

**CALL REPORT**

**INSTRUCTION BOOK UPDATE**

**JUNE 2004**

## 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

1 – 2 (3-01)  
7 – 8 (3-03)  
RC-K-3 – RC-K-4 (3-01)  
A-3 – A-4 (6-02)  
A-61 – A-62 (6-01)

### Insert Pages

1 – 2 (6-04)  
7 – 8 (6-04)  
RC-K-3 – RC-K-4 (6-04)  
A-3 – A-4 (6-04)  
A-61 – A-62 (6-04)

## GENERAL INSTRUCTIONS

Schedules RC and RC-A through RC-T constitute the Report of Condition and its supporting schedules. Schedules RI, RI-A, RI-B, RI-D, and RI-E constitute the Report of Income and its supporting schedules. The Reports of Condition and Income are commonly referred to as the Call Report.

### WHO MUST REPORT ON WHAT FORMS

Every national bank, state member bank, and insured state nonmember bank is required to file consolidated Reports of Condition and Income normally as of the close of business on the last calendar day of each calendar quarter, i.e., the report date. The specific reporting requirements depend upon the size of the bank and whether it has any foreign offices. Banks must file the appropriate forms as described below:

- (1) **BANKS WITH FOREIGN OFFICES:** Banks of any size that have any "foreign" offices (as defined below) must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices* (FFIEC 031). For purposes of these reports, all of the following constitute "foreign" offices:
- (a) an International Banking Facility (IBF);
  - (b) a branch or consolidated subsidiary in a foreign country, Puerto Rico, or a U.S. territory or possession; and
  - (c) a majority-owned Edge or Agreement subsidiary.

However, for purposes of these reports, a branch at a U.S. military facility located in a foreign country is a "domestic" office.

- (2) **BANKS WITHOUT FOREIGN OFFICES:** Banks of *any* size that have only domestic offices must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only* (FFIEC 041).

### **Close of Business**

The term "close of business" refers to the time established by the reporting bank as the cut-off time for receipt of work for posting transactions to its general ledger accounts for that day. The time designated as the close of business should be reasonable and applied consistently. The posting of a transaction to the general ledger means that both debit and credit entries are recorded as of the same date. In addition, entries made to general ledger accounts in the period subsequent to the close of business on the report date that are applicable to the period covered by the Reports of Condition and Income (e.g., adjustments of accruals, posting of items held in suspense on the report date to their proper accounts, and other quarter-end adjusting entries) should be reported in the Reports of Condition and Income as if they had actually been posted to the general ledger at or before the cut-off time on the report date.

With respect to deposits received by the reporting bank after the cut-off time for posting them to individual customer accounts for a report date (i.e., so-called "next day deposits" or "late deposits"), but which are nevertheless posted in any manner to the reporting bank's general ledger accounts for that report date (including, but not limited to, through the use of one or more general ledger contra accounts), such deposits must be reported in (1) Schedule RC, Balance Sheet, item 13, "Deposits," and in Schedule RC-E, Deposit Liabilities, or (2) in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, item 2, "Unposted credits." The use of memorandum accounts outside the reporting

bank's general ledger system for control over "next day" or "late deposits" received on the report date will not cause such deposits to be reportable in Schedules RC and RC-E or Schedule RC-O.

### ***Frequency of Reporting***

The reports are required to be submitted quarterly by all banks. However, some schedules are required on a less frequent basis, as follows:

- (1) For all banks, Schedule RC-C, part II, Loans to Small Businesses and Small Farms, is to be filed *only* as of the June 30 report date.
- (2) Banks with total fiduciary assets greater than \$250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must complete the applicable items of Schedule RC-T quarterly. All other banks with fiduciary powers must complete the applicable items of Schedule RC-T annually as of the December 31 report date.

In addition, the following items are to be completed annually rather than quarterly:

- (1) Schedule RC, Memorandum item 1, on the level of external auditing work performed for the bank is to be reported as of the March 31 report date;
- (2) Schedule RC-O, Memorandum item 1.a.(2), "Number of deposit accounts of \$100,000 or less" (in domestic offices), is to be reported as of the June 30 report date; and
- (3) Schedule RC-E, Memorandum item 1.e, "Preferred deposits," is to be reported as of the December 31 report date.

### ***Differences in Detail of Reports***

The amount of detail required to be reported varies between the two versions of the report forms, with the report forms for banks with foreign offices (FFIEC 031) having more detail than the report forms for banks with domestic offices only (FFIEC 041). Furthermore, as discussed below under Shifts in Reporting Status, the amount of detail varies within the FFIEC 041 report form, primarily based on the size of the bank. In general, the FFIEC 041 report form requires the least amount of detail from banks with less than \$100 million in total assets.

Differences in the level of detail within both the FFIEC 031 and 041 report forms are as follows:

- (1) banks reporting average trading assets of \$2 million or more for any quarter of the preceding calendar year must complete Schedule RC-D, Trading Assets and Liabilities, and provide a breakdown of their trading revenue by risk exposure in Schedule RI, Memorandum item 8, "Trading revenue;"
- (2) banks with financial subsidiaries must complete certain additional items in Schedule RC-R, Regulatory Capital;
- (3) banks servicing more than \$10 million in financial assets other than 1-4 family residential mortgages must report the volume of such servicing in Schedule RC-S, Memorandum item 2.c; and

No item on the Reports of Condition and Income is to be left blank unless otherwise indicated in the instructions. Except in those instances, an entry must be made for each item, i.e., an amount, a zero, the word "none," an "X," or an "N/A."

State banks should refer to their appropriate state bank supervisory authority for information concerning state requirements for submitting copies of the Reports of Condition and Income filed with federal bank supervisory authorities.

### ***Submission Date***

The term "submission date" is defined as the date by which a bank's completed Reports of Condition and Income must be received in electronic form by EDS, the banking agencies' electronic collection agent. Except as indicated below, EDS must receive the data file for a bank's Reports of Condition and Income no more than 30 calendar days after the report date (subject to the timely filing provisions for computer diskettes set forth in the following paragraph). For example, the March 31 report must be received by April 30 and the June 30 report by July 30. Earlier submission would aid the banking agencies in editing and reviewing the reports and is encouraged. No extensions of time for submitting reports are granted.

Any bank using the paper-based filing alternative must ensure that it delivers its hard-copy reports to the party with whom it has contracted for the conversion of its reports to automated form in sufficient time for that party to electronically transmit the reports to EDS by the submission deadline.

The filing of a bank's completed Reports of Condition and Income on a computer diskette will be considered timely, regardless of when the reports are received by EDS, if the computer diskette is mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a bank whose computer diskette containing its completed Reports of Condition and Income is received late may be called upon to provide proof of timely mailing. A "Certificate of Mailing" (U.S. Postal Service Form 3817) may be used to provide such proof. If an overnight delivery service is used, the placement of the computer diskette into the delivery system on the day before the submission deadline will constitute timely submission.

Any bank that has more than one foreign office, other than a "shell" branch or an IBF, may take an additional limited period of time to submit its Reports of Condition and Income. Effective June 30, 2004, EDS must receive the data file for such a bank's Reports of Condition and Income in electronic form no more than 40 calendar days after the report date. The filing deadline for such a bank will be reduced to 35 calendar days effective June 30, 2005. Eligible banks are urged to use the additional time only if absolutely necessary and to make every effort to report as soon as possible, preferably within the 30-day submission period.

### ***Amended Reports***

A bank's primary federal bank supervisory authority may require the filing of amended Reports of Condition and Income if reports as previously submitted contain significant errors, as determined by the supervisory authority, in how the reporting bank classified or categorized items in the reports, i.e., on what line of the report an item has been reported.

When dealing with the recognition and measurement of events and transactions in the Reports of Condition and Income, amended reports may be required if a bank's primary federal bank supervisory authority determines that the reports as previously submitted contain errors that are material for the reporting bank. Materiality is a qualitative characteristic of accounting information which is defined in FASB Concepts Statement No. 2 as "the magnitude of an omission or misstatement of accounting

information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

### **SCOPE OF THE "CONSOLIDATED BANK" REQUIRED TO BE REPORTED IN THE SUBMITTED REPORTS**

In their Reports of Condition and Income submitted to the federal bank supervisory agencies, banks and their subsidiaries shall present their financial condition and results of operations on a consolidated basis in accordance with generally accepted accounting principles. All majority-owned subsidiaries shall be consolidated unless the subsidiary is not "significant" or is covered by one of the exceptions listed in the "Exclusions from the Coverage of the Consolidated Report" section below. (See the Glossary entry for "subsidiaries" for the definition of "significant subsidiary.") Accordingly, the Consolidated Reports of Condition and Income shall consolidate the operations of:

- (1) the bank's head office;
- (2) all branches of the bank, domestic and foreign;
- (3) any International Banking Facility (IBF) established by the bank;
- (4) all majority-owned Edge and Agreement subsidiaries, including their IBFs, their foreign and domestic branches, and their significant subsidiaries;
- (5) all majority-owned foreign banks held directly by the reporting bank pursuant to Section 25 of the Federal Reserve Act;
- (6) all other majority-owned subsidiaries that are "significant," including domestic subsidiaries that are commercial banks, savings banks, or savings and loan associations that must file separate Reports of Condition and Income (or separate reports of a comparable nature) with any state or federal financial institutions supervisory authority; and
- (7) all nonsignificant majority-owned subsidiaries that the bank has elected to consolidate on a consistent basis in both the Report of Condition and the Report of Income.

Each bank shall account for any investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank exercises significant influence according to the equity method of accounting. The equity method of accounting is described in Schedule RC-M, item 4. (Refer to the Glossary entry for "subsidiaries" for the definitions of the terms subsidiary, associated company, and corporate joint venture.)

#### ***Exclusions from the Coverage of the Consolidated Report***

*Subsidiaries where control does not rest with the parent* -- If control of a majority-owned subsidiary does not rest with the parent bank because of legal or other reasons (e.g., the subsidiary is in bankruptcy), the subsidiary is not to be consolidated for purposes of the report. Thus, the bank's investment in such a subsidiary is not eliminated in consolidation but will be reflected in the reports in the balance sheet item for "Investments in unconsolidated subsidiaries and associated companies" (Schedule RC, item 8) and other transactions of the bank with such a subsidiary will be reflected in the appropriate items of the reports in the same manner as transactions with unrelated

## FFIEC 041 FFIEC 031

**Item No.** **Item No.** **Caption and Instructions**

- 6.d.(2)** **6.a.(5)(b)** **Other.** Report the quarterly average for loans (in domestic offices) to individuals for household, family, and other personal expenditures other than credit cards (as defined for Schedule RC-C, part I, items 6.b and 6.c, column B).
- **6.b** **Total loans in foreign offices, Edge and Agreement subsidiaries, and IBFs.** Report the quarterly average for total loans, net of unearned income (as defined for Schedule RC-C, part I, items 1 through 9, less item 11), held in the reporting bank's foreign offices, Edge and Agreement subsidiaries, and IBFs.

## FFIEC 031 and 041

**Item No.** **Caption and Instructions**

NOTE: On the FFIEC 041, item 7 is to be completed by banks that have \$100 million or more in total assets.

- 7** **Trading assets.** Report the quarterly average for the fully consolidated bank's trading assets (as defined for Schedule RC, item 5). Trading assets include trading derivatives with positive fair values.
- 8** **Lease financing receivables (net of unearned income).** Report the quarterly average for the fully consolidated bank's lease financing receivables, net of unearned income (as defined for Schedule RC-C, part I, item 10, column B, on the FFIEC 041; column A on the FFIEC 031).
- 9** **Total assets.** Report the quarterly average for the bank's total assets, as defined for "Total assets," on Schedule RC, item 12, except that this quarterly average should reflect all debt securities (not held for trading) at amortized cost and available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost. In addition, to the extent that net deferred tax assets included in the bank's total assets, if any, include the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the determination of the quarterly average for total assets. If these deferred tax effects are excluded, this treatment must be followed consistently over time.

This item is not the sum of items 1 through 8 above.

## LIABILITIES

- 10** **Interest-bearing transaction accounts (in domestic offices) (NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts).** Report the quarterly average for the three interest-bearing categories of transaction accounts (in domestic offices): NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts (as defined for Schedule RC-E, (part I,) column A, "Total transaction accounts"). Exclude demand deposits which are noninterest-bearing transaction accounts. See the Glossary entry for "deposits" for the definitions of "NOW accounts," "ATS accounts," and "telephone or preauthorized transfer accounts."

**Item No.    Caption and Instructions**

- 11**            **Nontransaction accounts (in domestic offices):**
- 11.a**        **Savings deposits.** Report the quarterly average for savings deposits (as defined for Schedule RC-E, (part I), Memorandum items 2.a.(1) and 2.a.(2)). Savings deposits include money market deposit accounts (MMDAs) and other savings deposits.
- 11.b**        **Time deposits of \$100,000 or more.** Report the quarterly average for time deposits of \$100,000 or more (as defined for Schedule RC-E, (part I), Memorandum item 2.c).
- 11.c**        **Time deposits of less than \$100,000.** Report the quarterly average for time deposits of less than \$100,000 (as defined for Schedule RC-E, (part I), Memorandum item 2.b).

**FFIEC 041    FFIEC 031****Item No.    Item No.    Caption and Instructions**

- **12**            **Interest-bearing deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs.** Report the quarterly average for interest-bearing deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs (as defined for Schedule RC, item 13.b.(2), "Interest-bearing").
- 12**        **13**            **Federal funds purchased and securities sold under agreements to repurchase.** Report the quarterly average for federal funds purchased and securities sold under agreements to repurchase (as defined for Schedule RC, item 14).

NOTE: On the FFIEC 041, item 13 is to be completed by banks that have \$100 million or more in total assets.

- 13**        **14**            **Other borrowed money.** Report the quarterly average for the fully consolidated bank's other borrowed money (as defined for Schedule RC, item 16).



**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.

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.

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.

**Nonaccrual Status (cont.):**

contractual interest payments among interest income, reduction of principal, 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 book balance at the contractual rate. A bank may also choose to account for the contractual interest in its entirety either as income, reduction of principal, or recovery of prior charge-offs, depending on the condition of the loan, 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 principal, as discussed in the preceding section of this entry, the application of these payments to principal 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 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 and meets the criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6, or (3) 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.

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.

**Nonaccrual Status (cont.):**

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.