Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of Thrift Supervision

Interagency Statement on the Regulatory Capital Impact of Losses on Fannie Mae and Freddie Mac Preferred Stock

October 24, 2008

As a result of the significant declines in value of Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") perpetual preferred stock after these entities were placed into conservatorship on September 7, 2008, and other factors related to these actions, banks, bank holding companies, savings associations, and savings and loan holding companies (collectively, banking organizations) holding these investments for purposes other than trading are presumed to have incurred other-than-temporary impairment losses if the cost basis of these investments is well in excess of the current market price of the stock. In addition, some banking organizations have realized losses on sales of their holdings of Fannie Mae and Freddie Mac perpetual preferred stock on or before September 30, 2008. These losses, whether from other-than-temporary impairments or sales, and the associated current or deferred tax effects must be recognized in earnings for financial reporting purposes and in the regulatory reports for September 30, 2008.[1]

Prior to enactment of the Emergency Economic Stabilization Act of 2008 (EESA) on October 3, 2008, gains and losses on sales or exchanges of Fannie Mae and Freddie Mac perpetual preferred stock by banking organizations generally were considered capital gains and losses for federal income tax purposes. For banking organizations that sold or exchanged Fannie Mae or Freddie Mac perpetual preferred stock at a loss on or after January 1, 2008, and before September 7, 2008, or held such stock on September 6, 2008, and later sell or exchange it at a loss, Section 301 of EESA provides tax relief by treating these losses as ordinary losses rather than capital losses for federal income tax purposes.

Under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (FAS 109), a banking organization may not record the effect of this tax change until the

[1] For banks, Schedule RI of the Consolidated Reports of Condition and Income (Call Report); for bank holding companies, Schedule HI of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C); and for savings associations, Schedule SO of the Thrift Financial Report.

Banking organizations that have elected S Corporation status for federal income tax purposes generally are not subject to federal income taxes and do not report federal income taxes in their regulatory reports. Therefore, the tax issues discussed in this Interagency Statement generally are not applicable to S Corporation banking organizations.

period in which the law is enacted,[2] *i.e.*, the fourth quarter of 2008.[3] Absent an ability to carry back the capital loss on its sale or exchange of Fannie Mae or Freddie Mac preferred stock or to generate capital gains to offset the loss on the sale or exchange of this preferred stock, a banking organization would likely need to reflect a valuation allowance against the deferred tax asset arising from this capital loss in the balance sheet of its regulatory report for each reporting period through the third quarter of 2008.[4] The continuing need for this valuation allowance should be evaluated in the fourth quarter of 2008 in response to the enactment of Section 301 of EESA.[5]

The federal banking agencies[6] recognize that a deferred tax asset valuation allowance related to a loss on Fannie Mae or Freddie Mac preferred stock that a banking organization reflects in its regulatory report balance sheet for the third quarter of 2008 may now be temporary. The agencies also recognize that, as a result of the legislation, some banking organizations that sold their preferred stock at a loss between January 1 and September 30, 2008, may be able to eliminate or substantially reduce the valuation allowance for the deferred tax asset associated with the loss in the fourth quarter of 2008 and may also be able to reduce a current income tax payable or record a current income tax receivable in the fourth quarter. Similarly, some banking organizations that recognized losses on their Fannie Mae or Freddie Mac preferred stock in their regulatory reports, but have not sold the stock, also may be able to eliminate or substantially reduce this valuation allowance in the fourth quarter of 2008.

Therefore, for purposes of their third quarter 2008 regulatory capital calculations, the federal banking agencies are allowing banking organizations to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock as if Section 301 of EESA had been enacted in the third quarter 2008.[7] The federal banking agencies believe that this regulatory capital treatment is consistent with the intent of Congress to allow

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[2] See paragraph 27 of FAS 109, which says: "Deferred tax liabilities and assets shall be adjusted for the effect of a change in tax laws or rates. The effect shall be included in income from continuing operations for the period that includes the enactment date."

[3] For banking organizations with fiscal years other than a calendar year, references in this Interagency Statement to the third and fourth quarters mean the three months ending September 30 and December 31, 2008, respectively.

[4] Under FAS 109, a valuation allowance must be established for the portion of a deferred tax asset (which may be the entire deferred tax asset) for which it is more likely than not that a tax benefit will not be realized.

[5] A banking organization affected by this legislation that issues financial statements for a reporting period ending on September 30, 2008, should disclose the change in tax treatment of the gain or loss on Fannie Mae and Freddie Mac preferred stock as a subsequent event in the notes to its financial statements, to the extent it is material.

[6] The Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision.

[7] Because the EESA was enacted in the fourth quarter of 2008, this regulatory capital adjustment is only applicable to the regulatory reports for September 30, 2008.

banking organizations to recognize the economic benefit of Section 301 in the third quarter of 2008. Banking organizations that elect to adjust their third quarter 2008 regulatory capital calculations must still follow generally accepted accounting principles (GAAP) for purposes of third quarter regulatory report balance sheets and income statements. Thus, to determine the amount, if any, of this regulatory capital adjustment, a banking organization should calculate the amount by which the equity capital, total assets, and net deferred tax assets reported in accordance with GAAP on its September 30, 2008 regulatory report balance sheet would have increased as of that date (for example, from the elimination or reduction of a deferred tax asset valuation allowance, the reduction of a current income tax payable, or the recognition of a current income tax receivable) if the banking organization's loss on the preferred stock had been treated as an ordinary loss rather than a capital loss. However, a banking organization that makes this third quarter 2008 regulatory capital adjustment remains subject to the limits on the amount of deferred tax assets includable in Tier 1 capital under the applicable regulatory capital standards.[8]

The attached appendices provide detailed guidance on reporting the effect of the change in the tax treatment of losses on Fannie Mae and Freddie Mac preferred stock in the regulatory capital schedule of the September 30, 2008, regulatory reports for banks, bank holding companies, and savings associations. Banking organizations should refer to the appendix appropriate to their regulatory reports. Banking organizations that have already filed their regulatory reports for the third quarter of 2008 may elect to submit amended regulatory reports.

[8] See 12 C.F.R Part 3, Appendix A, section 2(c)(1)(iii) for national banks; 12 C.F.R. Part 208, Appendix A, section II.B.4 for state member banks; 12 C.F.R. Section 325.5(g) for insured state nonmember banks; 12 C.F.R. Part 225, Appendix A, section II.B.4 for bank holding companies; and Thrift Bulletin 56 (TB 56), "Regulatory Reporting of Net Deferred Tax Assets" (January 20, 1993), and proposed 12 C.F.R. § 567.12(h) (73 Federal Register 56762, September 30, 2008) for savings associations.

Appendix A:

Reporting Regulatory Capital Adjustments Related to Losses on Fannie Mae and Freddie Mac Preferred Stock in September 30, 2008, Consolidated Reports of Condition and Income

As stated in the Interagency Statement, for purposes of the regulatory capital calculations in the Call Report for September 30, 2008, a bank may elect to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock as if Section 301 of EESA had been enacted in the third quarter of 2008. These adjustments will affect the measurement and reporting of certain components of the numerator and the denominator of the leverage and risk-based capital ratios in Call Report Schedule RC-R, Regulatory Capital.

To determine the adjustments to the third quarter 2008 regulatory capital calculations, a bank should first calculate the amount, if any, by which the equity capital reported in accordance with GAAP on its September 30 Call Report balance sheet (Schedule RC, item 28) would have increased if the bank's loss on Fannie Mae and Freddie Mac preferred stock had been treated as an ordinary loss rather than a capital loss as of that date. The bank should also calculate the amount, if any, by which the total assets reported in accordance with GAAP on its September 30 Call Report balance sheet (Schedule RC, item 12) would have increased as a result of this change in tax treatment, including the portion of this increase, if any, represented by an increase in net deferred tax assets (which may comprise the entire increase in total assets). The reported amounts of equity capital and total assets would have increased, for example, from a reduction of a deferred tax asset valuation allowance or the recognition of a current income tax receivable. Depending on a bank's tax position, the increase in reported equity capital may differ from the increase in reported total assets, for example, if the change in tax treatment would have reduced a current income tax payable.[1]

The bank should report the amount by which its equity capital would have increased as an addition to regulatory capital in Schedule RC-R, item 10, "Other additions to (deductions from) Tier 1 capital." The bank should also take this addition to Tier 1 capital into consideration when determining the regulatory capital limits on servicing assets and purchased credit card relationships for Schedule RC-R, item 9.a; deferred tax assets for Schedule RC-R, item 9.b; and credit-enhancing interest-only strips and nonfinancial equity investments for Schedule RC-R, item 10. The instructions to these three Schedule RC-R items provide the approaches that a bank should follow to determine the amounts of these assets that are disallowed for regulatory capital purposes. For the September 30, 2008, Call Report date, a bank may use the modified approaches presented at the end of this appendix in its calculations of disallowed assets and nonfinancial equity investment deductions.

[1] The bank should not adjust the amounts that it reports for any balance sheet items on Schedule RC of its September 30, 2008, Call Report. Adjustments should be reported only in Call Report Schedule RC-R.

A bank that elects to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock in its third quarter 2008 regulatory capital calculations should also incorporate the effect of this adjustment in its measurements of the asset-based denominator of the leverage ratio and the risk-weighted assets denominator of the risk-based capital ratios. For the leverage ratio, the amount by which the total assets reported on the bank's September 30 Call Report balance sheet (Schedule RC, item 12) would have increased as a result of the change in tax treatment should be included – as a negative number – in Schedule RC-R, item 26, "LESS: Other deductions from assets for leverage capital purposes." For risk-based capital purposes, the bank should include the amount of this increase in total assets – as a negative number – in column B of Schedule RC-R, item 42, "All other assets." As stated in the instructions for Schedule RC-R, item 42, the bank should also include in column B of item 42 – as a positive number – the amount of disallowed deferred tax assets, if any, that it has calculated and reported in Schedule RC-R, item 9.b. If the amount of the increase in total assets resulting from the change in tax treatment that is included in column B of Schedule RC-R, item 42, is not fully offset by disallowed deferred tax assets, the remainder should be included in the 100 percent risk weight category in column F of Schedule RC-R, item 42.

Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation for Schedule RC-R, items 9.a, for September 30, 2008

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

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule RC-R, item 10) ____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] ____________

(b) Enter 25% of the amount in (a)(2) above ____________

(c) Enter the amount of nonmortgage servicing assets and purchased credit card receivables (PCCRs) reported in Schedule RC-M, item 2.b ____________

(d) Enter 90% of the fair value of the nonmortgage servicing assets and PCCRs reported in (c) above ____________

(e) Enter the lesser of (b), (c), or (d) ____________

(f) Minimum amount of nonmortgage servicing assets and PCCRs to be deducted from Tier 1 capital: subtract (e) from (c); enter 0 if the result is a negative amount ____________

(g) Enter the amount of mortgage servicing assets reported in Schedule RC-M, item 2.a ____________

(h) Enter 90% of the estimated fair value of mortgage servicing assets reported in Schedule RC-M, item 2.a.(1) ____________

(i) Enter the lesser of (a)(2), (g), or (h) ____________

(j) Minimum amount of mortgage servicing assets to be deducted from Tier 1 capital: subtract (i) from (g); enter 0 if the result is a negative amount ____________

(k) Excess nonmortgage servicing assets, PCCRs, and mortgage servicing assets (i.e., the combined amount exceeding 100% of Tier 1 capital): sum of (e) and (i) minus (a); enter 0 if the result is a negative amount ____________

(l) Disallowed nonmortgage servicing assets, PCCRs, and mortgage servicing assets: enter the sum of (f), (j), and (k) ____________

Disallowed Deferred Tax Assets Calculation for Schedule RC-R, item 9.b, for September 30, 2008

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

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule RC-R, item 10) ____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] ____________

(b) Enter 10% of the amount in (a)(2) above ____________

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

(1) Enter the amount of the increase in net deferred tax assets that would result from the change in tax treatment (this amount may differ from the amount entered in (a)(1) above) ____________

(2) Adjusted line (c) [sum of (c) and (c)(1)] ____________

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

(e) Amount of deferred tax assets that is dependent upon future taxable income: subtract (d) from (c)(2); enter 0 if the result is a negative amount ____________

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

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

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

The calculation above is solely for calculating regulatory capital for the September 30, 2008, Call Report. A bank should not adjust the amount reported for net deferred tax assets in Schedule RC-F, item 2, in its September 30, 2008, Call Report.

Disallowed Credit-Enhancing Interest-Only Strips Calculation for Schedule RC-R, item 10, for September 30, 2008

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

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule RC-R, item 10) ____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] ____________

(b) Enter 25% of the amount in (a)(2) above ____________

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

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

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

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

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

Table for Determining Marginal Capital Charges for Nonfinancial Equity Investments for Schedule RC-R, item 10, for September 30, 2008

Deduction for Nonfinancial Equity Investments	
Aggregate adjusted carrying value of all nonfinancial equity investments held directly or indirectly by the bank (as a percentage of the sum of the bank's Tier 1 capital as reported in Schedule RC-R, item 8, plus the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 [this increase is the same amount included in Schedule RC-R, item 10])	Deduction from Tier 1 capital as a percentage of the adjusted carrying value of the investment
Less than 15%	8%
Greater than or equal to 15% but less than 25%	12%
Greater than or equal to 25%	25%

Appendix B:

Reporting Regulatory Capital Adjustments Related to Losses on Fannie Mae and Freddie Mac Preferred Stock in September 30, 2008, Consolidated Financial Statements for Bank Holding Companies

As stated in the Interagency Statement, for purposes of the regulatory capital calculations in the FR Y-9C report for September 30, 2008, a bank holding company may elect to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock as if Section 301 of EESA had been enacted in the third quarter of 2008. These adjustments will affect the measurement and reporting of certain components of the numerator and the denominator of the leverage and risk-based capital ratios in FR Y-9C report Schedule HC-R, Regulatory Capital.

To determine the adjustments to the third quarter 2008 regulatory capital calculations, a bank holding company should first calculate the amount, if any, by which the equity capital reported in accordance with GAAP on its September 30 FR Y-9C balance sheet (Schedule HC, item 28) would have increased if the bank holding company's loss on Fannie Mae and Freddie Mac preferred stock had been treated as an ordinary loss rather than a capital loss as of that date. The bank holding company should also calculate the amount, if any, by which the total assets reported in accordance with GAAP on its September 30 FR Y-9C balance sheet (Schedule HC, item 12) would have increased as a result of this change in tax treatment including the portion of this increase, if any, represented by an increase in net deferred tax assets (which may comprise the entire increase in total assets). The reported amounts of equity capital and total assets would have increased, for example, from a reduction of a deferred tax asset valuation allowance or the recognition of a current income tax receivable. Depending on a bank holding company's tax position, the increase in reported equity capital may differ from the increase in reported total assets, for example, if the change in tax treatment would have reduced a current income tax payable.[1]

A bank holding company should report the amount by which its equity capital would have increased as an addition to regulatory capital in Schedule HC-R, item 10, "Other additions to (deductions from) Tier 1 capital." The bank holding company should also take this addition to Tier 1 capital into consideration when determining the regulatory capital limits on servicing assets and purchased credit card relationships for Schedule HC-R, item 9.a; deferred tax assets for Schedule HC-R, item 9.b; and credit-enhancing interest-only strips and nonfinancial equity investments for Schedule HC-R, item 10. The instructions to these three Schedule HC-R items provide the approaches that a bank holding company should follow to determine the amounts of these assets that are disallowed for regulatory capital purposes. For the September 30, 2008, FR Y-9C reporting date, a bank holding company may use the modified approaches presented at the end of this appendix in its calculations of disallowed assets and nonfinancial equity investment deductions.

[1] The bank holding company should not adjust the amounts that it reports for any balance sheet items on Schedule HC of its September 30, 2008, FR Y-9C Report. Adjustments should be reported only in FR Y-9C Schedule HC-R.

A bank holding company that elects to adjust the tax effects associated with losses on Fannie Mae and Freddie Mac preferred stock in its third quarter 2008 regulatory capital calculations should also incorporate the effect of this adjustment in its measurements of the asset-based denominator of the leverage ratio and the risk-weighted assets denominator of the risk-based capital ratios. For the leverage ratio, the amount by which the total assets reported on the bank holding company's September 30 FR Y-9C balance sheet (Schedule HC, item 12) would have increased as a result of the change in tax treatment should be included – as a negative number – in Schedule HC-R, item 26, "LESS: Other deductions from assets for leverage capital purposes." For risk-based capital purposes, the bank holding company should include the amount of this increase in total assets – as a negative number – in column B of Schedule HC-R, item 42, "All other assets." As stated in the instructions for Schedule HC-R, item 42, the bank holding company should also include in column B of item 42 – as a positive number – the amount of disallowed deferred tax assets, if any, that it has calculated and reported in Schedule HC-R, item 9.b. If the amount of the increase in total assets resulting from the change in tax treatment that is included in column B of Schedule HC-R, item 42, is not fully offset by disallowed deferred tax assets, the remainder should be included in the 100 percent risk weight category in column F of Schedule HC-R, item 42.

Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation for Schedule HC-R, item 9.a, for September 30, 2008

(a) Enter the amount from Schedule HC-R, item 8 ____________

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) ____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] ____________

(b) Enter 25% of the amount in (a)(2) above ____________

(c) Enter the amount of nonmortgage servicing assets and purchased credit card receivables (PCCRs) reported in Schedule HC-M, item 12.b ____________

(d) Enter 90% of the fair value of the nonmortgage servicing assets and PCCRs reported in (c) above ____________

(e) Enter the lesser of (b), (c), or (d) ____________

(f) Minimum amount of nonmortgage servicing assets and PCCRs to be deducted from Tier 1 capital: subtract (e) from (c); enter 0 if the result is a negative amount ____________

(g) Enter the amount of mortgage servicing assets reported in Schedule HC-M, item 12.a ____________

(h) Enter 90% of the estimated fair value of mortgage servicing assets reported in Schedule HC-M, item 12.a.(1) ____________

(i) Enter the lesser of (a)(2), (g), or (h) ____________

(j) Minimum amount of mortgage servicing assets to be deducted from Tier 1 capital: subtract (i) from (g); enter 0 if the result is a negative amount ____________

(k) Excess nonmortgage servicing assets, PCCRs, and mortgage servicing assets (i.e., the combined amount exceeding 100% of Tier 1 capital): sum of (e) and (i) minus (a); enter 0 if the result is a negative amount ____________

(l) Disallowed nonmortgage servicing assets, PCCRs, and mortgage servicing assets: enter the sum of (f), (j), and (k) ____________

Disallowed Deferred Tax Assets Calculation for Schedule HC-R, item 9.b

(a) Enter the amount from Schedule HC-R, item 8 _____________

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) _____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] _____________

(b) Enter 10% of the amount in (a)(2) above _____________

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

(1) Enter the amount of the increase in net deferred tax assets that would result from the change in tax treatment (this amount may differ from the amount entered in (a)(1) above) _____________

(2) Adjusted line (c) [sum of (c) and (c)(1)] _____________

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

(e) Amount of deferred tax assets that is dependent upon future taxable income: subtract (d) from (c)(2); enter 0 if the result is a negative amount _____________

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

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

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

The calculation above is solely for calculating regulatory capital for the September 30, 2008, FR Y-9C report. A bank holding company should not adjust the amount that it reports for net deferred tax assets in Schedule HC-F, item 2, in its September 30, 2008, FR Y-9C report.

Disallowed Credit-Enhancing Interest-Only Strips Calculation for Schedule HC-R, item 10, for September 30, 2008

(a) Enter the amount from Schedule HC-R, item 8 ____________

(1) Enter the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 (this is the same amount included in Schedule HC-R, item 10) ____________

(2) Adjusted line (a) [sum of (a) and (a)(1)] ____________

(b) Enter 25% of the amount in (a)(2) above ____________

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

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

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

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

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

Table for Determining Marginal Capital Charges for Nonfinancial Equity Investments for Schedule HC-R, item 10, for September 30, 2008

Deduction for Nonfinancial Equity Investments	
Aggregate adjusted carrying value of all nonfinancial equity investments held directly or indirectly by the bank holding company (as a percentage of the sum of the bank holding company's Tier 1 capital as reported in Schedule HC-R, item 8, plus the amount by which equity capital would have increased if Fannie Mae and Freddie Mac preferred stock losses were treated as "ordinary losses" for tax purposes as of September 30, 2008 [this increase is the same amount included in Schedule HC-R, item 10])	Deduction from Tier 1 capital as a percentage of the adjusted carrying value of the investment
Less than 15%	8%
Greater than or equal to 15% but less than 25%	12%
Greater than or equal to 25%	25%

Appendix C:

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

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

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

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

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

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

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