as a pledge against deposit liabilities or delivery against short sales. Report borrowed securities that are fully collateralized by similar securities of equivalent value at market value at the time they are borrowed. Report other borrowed securities at market value as of the report date. (Report the amount of securities borrowed in Schedule RC-L, item 9.a, if this amount exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 28.)
- (2) Contracts for the purchase of when-issued securities that are excluded from the requirements of FASB Statement No. 133, as amended (and therefore not reported as forward contracts in Schedule RC-L, item 12.b, below), and accounted for on a settlement-date basis. (Report the amount of these commitments in Schedule RC-L, item 9.b, if this amount exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 28.)

Item No. Caption and Instructions

- 9** (3) Standby letters of credit issued by a Federal Home Loan Bank on behalf of the reporting bank, which is the account party on the letters of credit and therefore is obligated to reimburse the issuing Federal Home Loan Bank for all payments made under the standby letters of credit.
- (cont.)
- (4) Financial guarantee insurance which insures the timely payment of principal and interest on bond issues.
- (5) Letters of indemnity other than those issued in connection with the replacement of lost or stolen or official checks.
- (6) Shipside or dockside guarantees or similar guarantees relating to missing bills of lading or title documents and other document guarantees that facilitate the replacement of lost or stolen official checks.

- 10** **All other off-balance sheet assets.** Report to the extent feasible and practicable all significant types of off-balance sheet assets not covered in other items of this schedule. Exclude all items which are required to be reported as assets on the balance sheet of the Report of Condition (Schedule RC), contingent assets arising in connection with litigation in which the reporting bank is involved, and assets held in or administered by the reporting bank's trust department.

Report only the aggregate amount of those types of "other off-balance sheet assets" that individually exceed 10 percent of the bank's total equity capital reported in Schedule RC, item 28. If the bank has no types of "other off-balance sheet assets" that individually exceed 10 percent of total equity capital for which the reporting is feasible and practicable, report a zero or the word "none."

Disclose in items 10.a through 10.e each type of "other off-balance sheet assets" reportable in this item, and dollar amount of the off-balance sheet asset, that individually exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 28. For each type of off-balance sheet asset that exceeds this disclosure threshold for which a preprinted caption has not been provided, describe the asset with a clear and concise caption in items 10.b through 10.e. These descriptions should not exceed 50 characters in length (including space between words).

Include as "other off-balance sheet assets" such items as:

- (1) Contracts for the sale of when-issued securities that are excluded from the requirements of FASB Statement No. 133, as amended (and therefore not reported as forward contracts in Schedule RC-L, item 12.b, below), and accounted for on a settlement-date basis. (Report the amount of these commitments in Schedule RC-L, item 10.a, if this amount exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 28.)
- (2) Internally developed intangible assets.

Item No. Caption and Instructions

12 *Column C, Equity Derivative Contracts:* Equity derivative contracts are contracts that have a
(cont.) return, or a portion of their return, linked to the price of a particular equity or to an index of
equity prices, such as the Standard and Poor's 500.

The contract amount to be reported for equity derivative contracts is the quantity, e.g., number of units, of the equity instrument or equity index contracted for purchase or sale multiplied by the contract price of a unit.

Column D, Commodity and Other Contracts: Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, or equity derivative contracts.

The contract amount to be reported for commodity and other contracts is the quantity, e.g., number of units, of the commodity or product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (i.e., exchanges of principal) in the contract.

12.a **Futures contracts.** Futures contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. Futures contracts are standardized and are traded on organized exchanges that act as the counterparty to each contract.

Report, in the appropriate column, the aggregate par value of futures contracts that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or by offset. Offset is the liquidating of a purchase of futures through the sale of an equal number of contracts of the same delivery month on the same underlying instrument on the same exchange, or the covering of a short sale of futures through the purchase of an equal number of contracts of the same delivery month on the same underlying instrument on the same exchange.

Column A, Interest Rate Futures: Report futures contracts committing the reporting bank to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Some of the more common interest rate futures include futures on 90-day U.S. Treasury bills; 12-year GNMA pass-through securities; and 2-, 4-, 6-, and 10-year U.S. Treasury notes.

Column B, Foreign Exchange Futures: Report the gross amount (stated in U.S. dollars) of all futures contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

Item No. Caption and Instructions

12.a A currency futures contract is a standardized agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

(cont.)

Column C, Equity Derivative Futures: Report futures contracts committing the reporting bank to purchase or sell equity securities or instruments based on equity indexes such as the Standard and Poor's 500 or the Nikkei.

Column D, Commodity and Other Futures: Report the contract amount for all futures contracts committing the reporting bank to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and non-ferrous metals (e.g., copper, zinc). Include any other futures contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

12.b **Forward contracts.** Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized.

Report the aggregate par value of forward contracts that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or settled in cash. Such contracts can only be terminated, other than by receipt of the underlying asset, by agreement of both buyer and seller.

Include as forward contracts in this item contracts for the purchase and sale of when-issued securities that are not excluded from the requirements of FASB Statement No. 133, as amended. Report contracts for the purchase of when-issued securities that are excluded from the requirements of FASB Statement No. 133, as amended, and accounted for on a settlement-date basis as "Other off-balance sheet liabilities" in Schedule RC-L, item 9, and contracts for the sale of when-issued securities that are excluded from the requirements of FASB Statement No. 133, as amended, and accounted for on a settlement-date basis as "Other off-balance sheet assets" in Schedule RC-L, item 10, subject to the existing reporting thresholds for these two items.

Column A, Interest Rate Forwards: Report forward contracts committing the reporting bank to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Include in this item firm commitments (i.e., commitments that have a specific interest rate or price, selling date, and dollar amount) to sell loans secured by 1-to-4 family residential properties that meet the definition of a derivative contract under FASB Statement No. 133.

Column B, Foreign Exchange Forwards: Report the gross amount (stated in U.S. dollars) of all forward contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

SCHEDULE RC-N -- PAST DUE AND NONACCRUAL LOANS, LEASES, AND OTHER ASSETS

General Instructions

Report on a fully consolidated basis all loans, leases, debt securities, and other assets that are past due or are in nonaccrual status, regardless of whether such credits are secured or unsecured and regardless of whether such credits are guaranteed or insured by the U.S. Government or by others. Report the full recorded investment in assets that are past due or in nonaccrual status, as reported for purposes of Schedule RC, Balance Sheet, not simply the delinquent payments. Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule RC-C. All lease, debt security, and other asset amounts must be reported net of unearned income.

For report dates through December 31, 2000, the information reported in column A on assets past due 30 through 89 days and still accruing and in all of Memorandum item 1 on restructured loans and leases included in the past due and nonaccrual totals will be treated as confidential on an individual bank basis by the federal bank supervisory agencies. Beginning with the March 31, 2001, report date, all of the information reported in Schedule RC-N for each bank will be publicly available.

When a bank services residential mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) that back Government National Mortgage Association (GNMA) securities, i.e., "GNMA loans," after it has securitized the loans in a transfer accounted for as a sale, FASB Statement No. 140 requires the bank to bring individual delinquent GNMA loans that it previously accounted for as sold back onto its books as loan assets when, under the GNMA Mortgage-Backed Securities Guide, the loan meets GNMA's specified delinquency criteria and is eligible for repurchase. This rebooking of GNMA loans is required regardless of whether the bank, as seller-servicer, intends to exercise the repurchase (buy-back) option. A seller-servicer must report all delinquent rebooked GNMA loans that have been repurchased or are eligible for repurchase as past due in Schedule RC-N in accordance with their contractual repayment terms. In addition, if a bank services GNMA loans, but was not the transferor of the loans that were securitized, and purchases individual delinquent loans out of the GNMA securitization, the bank must report the purchased loans as past due in Schedule RC-N in accordance with their contractual repayment terms even though the bank was not required to record the delinquent GNMA loans as assets prior to purchasing the loans. Such delinquent GNMA loans should be reported in items 1.c, 10, and 10.b of Schedule RC-N.

Definitions

Past Due – The past due status of a loan or other asset should be determined in accordance with its contractual repayment terms. For purposes of this schedule, grace periods allowed by the bank after a loan or other asset technically has become past due but before the imposition of late charges are not to be taken into account in determining past due status. Furthermore, loans, leases, debt securities, and other assets are to be reported as past due when either interest or principal is unpaid in the following circumstances:

- (1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (At a bank's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

Definitions (cont.)

- (2) Open-end credit such as credit cards, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.
- (3) Single payment and demand notes, debt securities, and other assets providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.
- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest or principal remains unpaid for 30 days or more.
- (5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, banks should use one of two methods to recognize partial payments on "retail credit," i.e., open-end and closed-end credit extended to individuals for household, family, and other personal expenditures, including consumer loans and credit cards, and loans to individuals secured by their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing delinquency. Alternatively, a bank may aggregate payments and give credit for any partial payment received. For example, if a regular monthly installment is \$300 and the borrower makes payments of only \$150 per month for a six-month period, the loan would be \$900 (\$150 shortage times six payments), or three monthly payments past due. A bank may use either or both methods for its retail credit, but may not use both methods simultaneously with a single loan.

Nonaccrual – For purposes of this schedule, an asset is to be reported as being in nonaccrual status if:

- (1) It is maintained on a cash basis because of deterioration in the financial condition of the borrower,
- (2) Payment in full of principal or interest is not expected, or
- (3) Principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Definitions (cont.)

In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for accrual of income under the interest method specified in AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," are met for a purchased impaired loan or debt security accounted for in accordance with that Statement of Position, regardless of whether the loan or debt security had been maintained in nonaccrual status by its seller. For further information, see the Glossary entry for "purchased impaired loans and debt securities."
- (2) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans," are met with respect to a loan or other debt instrument accounted for in accordance with that Practice Bulletin that was acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.
- (3) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule RC-C, part I, item 6, "Loans to individuals for household, family, and other personal expenditures") or a loan secured by a 1-to-4 family residential property (as defined for Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties"). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank's net income is not materially overstated. To the extent that the bank has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in this schedule.

As a general rule, a nonaccrual asset may be restored to accrual status when:

- (1) None of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or
- (2) When it otherwise becomes well secured and in the process of collection.

For purposes of meeting the first test for restoration to accrual status, the bank must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for "nonaccrual status,"

- (1) The asset has been formally restructured and qualifies for accrual status,
- (2) The asset is a purchased impaired loan or debt security accounted for in accordance with AICPA Statement of Position 03-3 and it meets the criteria for accrual of income under the interest method specified in that Statement of Position,
- (3) The asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party, is accounted for in accordance with AICPA Practice Bulletin No. 6, and meets the criteria for amortization (i.e., accretion of discount) specified in that Practice Bulletin, or
- (4) The borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and certain repayment criteria are met.

For further information, see the Glossary entry for "nonaccrual status."

Definitions (cont.)

Restructured -- For purposes of this schedule, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full or, if the obligation yields a market rate, until the year subsequent to the year in which the restructuring takes place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting bank for the purpose of facilitating the disposal of such real estate is not considered a restructured loan.

For further information, see the Glossary entry for "troubled debt restructurings."

Column Instructions

The columns of Schedule RC-N are mutually exclusive. Any given loan, lease, debt security, or other asset should be reported in only one of columns A, B, and C. Information reported for any given derivative contract should be reported in only column A or column B.

Report in columns A and B of Schedule RC-N (except for Memorandum item 6) the recorded investments (not just delinquent payments) in loans, leases, debt securities, and other assets that are past due and upon which the bank continues to accrue interest, as follows:

- (1) In column A, report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears two or three monthly payments; other multipayment obligations with payments scheduled other than monthly when one scheduled payment is due and unpaid for 30 through 89 days; single payment and demand notes, debt securities, and other assets providing for payment of interest at stated intervals after one interest payment is due and unpaid for 30 through 89 days; single payment notes, debt securities, and other assets providing for payment of interest at maturity, on which interest or principal remains unpaid for 30 through 89 days after maturity; unplanned overdrafts, whether or not the bank is accruing interest on them, if the account remains continuously overdrawn for 30 through 89 days.
- (2) In column B, report the loans, lease financing receivables, debt securities, and other assets as specified above on which payment is due and unpaid for 90 days or more.

Include in columns A and B, as appropriate (except for Memorandum item 6), all loans, leases, debt securities, and other assets which, subsequent to their restructuring by means of a modification of terms, have become 30 days or more past due and upon which the bank continues to accrue interest. Exclude from columns A and B all loans, leases, debt securities, and other assets that are in nonaccrual status.

Report in columns A and B of Memorandum item 6 the fair value, if positive, of all interest rate, foreign exchange rate, equity, and commodity and other derivative contracts on which a required payment by the bank's counterparty is due and unpaid for 30 through 89 days and due and unpaid for 90 days or more, respectively.

Report in column C the recorded investments in loans, leases, debt securities, and other assets that are in nonaccrual status. Include all restructured loans, leases, debt securities, and other assets that are in nonaccrual status. However, restructured loans, leases, debt securities, and other assets with a zero percent effective interest rate are not to be reported in this column as nonaccrual assets.

Item Instructions

The loan and lease category definitions used in Schedule RC-N correspond with the loan and lease category definitions found in Schedule RC-C, part I. Consistent with Schedule RC-C, part I, the category-by-category breakdown of loans and leases in Schedule RC-N includes (1) loans and leases held for sale and (2) loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff.

Item No. Caption and Instructions

- 1** **Loans secured by real estate.** Report in the appropriate subitem and column all loans secured by real estate included in Schedule RC-C, part I, item 1, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 1.a** **Construction, land development, and other land loans (in domestic offices).** Report in the appropriate column the amount of all construction, land development, and other land loans (in domestic offices) included in Schedule RC-C, part I, item 1.a, column B, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 1.b** **Secured by farmland (in domestic offices).** Report in the appropriate column the amount of all loans secured by farmland (in domestic offices) included in Schedule RC-C, part I, item 1.b, column B, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 1.c** **Secured by 1-4 family residential properties (in domestic offices).** Report in the appropriate subitem and column the amount of all loans secured by 1-4 family residential properties (in domestic offices) included in Schedule RC-C, part I, item 1.c, column B, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 1.c.(1)** **Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report in the appropriate column the amount outstanding under all revolving, open-end loans secured by 1-to-4 family residential properties and extended under lines of credit (in domestic offices) included in Schedule RC-C, part I, item 1.c.(1), column B, that are past due 30 days or more or are in nonaccrual status as of the report date.
- 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-to-4 family residential properties (in domestic offices) included in 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.
- 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-to-4 family residential properties (in domestic offices) included in 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.
- 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-to-4 family residential properties (in domestic offices) included in 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-to-4 family residential property and there are no intervening junior liens.
- 1.d** **Secured by multifamily (5 or more) residential properties (in domestic offices).** Report in the appropriate column the amount of all loans secured by multifamily (5 or more) residential properties (in domestic offices) included in Schedule RC-C, part I, item 1.d,

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1.d column B, that are past due 30 days or more or are in nonaccrual status as of the report
(cont.) date.

1.e **Secured by nonfarm nonresidential properties (in domestic offices).** Report in the appropriate column the amount of all loans secured by nonfarm residential properties (in domestic offices) included in Schedule RC-C, part I, item 1.e, column B, that are past due 30 days or more or are in nonaccrual status as of the report date.

NOTE: Item 1.f is not applicable to banks filing the FFIEC 041 report form.

1.f **In foreign offices.** Report in the appropriate column the amount of all loans secured by real estate in foreign offices included in Schedule RC-C, part I, item 1, that are past due 30 days or more or are in nonaccrual status as of the report date.

2 **Loans to depository institutions and acceptances of other banks.** Report on the FFIEC 041 in the appropriate column and on the FFIEC 031 in the appropriate subitem and column the amount of all loans to depository institutions and acceptances of other banks included in Schedule RC-C, part I, item 2, that are past due 30 days or more or are in nonaccrual status as of the report date.

NOTE: Items 2.a, 2.b, and 3 are not applicable to banks filing the FFIEC 041 report form.

2.a **To U.S. banks and other U.S. depository institutions.** Report in the appropriate column the amount of loans to and acceptances of U.S. banks and other U.S. depository institutions included in Schedule RC-C, part I, items 2.a.(2), 2.b, and 2.c.(1), column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

2.b **To foreign banks.** Report in the appropriate column the amount of all loans to and acceptances of foreign banks included in Schedule RC-C, part I, items 2.a.(1) and 2.c.(2), column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

3 **Loans to finance agricultural production and other loans to farmers.** Report in the appropriate column the amount of all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, part I, item 3, column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

4 **Commercial and industrial loans.** Report on the FFIEC 041 in the appropriate column and on the FFIEC 031 in the appropriate subitem and column the amount of all commercial and industrial loans included in Schedule RC-C, part I, item 4, that are past due 30 days or more or are in nonaccrual status as of the report date.

NOTE: Items 4.a and 4.b are not applicable to banks filing the FFIEC 041 report form.

4.a **To U.S. addressees (domicile).** Report in the appropriate column the amount of all commercial and industrial loans to U.S. addressees included in Schedule RC-C, part I, item 4.a, column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

4.b **To non-U.S. addressees (domicile).** Report in the appropriate column the amount of all commercial and industrial loans to non-U.S. addressees included in Schedule RC-C, part I, item 4.b, column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

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5 Loans to individuals for household, family, and other personal expenditures. Report in the appropriate subitem and column the amount of all loans to individuals for household, family, and other personal expenditures (i.e., consumer loans) included in Schedule RC-C, part I, item 6, that are past due 30 days or more or are in nonaccrual status as of the report date.

5.a Credit cards. Report in the appropriate column the amount of all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards included in Schedule RC-C, part I, item 6.a, that are past due 30 days or more or are in nonaccrual status as of the report date.

5.b Other. Report in the appropriate column the amount of all other loans to individuals for household, family, and other personal expenditures included in Schedule RC-C, part I, items 6.b and 6.c, that are past due 30 days or more or are in nonaccrual status as of the report date.

6 Loans to foreign governments and official institutions. Report in the appropriate column the amount of all loans to foreign governments and official institutions included in Schedule RC-C, part I, item 7, that are past due 30 days or more or are in nonaccrual status as of the report date.

7 All other loans. Report in the appropriate column the amount of all:

- obligations (other than securities and leases) of states and political subdivisions in the U.S. included in Schedule RC-C, part I, item 8;
- other loans included in Schedule RC-C, part I, item 9; and
- on the FFIEC 041 only, all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, part I, item 3,

that are past due 30 days or more or are in nonaccrual status as of the report date.

8 Lease financing receivables (net of unearned income). Report on the FFIEC 041 in the appropriate column and on the FFIEC 031 in the appropriate subitem and column the amount of all lease financing receivables (net of unearned income) included in Schedule RC-C, part I, item 10, that are past due 30 days or more or are in nonaccrual status as of the report date.

NOTE: Items 8.a and 8.b are not applicable to banks filing the FFIEC 041 report form.

8.a Of U.S. addressees (domicile). Report in the appropriate column the amount of all lease financing receivables (net of unearned income) of U.S. addressees included in Schedule RC-C, part I, item 10.a, column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

8.b Of non-U.S. addressees (domicile). Report in the appropriate column the amount of all lease financing receivables (net of unearned income) of non-U.S. addressees included in Schedule RC-C, part I, item 10.b, column A, that are past due 30 days or more or are in nonaccrual status as of the report date.

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- 9 Debt securities and other assets.** Report in the appropriate column all assets other than loans and leases reportable in Schedule RC-C that are past due 30 days or more or are in nonaccrual status as of the report date. Include such assets as debt securities and interest-bearing balances due from depository institutions. Also include operating lease payments receivable that have been recorded as assets in Schedule RC, item 11, when the operating lease is past due 30 days or more or in nonaccrual status.

Exclude other real estate owned reportable in Schedule RC, item 7, and other repossessed assets reportable in Schedule RC, item 11, such as automobiles, boats, equipment, appliances, and similar personal property.

- 10 Loans and leases reported in items 1 through 8 above which are wholly or partially guaranteed by the U.S. Government.** Report in the appropriate column the aggregate recorded investment in all loans and leases reported in items 1 through 8 above for which repayment of principal is wholly or partially guaranteed or insured by the U.S. Government, including its agencies and its government-sponsored agencies. Examples include loans guaranteed by the FDIC (through loss-sharing arrangements in FDIC-assisted acquisitions), the Small Business Administration, and the Federal Housing Administration. Amounts need not be reported in this item and in items 10.a and 10.b below if they are considered immaterial.

Exclude from this item loans and leases guaranteed or insured by state or local governments, state or local government agencies, foreign (non-U.S.) governments, and private agencies or organizations. Also exclude loans and leases collateralized by securities issued by the U.S. Government, including its agencies and its government-sponsored agencies.

- 10.a Guaranteed portion of loans and leases included in item 10 above.** Report in the appropriate column the maximum amount recoverable from the U.S. Government, including its agencies and its government-sponsored agencies, under the guarantee or insurance provisions applicable to the loans and leases included in Schedule RC-N, item 10, above.

Seller-servicers of GNMA loans should exclude all delinquent rebooked GNMA loans that have been repurchased or are eligible for repurchase from this item (report such rebooked GNMA loans in item 10.b below). Servicers of GNMA loans should exclude individual delinquent loans (for which they were not the transferor) that they have purchased out of GNMA securitizations from this item (report such purchased GNMA loans in item 10.b below).

- 10.b Rebooked "GNMA loans" that have been repurchased or are eligible for repurchase included in item 10 above.** Report in the appropriate column the recorded investment in:

- (1) Delinquent rebooked GNMA loans that have been repurchased or are eligible for repurchase by seller-servicers of GNMA loans; and
- (2) Delinquent loans that have been purchased out of GNMA securitizations by servicers of GNMA loans that were not the transferors of the loans.

Memoranda**Item No. Caption and Instructions**

- 1 Restructured loans and leases included in Schedule RC-N, items 1 through 8, above.** Report in the appropriate column the amount of restructured loans and leases (as defined above) that under their modified terms 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 categories in items 1 through 8 of this schedule. However, exclude from this item all restructured loans secured by 1-to-4 family residential properties (included in Schedule RC-N, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b)) and all restructured loans to individuals for household, family, and other personal expenditures (included in Schedule RC-N, items 5.a and 5.b).
- 2 Loans to finance commercial real estate, construction, and land development activities included in Schedule RC-N, items 4 and 7, above.** Report in the appropriate column the amount of loans to finance commercial real estate, construction, and land development activities ***not secured by real estate*** included in Schedule RC-C, part I, Memorandum item 3, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in items 4 and 7 of Schedule RC-N above. Exclude from this item all loans secured by real estate included in item 1 of Schedule RC-N above.

NOTE: Memorandum item 3 is not applicable to banks filing the FFIEC 041 report form.

- 3 Loans secured by real estate to non-U.S. addressees (domicile).** Report in the appropriate column the amount of all loans secured by real estate to non-U.S. addressees that are 30 days or more past due or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, items 1.a through 1.f, above.

NOTE: Memorandum items 3.a through 3.c are not applicable to banks filing the FFIEC 031 report form. On the FFIEC 041 report form, Memorandum items 3.a through 3.c are not applicable to banks that have less than \$300 million in total assets.

- 3.a Loans secured by real estate to non-U.S. addressees (domicile).** Report in the appropriate column the amount of all loans secured by real estate to non-U.S. addressees that are 30 days or more past due or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, items 1.a through 1.e, above.
- 3.b Loans to and acceptances of foreign banks.** Report in the appropriate column the amount of all loans to and acceptances of foreign banks included in Schedule RC-C, part I, items 2.a.(1) and 2.c.(2), column A, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and acceptances will have been included in Schedule RC-N, item 2, above.
- 3.c Commercial and industrial loans to non-U.S. addressees (domicile).** Report in the appropriate column the amount of all commercial and industrial loans to non-U.S. addressees included in Schedule RC-C, part I, item 4.b, column A, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 4, above.

Memoranda**Item No. Caption and Instructions**

NOTE: Memorandum item 3.d is not applicable to banks filing the FFIEC 031 report form. On the FFIEC 041 report form, Memorandum item 3.d is not applicable to banks that have less than \$300 million in total assets.

- 3.d Lease financing receivables of non-U.S. addressees (domicile).** Report in the appropriate column the amount of all lease financing receivables (net of unearned income) of non-U.S. addressees included in Schedule RC-C, part I, item 10.b, column A, that are past due 30 days or more or are in nonaccrual status as of the report date. Such leases will have been included in Schedule RC-N, item 8, above.

NOTE: Memorandum item 4 is not applicable to banks filing the FFIEC 031 report form. On the FFIEC 041 report form, Memorandum item 4 is to be completed by:

- banks with \$300 million or more in total assets, and
- banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers, as defined for Schedule RC-C, part I, item 3, column B, exceeding five percent of total loans.

- 4 Loans to finance agricultural production and other loans to farmers.** Report in the appropriate column the amount of all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, part I, item 3, column B, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 7, above.
- 5 Loans and leases held for sale.** Report in the appropriate column the amount of all loans and leases held for sale included in 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.

NOTE: On the FFIEC 041, Memorandum item 6 is not applicable to banks that have less than \$300 million in total assets.

- 6 Interest rate, foreign exchange rate, and other commodity and equity contracts:
Fair value of amounts carried as assets.** Report in the appropriate column the fair value of all interest rate, foreign exchange rate, equity, and commodity and other derivative contracts (as defined for Schedule RC-L, item 12) on which a required payment by the bank's counterparty is past due 30 days or more as of the report date.

Accrued Interest Receivable Related to Credit Card Securitizations: In a typical credit card securitization, an institution transfers a pool of receivables and the right to receive the future collections of principal (credit card purchases and cash advances), finance charges, and fees on the receivables to a trust. If a securitization transaction qualifies as a sale under FASB Statement No. 140, the selling institution removes the receivables that were sold from its reported assets and continues to carry any retained interests in the transferred receivables on its balance sheet. The “accrued interest receivable” (AIR) asset typically consists of the seller’s retained interest in the investor’s portion of (1) the accrued fees and finance charges that have been billed to customer accounts, but have not yet been collected (“billed but uncollected”), and (2) the right to finance charges that have been accrued on cardholder accounts, but have not yet been billed (“accrued but unbilled”).

While the selling institution retains a right to the excess cash flows generated from the fees and finance charges collected on the transferred receivables, the institution generally subordinates its right to these cash flows to the investors in the securitization. If and when cash payments on the accrued fees and finance charges are collected, they flow through the trust, where they are available to satisfy more senior obligations before any excess amount is remitted to the seller. Only after trust expenses (such as servicing fees, investor certificate interest, and investor principal charge-offs) have been paid will the trustee distribute any excess fee and finance charge cash flow back to the seller. Since investors are paid from these cash collections before the selling institution receives the amount of AIR that is due, the seller may or may not realize the full amount of its AIR asset.

Accounting at Inception of the Securitization Transaction -- Generally, if a securitization transaction meets the criteria for sale treatment and the AIR is subordinated either because the asset has been isolated from the transferor¹ or because of the operation of the cash flow distribution (or “waterfall”) through the securitization trust, the total AIR asset (both the “billed and uncollected” and “accrued and unbilled”) should be considered one of the components of the sale transaction. Thus, when accounting for a credit card securitization, an institution should allocate the previous carrying amount of the AIR (net of any related allowance for uncollectible amounts) and the other transferred assets between the assets that are sold and the retained interests, based on their relative fair values at the date of transfer. As a result, after a securitization, the allocated carrying amount of the AIR asset will typically be lower than its face amount.

Subsequent Accounting -- After securitization, the AIR asset should be accounted for at its allocated cost basis (as discussed above). In addition, an institution should treat the AIR asset as a retained (subordinated) beneficial interest. Accordingly, it should be reported as an “All other asset” in Schedule RC-F, item 5, and in Schedule RC-S, item 2.b., column C, (if reported as a stand-alone asset) and not as a loan receivable.

Although the AIR asset is a retained beneficial interest in transferred assets, it is not required to be subsequently measured like an investment in debt securities classified as available for sale or trading under FASB Statements Nos. 115 and 140 because the AIR asset cannot be contractually prepaid or settled in such a way that the holder would not recover substantially all of its recorded investment. Rather, institutions should follow existing applicable accounting standards, including FASB Statement No. 5, *Accounting for Contingencies*, in subsequent accounting for the AIR asset. Statement No. 5 addresses the accounting for various loss contingencies, including the collectibility of receivables.

For further guidance, banks should refer to the Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations dated December 4, 2002. See also the Glossary entry for “Transfers of Financial Assets.”

¹ See paragraph 9(a) of FASB Statement No. 140.

Acquisition, Development, or Construction (ADC) Arrangements: An ADC arrangement is an arrangement in which a bank provides financing for real estate acquisition, development, or construction purposes and participates in the expected residual profit resulting from the ultimate sale or other use of the property. ADC arrangements should be reported as loans, real estate joint ventures, or direct investments in real estate in accordance with guidance presented by the American Institute of Certified Public Accountants in a Notice to Practitioners issued in February 1986 (or, if appropriate, in notices issued in November 1983 and November 1984).

12 USC 29 limits the authority of national banks to hold real estate. National banks should review real estate ADC arrangements carefully for compliance. State member banks are not authorized to invest in real estate except with the prior approval of the Federal Reserve Board under Federal Reserve Regulation H (12 CFR Part 208).

Agreement Corporation: See "Edge and Agreement corporation."

Allowance for Loan and Lease Losses: Each bank must maintain an allowance for loan and lease losses (allowance) that is adequate to absorb estimated credit losses associated with its loan and lease portfolio, i.e., loans and leases that the bank has intent and ability to hold for the foreseeable future or until maturity or payoff. Each bank should also maintain, as a separate liability account, an allowance sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees. This separate allowance should be reported in Schedule RC-G, item 3, "Allowance for credit losses on off-balance sheet credit exposures," not as part of the "Allowance for loan and lease losses" in Schedule RC, item 4.c.

With respect to the loan and lease portfolio, the term "estimated credit losses" means an estimate of the current amount of loans and leases that is not likely to be collected; that is, net charge-offs that are likely to be realized for a loan or pool of loans given facts and circumstances as of the evaluation date.

These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each bank must evaluate, subject to examiner review, the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make appropriate entries to maintain the balance of the allowance for loan and lease losses on the balance sheet at a level adequate to absorb estimated credit losses. Management must maintain reasonable records in support of their evaluations and entries. Furthermore, each bank is responsible for ensuring that controls are in place to consistently determine the allowance for loan and lease losses in accordance with GAAP (including FASB Statement No. 5, "Accounting for Contingencies," and FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), the bank's stated policies and procedures, and relevant supervisory guidance.

Additions to, or reductions of, the allowance account resulting from such evaluations are to be made through charges or credits to the "provision for loan and lease losses" (provision) in the Report of Income. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance. All charge-offs of loans and leases shall be charged directly to the allowance. Under no circumstances can loan or lease losses be charged directly to "Retained earnings." Recoveries on loans and leases represent collections on amounts that were previously charged off against the allowance. Recoveries shall be credited to the allowance, provided, however, that the total amount credited to the allowance as recoveries on an individual loan (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the allowance on that loan. Any amounts collected in excess of this limit should be recognized as income.

AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," prohibits a bank from "carrying over" or creating loan loss allowances in the initial accounting for "purchased impaired loans," i.e., loans that a bank has purchased where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination. However, if, upon evaluation subsequent to acquisition, based on current information and events, it is probable that the bank is unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition) on a purchased impaired loan (not accounted for as a debt security), the loan should be considered impaired for purposes of establishing an allowance pursuant to FASB Statement No. 5 or No. 114, as appropriate.

When a bank makes a full or partial direct write-down of a loan or lease that is uncollectible, the bank establishes a new cost basis for the asset. Consequently, once a new cost basis has been established for a loan or lease through a direct write-down, this cost basis may not be "written up" at a later date. Reversing the previous write-down and "re-booking" the charged-off asset after the bank concludes

Allowance for Loan and Lease Losses (cont.):

that the prospects for recovering the charge-off have improved, regardless of whether the bank assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice.

The allowance account must never have a debit balance. If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an adequate level must be charged to expense on the income statement immediately. A bank shall not increase the allowance account by transferring an amount from undivided profits or any segregation thereof to the allowance for loan and lease losses.

To the extent that a bank's reserve for bad debts for tax purposes is greater than or less than its "allowance for loan and lease losses" on the balance sheet of the Report of Condition, the difference is referred to as a temporary difference. See the Glossary entry for "income taxes" for guidance on how to report the tax effect of such a temporary difference.

Recourse liability accounts that arise from recourse obligations for any transfers of loans that are reported as sales for purposes of these reports should not be included in the allowance for loan and lease losses. These accounts are considered separate and distinct from the allowance account and from the allowance for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule RC-G, item 4, "All other liabilities."

For comprehensive guidance on the maintenance of an adequate allowance for loan and lease losses, banks should refer to the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 21, 1993. For guidance on the design and implementation of allowance methodologies and supporting documentation practices, banks should refer to the interagency Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Associations, which was published on July 6, 2001. National banks should also refer to the Office of the Comptroller of the Currency's Handbook for National Bank Examiners discussing the allowance for loan and lease losses. Information on the application of FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," to the determination of an allowance for loan and losses on those loans covered by that accounting standard is provided in the Glossary entry for "loan impairment."

For information on reporting on foreclosed and repossessed assets, see the Glossary entry for "foreclosed assets."

Applicable Income Taxes: See "income taxes."

Associated Company: See "subsidiaries."

ATS Account: See "deposits."

Bankers Acceptances: A banker's acceptance, for purposes of these reports, is a draft or bill of exchange that has been drawn on and accepted by a banking institution (the "accepting bank") or its agent for payment by that institution at a future date that is specified in the instrument. Funds are advanced to the drawer of the acceptance by the discounting of the accepted draft either by the accepting bank or by others; the accepted draft is negotiable and may be sold and resold subsequent to its original discounting. At the maturity date specified, the holder or owner of the acceptance at that date, who has advanced funds either by initial discount or subsequent purchase, presents the accepted draft to the accepting bank for payment.

The accepting bank has an unconditional obligation to put the holder in funds (to pay the holder the face amount of the draft) on presentation on the specified date. The account party (customer) has an unconditional obligation to put the accepting bank in funds at or before the maturity date specified in the instrument.

Internal-Use Computer Software (cont.):

Computer software costs that are incurred in the preliminary project stage should be expensed as incurred.

Internal and external costs incurred to develop internal-use software during the application development stage should be capitalized. Capitalization of these costs should begin once (a) the preliminary project stage is completed and (b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization should cease no later than when a computer software project is substantially complete and ready for its intended use, i.e., after all substantial testing is completed. Capitalized internal-use software costs generally should be amortized on a straight-line basis over the estimated useful life of the software.

Only the following application development stage costs should be capitalized:

- (1) External direct costs of materials and services consumed in developing or obtaining internal-use software;
- (2) Payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and
- (3) Interest costs incurred when developing internal-use software.

Costs to develop or obtain software that allows for access or conversion of old data by new systems also should be capitalized. Otherwise, data conversion costs should be expensed as incurred. General and administrative costs and overhead costs should not be capitalized as internal-use software costs.

During the post-implementation/operation stage, internal and external training costs and maintenance costs should be expensed as incurred.

Impairment of capitalized internal-use computer software costs should be recognized and measured in accordance with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The costs of internally developed computer software to be sold, leased, or otherwise marketed as a separate product or process should be reported in accordance with FASB Statement No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." If, after the development of internal-use software is completed, a bank decides to market the software, proceeds received from the license of the software, net of direct incremental marketing costs, should be applied against the carrying amount of the software.

International Banking Facility (IBF): General definition -- An International Banking Facility (IBF) is a set

of asset and liability accounts, segregated on the books and records of the establishing entity, which reflect international transactions. An IBF is established in accordance with the terms of Federal Reserve Regulation D and after appropriate notification to the Federal Reserve. The establishing entity may be a U.S. depository institution, a U.S. office of an Edge or Agreement corporation, or a U.S. branch or agency of a foreign bank pursuant to Federal Reserve Regulations D and Q. An IBF is permitted to hold only certain assets and liabilities. In general, IBF accounts are limited, as specified in the paragraphs below, to non-U.S. residents of foreign countries, residents of Puerto Rico and U.S. territories and possessions, other IBFs, and U.S. and non-U.S. offices of the establishing entity.

International Banking Facility (IBF) (cont.):

Permissible IBF assets include extensions of credit to the following:

- (1) non-U.S. residents (including foreign branches of other U.S. banks);
- (2) other IBFs; and
- (3) U.S. and non-U.S. offices of the establishing entity.

Credit may be extended to non-U.S. nonbank residents only if the funds are used in their operations outside the United States. IBFs may extend credit in the form of a loan, deposit, placement, advance, security, or other similar asset.

Permissible IBF liabilities include (as specified in Federal Reserve Regulations D and Q) liabilities to non-U.S. nonbank residents only if such liabilities have a minimum maturity or notice period of at least two business days. IBF liabilities also may include overnight liabilities to:

- (1) non-U.S. offices of other depository institutions and of Edge or Agreement corporations;
- (2) non-U.S. offices of foreign banks;
- (3) foreign governments and official institutions;
- (4) other IBFs; and
- (5) the establishing entity.

IBF liabilities may be issued in the form of deposits, borrowings, placements, and other similar instruments. However, IBFs are prohibited from issuing negotiable certificates of deposit, bankers acceptances, or other negotiable or bearer instruments.

Treatment of the reporting bank's IBFs in the Reports of Condition and Income -- IBFs established by the reporting bank (i.e., by the bank or by its Edge or Agreement subsidiaries) are to be consolidated in the Reports of Condition and Income. In the consolidated balance sheet (Schedule RC) and income statement (Schedule RI), transactions between the IBFs of the reporting bank and between these IBFs and other offices of the bank are to be eliminated. (See the discussion of consolidation in the General Instructions section of this book.)

For purposes of these reports, the reporting bank's IBFs are to be treated as foreign offices of the bank. Thus, a bank with an IBF, even if it has no other foreign offices, must submit the Reports of Condition and Income applicable to banks with foreign offices (FFIEC 031). Similarly, the reporting bank's IBFs are to be treated as foreign offices where, in the supporting schedules, a distinction is made between foreign and domestic offices of the reporting bank.

Assets of the reporting bank's IBFs should be reported in the asset categories of the report by type of instrument and customer, as appropriate. For example, IBFs are to report their holdings of securities in Schedule RC, item 2, and in the appropriate items of Schedule RC-B; their holdings of loans that the IBF has the intent and ability to hold for the foreseeable future or until maturity or payoff (including loans of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities resale agreements) in Schedule RC, item 4.b, and in the appropriate items of Schedule RC-C, part I; and securities purchased under agreements to resell in Schedule RC, item 3.b.

For purposes of these reports, all liabilities of the reporting bank's IBFs to outside parties are classified under four headings:

- (1) Securities sold under agreements to repurchase, which are to be reported in Schedule RC, item 14.b;

International Banking Facility (IBF) (cont.):

- (2) Borrowings of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements, which are to be reported in Schedule RC-M, item 5.b;
- (3) Accrued liabilities, which are to be reported in Schedule RC, item 20; and
- (4) All other liabilities, including deposits, placements, and borrowings, which are to be treated as deposit liabilities in foreign offices and reported in Schedule RC, item 13.b, and by customer detail in Schedule RC-E, part II.

In addition to being included in the appropriate items of the balance sheet, the total assets and total liabilities of the reporting bank's IBFs are to be reported separately in Schedule RC-I, Assets and Liabilities of IBFs, by banks with IBFs and other "foreign" offices. For a bank whose only foreign offices are IBFs, the total assets and liabilities of the reporting bank's IBFs are not reported separately in Schedule RC-I, but are derived from Schedule RC-H, Selected Balance Sheet Items for Domestic Offices.

Treatment of transactions with IBFs of other depository institutions -- Transactions between the reporting bank and IBFs outside the scope of the reporting bank's consolidated Reports of Condition and Income are to be reported as transactions with depository institutions in the U.S., as appropriate. (Note, however, that only foreign offices of the reporting bank and the reporting bank's IBFs are permitted to have transactions with other IBFs.)

Interoffice Accounts: See "suspense accounts."

Investments in Common Stock of Unconsolidated Subsidiaries: See "equity method of accounting" and "subsidiaries."

Joint Venture: See "subsidiaries."

Lease Accounting: A lease is an agreement that transfers the right to use land, buildings, or equipment for a specified period of time. This financing device is essentially an extension of credit evidenced by an obligation between a lessee and a lessor.

Standards for lease accounting are set forth in FASB Statement No. 13, "Accounting for Leases," as amended and interpreted.

Accounting with bank as lessee -- Any lease entered into by a lessee bank that meets certain criteria (defined in the following paragraph) shall be accounted for as a property acquisition financed with a debt obligation. The property shall be amortized according to the bank's normal depreciation policy (except, if appropriate, the amortization period shall be the lease term) unless the lease involves land only. The interest expense portion of each lease payment shall be calculated to result in a constant rate of interest on the balance of the debt obligation. In the Report of Condition, the property "asset" is to be reported in Schedule RC, item 6, and the liability for capitalized leases in Schedule RC, item 16, "Other borrowed money." In the Report of Income, the interest expense portion of the capital lease payments is to be reported in Schedule RI, item 2.c, "Interest on trading liabilities and other borrowed money," and the amortization expense on the asset is to be reported in Schedule RI, item 7.b, "Expenses of premises and fixed assets."

If any one of the following criteria is met, a lease must be accounted for as a capital lease:

- (1) ownership of the property is transferred to the lessee at the end of the lease term, or
- (2) the lease contains a bargain purchase option, or

Lease Accounting (cont.):

- (3) the lease term represents at least 75 percent of the estimated economic life of the leased property, or
- (4) the present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair value of the leased property to the lessor at the inception of the lease less any related investment tax credit retained by and expected to be realized by the lessor.

If none of the above criteria is met, the lease should be accounted for as an operating lease. Normally, rental payments should be charged to expense over the term of the operating lease as they become payable.

NOTE: If a lease involves land only, the lease must be capitalized if either of the first two criteria above is met. Where a lease that involves land and building meets either of these two criteria, the land and building must be separately capitalized by the lessee. The accounting for a lease involving land and building that meets neither of the first two criteria should conform to the standards prescribed by FASB Statement No. 13.

Accounting for sales with leasebacks -- Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. If a bank sells premises or fixed assets and leases back the property, the lease shall be treated as a capital lease if it meets any one of the four criteria above for capitalization. Otherwise, the lease shall be accounted for as an operating lease.

As a general rule, the bank shall defer any gain resulting from the sale. For capital leases, this deferred gain is amortized in proportion to the depreciation taken on the leased asset. For operating leases, the deferred gain is amortized in proportion to the rental payments the bank will make over the lease term. The unamortized deferred gain is to be reported in Schedule RC-G, item 4, "Other" liabilities. (Exceptions to the general rule on deferral that permit full or partial recognition of a gain at the time of the sale may occur if the leaseback covers less than substantially all of the property that was sold or if the total gain exceeds the minimum lease payments.)

If the fair value of the property at the time of the sale is less than the book value of the property, the difference between these two amounts shall be recognized as a loss immediately. In this case, if the sales price is less than the fair value of the property, the additional loss shall be deferred since it is in substance a prepayment of rent. Similarly, if the fair value of the property sold is greater than its book value, any loss on the sale shall also be deferred. Deferred losses shall be amortized in the same manner as deferred gains as described above.

For further information, see FASB Statement No. 28, "Accounting for Sales with Leasebacks."

Accounting with bank as lessor -- Unless a long-term creditor is also involved in the transaction, a lease entered into by a lessor bank that meets one of the four criteria above for a capital lease plus two additional criteria (as defined below) shall be treated as a direct financing lease. The unearned income (minimum lease payments plus estimated residual value plus initial direct costs less the cost of the leased property) shall be amortized to income over the lease term in a manner which produces a constant rate of return on the net investment (minimum lease payments plus estimated residual value plus initial direct costs less unearned income). Other methods of income recognition may be used if the results are not materially different.

The following two additional criteria must be met for a lease to be classified as a direct financing lease:

- (1) Collectability of the minimum lease payments is reasonably predictable.
- (2) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

Loan Fees (cont.):

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including costs related to activities performed by the lender for advertising, identifying potential borrowers, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Employees' compensation and fringe benefits related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in "Any unearned income on loans reflected in items 1-9 above" in Schedule RC-C, part I. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule RC-C, part I. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 1, "Interest income," in Schedule RI. Other fees, such as (a) commitment fees that are recognized during the commitment period or included in income when the commitment expires (i.e. fees retrospectively determined and fees for commitments where exercise is remote) and (b) syndication fees that are not deferred, should be reported as "Other noninterest income" on Schedule RI.

Loan Impairment: The accounting standard for impaired loans is FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." For further information, refer to FASB Statement No. 114.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) adequate to absorb estimated credit losses in its entire portfolio of loans and leases held for investment, i.e., loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. As indicated in the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 21, 1993, a bank should rely on several methods when analyzing its loans and leases held for investment and determining the appropriate level for its allowance. FASB Statement No. 114 sets forth measurement methods for estimating the portion of the overall allowance for loan and lease losses attributable to individually impaired loans. An appropriate allowance must be maintained for other loans in accordance with FASB Statement No. 5, "Accounting for Contingencies." For comprehensive guidance on the maintenance of an adequate allowance, banks should refer to the Interagency Policy Statement and the Glossary entry for "allowance for loan and lease losses." National banks should also refer to the Office of the Comptroller of the Currency's Handbook for National Bank Examiners discussing the allowance for loan and lease losses.

In general, certain loans are impaired under FASB Statement No. 114 when, based on current information and events, it is likely that an institution will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the original loan agreement. An institution should apply its normal loan review procedures when determining whether a loan covered by FASB Statement No. 114 is impaired. When an individually reviewed loan is deemed impaired under FASB Statement No. 114, an institution may choose to measure impairment using (1) the present value of expected future cash flows discounted at the loan's effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), (2) the loan's observable market price, or (3) the fair value of the collateral, if the loan is collateral dependent. (See the additional regulatory reporting guidance on collateral dependent loans in the following paragraph.) A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to "Provision for loan and lease losses."

Loan Impairment (cont.):

For purposes of the Reports of Condition and Income, impairment of a collateral dependent loan must be measured using the fair value of the collateral. In general, any portion of the recorded investment in a collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.

An institution should not provide an additional allowance for estimated credit losses on an individually impaired loan over and above what is specified by FASB Statement No. 114. The allowance established under FASB Statement No. 114 should take into consideration all available information existing as of the Call Report date that indicates that it is probable that a loan has been impaired. All available information would include existing environmental factors such as industry, geographical, economic, and political factors that affect collectibility.

FASB Statement No. 114 also addresses the accounting by creditors for all loans that are restructured in a troubled debt restructuring involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. For guidance on troubled debt restructurings, see the Glossary entry for "troubled debt restructurings."

As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule RC-N in accordance with the schedule's instructions. Since full collection of principal and interest is not expected for impaired loans, income accrual should normally be discontinued on such loans at the time that they first become impaired. Any cash payments received on impaired loans should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see that Glossary entry.

Loan Secured by Real Estate: For purposes of these reports, loans secured by real estate are loans predicated upon a security interest in real property. A loan predicated upon a security interest in real property is a loan secured wholly or substantially by a lien on real property for which the lien is central to the extension of the credit--that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien on real property. All loans satisfying the criteria above are to be reported as loans secured by real estate (Schedule RC-C, part I, item 1), regardless of whether secured by first or junior liens, regardless of the department within the bank or bank subsidiary that made the loans, regardless of how the loans are categorized in the bank's records, and regardless of the purpose of the financing. Only in transactions where a lien on real property has been taken as collateral solely through an abundance of caution and where the terms as a consequence have not been made more favorable than they would have been in the absence of the lien, would the loans not be considered to be secured by real estate and not be classifiable as loans secured by real estate in the Report of Condition.

Loss Contingencies: A loss contingency is an existing condition, situation, or set of circumstances that involves uncertainty as to possible loss that will be resolved when one or more future events occur or fail to occur. An estimated loss (or expense) from a loss contingency (for example, pending or threatened litigation) must be accrued by a charge to income if it is probable that an asset has been impaired or a liability incurred as of the report date and the amount of the loss can be reasonably estimated.

A contingency that might result in a gain, for example, the filing of an insurance claim, shall not be recognized as income prior to realization.

For further information, see FASB Statement No. 5, "Accounting for Contingencies."

Majority-Owned Subsidiary: See "subsidiaries."

Mandatory Convertible Debt: Mandatory convertible debt is a subordinated note or debenture with a maturity of 12 years or less that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal by a date at or before the maturity date of the debt instrument (so-called "equity contract notes").

Market Value of Securities: The market value of securities should be determined, to the extent possible, by timely reference to the best available source of current market quotations or other data on relative current values. For example, securities traded on national, regional, or foreign exchanges or in organized over-the-counter markets should be valued at the most recently available quotation in the most active market. Rated securities for which no organized market exists should be valued on the basis of a yield curve estimate. Quotations from brokers or others making markets in securities that are neither widely nor actively traded are acceptable if prudently used. Unrated debt securities for which no reliable market price data are available may be valued at cost adjusted for amortization of premium or accretion of discount unless credit problems of the obligor or upward movements in the level of interest rates warrant a lower estimate of current value. Equity securities that do not have readily determinable fair values such as Federal Reserve stock or equity securities in closely held businesses should be valued at historical cost.

Mergers: See "business combinations."

Money Market Deposit Account (MMDA): See "deposits."

Nonaccrual Status: This entry covers, for purposes of these reports, the criteria for placing assets in nonaccrual status (presented in the general rule below) and related exceptions, the reversal of previously accrued but uncollected interest, the treatment of cash payments received on nonaccrual assets and the criteria for cash basis income recognition, the restoration of a nonaccrual asset to accrual status, and the treatment of multiple extensions of credit to one borrower.

General rule -- Banks shall not accrue interest, amortize deferred net loan fees or costs, or accrete discount on any asset (1) which is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) for which payment in full of principal or interest is not expected, or (3) upon which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Any state statute, regulation, or rule that imposes more stringent standards for nonaccrual of interest takes precedence over this instruction.

Nonaccrual Status (cont.):

Exceptions to the general rule -- In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for accrual of income under the interest method specified in AICPA Statement of Position 03-3¹ are met for a purchased impaired loan or debt security accounted for in accordance with that Statement of Position, regardless of whether the loan or debt security had been maintained in nonaccrual status by its seller. For further information, see the Glossary entry for "purchased impaired loans and debt securities."
- (2) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6² are met with respect to a loan or other debt instrument accounted for in accordance with that Practice Bulletin that was acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.
- (3) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule RC-C, part I, item 6, "Loans to individuals for household, family, and other personal expenditures") or a loan secured by a 1-to-4 family residential property (as defined for Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties"). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank's net income is not materially overstated. However, to the extent that the bank has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in Schedule RC-N.

Treatment of previously accrued interest -- The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status should be handled in accordance with generally accepted accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the "accrued interest receivable" account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate "interest and fee income on loans" account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the "allowance for loan and lease losses" account on the balance sheet. The use of this method presumes that bank management's additions to the allowance through charges to the "provision for loan and lease losses" on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios and the "accrued interest receivable" account.

Treatment of cash payments and criteria for the cash basis recognition of income -- When doubt exists as to the collectability of the remaining recorded investment in an asset in nonaccrual status, any payments received must be applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does not, in and of itself, require a charge-off, in whole or in part, of the asset's recorded investment. However, any identified losses must be charged off.

¹ American Institute of Certified Public Accountants Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," December 12, 2003.

² American Institute of Certified Public Accountants Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans," August 1989.

Nonaccrual Status (cont.):

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining recorded investment in the asset (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible.³ A bank's determination as to the ultimate collectability of the asset's remaining recorded investment must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors.

When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable accounting practice involves allocating contractual interest payments among interest income, reduction of the recorded investment in the asset, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining recorded investment at the contractual rate. A bank may also choose to account for the contractual interest in its entirety either as income, reduction of the recorded investment in the asset, or recovery of prior charge-offs, depending on the condition of the asset, consistent with its accounting policies for other financial reporting purposes.

Restoration to accrual status -- As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. If any interest payments received while the asset was in nonaccrual status were applied to reduce the recorded investment in the asset, as discussed in the preceding section of this entry, the application of these payments to the asset's recorded investment should not be reversed (and interest income should not be credited) when the asset is returned to accrual status.

For purposes of meeting the first test, the bank must have received repayment of the past due principal and interest unless, as discussed below, (1) the asset has been formally restructured and qualifies for accrual status, (2) the asset is a purchased impaired loan or debt security accounted for in accordance with AICPA Statement of Position 03-3 and it meets the criteria for accrual of income under the interest method specified in that Statement of Position, (3) the asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party, is accounted for in accordance with AICPA Practice Bulletin No. 6, and meets the criteria for amortization (i.e., accretion of discount) specified in that Practice Bulletin, or (4) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and the following two criteria are met. These criteria are, first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms involving payments of cash or cash equivalents. A loan that meets these two criteria may be restored to accrual status but must continue to be disclosed as past due in Schedule RC-N until it has been brought fully current or until it later must be placed in nonaccrual status.

³ An asset in nonaccrual status that is subject to the cost recovery method required by AICPA Practice Bulletin No. 6 or Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," should follow that method for reporting purposes. In addition, when a purchased impaired loan or debt security that is accounted for in accordance with AICPA Statement of Position 03-3 has been placed on nonaccrual status, the cost recovery method should be used, when appropriate.

Nonaccrual Status (cont.):

A loan or other debt instrument that has been formally restructured so as to be reasonably assured of repayment and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the asset are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents. (In returning the asset to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account.) Such a restructuring must improve the collectability of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the bank from the responsibility to promptly charge off all identified losses.

A formal restructuring may involve a multiple note structure in which, for example, a troubled loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and: (1) there is economic substance to the restructuring and it qualifies as a troubled debt restructuring under generally accepted accounting principles, (2) the portion of the original loan represented by the "B" note has been charged off before or at the time of the restructuring, and (3) the "A" note is reasonably assured of repayment and of performance in accordance with the modified terms.

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for any other reasons, the asset must be placed in nonaccrual status.

For further information on formally restructured assets, see the Glossary entry for "troubled debt restructurings."

Treatment of multiple extensions of credit to one borrower -- As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectability and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a bank does not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a bank has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets the criteria for nonaccrual status, the bank should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Noninterest-Bearing Account: See "deposits."

Nontransaction Account: See "deposits."

NOW Account: See "deposits."

Offsetting: Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Banks are permitted to offset assets and liabilities recognized in the Report of Condition when a "right of setoff" exists. Under FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," a right of setoff exists when all of the following conditions are met:

- (1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting bank has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Perpetual Preferred Stock: See "preferred stock."

Placements and Takings: Placements and takings are deposits between a foreign office of the reporting bank and a foreign office of another bank and are to be treated as due from or due to depository institutions. Such transactions are always to be reported gross and are not to be netted as reciprocal balances.

Pooling of Interests: See "business combinations."

Preauthorized Transfer Account: See "deposits."

Preferred Stock: Preferred stock is a form of ownership interest in a bank or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation.

Limited-life preferred stock is preferred stock that has a stated maturity date or that can be redeemed at the option of the holder. It excludes those issues of preferred stock that automatically convert into perpetual preferred stock or common stock at a stated date.

Perpetual preferred stock is preferred stock that does not have a stated maturity date or that cannot be redeemed at the option of the holder. It includes those issues of preferred stock that automatically convert into common stock at a stated date.

Premiums and Discounts: A premium arises when a bank purchases a security, loan, or other asset at a price in excess of its par or face value, typically because the current level of interest rates for such assets is less than its contract or stated rate of interest. The difference between the purchase price and par or face value represents the premium, which all banks are required to amortize.

A discount arises when a bank purchases a security, loan, or other asset at a price below its par or face value, typically because the current level of interest rates for such assets is greater than its contract or stated rate of interest. A discount is also present on instruments that do not have a stated rate of interest such as U.S. Treasury bills and commercial paper. The difference between par or face value and the purchase price represents the discount that all banks are required to accrete.

Premiums and discounts are accounted for as adjustments to the yield on an asset over the life of the asset. A premium must be amortized and a discount must be accreted from date of purchase to maturity, not to call or put date. The preferable method for amortizing premiums and accreting discounts involves the use of the interest method for accruing income on the asset. The objective of the interest method is to produce a constant yield or rate of return on the carrying value of the asset (par or face value plus unamortized premium or less unaccreted discount) at the beginning of each amortization period over the asset's remaining life. The difference between the periodic interest income that is accrued on the asset and interest at the stated rate is the periodic amortization or accretion. However, a straight-line method of amortization or accretion is acceptable if the results are not materially different from the interest method.

A premium or discount may also arise when the reporting bank, acting either as a lender or a borrower, is involved in an exchange of a note for assets other than cash and the interest rate is either below the market rate or not stated, or the face amount of the note is materially different from the fair value of the noncash assets exchanged. The noncash assets and the related note shall be recorded at either the fair value of the noncash assets or the market value of the note, whichever is more clearly determinable. The market value of the note would be its present value as determined by discounting all future payments on the note using an appropriate interest rate, i.e., a rate comparable to that on new loans of similar risk. The difference between the face amount and the recorded value of the note is a

Premiums and Discounts (cont.):

premium or discount. This discount or premium shall be accounted for as an adjustment of the interest income or expense over the life of the note using the interest method described above.

For further information, see APB Opinion No. 21, "Interest on Receivables and Payables."

Purchase Acquisition: See "business combinations."

Purchased Impaired Loans and Debt Securities: Purchased impaired loans and debt securities are loans and debt securities that a bank has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan or debt security and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. Such loans and debt securities acquired in fiscal years beginning after December 15, 2004, must be accounted for in accordance with AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." The Statement of Position does not apply to loans that a bank has originated.

Under Statement of Position 03-3, a purchased impaired loan or debt security is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). The Statement of Position limits the yield that may be accreted on the loan or debt security (the accretable yield) to the excess of the bank's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the asset over the bank's initial investment in the asset. The excess of contractually required cash flows over the cash flows expected to be collected on the loan or debt security, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance sheet (Schedule RC). After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the asset's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

Statement of Position 03-3 does not prohibit a bank from placing purchased impaired loans and debt securities in nonaccrual status. Because a loan or debt security accounted for in accordance with Statement of Position 03-3 has evidence of deterioration of credit quality since origination, a purchasing bank must determine upon acquisition whether it is appropriate to recognize the accretable yield as income over the life of the loan or debt security using the interest method. In order to apply the interest method, the bank must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on a purchased impaired loan or debt security. When the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the bank should place the loan or debt security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. In addition, if a purchased impaired loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. When accrual of income on a purchased impaired loan or debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the asset should be determined in accordance with its contractual repayment terms for purposes of Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets.

Statement of Position 03-3 prohibits a bank from "carrying over" or creating loan loss allowances in the initial accounting for purchased impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination. However, if, upon evaluation of a purchased impaired loan held for investment (and not accounted for as a debt security) subsequent to acquisition, based on current information and events, it is probable that a bank is unable to collect all cash flows expected at acquisition (plus additional cash

Purchased Impaired Loans and Debt Securities (cont.):

flows expected to be collected arising from changes in estimate after acquisition) on the loan, the purchased impaired loan should be considered impaired for purposes of establishing an allowance pursuant to FASB Statement No. 5 or No. 114, as appropriate. Banks should include such post-acquisition allowances in the bank's allowance for loan and lease losses as reported in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7, and disclose the amount of these allowances in Schedule RI-B, part II, Memorandum item 4.

In Schedule RC-C, part I, Loans and Leases, banks should report the carrying amount (before any loan loss allowance) of, i.e., the recorded investment in, a purchased impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased impaired loan should be reported as unearned income in Schedule RC-C, part I, item 11. In addition, banks should report in Schedule RC-C, part I, Memorandum items 7.a and 7.b, the outstanding balance and carrying amount (before any loan loss allowance), respectively, of all purchased impaired loans reported as held for investment in Schedule RC-C, part I.

For further information, refer to AICPA Statement of Position 03-3.

Put Option: See "derivative contracts."

Real Estate ADC Arrangements: See "acquisition, development, or construction (ADC) arrangements."

Real Estate, Loan Secured By: See "loan secured by real estate."

Reciprocal Balances: Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting bank has both a due to and a due from balance with another depository institution.

For purposes of the balance sheet of the Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

Renegotiated Troubled Debt: See "troubled debt restructurings."

Reorganizations: See "business combinations."

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the "sale" of financial assets by one party to another, subject to an agreement by the "seller" to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the "purchase" of financial assets by one party from another, subject to an agreement by the "purchaser" to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA's Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages), and generally have different principal amounts.

Repurchase/Resale Agreements (cont.):

General rule -- Consistent with FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," repurchase and resale agreements involving financial assets (e.g. securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring ("selling") institution maintains control over the transferred assets. (See the Glossary entry for "transfers of financial assets" for further discussion of control criteria).

Trading Account (cont.):

All trading assets should be segregated from a bank's other assets and reported in Schedule RC, item 5, "Trading assets." In addition, for banks that reported average trading assets (Schedule RC-K, item 7) of \$2 million or more for any quarter of the preceding calendar year should detail the types of assets and liabilities in the trading account in Schedule RC-D, Trading Assets and Liabilities. A bank's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of these reports. For further information, see FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All trading account assets should be reported at their fair value with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a bank should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A bank should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a bank categorizes a newly acquired asset, management should document its decision.

All trading liabilities should be segregated from other transactions and reported in Schedule RC, item 15, "Trading liabilities." The trading liability account includes the fair value of derivative contracts held for trading that are in loss positions and short positions arising from sales of securities and other assets that the bank does not own. (See the Glossary entry for "short position.") Trading account liabilities should be reported at fair value with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

Given the nature of the trading account, transfers into or from the trading category should be rare. Transfers between a trading account and any other account of the bank must be recorded at fair value at the time of the transfer. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will already have been recognized in earnings and should not be reversed. For a security transferred into the trading category, the unrealized holding gain or loss at the date of the transfer should be recognized in earnings.

Transaction Account: See "deposits."

Transfers of Financial Assets: The accounting and reporting standards for transfers of financial assets are set forth in FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces FASB Statement No. 125 of the same name. These standards, which banks must follow for purposes of these reports, are based on consistent application of a financial components approach that focuses on control. Under the financial components approach, after the reporting bank transfers financial assets, it recognizes the financial and servicing assets it controls and the liabilities it has incurred, removes financial assets from the balance sheet when control has been surrendered, and removes liabilities from the balance sheet when extinguished. A summary of these accounting and reporting standards follows. For further information, see FASB Statement No. 140, the FASB staff implementation guide to Statement No. 140, and the Glossary entries for "Extinguishments of Liabilities" and "Servicing Assets and Liabilities."

A financial asset is cash, evidence of an ownership interest in another entity, or a contract that conveys to the bank a contractual right either to receive cash or another financial instrument from another entity or to exchange other financial instruments on potentially favorable terms with another entity. Most of the assets on a bank's balance sheet are financial assets, including balances due from depository institutions, securities, federal funds sold, securities purchased under agreements to resell, loans and lease financing receivables, and interest-only strips receivable.² However, servicing assets are not financial assets. Financial assets also include financial futures contracts, forward contracts, interest rate swaps, interest rate caps, interest rate floors, and certain option contracts.

² Both FASB Statement Nos. 125 and 140 define an interest-only strip receivable as the contractual right to receive some or all of the interest due on a bond, mortgage loan, collateralized mortgage obligation, or other interest-bearing financial asset.

Transfers of Financial Assets (cont.):

Determining Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing -- A bank should account for a transfer of its financial assets (or a transfer of all or a portion of one of its financial assets) in which it surrenders control over those financial assets as a sale to the extent that it receives consideration other than beneficial interests in the transferred assets in exchange. According to FASB Statement No. 140, a transferor (i.e., the entity that transfers all or a portion of one or more financial assets) has surrendered control over transferred assets, and therefore has sold the assets, if and only if all three of the following conditions are met:

- (1) The transferred assets have been isolated from the transferor, i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- (2) Each transferee (i.e., the entity that receives all or a portion of one or more financial assets from the transferor), or each holder of the beneficial interests in a qualifying special purpose entity that is a transferee, has the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit to the transferor.
- (3) The transferor does not maintain effective control over the transferred assets through (a) an agreement that both entitles and obligates it to repurchase or redeem the transferred assets before their maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call option.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not satisfy the criteria for sale treatment, the transfer should be accounted for as a secured borrowing with pledge of collateral.

Accounting for a Transfer That Qualifies as a Sale -- Upon the completion of a transfer of financial assets that satisfies all three of the conditions to be accounted for as a sale, the purchaser(s) must recognize on the balance sheet all assets obtained and any liabilities incurred and initially measure them at fair value. The aggregate fair value is presumed to be the price paid by the purchaser(s). As for the selling bank, it must:

- (1) Remove all assets sold from the balance sheet while continuing to carry on its balance sheet any retained interest in the transferred assets, including, if applicable, servicing assets, retained undivided interests, and beneficial interests in assets transferred to a qualifying special-purpose entity in a securitization. The selling bank must allocate the amount at which the transferred assets were carried on the balance sheet at the date of the transfer between the assets sold and the retained interests, if any, based on their relative fair values at that date.
- (2) Recognize on the balance sheet all cash, derivative financial instruments, and other assets obtained and all servicing liabilities and other liabilities incurred in consideration as proceeds of the sale. Derivatives include put or call options held or written (e.g., guarantee or recourse obligations), forward commitments (e.g., commitments to deliver additional receivables in some securitizations), and swaps (e.g., provisions that convert interest rates from fixed to variable).
- (3) Initially measure the assets obtained and liabilities incurred in a sale at fair value. However, if it is not practicable to estimate the fair value of an asset obtained, the selling bank must record the asset at zero. If it is not practicable to estimate the fair value of a liability incurred, the selling bank must not recognize any gain on the sale. The liability should be recorded on the balance sheet at the greater of:
 - (a) The amount, if any, by which the fair values of the assets obtained in the sale less the fair values of the liabilities incurred in the sale exceeds the sum of the carrying values of the assets transferred, or

Transfers of Financial Assets (cont.):

- (b) The amount of loss that is probable of occurring in accordance with FASB Statement No. 5, "Accounting for Contingencies," as interpreted by FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." Under that interpretation, when the reasonable estimate of the loss is a range and some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount should be considered probable. When no amount within the range is a better estimate than any other amount, the minimum amount in the range should be considered probable.

- (4) Recognize in income any gain or loss on the sale.

If, as a result of a change in circumstances, a bank transferor regains control of a financial asset previously accounted for appropriately as having been sold because one or more of the conditions for sale accounting in FASB Statement No. 140 are no longer met, such a change should be accounted for in the same manner as a purchase of the financial asset from the former transferee (purchaser) in exchange for a liability assumed. The transferor should recognize (rebook) the financial asset on its balance sheet together with a liability to the former transferee, measuring the asset and liability at fair value on the date of the change in circumstances. If the rebooked financial asset is a loan, it must be reported as a loan asset in Schedule RC-C, part I, either as a loan held for sale or a loan held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles. The liability to the former transferee should be reported as a secured borrowing in Schedule RC, item 16, "Other borrowed money." This accounting and reporting treatment applies, for example, to U.S. Government-guaranteed or -insured residential mortgage loans backing Government National Mortgage Association (GNMA) mortgage-backed securities that a bank services after it has securitized the loans in a transfer accounted for as a sale. If and when individual loans later meet delinquency criteria specified by GNMA, they are eligible for repurchase (buy-back) and the bank is deemed to have regained effective control over these loans. The delinquent loans must be brought back onto the bank's books as loan assets, regardless of whether the bank intends to exercise the buy-back option.

Banks should refer to FASB Statement No. 140 for implementation guidance for accounting for transfers of partial interests, transfers of certain lease receivables, securities lending transactions, repurchase agreements including "dollar rolls," "wash sales," loan syndications, loan participations (discussed below), risk participations in bankers acceptances, factoring arrangements, and transfers of receivables with recourse. However, this accounting standard does not provide guidance on the accounting for most assets and liabilities recorded on the balance sheet following a transfer accounted for as a sale. As a result, after their initial measurement or carrying amount allocation, these assets and liabilities should be accounted for in accordance with the existing generally accepted accounting principles applicable to them.

Loan Participations – If a loan participation agreement gives a participating institution the right to pledge or exchange the participation, the isolation test has been met, and the originating lender does not maintain effective control over the participation, then the three conditions for the surrender of control set forth in FASB Statement No. 140 have been met and the originating lender should account for transfers to the participating institution as sales of financial assets.

An originating lender's right of first refusal on a bona fide offer to the participating institution from a third party, a requirement for a participating institution to obtain the originating lender's permission that shall not be unreasonably withheld, or a prohibition on the participating institution's sale of the participation to the originating lender's competitor (if other potential willing buyers exist) is a limitation on the participating institution's rights, but is presumed not to constrain a participant from exercising its right to pledge or exchange the participation. However, if the participation agreement constrains the participating institution from pledging or exchanging its participation, the originating lender presumptively receives more than a trivial benefit, has not relinquished control over the loan, and should account for the transfer as a secured borrowing.

Transfers of Financial Assets (cont.):

A loan participation agreement may give the originating lender the contractual right to repurchase a loan participation at any time. In this situation, the right to repurchase is effectively a call option on a specific loan participation, i.e., a participation that is not readily obtainable in the marketplace. Regardless of whether this option is freestanding or attached, it either constrains the participating institution from pledging or exchanging its participation or results in the originating lender maintaining effective control over the participation. As a consequence, the contractual right to repurchase precludes sale accounting and the transfer should be accounted for as a secured borrowing.

In addition, under a loan participation agreement, the originating lender may give the participating institution the right to resell the participation, but reserves the right to call the loan participation at any time from whomever holds it and can enforce that right by discontinuing the flow of interest to the holder of the participation at the call date. In this situation, the originating lender has maintained effective control over the participation and the transfer should be accounted for as a secured borrowing, not as a sale.

If an originating FDIC-insured lender has transferred a loan participation to a participating institution with recourse prior to January 1, 2002, the existence of the recourse obligation in and of itself does not preclude sale accounting for the transfer under FASB Statement No. 140. If a loan participation transferred with recourse prior to January 1, 2002, meets the three conditions identified above in order for the transferor to have surrendered control over the transferred assets, the transfer should be accounted for as a sale for financial reporting purposes. However, a loan participation sold with recourse is subject to the banking agencies' risk-based capital requirements as discussed in the Glossary entry for "sales of assets for risk-based capital purposes" and in the instructions for Schedule RC-R, Regulatory Capital.

If an originating FDIC-insured lender transfers a loan participation with recourse after December 31, 2001, the participation generally will not be considered isolated from the transferor, i.e., the originating lender, in the event of an FDIC receivership. Section 360.6 of the FDIC's regulations limits the FDIC's ability to reclaim loan participations transferred "without recourse," as defined in the regulations, but does not limit the FDIC's ability to reclaim loan participations transferred with recourse. Under Section 360.6, a participation that is subject to an agreement that requires the originating lender to repurchase the participation or to otherwise compensate the participating institution due to a default on the underlying loan is considered a participation "with recourse." As a result, a loan participation transferred "with recourse" after December 31, 2001, generally should be accounted for as a secured borrowing and not as a sale for financial reporting purposes. This means that the originating lender should not remove the participation from its loan assets on the balance sheet, but should report the secured borrowing in Schedule RC, item 16, "Other borrowed money."

Financial Assets Subject to Prepayment -- Financial assets such as interest-only strips receivable and certain loans, debt securities, other receivables, and retained interests in securitizations can be contractually prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment. After their initial recording on the balance sheet, financial assets of this type must be subsequently measured at fair value like available-for-sale securities or trading securities.

Traveler's Letter of Credit: See "letter of credit."

Treasury Receipts: See "coupon stripping, Treasury receipts, and STRIPS."

Trust Preferred Securities (cont.):

considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a bank is permitted to invest in trust preferred securities, banks should report these investments as debt securities for purposes of these reports (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115). If not held for trading purposes, trust preferred securities issued by U.S. business trusts should be reported in Schedule RC-B, item 6.a, "Other domestic debt securities."

U.S. Banks: See "banks, U.S. and foreign."

U.S. Territories and Possessions: United States territories and possessions include American Samoa, Guam, the Northern Mariana Islands, the U.S. Virgin Islands, and the U.S. trust territories.

Valuation Allowance: In general, a valuation allowance is an account established against a specific asset category or to recognize a specific liability, with the intent of absorbing some element of estimated loss. Such allowances are created by charges to expense in the Report of Income and those established against asset accounts are netted from the accounts to which they relate for presentation in the Report of Condition. Provisions establishing or augmenting such allowances are to be reported as "Other noninterest expense" except for the provision for loan and lease losses which is reported in a separate, specifically designated income statement item on Schedule RI.

When-Issued Securities Transactions: Transactions involving securities described as "when-issued" or

"when-as-and-if-issued" are, by their nature, conditional, i.e., their completion is contingent upon the issuance of the securities. The accounting for contracts for the purchase or sale of when-issued securities or other securities that do not yet exist is addressed in FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FASB Statement No. 149. Such contracts are excluded from the requirements of Statement No. 133, as amended, as a regular-way security trade only if:

- (1) There is no other way to purchase or sell that security;
- (2) Delivery of that security and settlement will occur within the shortest period possible for that type of security; and
- (3) It is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued.

A contract for the purchase or sale of when-issued securities may qualify for the regular-way security trade exclusion even though the contract permits net settlement or a market mechanism to facilitate net settlement of the contract exists (as described in Statement No. 133). A bank should document the basis for concluding that it is probable that the contract will not settle net and will result in physical delivery.

If a when-issued securities contract does not meet the three criteria above, it should be accounted for as a derivative at fair value on the balance sheet (Schedule RC) and reported as a forward contract in Schedule RC-L, item 12.b. Such contracts should be reported on a gross basis on the balance sheet unless the criteria for netting in FASB Interpretation No. 39 are met. (See the Glossary entry for "offsetting" for further information.)

If a when-issued securities contract qualifies for the regular-way security trade exclusion, it is not accounted for as a derivative. If the bank accounts for these contracts on a trade-date basis, it should recognize the acquisition or disposition of the when-issued securities on its balance sheet (Schedule RC) at the inception of the contract. If the bank accounts for these contracts on a settlement-date basis, contracts for the purchase of when-issued securities should be reported as "Other off-balance sheet liabilities" in Schedule RC-L, item 9, and contracts for the sale of when-issued

When-Issued Securities Transactions (cont.):

securities should be reported as "Other off-balance sheet assets" in Schedule RC-L, item 10, subject to the existing reporting thresholds for these two items.

Trading in when-issued securities normally begins when the U.S. Treasury or some other issuer of securities announces a forthcoming issue. (In some cases, trading may begin in anticipation of such an announcement and should also be reported as described herein.) Since the exact price and terms of the security are unknown before the auction date, trading prior to that date is on a "yield" basis. On the auction date the exact terms and price of the security become known and when-issued trading continues until settlement date, when the securities are delivered and the issuer is paid. If physical delivery is taken on settlement date and settlement date accounting is used, the securities purchased by the bank shall be reported on the balance sheet as held-to-maturity securities in Schedule RC, item 2.a, available-for-sale securities in Schedule RC, item 2.b, or trading assets in Schedule RC, item 5, as appropriate.