

**CALL REPORT**

**INSTRUCTION BOOK UPDATE**

**MARCH 2009**

# FILING INSTRUCTIONS

NOTE: The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Consolidated 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 – 4 (3-08)  
9 – 14 (3-08)  
RI-5 – RI-6 (12-08)  
RI-21 – RI-22 (3-08)  
RI-25 – RI-26 (3-01)  
RI-A-1 – RI-A-2 (3-06)  
RC-3 – RC-4 (12-08)  
RC-11 – RC-18 (3-01 and 6-01)  
RC-B-1 – RC-B-2 (3-07)  
RC-B-7 – RC-B-10 (12-08)  
RC-B-19 – RC-B-20 (3-06)  
RC-C-3 – RC-C-18 (3-01, 3-08, and 12-08)  
RC-C-35 (6-08)  
RC-D-9 (12-08)  
RC-L-2a – RC-L-4 (3-05 and 3-08)  
RC-L-7 – RC-L-8 (3-06)  
RC-O-1 – RC-O-2 (6-08)  
RC-R-1 – RC-R-2 (6-01)  
RC-R-3 – RC-R-4 (3-07)  
RC-R-15 – RC-R-18a (6-02 and 9-06)  
RC-T-1 – RC-T-2 (6-07)  
RC-T-5 – RC-T-6 (6-07)  
RC-T-11 (3-01)  
RC-X-1 (6-07)  
A-1 – A-2b (3-06 and 6-07)  
A-5 – A-8 (3-06 and 6-08)  
A-57 – A-58 (6-07)  
A-63 – A-64 (9-06)  
A-83 – A-86 (6-07)

## Insert Pages

1 – 4 (3-09)  
9 – 14 (3-09)  
RI-5 – RI-6 (3-09)  
RI-21 – RI-22 (3-09)  
RI-25 – RI-26 (3-09)  
RI-A-1 – RI-A-2 (3-09)  
RC-3 – RC-4 (3-09)  
RC-11 – RC-18 (3-09)  
RC-B-1 – RC-B-2 (3-09)  
RC-B-7 – RC-B-10 (3-09)  
RC-B-19 – RC-B-20 (3-09)  
RC-C-3 – RC-C-18 (3-09)  
RC-C-35 – RC-C-36 (3-09)  
RC-D-9 (3-09)  
RC-L-2a – RC-L-4 (3-09)  
RC-L-7 – RC-L-8 (3-09)  
RC-O-1 – RC-O-2 (3-09)  
RC-R-1 – RC-R-2 (3-09)  
RC-R-3 – RC-R-4 (3-09)  
RC-R-15 – RC-R-18b (3-09)  
RC-T-1 – RC-T-2 (3-09)  
RC-T-5 – RC-T-6 (3-09)  
RC-T-11 (3-09)  
RC-X-1 (3-09)  
A-1 – A-2c (3-09)  
A-5 – A-8 (3-09)  
A57 – A-58a (3-09)  
A63 – A-64 (3-09)  
A-83 – A-86 (3-09)

## 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 a consolidated Call Report 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; and
  - (c) A majority-owned Edge or Agreement subsidiary.

In addition, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, a branch or consolidated subsidiary in Puerto Rico or a U.S. territory or possession is a "foreign" office. 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). For banks chartered and headquartered in Puerto Rico or a U.S. territory or possession, a branch or consolidated subsidiary in one of the 50 states of the United States, the District of Columbia, Puerto Rico, or a U.S. territory or possession is a "domestic" office.

### ***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 Call Report (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 Call Report 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 Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, items 1 and 4, and may also be reported in Schedule RC, Balance Sheet, item 13,

"Deposits," and Schedule RC-E, Deposit Liabilities. However, 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 does not in and of itself make such deposits reportable in Schedule RC-O and Schedules RC and RC-E.

### ***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, and Memorandum item 2, on the bank's fiscal year-end date, are to be reported as of the March 31 report date;
- (2) Schedule RC-O, Memorandum items 1.a.(2), "Number of deposit accounts (excluding retirement accounts) of \$100,000 or less," and 1.c.(2), "Number of retirement deposit accounts of \$250,000 or less," are 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 also varies within both report forms, 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 that had closed-end loans with negative amortization features secured by 1-4 family residential properties with a carrying amount (before any loan loss allowances) that exceeded the lesser of \$100 million or 5 percent of total loans and leases, net of unearned income, in domestic offices as of the previous December 31 report date must report certain information about these loans in Schedule RC-C, part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12.
- (2) Banks reporting average trading assets of \$2 million or more for any of the four preceding quarters must complete Schedule RC-D, Trading Assets and Liabilities, items 1 through 15 and Memorandum items 1 through 3.b. In addition, banks reporting average trading assets of \$1 billion or more for any of the four preceding quarters must complete Memorandum items 4 through 10 of Schedule RC-D.

- (3) Banks reporting average trading assets of \$2 million or more for any quarter of the preceding calendar year must provide a breakdown of their trading revenue by risk exposure in Schedule RI, Memorandum item 8, "Trading revenue."
- (4) Banks with less than \$1 billion in total assets at which (a) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan originations and purchases for resale from all sources during a calendar quarter, or (b) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loan sales during a calendar quarter, or (c) closed-end and open-end first lien and junior lien 1-4 family residential mortgage loans held for sale at calendar quarter-end exceed \$10 million for two consecutive quarters must complete Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities, beginning the second quarter and continue to complete the schedule through the end of the calendar year.
- (5) Banks with financial subsidiaries must complete certain additional items in Schedule RC-R, Regulatory Capital.
- (6) 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.
- (7) Banks with total fiduciary assets greater than \$100 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 report information on their fiduciary and related services income and on fiduciary settlements and losses in Schedule RC-T.

In addition, within the FFIEC 031 report form, banks whose foreign office assets, revenues, or net income account for more than 10 percent of the bank's consolidated total assets, total revenues, or net income must complete Schedule RI-D, Income from Foreign Offices.

### ***Shifts in Reporting Status***

All shifts in reporting status within the FFIEC 031 and the FFIEC 041 report forms (except as noted below) are to begin with the March Call Report. Such a shift will take place only if the reporting bank's total assets (or, in one case, loans) as reflected in the Report of Condition for June of the previous calendar year equal or exceed the following criteria:

- (1) On the FFIEC 041 report form, *when total assets equal or exceed \$100 million*, a bank must begin to complete Schedule RC-K, items 7 and 13, for the quarterly averages of "Trading assets" and "Other borrowed money."
- (2) On the FFIEC 041 report form, *when loans to finance agricultural production and other loans to farmers exceed 5 percent of total loans, net of unearned income*, at a bank with less than \$300 million in total assets, the bank must begin to report the following information for these agricultural loans: interest and fee income, quarterly average, past due and nonaccrual loans, and charge-offs and recoveries.
- (3) On the FFIEC 041 report form, *when total assets equal or exceed \$300 million*, a bank must begin to complete:
  - Certain items providing additional detail on the composition of the loan and lease portfolio in Schedule RC-C, part I, Loans and Leases; past due and nonaccrual loans and leases in Schedule RC-N; and loan and lease charge-offs and recoveries in Schedule RI-B, part I;
  - Schedule RC-A, Cash and Balances Due From Depository Institutions;
  - Schedule RC-N, Memorandum item 6, on past due derivative contracts; and
  - Schedule RI, Memorandum item 10, "Credit losses on derivatives."

- (4) On both the FFIEC 031 and FFIEC 01 report forms, *when total assets equal or exceed \$1 billion*, a bank must begin to complete:
- Schedule RI, Memorandum item 2, "Income from the sale and servicing of mutual funds and annuities (in domestic offices)";
  - Schedule RC-B, Memorandum items 5.a through 5.f, which provide a breakdown of the bank's holdings of asset-backed securities;
  - Schedule RC-L, items 2.a and 3.a, on financial and performance standby letters of credit conveyed to others;
  - Schedule RC-O, Memorandum item 2, "Estimated amount of uninsured assessable deposits (in domestic offices of the bank and in insured branches in Puerto Rico and U.S. territories and possessions), including related interest accrued and unpaid"; and
  - Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities.

Once a bank reaches the \$100 million, \$300 million, or \$1 billion total asset threshold or exceeds the agricultural loan percentage threshold and begins to report the additional required information described above, it *must* continue to report the additional information in subsequent years without regard to whether it later falls below the total asset or loan percentage threshold.

Other shifts in reporting status occur when:

- (1) A bank with domestic offices only establishes or acquires any "foreign" office. The bank must begin filing the FFIEC 031 report form (Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices) for the first quarterly report date following the commencement of operations by the "foreign" office. However, a bank with "foreign" offices that divests itself of *all* its "foreign" offices must continue filing the FFIEC 031 report form through the end of the calendar year in which the cessation of all operations of its "foreign" offices was completed.
- (2) A bank is involved in a business combination (poolings of interests, purchase acquisitions), a reorganization, or a branch acquisition that is not a business combination. Beginning with the first quarterly report date following the effective date of a business combination involving a bank and one or more other depository institutions, the resulting bank, regardless of its size prior to the business combination, must (a) file the FFIEC 031 report form if it acquires any "foreign" office, or (b) report the additional required information described above on the FFIEC 041 report form if its total assets or agricultural loans after the consummation of the transaction surpass the \$100 million, \$300 million, or \$1 billion total asset threshold or the agricultural loan percentage.

In addition, beginning with the first quarterly report date after an operating depository institution that was not previously a member of the Federal Deposit Insurance Corporation (FDIC) becomes an FDIC-insured bank, it must (a) file the FFIEC 031 report form if it has any "foreign" office, or (b) report the additional required information described above on the FFIEC 041 report form based on its total assets and agricultural loans at the time it becomes an FDIC-insured bank.

## ORGANIZATION OF THE INSTRUCTION BOOKS

This instruction book covers both the FFIEC 031 and 041 report forms. It is divided into the following sections:

- (1) The General Instructions describe overall reporting requirements.
- (2) The Line Item Instructions for each schedule of the Report of Income.

### ***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 outside parties. Additional guidance on this topic is provided in accounting standards, including FASB Statement No. 94 and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 92.

*Trust accounts* – For purposes of the Call Report, the reporting bank's trust department is not to be consolidated into the reporting bank's balance sheet or income statement. However, information concerning the bank's trust activities must be reported in Schedule RC-T, Fiduciary and Related Services. Assets held in or administered by the bank's trust department and the income earned on such assets are excluded from all of the other schedules of the Call Report except when trust funds are deposited by the trust department of the reporting bank in the commercial or some other department of the reporting bank.

When such trust funds are deposited in the bank, they are to be reported as deposit liabilities in Schedule RC-E in the deposit category appropriate to the beneficiary. Interest paid by the bank on such deposits is to be reported as part of the reporting bank's interest expense.

However, there are two exceptions:

- (1) *Uninvested trust funds (cash)* held in the bank's trust department, which are *not* included on the balance sheet of the reporting bank, *must* be reported in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments; and
- (2) The *fees* earned by the trust department for its fiduciary activities and the *operating expenses* of the trust department are to be reported in the bank's income statement (Schedule RI) on a gross basis as if part of the consolidated bank.

*Custody accounts* – All custody and safekeeping activities (i.e., the holding of securities, jewelry, coin collections, and other valuables in custody or in safekeeping for customers) are *not* to be reflected on any basis in the balance sheet of the Report of Condition unless cash funds held by the bank in safekeeping for customers are commingled with the general assets of the reporting bank. In such cases, the commingled funds would be reported in the Report of Condition as deposit liabilities of the bank.

### **RULES OF CONSOLIDATION**

For purposes of these reports, all offices (i.e., branches, subsidiaries, and IBFs) that are within the scope of the consolidated bank as defined above are to be reported on a consolidated basis. Unless the instructions specifically state otherwise, this consolidation shall be on a line-by-line basis, according to the caption shown. As part of the consolidation process, the results of all transactions and all intercompany balances (e.g., outstanding asset/debt relationships) between offices, subsidiaries, and other entities *included* in the scope of the consolidated bank are to be *eliminated* in the consolidation and must be *excluded* from the Call Report. (For example, eliminate in the consolidation (1) loans made by the bank to a consolidated subsidiary and the corresponding liability of the subsidiary to the bank, (2) a consolidated subsidiary's deposits in the bank and the corresponding cash or interest-bearing asset balance of the subsidiary, and (3) the intercompany interest income and expense related to such loans and deposits of the bank and its consolidated subsidiary.)

*Subsidiaries of subsidiaries* – For a subsidiary of a bank which is in turn the parent of one or more subsidiaries:

- (1) Each subsidiary shall consolidate its majority-owned subsidiaries in accordance with the consolidation requirements set forth above.
- (2) Each subsidiary shall account for any investments in unconsolidated subsidiaries, corporate joint ventures over which the bank exercises significant influence, and associated companies according to the equity method of accounting.

*Noncontrolling (minority) interests* – A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. Report noncontrolling interests in the reporting bank's consolidated subsidiaries in Schedule RC, item 27.b, "Noncontrolling (minority) interests in consolidated subsidiaries," of the Report of Condition. Report the portion of consolidated net income reported in Schedule RI, item 12, that is attributable to noncontrolling interests in consolidated subsidiaries of the bank in Schedule RI, item 13, of the Report of Income.

*Intrabank transactions* – (For banks with foreign offices.) While all intrabank transactions are to be excluded from the Call Report, one intrabank relationship that is eliminated in consolidation is required to be identified and reported in the Report of Condition. Specifically, Schedule RC-H, Selected Balance Sheet Items for Domestic Offices, requires the reporting of the net amount of "due from" or "due to" balances between the domestic offices and the foreign offices of the consolidated bank.

*Deposit insurance and FICO assessments* – Each bank must complete Schedule RC-O on an unconsolidated single FDIC certificate number basis. Thus, all deposits of subsidiaries that are consolidated and, therefore, eliminated from reported deposits (Schedule RC, item 13.a or 13.b, as appropriate) must be reported in Schedule RC-O. Similarly, the interest accrued and unpaid on these deposits, which is eliminated in consolidation from reported other liabilities (Schedule RC, item 20), must be reported in Schedule RC-O.

*Cutoff dates for consolidation* – All *branches* must be consolidated as of the report date. For purposes of consolidation, the date of the financial statements of a *subsidiary* should, to the extent practicable, match the report date of the parent bank, but in no case differ by more than 93 days from the report date.

## **REPORTING BY TYPE OF OFFICE (For banks with foreign offices)**

Some information in the Call Report is to be reported by type of office (e.g., for domestic offices, for foreign offices, or for IBFs) as well as for the consolidated bank. Where information is called for by type of office, the information reported shall be the office component of the consolidated item unless otherwise specified in the line item instructions. That is, as a general rule, the office information shall be reported at the same level of consolidation as the fully consolidated statement, shall reflect only transactions with parties outside the scope of the consolidated bank, and shall exclude all transactions between offices of the consolidated bank as defined above.

## **PUBLICATION REQUIREMENTS FOR THE REPORT OF CONDITION**

There are no federal requirements for a bank to publish the balance sheet of the Report of Condition in a newspaper. However, state-chartered banks should consult with their state banking authorities concerning the applicability of any state publication requirements.



## RELEASE OF INDIVIDUAL BANK REPORTS

All schedules of the Call Report submitted by each reporting bank, including the optional narrative statement at the end of the Report of Condition, are available to the public from the federal bank supervisory agencies. However, information reported in Schedule RC-T, Fiduciary and Related Services, on the components of fiduciary and related services income (but not "Total gross fiduciary and related services income") and on fiduciary settlements, surcharges, and losses (Memorandum item 4), will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2009. In addition, data reported in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, in column A, "Past due 30 through 89 days and still accruing," and in all of Memorandum item 1, "Restructured loans and leases included in Schedule RC-N above," will not be publicly disclosed on an individual bank basis for periods prior to March 31, 2001.

## APPLICABILITY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO REGULATORY REPORTING REQUIREMENTS

For recognition and measurement purposes, the regulatory reporting requirements applicable to the Call Report shall conform to U.S. generally accepted accounting principles. Nevertheless, because the Call Report is a bank-level report, each bank (together with its consolidated subsidiaries) is considered an "accounting entity" for regulatory reporting purposes and normally must prepare its Call Report on a separate entity basis. Furthermore, when reporting events and transactions not covered in principle by Call Report instructions or authoritative GAAP standards, banks are encouraged to discuss the event or transaction with their primary federal bank supervisory agency.

Regardless of whether a bank discusses a reporting issue with its supervisory agency, when a bank's supervisory agency's interpretation of how GAAP should be applied to a specified event or transaction (or series of related events or transactions) differs from the bank's interpretation, the supervisory agency may require the bank to reflect the event(s) or transaction(s) in its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

The Call Report instructions contain certain specific reporting guidance that falls within the range of acceptable practice under GAAP. These instructions have been adopted to achieve safety and soundness and other public policy objectives and to ensure comparability. Should the need arise in the future, other specific reporting guidance that falls within the range of GAAP may be issued. Current Call Report instructions providing such specific reporting guidance include the nonaccrual rules in the Glossary entry for "Nonaccrual Status," the treatment of impaired collateral dependent loans in the Glossary entry for "Loan Impairment," the Glossary entry for the "Allowance for Loan and Lease Losses" which references the 2006 Interagency Policy Statement on this subject, the separate entity method of accounting for income taxes of bank subsidiaries of holding companies in the Glossary entry for "Income Taxes," the push down accounting rules in the Glossary entry for "Business Combinations," and the treatment of property dividends in the Glossary entry for "Dividends."

Certain provisions of AICPA Statement of Position (SOP) No. 92-3, "Accounting for Foreclosed Assets," have been incorporated into the Glossary entry for "Foreclosed Assets," which banks must follow for Call Report purposes, even though SOP 92-3 was rescinded subsequent to the issuance of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The application of these provisions of SOP 92-3 represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act.

There may be areas in which a bank wishes more technical detail on the application of accounting standards and procedures to the requirements of these instructions. Such information may often be found

in the appropriate entries in the Glossary section of these instructions or, in more detail, in the GAAP standards. Selected sections of the GAAP standards are referenced in the instructions where appropriate. The accounting entries in the Glossary are intended to serve as an aid in specific reporting situations rather than as a comprehensive statement on bank accounting.

## ACCRUAL BASIS REPORTING

All banks, regardless of size, shall prepare all schedules of the Call Report on an accrual basis. However, banks may report particular accounts on a cash basis, except for the four listed below, if the results would not materially differ from those obtained using an accrual basis.

All banks *must* report the following on an accrual basis:

- (1) Income from installment loans;
- (2) Amortization of premiums paid on held-to-maturity and available-for-sale securities (see the Glossary entry for "premiums and discounts");
- (3) Income taxes (see the Glossary entry for "income taxes"); and
- (4) Depreciation on premises and fixed assets.

All banks shall establish and maintain an allowance for loan and lease losses at a level that is appropriate to cover estimated credit losses associated with its held-for-investment loan and lease portfolio. Accounting for loan and lease losses is discussed in more detail in the Glossary entries for "allowance for loan and lease losses" and "loan impairment."

No interest or discount shall be accrued on any asset which must be carried in nonaccrual status. Refer to the Glossary entry for "nonaccrual status" for further information.

## MISCELLANEOUS GENERAL INSTRUCTIONS

### ***Rounding***

For banks with total assets of less than \$10 billion, all dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than \$500 will be reported as zero.

For banks with total assets of \$10 billion or more, all dollar amounts may be reported in thousands, but each bank, at its option, may round the figures reported to the nearest million, with zeros reported in the thousands column. For banks exercising this option, amounts less than \$500,000 will be reported as zero.

Rounding may result in details not adding to their stated totals. The only permissible differences between totals and the sums of their components are those attributable to the mechanics of rounding.

On the Report of Condition, Schedule RC, item 12, "Total assets," and Schedule RC, item 29, "Total liabilities and equity capital," which must be equal, must be derived from unrounded numbers and then rounded in order to ensure that these two items are equal as reported.

### ***Negative Entries***

Except for the items listed below, negative entries are not appropriate on the Report of Condition and shall not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. The Report of Condition items for which negative entries may be made, if appropriate, are:

- (1) Schedule RC:
  - item 8, "Investments in unconsolidated subsidiaries and associated companies,"
  - item 26.a, "Retained earnings,"
  - item 26.b, "Accumulated other comprehensive income,"
  - item 26.c, "Other equity capital components,"
  - item 27.a, "Total bank equity capital," and
  - item 28, "Total equity capital."
- (2) Schedule RC-C, items 10, 10.a, and 10.b, on "Lease financing receivables (net of unearned income)."
- (3) Schedule RC-M, items 4.a, 4.b, and 4.c, on "Investments in unconsolidated subsidiaries and associated companies."
- (4) Schedule RC-P, items 5.a and 5.b, on "Noninterest income for the quarter from the sale, securitization, and servicing of 1-4 family residential mortgage loans."
- (5) Schedule RC-Q, item 7, on "Loan commitments (not accounted for as derivatives)."
- (6) Schedule RC-R:
  - item 1, "Total equity capital,"
  - item 2, "Net unrealized gains (losses) on available-for-sale securities,"
  - item 4, "Accumulated net gains (losses) on cash flow hedges,"
  - item 7.b, "LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness,"
  - item 8, "Subtotal,"
  - item 10, "Other additions to (deductions from) Tier 1 capital,"
  - item 11, "Tier 1 capital,"
  - item 21, "Total risk-based capital," and
  - column B, "Items Not Subject to Risk-Weighting," for the asset categories in items 34 through 43.

When negative entries do occur in one or more of these items, they shall be recorded in parentheses rather than with a minus (-) sign.

On the Report of Income, negative entries may appear as appropriate. Income items with a debit balance and expense items with a credit balance must be reported in parentheses.

### ***Verification***

All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting materials should be cross-checked to corresponding items elsewhere in the reports.

Before a report is submitted, all amounts should be compared with the corresponding amounts in the previous report. If there are any unusual changes from the previous report, a brief explanation of the changes should be attached to the submitted reports.

Banks should retain workpapers and other records used in the preparation of these reports.

### ***Transactions Occurring Near the End of a Reporting Period***

Transactions between banks occurring near the end of a reporting period may not be reported by the parties to the transaction in such a manner as to cause the asset (or liability) either to disappear entirely from the Reports of Condition submitted for that report date or to appear on both of the submitted reports, regardless of the time zones in which the banks are located, the time zone in which the transaction took place, or the actual zone clock times at the effective moment of the transaction.

In the case of a transaction occurring in different reporting periods for the parties because of time zone differences, the parties may decide between themselves on the reporting period in which they will all, consistently, report the transaction as having occurred, so that in any given reporting period, the asset (or liability) transferred will appear somewhere and without duplication in the reports submitted by the parties to the transaction.

If, in such cases, the parties do not agree on the reporting period in which the transaction is to be treated as having occurred on the reports of all parties, i.e., if they do not agree on which party will reflect the asset (or liability) on its reports for these purposes, the transaction will be deemed to have occurred prior to midnight in the time zone of the buyer (or transferee) and must be reported accordingly by all parties to the transaction.

If, in fact, the parties, in their submitted reports, treat the transaction as having occurred in different reporting periods, the parties will be required to amend their submitted reports on the basis of the standard set forth in the preceding paragraph.

### **SEPARATE BRANCH REPORTS**

Each U.S. bank with one or more branch offices located in a foreign country, Puerto Rico, or a U.S. territory or possession is required to submit a Foreign Branch Report of Condition (FFIEC 030) or an Abbreviated Foreign Branch Report of Condition (FFIEC 030S) for each foreign branch (except a foreign branch with total assets of less than \$50 million, which is exempt) once a year as of December 31. However, a branch must report quarterly on the FFIEC 030 report if it has either \$2 billion in total assets or \$5 billion in commitments to purchase foreign currencies and U.S. dollar exchange as of the end of a calendar quarter. A foreign branch that does not meet either of the criteria to file quarterly, but has total assets in excess of \$250 million, must file the FFIEC 030 report on an annual basis. A foreign branch that does not meet the criteria to file the FFIEC 030 report, but has total assets of \$50 million or more (but less than or equal to \$250 million), must file the abbreviated FFIEC 030S report on an annual basis.

## FFIEC 041 FFIEC 031

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

- 1.a.(4) 1.a.(1)(e) Interest and fee income on loans to foreign governments and official institutions.** Report all interest, fees, and similar charges levied against or associated with all loans (in domestic offices) reportable in Schedule RC-C, part I, item 7, "Loans to foreign governments and official institutions."
- 1.a.(5) 1.a.(1)(f) Interest and fee income on all other loans.** On the FFIEC 041, report interest, fees, and similar charges levied against or associated with loans reportable in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 3, "Loans to finance agricultural production and other loans to farmers," item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," and item 9, "Other loans." On the FFIEC 031, report interest, fees, and similar charges levied against or associated with loans in domestic offices reportable in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," and item 9, "Other loans."
- 1.a.(2) Interest and fee income on loans in foreign offices, Edge and Agreement subsidiaries, and IBFs.** Report all interest, fees, and similar charges levied against or associated with all loans in foreign offices, Edge and Agreement subsidiaries, and IBFs reportable in Schedule RC-C, part I, items 1 through 9.
- 1.a.(6) 1.a.(3) Total interest and fee income on loans.** On the FFIEC 041, report the sum of items 1.a.(1) through 1.a.(5) in item 1.a.(6). On the FFIEC 031, report the sum of items 1.a.(1)(a) through 1.a.(2) in item 1.a.(3).

## 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," including interest-bearing required reserve and excess balances due from Federal Reserve Banks. Include interest income earned on interest-bearing balances due from depository institutions that are reported at fair value under a fair value option. However, exclude earnings credits associated with clearing balances due from Federal Reserve Banks.

**Item No.    Caption and Instructions**

- 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, item 11, "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").
- (3) Income from advances to, or obligations of, majority-owned subsidiaries not 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."

**Item No.    Caption and Instructions**

- 7.d**  
(cont.)
- (16) Sales taxes, taxes based on the number of shares of bank stock outstanding, taxes based on the bank's total assets or total deposits, taxes based on the bank's gross revenues or gross receipts, capital stock taxes, and other taxes not included in other categories of expense. Exclude any foreign, state, and local taxes based on a net amount of revenues less expenses (report as applicable income taxes in Schedule RI, items 9).
  - (17) Fees levied by deposit brokers that are, in substance, retainer fees or that otherwise do not represent an adjustment to the interest rate paid on deposits the reporting bank acquires through brokers. However, report as interest expense on the appropriate category of deposits those finders' fees and brokers' fees that do represent an adjustment to the interest rate paid on brokered deposits.
  - (18) Research and development costs and costs incurred in the internal development of computer software.
  - (19) Charges resulting from litigation or other claims.
  - (20) Charitable contributions including donations by Clifford Trusts.
  - (21) Fees for accounting, auditing, and attestation services; retainer fees; and other fees and expenses paid to accountants and auditors who are not bank officers or employees.
  - (22) Fees for consulting and advisory services, retainer fees, and other fees and expenses paid to management consultants, investment advisors, and other professionals (other than attorneys providing legal services and accountants providing accounting, auditing, and attestation services) who are not bank officers or employees.
  - (23) Net losses (gains) on nonhedging derivative instruments held for purposes other than trading. Banks should consistently report these net losses (gains) either in this item or in Schedule RI, item 5.I. For further information, see the Glossary entry for "derivative contracts."
  - (24) Net tellers' shortages (overages), net losses (recoveries) on forged checks, net losses (recoveries) on payment of checks over stop payment orders, and similar recurring operating losses (gains) of this type. Banks should consistently report these losses (gains) either in this item or in Schedule RI, item 5.I.
  - (25) [Reserved.]
  - (26) Losses from robberies, defalcations, and other criminal acts not covered by the bank's blanket bond.
  - (27) Travel and entertainment expenses, including costs incurred by bank officers and employees for attending meetings and conventions.
  - (28) Dues, fees, and other expenses associated with memberships in country clubs, social or private clubs, civic organizations, and similar clubs and organizations.
  - (29) Civil money penalties and fines.

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

- 7.d**  
(cont.)
- (30) All service charges, commissions, and fees levied by others for the repossession of assets and the collection of the bank's loans or other assets, including charged-off loans or other charged-off assets.
  - (31) Expenses (except salaries) related to handling credit card or charge sales received from merchants when the bank does not carry the related loan accounts on its books. Banks are also permitted to net these expenses against their charges to merchants for the bank's handling of these sales in Schedule RI, item 5.I.
  - (32) Expenses related to the testing and training of officers and employees.
  - (33) The cost of bank newspapers and magazines prepared for distribution to bank officers and employees or to others.
  - (34) Depreciation expense of furniture and equipment rented to others under operating leases.
  - (35) Cost of checks provided to depositors.
  - (36) Amortization expense of purchased computer software and of the costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provisions of FASB Statement No. 86.
  - (37) Provision for credit losses on off-balance sheet credit exposures.
  - (38) Net losses (gains) from the extinguishment of liabilities (debt), including losses resulting from the payment of prepayment penalties on borrowings such as Federal Home Loan Bank advances. However, if a bank's debt extinguishments normally result in net gains over time, then the bank should consistently report its net gains (losses) in Schedule RI, item 5.I, "Other noninterest income."
  - (39) Automated teller machine (ATM) and interchange expenses from bank card and credit card transactions.

Exclude from other noninterest expense:

- (1) Material expenses incurred in the issuance of subordinated notes and debentures (capitalize such expenses and amortize them over the life of the related notes and debentures and report the expense in Schedule RI, item 2.d, "Interest on subordinated notes and debentures").
- (2) Expenses incurred in the sale of preferred and common stock (deduct such expenses from the sale proceeds and credit the net amount to the appropriate stock account. For perpetual preferred and common stock only, report the net sales proceeds in Schedule RI-A, item 5, "Sale, conversion, acquisition, or retirement of capital stock, net").
- (3) Depreciation and other expenses related to the use of bank-owned automobiles, airplanes, and other vehicles for bank business (report in Schedule RI, item 7.b, "Expenses of premises and fixed assets").



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

- 11 (cont.)    (2) Write-downs of the cost basis of individual held-to-maturity and available-for-sale securities for other than temporary impairments (report in Schedule RI, item 6.a, "Realized gains (losses) on held-to-maturity securities," and item 6.b, "Realized gains (losses) on available-for-sale securities," respectively).
- 12    **Net income (loss) attributable to bank and noncontrolling (minority) interests.**  
Report the sum of Schedule RI, items 10 and 11. If this amount is a net loss, enclose it in parentheses.
- 13    **LESS: Net income (loss) attributable to noncontrolling (minority) interests.** Report that portion of consolidated net income reported in Schedule RI, item 12, above, attributable to noncontrolling interests in consolidated subsidiaries of the bank. A noncontrolling interest, also called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. If the amount reported in this item is a net loss, enclose it in parentheses.
- 14    **Net income (loss) attributable to bank.** Report Schedule RI, item 12, less item 13. If this amount is a net loss, enclose it in parentheses.

**Memoranda**

**Item No. Caption and Instructions**

**1** **Interest expense incurred to carry tax-exempt securities, loans, and leases acquired after August 7, 1986, that is not deductible for federal income tax purposes.** Report the bank's best estimate of the amount of the year-to-date interest expense included in Schedule RI, item 2.e, "Total interest expense," that is subject to a 100 percent loss of deductibility for federal income tax purposes because it is deemed to have been incurred to carry tax-exempt securities, loans, and leases of states and political subdivisions in the U.S. acquired after August 7, 1986. Tax-exempt securities, loans, and leases are those securities, loans, and leases of states and political subdivisions in the U.S. whose interest is excludable from gross income under the regular tax system for federal income tax purposes, regardless of whether the income must be included in the bank's alternative minimum taxable income.

Exclude from this item interest expense incurred to carry (1) tax-exempt securities, loans, and leases of states and political subdivisions in the U.S. acquired after December 31, 1982, but before August 8, 1986, and (2) so-called "Qualified tax-exempt obligations" acquired after August 7, 1986, 20 percent of which is not deductible for federal income tax purposes.

The general formula that may be used for computing the amount of interest expense that is subject to a 100 percent loss of deductibility is as follows:

$$\frac{\text{Tax-exempt securities, loans, and leases of states and political subdivisions in the U.S. acquired after August 7, 1986 (excluding "Qualified tax-exempt obligations") (Year-to-date average)}}{\text{Total assets (Year-to-date average)}} \times \text{Year-to-date total interest expense (Schedule RI, item 2.e)}$$

For the March 31, June 30, and September 30 Call Reports, the amount reported in Memorandum item 1 should not be an estimate of the amount of interest expense that will not be deductible for the entire calendar year.

**2** **Income from the sale and servicing of mutual funds and annuities (in domestic offices).** Memorandum item 2 is to be completed by banks with \$1 billion or more in total assets.

Report the amount of income earned by the reporting bank during the calendar year-to-date from the sale and servicing of mutual funds and annuities (in domestic offices).

Include in this item:

- (1) Income earned in connection with mutual funds and annuities that are sold on bank premises or are otherwise sold by the reporting bank, through a bank subsidiary, or by affiliated or unaffiliated entities from whom the bank receives income. This income may be in the form of fees or sales commissions at the time of the sale or fees, including a share of another entity's fees, that are earned over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees). Commissions should be reported as income as earned at the time of the sale (i.e., on an accrual basis), but may be reported as income when payment is received if the results would not differ materially from those obtained using an accrual basis.

## SCHEDULE RI-A – CHANGES IN BANK EQUITY CAPITAL

### General Instructions

This schedule is to be completed quarterly by all banks.

Total bank equity capital includes perpetual preferred stock, common stock, surplus, retained earnings, and accumulated other comprehensive income. All amounts in Schedule RI-A, other than those reported in items 1, 3, and 12, should represent net aggregate changes for the calendar year-to-date. Enclose all net decreases and losses (net reductions in bank equity capital) in parentheses.

### Item No.    Caption and Instructions

- 1**        **Total bank equity capital most recently reported for the December 31, 20xx, Reports of Condition and Income.** Report the bank's total equity capital balance as reported in the Reports of Condition and Income for the previous calendar year-end after the effect of all corrections and adjustments to total bank equity capital that were made in any amended report(s) for the previous calendar year-end.

For banks opened since January 1 of the current calendar year, report a zero in this item. Report the bank's opening (original) total equity capital in Schedule RI-A, item 5, "Sale, conversion, acquisition, or retirement of capital stock, net."

- 2**        **Restatements due to corrections of material accounting errors and changes in accounting principles.** Report the sum of all corrections, net of applicable income taxes, resulting from material accounting errors which were made in prior years' Reports of Condition and Income and not corrected by the filing of an amended report for the period in which the error was made and the cumulative effect, net of applicable income taxes, of those changes in accounting principles adopted during the calendar year-to-date reporting period that were applied retroactively and for which prior years' financial statements were restated.

Include only those corrections that result from:

- (1) Mathematical mistakes.
- (2) Mistakes in applying accounting principles.
- (3) Improper use of information which existed when the prior Reports of Condition and Income were prepared.
- (4) A change from an accounting principle that is neither accepted nor sanctioned by bank supervisors to one that is acceptable to supervisors.

The effect of accounting errors differs from the effect of changes in accounting estimates. Changes in accounting estimates are an inherent part of the accrual accounting process. Report the effect of any changes in accounting estimates in the appropriate line items of Schedule RI, Income Statement.

The cumulative effect of a change in accounting principle is the difference between (1) the balance in the retained earnings account at the beginning of the year in which the change is made and (2) the balance in the retained earnings account that would have been reported

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

**2**            at the beginning of the year had the newly adopted accounting principle been applied in all  
(cont.)        prior periods.

The cumulative effect, if any, of all other changes in accounting principles adopted during the calendar year-to-date reporting period must be reported in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes."

State the dollar amount of and describe each accounting error correction and cumulative effect included in this item in Schedule RI-E, item 4.

Refer to the Glossary entry for "accounting changes" for additional information on how to report the effects of changes in accounting principles, corrections of errors, and changes in estimates.

**3**            **Balance end of previous calendar year as restated.** Report the sum of items 1 and 2.

**4**            **Net income (loss) attributable to bank.** Report the net income (loss) attributable to the bank for the calendar year-to-date as reported in Schedule RI, item 14, "Net income (loss) attributable to bank."

**5**            **Sale, conversion, acquisition, or retirement of capital stock, net (excluding treasury stock transactions).** Report the changes in the bank's total equity capital resulting from:

- (1) Sale of the bank's perpetual preferred stock or common stock. Limited-life preferred stock is not included in equity capital; any proceeds from the sale of limited-life preferred stock during the calendar year-to-date is not to be reported in this schedule.
- (2) Exercise of stock options, including:
  - (a) Any income tax benefits to the bank resulting from the sale of the bank's own stock acquired under a qualified stock option within three years of its purchase by the employee who had been granted the option.
  - (b) Any tax benefits to the bank resulting from the exercise (or granting) of nonqualified stock options (on the bank's stock) based on the difference between the option price and the fair market value of the stock at the date of exercise (or grant).
- (3) Conversion of convertible debt, limited-life preferred stock, or perpetual preferred stock into perpetual preferred or common stock.
- (4) Redemption of perpetual preferred stock or common stock.
- (5) Retirement of perpetual preferred stock or common stock.
- (6) Capital-related transactions involving the bank's Employee Stock Ownership Plan.
- (7) The awarding of share-based employee compensation classified as equity. Under FASB Statement No. 123 (Revised 2004), the compensation cost for such an award must be recognized over the requisite service period with a corresponding credit to equity. This reporting treatment applies regardless of whether the shares awarded to an employee are shares of bank stock or shares of stock in the bank's parent holding company.

**Item No.**    **Caption and Instructions****1.a**  
(cont.)Exclude from cash items in process of collection:

- (1) Cash items for which the reporting bank has already received credit, provided that the funds on deposit are subject to immediate withdrawal. The amount of such cash items is considered part of the reporting bank's balances due from depository institutions.
- (2) Credit or debit card sales slips in process of collection (report as noncash items in Schedule RC-F, item 6, "All other assets"). However, when the reporting bank has been notified that it has been given credit, the amount of such sales slips is considered part of the reporting bank's balances due from depository institutions.
- (3) Cash items not conforming to the definition of in process of collection, whether or not cleared through Federal Reserve Banks (report in Schedule RC-F, item 6, "All other assets").
- (4) Commodity or bill-of-lading drafts (including arrival drafts) not yet payable (because the merchandise against which the draft was drawn has not yet arrived), whether or not deposit credit has been given. (If deposit credit has been given, report as loans in the appropriate item of Schedule RC-C, part I; if the drafts were received on a collection basis, they should be excluded entirely from the bank's balance sheet, Schedule RC, until the funds have actually been collected.)

Unposted debits are cash items in the bank's possession, drawn on itself, that are immediately chargeable, but that have not been charged to the general ledger deposit control account at the close of business on the report date. All banks including an amount for unposted debits in this item should also see Schedule RC-O, item 1.a or 1.b, "Unposted debits."

Currency and coin include both U.S. and foreign currency and coin owned and held in all offices of the reporting bank, currency and coin in transit to a Federal Reserve Bank or to any other depository institution for which the reporting bank has not yet received credit, and currency and coin in transit from a Federal Reserve Bank or from any other depository institution for which the reporting bank's account has already been charged. Foreign currency and coin should be converted into U.S. dollar equivalents as of the report date.

Noninterest-bearing balances due from depository institutions include balances due from commercial banks in the U.S., other depository institutions in the U.S. (e.g., credit unions, mutual and stock savings banks, savings or building and loan associations, and cooperative banks), Federal Home Loan Banks, banks in foreign countries, and foreign central banks. Noninterest-bearing balances include those noninterest-bearing funds on deposit at other depository institutions for which the reporting bank has already received credit and which are subject to immediate withdrawal. Balances for which the bank has not yet received credit and balances representing checks or drafts for which immediate credit has been given but which are not subject to immediate withdrawal are considered "cash items in process of collection."

**Item No.    Caption and Instructions**

**1.a**        Include as noninterest-bearing balances due from depository institutions:  
(cont.)

- (1) Noninterest-bearing balances due from the reporting bank's correspondents, including amounts that its correspondent is to pass through or already has passed through to a Federal Reserve Bank on behalf of the reporting bank (see the Glossary entry for "pass-through reserve balances" for further discussion).
- (2) Noninterest-bearing balances that reflect deposit credit received by the reporting bank because of credit or debit card sales slips that had been forwarded for collection. (Until credit has been received, report as noncash items in process of collection in Schedule RC-F, item 6, "All other assets.")
- (3) Amounts that the reporting bank has actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions (see the Glossary entry for "pass-through reserve balances" for further discussion).

Exclude from noninterest-bearing balances due from depository institutions:

- (1) Balances due from Federal Reserve Banks (report as interest-bearing balances due from depository institutions in Schedule RC, item 1.b).
- (2) Deposit accounts "due to" other depository institutions that are overdrawn (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks").
- (3) All noninterest-bearing balances that the reporting bank's trust department maintains with other depository institutions.

**1.b**        **Interest-bearing balances.** Report all interest-bearing balances due from depository institutions whether in the form of savings or time balances, including certificates of deposit, but excluding certificates of deposit held for trading. Include balances due from Federal Reserve Banks (including required reserve, excess, and clearing balances), commercial banks in the U.S., other depository institutions in the U.S., Federal Home Loan Banks, banks in foreign countries, and foreign central banks. Include the fair value of interest-bearing balances due from depository institutions that are accounted for at fair value under a fair value option.

On the FFIEC 031, the components of this item will also be included in the appropriate items of Schedule RC-A, column A. On the FFIEC 041, for banks with \$300 million or more in total assets, the components of this item will also be included in the appropriate items of Schedule RC-A.

Exclude from interest-bearing balances:

- (1) Loans to depository institutions and acceptances of other banks (report in Schedule RC-C, part I, item 2).
- (2) All interest-bearing balances that the reporting bank's trust department maintains with other depository institutions.
- (3) Certificates of deposit held for trading (report in Schedule RC, item 5).

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

- 20**        **Other liabilities.** Report the amount from Schedule RC-G, item 5, "Total."
- 21**        **Total liabilities.** Report the sum of items 13 through 20.
- 22**        Not applicable.

## EQUITY CAPITAL

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

**23**        **Perpetual preferred stock and related surplus.** Report the amount of perpetual preferred stock issued, including any amounts received in excess of its par or stated value. (See the Glossary entry for "preferred stock" for the definition of perpetual preferred stock.)

**24**        **Common stock.** Report the aggregate par or stated value of common stock issued.

**25**        **Surplus.** Report the net amount formally transferred to the surplus account, including capital contributions, adjustments arising from treasury stock transactions, and any amount received for common stock in excess of its par or stated value on or before the report date.

Do not include any portion of the proceeds received from the sale of preferred stock in excess of its par or stated value (report in Schedule RC, item 19 or 23, as appropriate).

**26.a**      **Retained earnings.** Report the amount of retained earnings (undivided profits) and capital reserves. The amount of the retained earnings and capital reserves should reflect transfers of net income, declarations of dividends, transfers to surplus, and any other appropriate entries.

Adjustments of accruals and other accounting estimates made shortly after the report date which relate to the income and expenses of the year-to-date period ended as of the report date must be reported in the appropriate items of Schedule RI, Income Statement, for that year-to-date period.

Capital reserves are segregations of retained earnings and are not to be reported as liability accounts or as reductions of asset balances. Capital reserves may be established for such purposes as:

- (1) Reserve for undeclared stock dividends – includes amounts set aside to provide for stock dividends (not cash dividends) not yet declared.
- (2) Reserve for undeclared cash dividends – includes amounts set aside for cash dividends on common and preferred stock not yet declared. (Cash dividends declared but not yet payable should be included in Schedule RC-G, item 5, "Other" liabilities.)
- (3) Retirement account (for limited-life preferred stock or subordinated notes and debentures) – includes amounts allocated under the plan for retirement of limited-life preferred stock or subordinated notes and debentures contained in the bank's articles of association or in the agreement under which such stock or notes and debentures were issued.
- (4) Reserve for contingencies – includes amounts set aside for possible unforeseen or indeterminate liabilities not otherwise reflected on the bank's books and not covered by insurance. This reserve may include, for example, reserves set up to provide for possible losses which the bank may sustain because of lawsuits, the deductible amount under the bank's blanket bond, defaults on obligations for which the bank is contingently liable, or other claims against the bank. A reserve for contingencies represents a segregation of retained earnings. It should not include any element of known losses or of any probable incurred losses the amount of which can be estimated with reasonable accuracy (see the Glossary entry for "loss contingencies" for additional information).



**Item No.    Caption and Instructions**

**26.a**        Exclude from retained earnings:  
(cont.)

- (1) Any portion of the proceeds received from the sale of common stock in excess of its par or stated value (report in Schedule RC, item 25).
- (2) Any portion of the proceeds received from the sale of preferred stock in excess of its par or stated value (report in Schedule RC, item 19 or 23, as appropriate).
- (3) "Reserves" that reduce the related asset balances such as valuation allowances (e.g., the allowance for loan and lease losses), reserves for depreciation, and reserves for bond premiums.

**26.b**        **Accumulated other comprehensive income.** Report the accumulated balance of other comprehensive income in accordance with FASB Statement No. 130, *Reporting Comprehensive Income*. "Other comprehensive income" refers to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Include in this item:

- (1) Net unrealized holding gains (losses) on available-for-sale securities. Report the difference between the amortized cost and the fair value of the reporting bank's available-for-sale securities, net of tax effects, as of the report date.<sup>1</sup> For most banks, all "securities," as that term is defined in FASB Statement No. 115, that are designated as "available-for-sale" will be reported as "Available-for-sale securities" in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of "securities" in FASB Statement No. 115 (e.g., nonrated industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the Report of Condition in a balance sheet category other than "Securities" (e.g., "Loans and lease financing receivables"). These "available-for-sale" assets must be carried on the Report of Condition balance sheet at fair value rather than amortized cost and the difference between these two amounts, net of tax effects, also must be included in this item.

Also include the unamortized amount of the unrealized holding gain or loss at the date of transfer of any debt security transferred into the held-to-maturity category from the available-for-sale category. When a debt security is transferred from available-for-sale to held-to-maturity, the unrealized holding gain or loss at the date of transfer continues to be reported in this equity capital account, but must be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

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<sup>1</sup> For example, if the fair value of the reporting bank's available-for-sale securities exceeds the amortized cost of its available-for-sale securities by \$100,000 (and the bank has had no other transactions affecting the "net unrealized holding gains (losses)" account), the amount to be included in Schedule RC, item 26.b, must be reduced by the estimated amount of taxes using the bank's applicable tax rate (federal, state and local). (See the Glossary entry for "income taxes" for a discussion of "applicable tax rate.") If the bank's applicable tax rate (federal, state and local) is 40% and the tax basis of its available-for-sale securities approximates their amortized cost, the bank would include "net unrealized holding gains" of \$60,000 [ $\$100,000 - (40\% \times \$100,000)$ ] in Schedule RC, item 26.b. The bank would also have a deferred tax liability of \$40,000 which would enter into the determination of the amount of net deferred tax assets or liabilities to report in Schedule RC-F, item 2, or Schedule RC-G, item 2.

**Item No.    Caption and Instructions**

- 26.b**            (2) Accumulated net gains (losses) on cash flow hedges.<sup>1</sup> Report the effective portion<sup>2</sup> of the  
(cont.)            accumulated change in fair value (gain or loss) on derivatives designated and qualifying  
                         as cash flow hedges in accordance with FASB Statement No. 133, *Accounting for  
                         Derivative Instruments and Hedging Activities*.

Under Statement No. 133, a bank that elects to apply hedge accounting must exclude from net income the effective portion of the change in fair value of a derivative designated as a cash flow hedge and record it on the balance sheet in a separate component of equity capital (referred to as "accumulated other comprehensive income" in the accounting standard). The ineffective portion of the cash flow hedge must be reported in earnings. The equity capital component (i.e., the accumulated other comprehensive income) associated with a hedged transaction should be adjusted each reporting period to a balance that reflects the lesser (in absolute amounts) of:

- (a) The cumulative gain or loss on the derivative from inception of the hedge, less
  - (i) amounts excluded consistent with the bank's defined risk management strategy and
  - (ii) the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings to offset the hedged transaction, or
- (b) The portion of the cumulative gain or loss on the derivative necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative's gains or losses previously reclassified from accumulated other comprehensive income into earnings

Accordingly, the amount reported in this item should reflect the sum of the adjusted balance (as described above) of the cumulative gain or loss for each derivative designated and qualifying as a cash flow hedge. These amounts will be reclassified into earnings in the same period or periods during which the hedged transaction affects earnings (for example, when a hedged variable-rate interest receipt on a loan is accrued or when a forecasted sale occurs).

- (3) Cumulative foreign currency translation adjustments. Report the sum of the bank's foreign currency translation adjustments accumulated in accordance with FASB Statement No. 52. See the Glossary entry for "foreign currency transactions and translation" for further information.
- (4) Minimum pension liability adjustment. Report any minimum pension liability adjustment recognized in accordance with FASB Statement No.87, *Employers' Accounting for Pensions*. Under Statement No. 87, an employer must report in a separate component of equity capital, net of any applicable tax benefits, the excess of additional pension liability over unrecognized prior service cost.

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<sup>1</sup> Generally, the objective of a cash flow hedge is to link a derivative to an existing recognized asset or liability or a forecasted transaction with exposure to variability in expected future cash flows, e.g., the future interest payments (receipts) on a variable-rate liability (asset) or a forecasted purchase (sale). The changes in cash flows of the derivative are expected to offset changes in cash flows of the hedged item or transaction. To achieve the matching of cash flows, FASB Statement No. 133 requires that changes in the fair value of properly designated and qualifying derivatives initially be reported in a separate component of equity (accumulated other comprehensive income) and reclassified into earnings in the same future period that the hedged transaction affects earnings.

<sup>2</sup> The effective portion of a cash flow hedge can be described as the change in fair value of the derivative that offsets the change in expected future cash flows being hedged. Refer to FASB Statement No. 133, Appendix A, Section 2, for further information.

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

- 26.c**    **Other equity capital components.** Report the carrying value of any treasury stock and of any unearned Employee Stock Ownership Plan (ESOP) shares, which under generally accepted accounting principles are reported in a contra-equity account on the balance sheet. Also include any unearned or deferred compensation expense that must be shown as a separate reduction of equity capital pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. For further information, see the Glossary entry for "treasury stock," AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, and APB Opinion No. 25.
- 27.a**    **Total bank equity capital.** Report the sum of items 23 through 26.c. This item must equal Report of Income Schedule RI-A, item 12, "Total bank equity capital end of current period."
- 27.b**    **Noncontrolling (minority) interests in consolidated subsidiaries.** Report the portion of the equity capital accounts of all consolidated subsidiaries of the reporting bank held by parties other than the parent bank. A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank.
- 28**    **Total equity capital.** Report the sum of items 27.a and 27.b.
- 29**    **Total liabilities and equity capital.** Report the sum of items 21 and 28. This item must equal Schedule RC, item 12, "Total assets."

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

- 1**        **Indicate in the box at the right the number of the statement below that best describes the most comprehensive level of auditing work performed for the bank by independent external auditors as of any date during the preceding calendar year.** *(To be reported only with the March Report of Condition.)* Report the number of the statement listed on the report form that, in the bank's judgment, best describes the most comprehensive level of auditing work performed by any independent external auditors during the preceding calendar year.

The term "any date during the preceding calendar year" refers to the date of the balance sheet and income statement reported on by the auditor (or the date as of which certain agreed-upon procedures were applied to selected records and transactions by the auditor) regardless of the actual date of the commencement of the auditing work (audit, internal control attestation, directors' examination, review, compilation, or specific procedures) and regardless of the date of the report submitted by the auditor.

Exclude from "auditing work performed" any tax or consulting work regardless of whether it was performed by an independent certified public accounting firm or others.

The list of possible external auditing work is structured with the "most comprehensive level," an audit of the bank, as number 1 and the other levels of auditing work in descending order so that "no external audit work" is number 9.

Banks may be assisted in determining the level of auditing work performed by reviewing the type of report received from the auditor:

- (a) If the bank or parent holding company has external auditing work performed by a certified public accounting firm and the report of the auditor:

Begins	"We have examined . . ." <u>or</u>
	"We have audited . . ."
and	

The final paragraph begins	"In our opinion, the financial statements referred to above . . ." <u>or</u>
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In our opinion, the balance sheet referred to above . . ."

the bank would respond to this item with a "1" if the first sentence of the first paragraph of the report describes the financial statements or the balance sheet of the bank or with a "2" if the first sentence of the first paragraph of the report describes the financial statements or the balance sheet of the parent holding company.

**Memorandum****Item No.    Caption and Instructions****1**  
(cont.)

(b) If the report submitted by the auditor:

Begins "We have examined management's assertion . . . maintained effective internal control over financial reporting . . .,"

and

The final paragraph states "In our opinion . . ."

the bank would respond to this item with a "3."

(c) If the report submitted by the auditor:

Begins "We have applied certain procedures to selected records and transactions . . .,"

The second paragraph includes "We do not express an opinion, . . ."

and

The next to last paragraph states "Had we performed additional procedures . . . other matters may have come to our attention . . ."

the bank would respond with:

- (i) a "4" if this auditing work was performed by a certified public accounting firm for the Board of Directors as a directors' examination;
- (ii) a "5" if this auditing work was performed by any other firm (e.g., a consulting firm, another banking organization) for the Board of Directors as a directors' examination;  
or
- (iii) an "8" if management otherwise engaged the auditor to perform specified auditing work (excluding tax or consulting work) but this auditing work did not constitute a directors' examination.

(d) If the report submitted by the auditor:

Begins "We have reviewed . . .,"

The second paragraph states "A review consists principally of inquiries . . .,"

and

The final paragraph begins "Based on our review . . ."

the bank would respond to this item with a "6."

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

**1**  
(cont.)

(e) If the report submitted by the auditor:

Begins

"We have compiled . . ."

and

The second paragraph begins

"A compilation is limited to presenting . . ."

the bank would respond to this item with a "7."

An "independent external auditor" is an auditor who at no time during the year:

- (1) was an employee of the bank;
- (2) performed the bank's bookkeeping or maintained the bank's accounting records;
- (3) was dependent on the bank for his livelihood nor was the bank such a significant client that the loss of that client would jeopardize his livelihood; nor
- (4) held the bank's securities or was indebted to the bank beyond those types of loans permitted under applicable professional standards.

**2**

**Bank's fiscal year-end date.** *(To be reported only with the March Report of Condition.)*

Report the bank's fiscal year-end date (month and day) for financial reporting purposes. For example, a bank whose fiscal year ends on June 30 would report 0630 in this Memorandum item.

## SCHEDULE RC-B – SECURITIES

### General Instructions

This schedule has four columns for information on securities: two columns for held-to-maturity securities and two columns for available-for-sale securities.<sup>4</sup> Report the amortized cost and fair value of held-to-maturity securities in columns A and B, respectively. Report the amortized cost and fair value of available-for-sale debt securities in columns C and D, respectively. Information on equity securities with readily determinable fair values is reported in the columns for available-for-sale securities only (columns C and D). For these equity securities, historical cost (not amortized cost) is reported in column C and fair value is reported in column D.

Exclude from this schedule all securities held for trading and securities the bank has elected to report at fair value under a fair value option even if bank management did not acquire the securities principally for the purpose of selling them in the near term. Securities held for trading and securities reported under a fair value option are to be reported in Schedule RC, item 5, "Trading assets," and, for certain banks, in Schedule RC-D – Trading Assets and Liabilities. Trading assets and securities reported under a fair value option are also reported in Schedule RC-Q – Financial Assets and Liabilities Measured at Fair Value.

In general, amortized cost is the purchase price of a debt security adjusted for amortization of premium or accretion of discount if the debt security was purchased at other than par or face value. (See the Glossary entry for "premiums and discounts.") As defined in FASB Statement No. 157, fair value is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." For further information, see the Glossary entry for "fair value."

The preferred method for reporting purchases and sales of securities is as of trade date. However, settlement date accounting is acceptable if the reported amounts would not be materially different. (See the Glossary entry for "trade date and settlement date accounting.")

For purposes of this schedule, the following events and transactions involving securities should be reported in the manner indicated below:

- (1) Purchases of securities under agreements to resell and sales of securities under agreements to repurchase – These transactions are not to be treated as purchases or sales of securities but as lending or borrowing (i.e., financing) transactions collateralized by these securities if the agreements meet the criteria for a borrowing set forth in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For further information, see the Glossary entries for "transfers of financial assets" and "repurchase/resale agreements."

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<sup>4</sup> Available-for-sale securities are generally reported in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of "securities" in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, (e.g., certain industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the Report of Condition in a balance sheet category other than "Securities" (e.g., "Loans and lease financing receivables").

**General Instructions (cont.)**

- (2) Purchases and sales of participations in pools of securities – Similarly, these transactions are not to be treated as purchases or sales of the securities in the pool but as lending or borrowing (i.e., financing) transactions collateralized by the pooled securities if the participation agreements meet the criteria for a borrowing set forth in FASB Statement No. 140. For further information, see the Glossary entries for "transfers of financial assets" and "repurchase/resale agreements."
- (3) Pledged securities – Pledged securities that have not been transferred to the secured party should continue to be included in the pledging bank's holdings of securities that are reported in Schedule RC-B. If the bank has transferred pledged securities to the secured party, the bank should account for the pledged securities in accordance with FASB Statement No. 140.
- (4) Securities borrowed and lent – Securities borrowed and lent shall be reported on the balance sheet of either the borrowing or lending bank in accordance with FASB Statement No. 140. For further information, see the Glossary entries for "transfers of financial assets" and "securities borrowing/lending transactions."
- (5) Short sales of securities – Such transactions are to be reported as described in the Glossary entry for "short position."
- (6) Futures, forward, and option contracts – Such open contracts to buy or sell securities in the future are to be reported as derivatives in Schedule RC-L, item 12.

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

- 1       **U.S. Treasury securities.** Report in the appropriate columns the amortized cost and fair value of all U.S. Treasury securities not held in trading accounts. Include all bills, certificates of indebtedness, notes, and bonds, including those issued under the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program and those that are "inflation-indexed."

Exclude all obligations of U.S. Government agencies. Also exclude detached Treasury security coupons and ex-coupon Treasury securities held as the result of either their purchase or the bank's stripping of such securities and Treasury receipts such as CATS, TIGRs, COUGARs, LIONs, and ETRs (report in Schedule RC-B, item 6.a below). Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.



**Item No.    Caption and Instructions**

- 4.b**        Other mortgage-backed securities include:  
(cont.)
- (1) All classes of collateralized mortgage obligations (CMOs) and real estate mortgage investments conduits (REMICs).
  - (2) CMO and REMIC residuals and similar interests.
  - (3) Stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).
  - (4) Mortgage-backed commercial paper.
- 4.b.(1)**    **Issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost and fair value of all classes of CMOs and REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA). For purposes of these reports, also include REMICs issued by the U.S. Department of Veterans Affairs (VA) in this item.
- 4.b.(2)**    **Other mortgage-backed securities collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost and fair value of all classes of CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral consists of GNMA (Ginnie Mae) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or other mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.
- 4.b.(3)**    **All other mortgage-backed securities.** Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and mortgage-backed commercial paper issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral does not consist of GNMA (Ginnie Mae) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or other mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.
- 5**         **Asset-backed securities.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. For banks with \$1 billion or more in total assets, this item must equal Schedule RC-B, sum of Memorandum items 5.a through 5.f.

**Item No.    Caption and Instructions**

- 6**        **Other debt securities.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all debt securities not held for trading that cannot properly be reported in Schedule RC-B, items 1 through 5, above.

Exclude from other debt securities:

- (1) All holdings of certificates of participation in pools of residential mortgages, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) (report in Schedule RC-B, item 4, above).
- (2) Holdings of bankers acceptances and certificates of deposit, which are not categorized as securities for purposes of this report.
- (3) All securities that meet the definition of an "equity security" in FASB Statement No. 115, for example, common and perpetual preferred stock. (See also the instructions to Schedule RC-B, item 7, and Schedule RC-F, item 4.)

- 6.a**       **Other domestic debt securities.** Report in the appropriate columns the amortized cost and fair value of all other domestic debt securities not held for trading.

Other domestic debt securities include:

- (1) Bonds, notes, debentures, equipment trust certificates, and commercial paper (except asset-backed commercial paper) issued by U.S.-chartered corporations and other U.S. issuers and not reportable elsewhere in Schedule RC-B.
- (2) Preferred stock of U.S.-chartered corporations and business trusts that by its terms either must be redeemed by the issuing corporation or trust or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock), including trust preferred securities subject to mandatory redemption.
- (3) Detached U.S. Government security coupons and ex-coupon U.S. Government securities held as the result of either their purchase or the bank's stripping of such securities and Treasury receipts such as CATS, TIGRs, COUGARs, LIONs, and ETRs. Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.

- 6.b**       **Foreign debt securities.** Report in the appropriate columns the amortized cost and fair value of all foreign debt securities not held for trading.

Foreign debt securities include:

- (1) Bonds, notes, debentures, equipment trust certificates, and commercial paper (except asset-backed commercial paper) issued by non-U.S.-chartered corporations.

**Item No.**    **Caption and Instructions**6.b  
(cont.)

- (2) Debt securities issued by foreign governmental units.
- (3) Debt securities issued by international organizations such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank.
- (4) Preferred stock of non-U.S.-chartered corporations that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock).

7

**Investments in mutual funds and other equity securities with readily determinable fair values.** Report in columns C and D the historical cost and fair value, respectively, of all investments in mutual funds and other equity securities (as defined in FASB Statement No. 115) with readily determinable fair values. Such securities include, but are not limited to, money market mutual funds, mutual funds that invest solely in U.S. Government securities, common stock, and perpetual preferred stock. Perpetual preferred stock does not have a stated maturity date and cannot be redeemed at the option of the investor, although it may be redeemable at the option of the issuer.

According to FASB Statement No. 115, the fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC. ("Restricted stock" meets that definition if the restriction terminates within one year.) The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above. The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Investments in mutual funds and other equity securities with readily determinable fair values may have been purchased by the reporting bank or acquired for debts previously contracted.

Include in this item common stock and perpetual preferred stock of the Federal National Mortgage Association (Fannie Mae), common stock and perpetual preferred stock of the Federal Home Loan Mortgage Corporation (Freddie Mac), Class A voting and Class C non-voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac), and common and preferred stock of SLM Corporation (the private-sector successor to the Student Loan Marketing Association).

Exclude from investments in mutual funds and other equity securities with readily determinable fair values:

- (1) Paid-in stock of a Federal Reserve Bank (report as an equity security that does not have a readily determinable fair value in Schedule RC-F, item 4).

**Item No.    Caption and Instructions**

- 7** (cont.) (2) Stock of a Federal Home Loan Bank (report as an equity security that does not have a readily determinable fair value in Schedule RC-F, item 4).
- (3) Common and preferred stocks that do not have readily determinable fair values, such as stock of bankers' banks and Class B voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac) (report in Schedule RC-F, item 4).
- (4) Preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock), including trust preferred securities subject to mandatory redemption (report such preferred stock as an other debt security in Schedule RC-B, item 6, above).
- (5) "Restricted stock," i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year (if the restriction does not terminate within one year, report "restricted stock" as an equity security that does not have a readily determinable fair value in Schedule RC-F, item 4).
- (6) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock in the bank (report as an equity security that does not have a readily determinable fair value in Schedule RC-F, item 4).
- (7) Minority interests held by the reporting bank in any companies not meeting the definition of associated company (report as equity securities that do not have a readily determinable fair value in Schedule RC-F, item 4), except minority holdings that indirectly represent bank premises (report in Schedule RC, item 6) or other real estate owned (report in Schedule RC, item 7), provided that the fair value of any capital stock representing the minority interest is not readily determinable. (See the Glossary entry for "subsidiaries" for the definition of associated company.)
- (8) Equity holdings in those corporate joint ventures over which the reporting bank does not exercise significant influence (report as equity securities that do not have a readily determinable fair value in Schedule RC-F, item 4), except equity holdings that indirectly represent bank premises (report in Schedule RC, item 6) or other real estate owned (report in Schedule RC, item 7). (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture.)
- (9) Holdings of capital stock of and investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the reporting bank exercises significant influence (report in Schedule RC, item 8, "Investments in unconsolidated subsidiaries and associated companies").
- 8**        **Total.** Report the sum of items 1 through 7. The total of column A for this item must equal Schedule RC, item 2.a, "Held-to-maturity securities." The total of column D for this item must equal Schedule RC, item 2.b, "Available-for-sale securities."

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

**4**  
(cont.) Generally, municipal and corporate securities that have periodic call options should **not** be reported as structured notes. Although many of these securities have features similar to those found in some structured notes (e.g., step-ups, which generally remain callable after a step-up date), they are **not commonly known** as structured notes. Examples of such callable securities that should **not** be reported as structured notes include:

- (1) Callable municipal and corporate bonds which have single (or multiple) explicit call dates and then can be called on any interest payment date after the last explicit call date (i.e., they are continuously callable).
- (2) Callable federal agency securities that have continuous call features after an explicit call date, except step-up bonds (which are structured notes).

The mere existence of simple caps and floors does not necessarily make a security a structured note. Securities with **adjusting** caps or floors (i.e., caps or floors that change over time), however, are structured notes. Therefore, the following types of securities should **not** be reported as structured notes:

- (1) Variable rate securities, including Small Business Administration "Guaranteed Loan Pool Certificates," **unless** they have features of securities which are commonly known as structured notes (i.e., they are inverse, range, or de-leveraged floaters, index amortizing notes, dual index or variable principal redemption or step-up bonds), or have adjusting caps or floors.
- (2) Mortgage-backed securities.

**4.a** **Amortized cost (of structured notes).** Report the amortized cost of all structured notes included in the held-to-maturity and available-for-sale accounts. The amortized cost of these securities will have been reported in columns A and C of the body of Schedule RC-B.

**4.b** **Fair value (of structured notes).** Report the fair (market) value of structured notes reported in Memorandum item 4.a above. The fair value of these securities will have been reported in columns B and D of the body of Schedule RC-B. Do not combine or otherwise net the fair value of any structured note with the fair or book value of any related asset, liability, or off-balance sheet derivative instrument.

**5** **Asset-backed securities.** Memorandum items 5.a through 5.f are to be completed by banks with \$1 billion or more in total assets.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. For each column, the sum of Memorandum items 5.a through 5.f must equal Schedule RC-B, item 5.

For purposes of categorizing asset-backed securities in Schedule RC-B, Memorandum items 5.a through 5.f, below, each individual asset-backed security should be included in the item that most closely describes the predominant type of asset that collateralizes the security

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

- 5** (cont.) and this categorization should be used consistently over time. For example, an asset-backed security may be collateralized by automobile loans to both individuals and business enterprises. If the prospectus for this asset-backed security or other available information indicates that these automobile loans are predominantly loans to individuals, the security should be reported in Schedule RC-B, Memorandum item 5.c, as being collateralized by automobile loans.
- 5.a**    **Credit card receivables.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by credit card receivables, i.e., extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards as defined for Schedule RC-C, part I, item 6.a.
- 5.b**    **Home equity lines.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by home equity lines of credit, i.e., revolving, open-end lines of credit secured by 1-to-4 family residential properties as defined for Schedule RC-C, part I, item 1.c.(1).
- 5.c**    **Automobile loans.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by automobile loans, i.e., loans to individuals for the purpose of purchasing private passenger vehicles, including minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use. Such loans are a subset of "Other consumer loans," as defined for Schedule RC-C, part I, item 6.c.
- 5.d**    **Other consumer loans.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by other consumer loans, i.e., loans to individuals for household, family, and other personal expenditures as defined for Schedule RC-C, part I, items 6.b and 6.c, excluding automobile loans as described in Schedule RC-B, Memorandum item 5.c, above.
- 5.e**    **Commercial and industrial loans.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by commercial and industrial loans, i.e., loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than by real estate) or unsecured, single-payment or installment, as defined for Schedule RC-C, part I, item 4.
- 5.f**    **Other.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by non-mortgage loans other than those described in Schedule RC-B, Memorandum items 5.a through 5.e, above, i.e., loans as defined for Schedule RC-C, part I, items 2, 3, and 7 through 9; lease financing receivables as defined for Schedule RC-C, part I, item 10; and all other assets.

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

- 1.a**            (2) Loans secured by real estate the proceeds of which are to be used to acquire and  
(cont.)            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.

Loans written as combination construction-permanent loans secured by real estate should be reported in this item until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule RC-C, part I, item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting bank or is otherwise repaid, (2) the bank acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

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.a.(1)**        **1-4 family residential construction loans.** Report in column B the amount outstanding of 1-4 family residential construction loans, i.e., loans for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term "1-4 family residential properties" is defined in Schedule RC-C, part I, item 1.c, below. "1-4 family residential construction loans" include:

- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
- Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
- Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
- Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
- Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
- Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.
- Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.

- 1.a.(2)**        **Other construction loans and all land development and other land loans.** Report in column B the amount outstanding of all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans. Include loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.

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

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

Reverse 1-4 family residential mortgages should be reported in the appropriate subitem based on whether they are closed-end or open-end mortgages. A reverse mortgage is an arrangement in which a homeowner borrows against the equity in his/her home and receives cash either in a lump sum or through periodic payments. However, unlike a traditional mortgage loan, no payment is required until the borrower no longer uses the home as his or her principal residence. Cash payments to the borrower after closing, if any, and accrued interest are added to the principal balance. These loans may have caps on their maximum principal balance or they may have clauses that permit the cap on the maximum principal balance to be increased under certain circumstances. Homeowners generally have one of the following options for receiving tax free loan proceeds from a reverse mortgage: (1) one lump sum payment; (2) a line of credit; (3) fixed monthly payments to homeowner either for a specified term or for as long as the homeowner lives in the home; or (4) a combination of the above.

Reverse mortgages that provide for a lump sum payment to the borrower at closing, with no ability for the borrower to receive additional funds under the mortgage at a later date, should be reported as closed-end loans in Schedule RC-C, part I, item 1.c.(2). Normally, closed-end reverse mortgages are first liens and would be reported in Schedule RC-C, part I, item 1.c.(2)(a). Reverse mortgages that are structured like home equity lines of credit in



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

**1.c**            that they provide the borrower with additional funds after closing (either as fixed monthly  
(cont.)        payments, under a line of credit, or both) should be reported as open-end loans in  
Schedule RC-C, part I, item 1.c.(1). Open-end reverse mortgages also are normally first  
liens. Where there is a combination of both a lump sum payment to the borrower at closing  
and payments after the closing of the loan, the reverse mortgage should be reported as an  
open-end loan in Schedule RC-C, part I, item 1.c.(1).

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).

**1.c.(2)(a)**    **Secured by first liens.** Report in column B the amount of all closed-end loans secured by  
first liens on 1-to-4 family residential properties.

**1.c.(2)(b)**    **Secured by junior liens.** Report in column B the amount of all closed-end loans secured by  
junior (i.e., other than first) liens on 1-to-4 family residential properties. 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.** Report in column B all other  
nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and  
conventional) or other liens that are not reportable in Schedule RC-C, part I, item 1.c.  
Specifically, include loans on:

(1) Nonfarm properties with 5 or more dwelling units in structures (including apartment  
buildings and apartment hotels) used primarily to accommodate households on a more or  
less permanent basis.

(2) 5 or more unit housekeeping dwellings with commercial units combined where use is  
primarily residential.

(3) Cooperative-type apartment buildings containing 5 or more dwelling units.

Exclude loans for multifamily residential property construction and land development  
purposes (report in Schedule RC-C, part I, item 1.a). Also exclude loans secured by nonfarm  
nonresidential properties (report in Schedule RC-C, part I, item 1.e).

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

- 1.e        Secured by nonfarm nonresidential properties.** Report in the appropriate subitem of column B loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, "homes" for aged persons and orphans, golf courses, recreational facilities, and similar properties.

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

For purposes of reporting loans in Schedule RC-C, part I, items 1.e.(1) and 1.e.(2), below, the determination as to whether a nonfarm nonresidential property is considered "owner-occupied" should be made upon acquisition (origination or purchase) of the loan. However, for purposes of determining whether existing nonfarm nonresidential real estate loans should be reported as "owner-occupied" when a bank must first begin reporting such loans as of March 31, 2007 (or March 31, 2008),<sup>1</sup> the bank may consider the source of repayment either when the loan was acquired or based on the most recent available information. Once a bank determines whether a loan should be reported as "owner-occupied" or not, this determination need not be reviewed thereafter.

- 1.e.(1)    Loans secured by owner-occupied nonfarm nonresidential properties.** Report in column B the amount of loans secured by owner-occupied nonfarm nonresidential properties.

"Loans secured by owner-occupied nonfarm nonresidential properties" are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. Thus, for loans secured by owner-occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Include loans secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor (in which case, the loan should be reported in Schedule RC-C, part I, item 1.e.(2), below). Also include loans secured by churches unless the property is owned by an investor who leases the property to the congregation (in which case, the loan should be reported in Schedule RC-C, part I, item 1.e.(2), below).

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<sup>1</sup> Reporting nonfarm nonresidential real estate loans as loans secured by "owner-occupied" properties or by other properties, as appropriate, takes effect:

- March 31, 2007, for (1) all banks with \$300 million or more in total assets as of December 31, 2005, or with foreign offices, and (2) banks with less than \$300 million in total assets as of December 31, 2005, and domestic offices only whose total construction, multifamily, and nonfarm nonresidential real estate loans (Schedule RC-C, part I, sum of items 1.a, 1.d, and 1.e) as of December 31, 2005, was greater than 150 percent of total equity capital (Schedule RC, item 28) as of December 31, 2005; and
- March 31, 2008, for banks with less than \$300 million in total assets as of December 31, 2005, and domestic offices only that do not meet this percentage test.

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

- 1.e.(2)    Loans secured by other nonfarm nonresidential properties.** Report in column B the amount of nonfarm nonresidential real estate loans that are not secured by owner-occupied nonfarm nonresidential properties.

“Loans secured by other nonfarm nonresidential properties” are those nonfarm nonresidential property loans where the primary source of repayment is derived from rental income associated with the property (i.e., loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Include loans secured by hotels, motels, dormitories, nursing homes, assisted-living facilities, mini-storage warehouse facilities, and similar properties in this item as loans secured by other nonfarm nonresidential properties.

- 2    Loans to depository institutions and acceptances of other banks.** Report all loans (other than those that meet the definition of a “loan secured by real estate”), including overdrafts, to banks, other depository institutions, and other associations, companies, and financial intermediaries whose primary business is to accept deposits and to extend credit for business or for personal expenditure purposes and the bank’s holdings of all bankers acceptances accepted by other banks that are not held for trading. Acceptances accepted by other banks may be purchased in the open market or discounted by the reporting bank. For further information, see the Glossary entry for “bankers acceptances.”

On the FFIEC 041, all banks should report the total amount of these loans and acceptances in column B, and banks with \$300 million or more in total assets should also report in the appropriate subitems of column A a breakdown of these loans among five categories of depository institutions. On the FFIEC 031, all banks should report a breakdown of loans to depository institutions and acceptances of other banks among five categories of depository institutions for the fully consolidated bank in column A and a breakdown of these loans and acceptances among three categories of depository institutions for domestic offices in column B.

Depository institutions cover:

- (1) commercial banks in the U.S., including:
  - (a) U.S. branches and agencies of foreign banks, U.S. branches and agencies of foreign official banking institutions, and investment companies that are chartered under Article XII of the New York State banking law and are majority-owned by one or more foreign banks; and
  - (b) all other commercial banks in the U.S., i.e., U.S. branches of U.S. banks;
- (2) depository institutions in the U.S., other than commercial banks, including:
  - (a) credit unions;
  - (b) mutual or stock savings banks;
  - (c) savings or building and loan associations;
  - (d) cooperative banks; and
  - (e) other similar depository institutions; and

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

**2**  
(cont.)

(3) banks in foreign countries, including:

- (a) foreign-domiciled branches of other U.S. banks; and
- (b) foreign-domiciled branches of foreign banks.

See the Glossary entry for "banks, U.S. and foreign" and "depository institutions in the U.S." for further discussion of these terms.

Include as loans to depository institutions and acceptances of other banks:

- (1) Loans to depository institutions for the purpose of purchasing or carrying securities.
- (2) Loans to depository institutions for which the collateral is a mortgage instrument and not the underlying real property. Report loans to depository institutions where the collateral is the real estate itself, as evidenced by mortgages or similar liens, in Schedule RC-C, part I, item 1.
- (3) Purchases of mortgages and other loans under agreements to resell that do not involve the lending of immediately available funds or that mature in more than one business day, if acquired from depository institutions.
- (4) Loan participations acquired from depository institutions that must be treated as secured borrowings rather than sales in accordance with generally accepted accounting principles. (See the Glossary entry for "transfers of financial assets" for further information.)
- (5) The reporting bank's own acceptances discounted and held in its portfolio when the account party is another depository institution.

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

**2**  
(cont.)

Exclude from loans to depository institutions:

- (1) All transactions reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."
- (2) Loans that meet the definition of a "loan secured by real estate," even if extended to depository institutions (report in Schedule RC-C, part I, item 1).
- (3) Loans to holding companies of depository institutions (report as all other loans in Schedule RC-C, part I, item 9).
- (4) Loans to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing (report as all other loans in Schedule RC-C, part I, item 9).
- (5) Loans to finance companies and insurance companies (report as all other loans in Schedule RC-C, part I, item 9).
- (6) Loans to brokers and dealers in securities, investment companies, and mutual funds (report as loans for purchasing or carrying securities in Schedule RC-C, part I, item 9).
- (7) Loans to Small Business Investment Companies (report as all other loans in Schedule RC-C, part I, item 9).
- (8) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities (as described in Federal Reserve Regulation U) and loans to "plan lenders" (as defined in Federal Reserve Regulation G) (report as loans for purchasing or carrying securities in Schedule RC-C, part I, item 9).
- (9) Loans to federally-sponsored lending agencies (report as all other loans in Schedule RC-C, part I, item 9). Refer to the Glossary entry for "federally-sponsored lending agency" for the definition of this term.
- (10) Dollar exchange acceptances created by foreign governments and official institutions (report in Schedule RC-C, part I, item 7).
- (11) Loans to foreign governments and official institutions, including foreign central banks (report in Schedule RC-C, part I, item 7). See the Glossary entry for "foreign governments and official institutions" for the definition of this term.
- (12) Acceptances accepted by the reporting bank, discounted, and held in its portfolio, when the account party is not another depository institution. Report such acceptances are reported in other items of Schedule RC-C, part I, according to the account party.

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

NOTE: Items 2.a through 2.c are not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

- 2.a        To commercial banks in the U.S.** Report all loans to and acceptances of other commercial banks in the U.S. On the FFIEC 041, banks with \$300 million or more in total assets should report in the appropriate subitems of column A a breakdown of these loans and acceptances between those to U.S. branches and agencies of foreign banks and those to other commercial banks in the U.S. On the FFIEC 031, all banks should report the total amount of these loans and acceptances in domestic offices in column B, and a breakdown of these loans and acceptances for the fully consolidated bank between those to U.S. branches and agencies of foreign banks and those to other commercial banks in the U.S. in the appropriate subitems of column A.

Refer to the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for "banks, U.S. and foreign" for further discussion of the term "commercial banks in the U.S."

Exclude from Schedule RC-C, part I, items 2.a, 2.a.(1), and 2.a.(2), loans to other domestic depository institutions such as savings banks, savings and loan associations, and credit unions (report in Schedule RC-C, part I, item 2.b, below).

- 2.a.(1)    To U.S. branches and agencies of foreign banks.** Report in column A all loans to and acceptances of U.S. branches and agencies of foreign banks.

Exclude loans to U.S. offices of U.S.-chartered banks that are owned by foreign banks or by foreign official banking institutions (report in Schedule RC-C, part I, item 2.a.(2), below).

- 2.a.(2)    To other commercial banks in the U.S.** Report in column A all loans to and acceptances of commercial banks in the U.S., other than U.S. branches and agencies of foreign banks.

- 2.b        To other depository institutions in the U.S.** Report (on the FFIEC 041, in column A; on the FFIEC 031, in columns A and B, as appropriate) loans to and acceptances of depository institutions, other than commercial banks, domiciled in the U.S. Refer to the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for "depository institutions in the U.S." for further discussion of the term "depository institutions in the U.S."

Exclude loans to and acceptances of commercial banks in the U.S. (report in Schedule RC-C, part I, item 2.a, above).

- 2.c        To banks in foreign countries.** Report all loans to and acceptances of banks and their branches domiciled outside the U.S. On the FFIEC 041, banks with \$300 million or more in total assets should report in the appropriate subitems of column A a breakdown of these loans and acceptances between those to foreign branches of other U.S. banks and those to other banks in foreign countries. On the FFIEC 031, all banks should report the total amount of these loans and acceptances in domestic offices in column B and a breakdown of these loans and acceptances for the fully consolidated bank between those to foreign branches of other U.S. banks and those to other banks in foreign countries in the appropriate subitems of column A.

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

NOTE: Items 2.c, 2.c.(1), and 2.c.(2) are not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

**2.c**            See the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for  
(cont.)            "banks, U.S. and foreign" for further discussion of the term "banks in foreign countries."

Exclude loans to U.S. branches and agencies of foreign banks (report in Schedule RC-C, part I, item 2.a, above).

**2.c.(1)**        **To foreign branches of other U.S. banks.** Report in column A all loans to and acceptances of foreign branches of other U.S. banks.

**2.c.(2)**        **To other banks in foreign countries.** Report in column A all loans to and acceptances of banks in foreign countries, other than foreign-domiciled branches of other U.S. banks.

**3**                **Loans to finance agricultural production and other loans to farmers.** On the FFIEC 041, report in column B and, on the FFIEC 031, report in columns A and B, as appropriate, loans for the purpose of financing agricultural production. Include such loans whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured and whether made to farm and ranch owners and operators (including tenants) or to nonfarmers. All other loans to farmers, other than those excluded below, should also be reported in this item.

Include as loans to finance agricultural production and other loans to farmers:

- (1) Loans and advances made for the purpose of financing agricultural production, including the growing and storing of crops, the marketing or carrying of agricultural products by the growers thereof, and the breeding, raising, fattening, or marketing of livestock.
- (2) Loans and advances made for the purpose of financing fisheries and forestries, including loans to commercial fishermen.
- (3) Agricultural notes and other notes of farmers that the bank has discounted for, or purchased from, merchants and dealers, either with or without recourse to the seller.
- (4) Loans to farmers that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by a party other than the FmHA or SBA.
- (5) Loans and advances to farmers for purchases of farm machinery, equipment, and implements.
- (6) Loans and advances to farmers for all other purposes associated with the maintenance or operations of the farm, including purchases of private passenger automobiles and other retail consumer goods and provisions for the living expenses of farmers or ranchers and their families.

Loans to farmers for household, family, and other personal expenditures (including credit cards) that are not readily identifiable as being made to farmers need not be broken out of Schedule RC-C, part I, item 6, for inclusion in this item.

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

- 3**        Exclude from loans to finance agricultural production and other loans to farmers:  
(cont.)
- (1) Loans that meet the definition of a "loan secured by real estate" (report in Schedule RC-C, part I, item 1).
  - (2) Loans to farmers for commercial and industrial purposes, e.g., when a farmer is operating a business enterprise as well as a farm (report in Schedule RC-C, part I, item 4).
  - (3) Loans to farmers for the purpose of purchasing or carrying securities (report in Schedule RC-C, part I, item 9).
  - (4) Loans to farmers secured by oil or mining production payments (report in Schedule RC-C, part I, item 4).
- 4**        **Commercial and industrial loans.** Report loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured, single-payment or installment. On the FFIEC 041, all banks should report the total of these loans in column B, and banks with \$300 million or more in total assets should also report in the appropriate subitems of column A a breakdown of these loans between those loans to U.S. and non-U.S. addressees. On the FFIEC 031, all banks should report a breakdown of these loans between those to U.S. and non-U.S. addressees for the fully consolidated bank in the appropriate subitems of column A and for domestic offices in the appropriate subitems of column B.
- Commercial and industrial loans may take the form of direct or purchased loans. Include loans to individuals for commercial, industrial, and professional purposes but not for investment or personal expenditure purposes. Also include the reporting bank's own acceptances that it holds in its portfolio when the account party is a commercial or industrial enterprise. Exclude all commercial and industrial loans held for trading.
- Include loans of the types listed below as commercial and industrial loans. These descriptions may overlap and are not all inclusive.
- (1) Loans for commercial, industrial, and professional purposes to:
    - (a) mining, oil- and gas-producing, and quarrying companies;
    - (b) manufacturing companies of all kinds, including those which process agricultural commodities;
    - (c) construction companies;
    - (d) transportation and communications companies and public utilities;
    - (e) wholesale and retail trade enterprises and other dealers in commodities;
    - (f) cooperative associations including farmers' cooperatives;
    - (g) service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
    - (h) insurance agents; and
    - (i) practitioners of law, medicine, and public accounting.
  - (2) Loans for the purpose of financing capital expenditures and current operations.
  - (3) Loans to business enterprises guaranteed by the Small Business Administration.



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

- 4**            (4) Loans to farmers for commercial and industrial purposes (when farmers operate a business enterprise as well as a farm).
- (cont.)        (5) Loans supported by letters of commitment from the Agency for International Development.
- (6) Loans made to finance construction that do not meet the definition of a "loan secured by real estate."
- (7) Loans to merchants or dealers on their own promissory notes secured by the pledge of their own installment paper.
- (8) Loans extended under credit cards and related plans that are readily identifiable as being issued in the name of a commercial or industrial enterprise.
- (9) Dealer flooring or floor-plan loans.
- (10) Loans collateralized by production payments (e.g., oil or mining production payments). Treat as a loan to the original seller of the production payment rather than to the holder of the production payment. For example, report in this item, as a loan to an oil company, a loan made to a nonprofit organization collateralized by an oil production payment; do not include in Schedule RC-C, part I, item 9, as a loan to the nonprofit organization.
- (11) Loans and participations in loans secured by conditional sales contracts made to finance the purchase of commercial transportation equipment.
- (12) Commercial and industrial loans guaranteed by foreign governmental institutions.
- (13) Overnight lending for commercial and industrial purposes.

**Exclude from commercial and industrial loans:**

- (1) Loans that meet the definition of a "loan secured by real estate," even if for commercial and industrial purposes (report in Schedule RC-C, part I, item 1).
- (2) Loans to depository institutions (report in Schedule RC-C, part I, item 2).
- (3) Loans to nondepository financial institutions such as real estate investment trusts, mortgage companies, and insurance companies (report as all other loans in Schedule RC-C, part I, item 9).
- (4) Loans for the purpose of purchasing or carrying securities (report in Schedule RC-C, part I, item 9).
- (5) Loans for the purpose of financing agricultural production, whether made to farmers or to nonagricultural businesses (report in Schedule RC-C, part I, item 3).
- (6) Loans to nonprofit organizations, such as hospitals or educational institutions (report as all other loans in Schedule RC-C, part I, item 9), except those for which oil or mining production payments serve as collateral which are to be reported in this item.

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

- 4** (7) Holdings of acceptances accepted by other banks (report in Schedule RC-C, part I, (cont.) item 2).
- (8) Holdings of the bank's own acceptances when the account party is another bank (report in Schedule RC-C, part I, item 2) or a foreign government or official institution (report in Schedule RC-C, part I, item 7).
- (9) Equipment trust certificates (report in Schedule RC-B, item 6, "Other debt securities").
- (10) Any commercial or industrial loans held by the reporting bank for trading purposes (report in Schedule RC, item 5, "Trading assets").
- (11) Commercial paper (report in Schedule RC-B, item 5, "Asset-backed securities," or item 6, "Other debt securities," or in Schedule RC, item 5, "Trading assets," as appropriate).

NOTE: Items 4.a and 4.b are not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

- 4.a        To U.S. addressees (domicile).** Report (on the FFIEC 041, in column A; on the FFIEC 031, in columns A and B, as appropriate) all commercial and industrial loans to U.S. addressees. For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile."
- 4.b        To non-U.S. addressees (domicile).** Report (on the FFIEC 041, in column A; on the FFIEC 031, in columns A and B, as appropriate) all commercial and industrial loans to non-U.S. addressees. For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for "domicile."
- 5**        Not applicable.
- 6**        **Loans to individuals for household, family, and other personal expenditures.** Report in the appropriate subitem all credit extended to individuals for household, family, and other personal expenditures that does not meet the definition of a "loan secured by real estate," whether direct loans or purchased paper. Exclude loans to individuals for the purpose of purchasing or carrying securities (report in Schedule RC-C, part I, item 9).
- Deposits accumulated by borrowers for the payment of personal loans (i.e., hypothecated deposits) should be netted against the related loans.
- 6.a        Credit cards.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B, as appropriate) all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards. Report the total amount outstanding of all funds advanced under these credit cards regardless of whether there is a period before interest charges are made. Report only amounts carried on the books of the reporting bank as loans that are outstanding on the report date, even if the plan is shared with other banks or organizations and even if accounting and billing are done by a correspondent bank or the accounting center of a plan administered by others.

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

**6.a**  
(cont.)      If the reporting bank has securitized credit cards and has retained a seller's interest that is not in the form of a security, the carrying value of the seller's interest should be reported as credit card loans in this item. For purposes of these reports, the term "seller's interest" means the reporting bank's ownership interest in loans that have been securitized, except an interest that is a form of recourse or other seller-provided credit enhancement. Seller's interests differ from the securities issued to investors by the securitization structure. The principal amount of a seller's interest is generally equal to the total principal amount of the pool of assets included in the securitization structure less the principal amount of those assets attributable to investors, i.e., in the form of securities issued to investors.

Do not net credit balances resulting from overpayments of account balances on credit card accounts against the debit balances of other credit card accounts. Report credit balances (in domestic offices) in Schedule RC-E, (part I,) item 1, column A, and item 7, column B. On the FFIEC 031, report credit balances in foreign offices in Schedule RC-E, part II, item 1.

Exclude from credit cards:

- (1) Credit extended under credit card plans to business enterprises (report in Schedule RC-C, part I, item 4, "Commercial and industrial loans").
- (2) All credit extended to individuals through credit cards that meets the definition of a "loan secured by real estate" (report in Schedule RC-C, part I, item 1).
- (3) All credit extended to individuals for household, family, and other personal expenditures under prearranged overdraft plans (report in Schedule RC-C, part I, item 6.b).

If the bank acts only as agent or correspondent for other banks or nonbank corporations and carries no credit card plan assets on its books, enter a "zero" or the word "none." Banks that do not participate in any credit card plan should also enter a zero or the word "none."

**6.b**      **Other revolving credit plans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B, as appropriate) all extensions of credit to individuals for household, family, and other personal expenditures arising from prearranged overdraft plans and other revolving credit plans not accessed by credit cards. Report the total amount outstanding of all funds advanced under these revolving credit plans regardless of whether there is a period before interest charges are made.

Do not net credit balances resulting from overpayments of account balances on other revolving credit plan accounts against the debit balances of other revolving credit plan accounts. Report credit balances (in domestic offices) in Schedule RC-E, (part I,) item 1, column A, and item 7, column B. On the FFIEC 031, report credit balances in foreign offices in Schedule RC-E, part II, item 1.

Exclude from other revolving credit plans:

- (1) All ordinary (unplanned) overdrafts on transaction accounts not associated with revolving credit plans (report in other items of Schedule RC-C, part I, as appropriate).
- (2) Credit extended to individuals for household, family, and other personal expenditures arising from credit cards (report in Schedule RC-C, part I, item 6.a).

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

**6.c        Other consumer loans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B, as appropriate) all other loans to individuals for household, family, and other personal expenditures (other than those that meet the definition of a "loan secured by real estate" and other than those for purchasing or carrying securities). Include loans for such purposes as:

- (1) purchases of private passenger automobiles, pickup trucks, household appliances, furniture, trailers, and boats;
- (2) repairs or improvements to the borrower's residence (that do not meet the definition of a "loan secured by real estate");
- (3) educational expenses, including student loans;
- (4) medical expenses;
- (5) personal taxes;
- (6) vacations;
- (7) consolidation of personal (nonbusiness) debts;
- (8) purchases of real estate or mobile homes to be used as a residence by the borrower's family (that do not meet the definition of a "loan secured by real estate"); and
- (9) other personal expenditures.

Other consumer loans may take the form of:

- (1) Installment loans, demand loans, single payment time loans, and hire purchase contracts, and should be reported as loans to individuals for household, family, and other personal expenditures regardless of size or maturity and regardless of whether the loans are made by the consumer loan department or by any other department of the bank.
- (2) Retail installment sales paper purchased by the bank from merchants or dealers, finance companies, and others.

Exclude from other consumer loans:

- (1) All direct and purchased loans, regardless of purpose, that meet the definition of a loan 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 (report in Schedule RC-C, part I, item 1).
- (2) Loans to individuals that do not meet the definition of a "loan secured by real estate" for the purpose of investing in real estate when the real estate is not to be used as a residence or vacation home by the borrower or by members of the borrower's family (report as all other loans in Schedule RC-C, part I, item 9).
- (3) Loans to individuals for commercial, industrial, and professional purposes and for "floor plan" or other wholesale financing (report in Schedule RC-C, part I, item 4).
- (4) Loans to individuals for the purpose of purchasing or carrying securities (report in Schedule RC-C, part I, item 9).
- (5) Loans to individuals for investment (as distinct from commercial, industrial, or professional) purposes other than those for purchasing or carrying securities (report as all other loans in Schedule RC-C, part I, item 9).

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

- 6.c**  
(cont.)
- (6) Loans to merchants, automobile dealers, and finance companies on their own promissory notes, secured by the pledge of installment paper or similar instruments (report in Schedule RC-C, part I, item 4, or as all other loans in Schedule RC-C, part I, item 9, as appropriate).
  - (7) Loans to farmers, regardless of purpose, to the extent that can be readily identified as such loans (report in Schedule RC-C, part I, item 3).
  - (8) All credit extended to individuals for household, family, and other personal expenditures arising from:
    - (a) Credit cards (report in Schedule RC-C, part I, item 6.a), and
    - (b) Prearranged overdraft plans (report in Schedule RC-C, part I, item 6.b).

- 7**        **Loans to foreign governments and official institutions.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B, as appropriate) all loans (other than those that meet the definition of a "loan secured by real estate"), including planned and unplanned overdrafts, to governments in foreign countries, to their official institutions, and to international and regional institutions. See the Glossary entry for "foreign governments and official institutions" for the definition of this term.

Include:

- (1) Bankers acceptances accepted by the reporting bank and held in its portfolio when the account party is a foreign government or official institution, including such acceptances for the purpose of financing dollar exchange. Exclude acceptances that are held for trading.
- (2) Loans to foreign governments, their official institutions, and international and regional institutions (other than those that meet the definition of a "loan secured by real estate"), including planned and unplanned overdrafts.

Exclude from loans to foreign governments and official institutions:

- (1) Loans to nationalized banks and other banking institutions owned by foreign governments and not functioning as central banks, banks of issue, or development banks (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks").
- (2) Loans to U.S. branches and agencies of foreign official banking institutions (report in Schedule RC-C, part I, item 2).
- (3) Loans to foreign-government-owned nonbank corporations and enterprises (report in Schedule RC-C, part I, item 4 or 9, as appropriate).

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

- 8            Obligations (other than securities and leases) of states and political subdivisions in the U.S.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B, as appropriate) all obligations of states and political subdivisions in the United States (including overdrafts and obligations secured by real estate), other than leases and obligations reported as securities. (Report leases to states and political subdivisions in the U.S. in Schedule RC-C, part I, item 10, and securities issued by such entities in Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.," or item 4, "Mortgage-backed securities," as appropriate.) Exclude all such obligations held for trading.

States and political subdivisions in the U.S. include:

- (1) the fifty States of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and
- (2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Treatment of industrial development bonds (IDBs). Industrial development bonds (IDBs), sometimes referred to as "industrial revenue bonds," are issued under the auspices of states or political subdivisions for the benefit of a private party or enterprise where that party or enterprise, rather than the government entity, is obligated to pay the principal and interest on the obligation. For purposes of these reports, all IDBs should be reported as securities in Schedule RC-B, item 3, or as loans in this item (Schedule RC-C, part I, item 8), consistent with the asset category in which the bank reports IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule RC-B or as loans in Schedule RC-C, part I, all IDBs that meet the definition of a "security" in FASB Statement No. 115 must be measured in accordance with Statement No. 115.

Treatment of other obligations of states and political subdivisions in the U.S. In addition to those IDBs that are reported in this item in accordance with the preceding paragraph, also include in this item all obligations (other than securities) of states and political subdivisions in the U.S. except those that meet any of the following criteria:

- (1) Industrial development bonds (IDBs) that are reported as securities in accordance with the reporting treatment described above (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).
- (2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) which are rated by a nationally-recognized rating service (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).
- (3) Mortgage-backed securities issued by state and local housing authorities (report as securities in Schedule RC, item 2, and Schedule RC-B, item 4).
- (4) Obligations of state and local governments that are guaranteed by the United States Government (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).

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

- 8** (cont.) (5) Nonrated obligations of states and political subdivisions in the U.S. that the bank considers securities for other financial reporting purposes (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).
- (6) Lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule RC-C, part I, item 10).
- (7) Obligations of states and political subdivisions in the U.S. held by the reporting bank for trading purposes (report in Schedule RC, item 5).

- 9**        **Other loans.** Report all loans for purchasing or carrying securities and all other loans that cannot properly be reported in one of the preceding items in this schedule. On the FFIEC 041, all banks should report the total amount of these loans in column B, and banks with \$300 million or more in total assets should also report in the appropriate subitem of column A loans for purchasing or carrying securities (item 9.a) and all other loans (item 9.b). 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 between loans for purchasing or carrying securities (item 9.a) and all other loans (item 9.b) for domestic offices in column B.

**Loans for purchasing or carrying securities include:**

- (1) All loans to brokers and dealers in securities (other than those that meet the definition of a "loan secured by real estate" and those to depository institutions).
- (2) All loans, whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured, to any other borrower for the purpose of purchasing or carrying securities, such as:
- (a) Loans made to provide funds to pay for the purchase of securities at settlement date.
- (b) Loans made to provide funds to repay indebtedness incurred in purchasing securities.
- (c) Loans that represent the renewal of loans to purchase or carry securities.
- (d) Loans to investment companies and mutual funds, but excluding loans to Small Business Investment Companies.
- (e) Loans to "plan lenders" as defined in Section 221.4(a) of Federal Reserve Regulation U .
- (f) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities as described in Section 221.3(q) of Federal Reserve Regulation U, unless the loan is excepted by that section.
- (g) Loans to Employee Stock Ownership Plans (ESOPs).

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

**9**            For purposes of the Report of Condition, the purpose of a loan collateralized by "stock" is  
(cont.)        determined as follows:

- (1) For loans that are collateralized in whole or in part by "margin stock," as defined by Federal Reserve Regulation U, the purpose of the loan is determined by the latest Statement of Purpose (Form FR U-1) on file.
- (2) For loans that are collateralized by "stock" other than "margin stock," the bank may determine the purpose of the loan according to the most current information available.

Exclude from loans for purchasing or carrying securities:

- (1) Loans to banks in foreign countries that act as brokers and dealers in securities (report in Schedule RC-C, part I, item 2).
- (2) Loans to depository institutions for the purpose of purchasing or carrying securities (report Schedule RC-C, part I, item 2).
- (3) Transactions reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."
- (4) Loans that meet the definition of a "loan secured by real estate" (report in Schedule RC-C, part I, item 1).

All other loans include all loans and discounts (other than loans for purchasing or carrying securities) that cannot properly be reported in one of the preceding items in Schedule RC-C, part I, such as:

- (1) Unplanned overdrafts to deposit accounts (except overdrafts of depository institutions, which are to be reported in Schedule RC-C, part I, item 2; overdrafts of foreign governments and official institutions, which are to be reported in Schedule RC-C, part I, item 7; and overdrafts of states and political subdivisions in the U.S., which are to be reported in Schedule RC-C, part I, item 8).
- (2) Loans (other than those that meet the definition of a "loan secured by real estate") to nonprofit organizations (e.g., churches, hospitals, educational and charitable institutions, clubs, and similar associations) except those collateralized by production payments where the proceeds ultimately go to a commercial or industrial organization (which are to be reported in Schedule RC-C, part I, item 4).
- (3) Loans to individuals for investment purposes (as distinct from commercial, industrial, or professional purposes), other than those that meet the definition of a "loan secured by real estate."
- (4) Loans (other than those that meet the definition of a "loan secured by real estate") to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing. (Exclude outright purchases of mortgages or similar instruments by the bank from such companies, which are to be reported in Schedule RC-C, part I, item 1.)



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

- 11.c.(1)    Credit cards.** Report the total unpaid principal balance outstanding for all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards reported in Schedule RC-C, part I, Memorandum item 10.c.(1).
- 11.c.(2)    Other revolving credit plans.** Report the total unpaid principal balance outstanding for all extensions of credit to individuals for household, family, and other personal expenditures arising from prearranged overdraft plans and other revolving credit plans not accessed by credit cards reported in Schedule RC-C, part I, Memorandum item 10.c.(2).
- 11.c.(3)    Other consumer loans.** Report the total unpaid principal balance outstanding for all other loans to individuals for household, family, and other personal expenditures reported in Schedule RC-C, part I, Memorandum item 10.c.(3).
- 11.d        Other loans.** Report the total unpaid principal balance outstanding for all loans reported in Schedule RC-C, part I, Memorandum item 10.d. Such loans include “Loans to depository institutions and acceptances of other banks,” “Loans to finance agricultural production and other loans to farmers,” “Loans to foreign governments and official institutions,” “Obligations (other than securities and leases) of states and political subdivisions in the U.S.,” and “Other loans” (as defined for Schedule RC-C, part I, items 2, 3, 7, 8, and 9).
- 12         Loans (not subject to the requirements of AICPA Statement of Position 03-3) and leases held for investment that were acquired in business combinations with acquisition dates in the current calendar year.** Report in the appropriate subitem and column the specified information on loans and leases held for investment purposes that were acquired in a business combination, as prescribed under FASB Statement No. 141 (Revised), *Business Combinations* (FAS 141(R)), with an acquisition date in the current calendar year. The acquisition date is the date on which the bank obtains control<sup>1</sup> of the acquiree. If the reporting bank was acquired in a transaction during the calendar year pursuant to FAS 141(R) and push down accounting was applied, report the specified information on the bank’s loans and leases reported as held for investment after the application of push down accounting. Acquired loans and leases should be reported in this item each quarter after their acquisition date through the end of the calendar year of acquisition regardless of whether the bank still holds the loans and leases.

Exclude purchased impaired loans held for investment that are accounted for in accordance with AICPA Statement of Position 03-3 (report information on such loans in Schedule RC-C, Memorandum item 7). (For further information, see the Glossary entry for “purchased impaired loans and debt securities.”)

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<sup>1</sup> Control has the meaning of *controlling financial interest* in paragraph 2 of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended.

**Part I. (cont.)****Memoranda****Item No.    Caption and Instructions****12**            ***Column Instructions***  
(cont.)

***Column A, Fair value of acquired loans and leases at acquisition date:*** Report in this column the fair value of acquired loans and leases held for investment at the acquisition date (see the Glossary entry for "fair value").

***Column B, Gross contractual amounts receivable at acquisition date:*** Report in this column the gross contractual amounts receivable, i.e., the total undiscounted amount of all uncollected contractual principal and contractual interest payments on the receivable, both past due, if any, and scheduled to be paid in the future, on the acquired loans and leases held for investment at the acquisition date.

***Column C, Best estimate at acquisition date of contractual cash flows not expected to be collected:*** Report in this column the bank's best estimate at the acquisition date of the portion of the contractual cash flows receivable on acquired loans and leases held for investment that the bank does not expect to collect.

- 12.a**            **Loans secured by real estate.** Report in the appropriate column the specified amounts for acquired loans secured by real estate (as defined for Schedule RC-C, part I, item 1) held for investment that were acquired in a business combination occurring in the current calendar year.
- 12.b**            **Commercial and industrial loans.** Report in the appropriate column the specified amounts for commercial and industrial loans (as defined for Schedule RC-C, part I, item 4) held for investment that were acquired in a business combination occurring in the current calendar year.
- 12.c**            **Loans to individuals for household, family, and other personal expenditures.** Report in the appropriate column the specified amounts for loans to individuals for household, family, and other personal expenditures (as defined for Schedule RC-C, part I, item 6) held for investment that were acquired in a business combination occurring in the current calendar year.
- 12.d**            **All other loans and all leases.** Report in the appropriate column the specified amounts for all other loans and all leases (as defined for Schedule RC-C, part I, items 2, 3, 7, 8, 9, and 10) held for investment that were acquired in a business combination occurring in the current calendar year.

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

- 8**        **Loans pending securitization.** Report the total fair value of all loans included in Schedule RC-D, items 6.a through 6.d, that are held for securitization purposes. Report such loans in this item only if the bank expects the securitization transaction to be accounted for as a sale under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.
- 9**        **Other trading assets.** Disclose in Memorandum items 9.a through 9.c each component of Schedule RC-D, item 9, “Other trading assets,” and the fair value of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported for this item. Exclude equity securities reported in Schedule RC-D, Memorandum items 7.a and 7.b. For each component of other trading assets that exceeds the disclosure threshold for this Memorandum item, describe the component with a clear but concise caption in Memorandum items 9.a through 9.c. These descriptions should not exceed 50 characters in length (including spacing between words).
- 10**       **Other trading liabilities.** Disclose in Memorandum items 10.a through 10.c each component of Schedule RC-D, item 13.b, “Other trading liabilities,” and the fair value of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported for this item. For each component of other trading liabilities that exceeds this disclosure threshold, describe the component with a clear but concise caption in Memorandum items 10.a through 10.c. These descriptions should not exceed 50 characters in length (including spacing between words).

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**Item No.    Caption and Instructions**

**1.c.(1)**    Do not include general lines of credit that a borrower, at its option, may draw down to finance construction and land development (report in Schedule RC-L, item 1.c.(2) or item 1.e, below, as appropriate).  
(cont.)

**1.c.(1)(a)**    **1-4 family residential construction loan commitments.** Report the unused portions of commitments to extend credit for the specific purpose of constructing 1-4 family residential properties, provided that such commitments, when funded, would be reportable as loans secured by real estate in Schedule RC-C, part I, item 1.a.(1), "1-4 family residential construction loans."

**1.c.(1)(b)**    **Commercial real estate, other construction loan, and land development loan commitments.** Report the unused portions of all other commitments to fund commercial real estate, construction, and land development loans secured by real estate (as defined for Schedule RC-L, item 1.c.(1)) other than commitments to fund 1-4 family residential construction (as defined for Schedule RC-L, item 1.c.(1)(a)).

**1.c.(2)**    **Commitments to fund commercial real estate, construction, and land development loans not secured by real estate.** Report the unused portions of all commitments to extend credit for the specific purpose of financing commercial and residential real estate activities, e.g., acquiring, developing, and renovating commercial and residential real estate, provided that such commitments, when funded, would be reportable as "Commercial and industrial loans" in Schedule RC-C, part I, item 4, or as "Other loans" in Schedule RC-C, part I, item 9. Include in this item loan proceeds the bank is obligated to advance as construction progresses.

Such commitments generally may include:

- (1) commitments to extend credit for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loan; or
- (2) commitments made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude from this item all commitments that, when funded, would be reportable as "Loans secured by real estate" in Schedule RC-C, part I, item 1. Also exclude commitments made to commercial and industrial firms where the sole purpose for the financing is to construct a factory or office building to house the company's operations or employees.

**1.d**    **Securities underwriting.** Report the unsold portion of the reporting bank's own takedown in securities underwriting transactions. Include NIFs and RUFs in this item.

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**Item No.    Caption and Instructions**

- 1.e    Other unused commitments.** Report the unused portion of all other commitments not reportable above. Include commitments to extend credit through overdraft facilities or commercial lines of credit, retail check credit and related plans, and those overdraft protection programs in which the bank advises account holders of the available amount of protection.

Also include commitments to extend credit secured by 1-4 family residential properties, except (a) revolving, open-end lines of credit secured by 1-4 family residential properties (e.g., home equity lines) which should be reported in Schedule RC-L, item 1.a, above, (b) commitments for 1-4 family residential construction and land development loans (that are secured by such properties) which should be reported in Schedule RC-L, item 1.c.(1), above, and (c) commitments that meet the definition of a derivative and must be accounted for in accordance with FASB Statement No. 133, which should be reported in Schedule RC-L, item 12.

- 2 and 3    General Instructions for Standby Letters of Credit** – Originating banks must report in items 2 and 3 the full amount outstanding and unused of financial and performance standby letters of credit, respectively. Include those standby letters of credit that are collateralized by cash on deposit, that have been acquired from others, and in which participations have been conveyed to others where (a) the originating and issuing bank is obligated to pay the full amount of any draft drawn under the terms of the standby letter of credit and (b) the participating banks have an obligation to partially or wholly reimburse the originating bank, either directly in cash or through a participation in a loan to the account party.

For syndicated standby letters of credit where each bank has a direct obligation to the beneficiary, each bank must report only its share in the syndication. Similarly, if several banks participate in the issuance of a standby letter of credit under a bona fide binding agreement which provides that (a) regardless of any event, each participant shall be liable only up to a certain percentage or to a certain amount and (b) the beneficiary is advised and has agreed that each participating bank is only liable for a certain portion of the entire amount, each bank shall report only its proportional share of the total standby letter of credit.

For a financial or performance standby letter of credit that is in turn backed by a financial standby letter of credit issued by another bank, each bank must report the entire amount of the standby letter of credit it has issued in either item 2 or item 3 below, as appropriate. The amount of the reporting bank's financial or performance standby letter of credit that is backed by the other bank's financial standby letter of credit must also be reported in either item 2.a or 3.a, as appropriate, since the backing of standby letters of credit has substantially the same effect as the conveying of participations in standby letters of credit.

On the FFIEC 031, also include all financial and performance guarantees issued by foreign offices of the reporting bank pursuant to Federal Reserve Regulation K or Section 347.103(a)(1) of the FDIC Rules and Regulations.

- 2    Financial standby letters of credit (and foreign office guarantees – for the FFIEC 031).** Report the amount outstanding and unused as of the report date of all financial standby letters of credit (and all legally binding commitments to issue financial standby letters of credit) issued by any office of the bank. A financial standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) fails to repay an outstanding loan or debt instrument. (See the Glossary entry for "letter of credit" for further information.)

**Item No.    Caption and Instructions**

**2**            Exclude from financial standby letters of credit:  
(cont.)

- (1) Financial standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank.
- (2) Performance standby letters of credit.
- (3) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

**2.a**            **Amount of financial standby letters of credit conveyed to others.** Item 2.a is to be completed by banks with \$1 billion or more in total assets.

Report that portion of the bank's total contingent liability for financial standby letters of credit reported in Schedule RC-L, item 2, above, that the bank has conveyed to others. Also include that portion of the reporting bank's financial standby letters of credit that are backed by other banks' financial standby letters of credit, as well as the portion that participating banks have reparticipated to others. Participations and backings may be for any part or all of a given obligation.

**3**            **Performance standby letters of credit (and foreign office guarantees – for the FFIEC 031).** Report the amount outstanding and unused as of the report date of all performance standby letters of credit (and all legally binding commitments to issue performance standby letters of credit) issued by any office of the bank. A performance standby letter of credit irrevocably obligates the bank to pay a third-party beneficiary when a customer (account party) fails to perform some contractual non-financial obligation. (See the Glossary entry for "letter of credit" for further information.)

Exclude from performance standby letters of credit:

- (1) Performance standby letters of credit where the beneficiary is a consolidated subsidiary of the reporting bank.
- (2) Financial standby letters of credit.
- (3) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

**3.a**            **Amount of performance standby letters of credit conveyed to others.** Item 3.a is to be completed by banks with \$1 billion or more in total assets.

Report that portion of the bank's total contingent liability for performance standby letters of credit reported in Schedule RC-L, item 3, above, that the bank has conveyed to others. Also include that portion of the reporting bank's performance standby letters of credit that are backed by other banks' financial standby letters of credit, as well as the portion that participating banks have reparticipated to others. Participations and backings may be for any part or all of a given obligation.



**Item No.    Caption and Instructions**

- 8        Spot foreign exchange contracts.** Report the gross amount (stated in U.S. dollars) of all spot contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange that are outstanding as of the report date. All transactions within the consolidated bank should be reported on a net basis.

A spot contract is an agreement for the immediate delivery, usually within two business days, 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 27.a. If the bank has no types of "other off-balance sheet liabilities" that individually exceed 10 percent of total equity capital, report a zero.

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 27.a. 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.d 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 27.a.)
- (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

**Item No.    Caption and Instructions**

- 9**                    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 27.a.)
- (cont.)
- (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. (Report the amount of these standby letters of credit in Schedule RC-L, item 9.c, if this amount exceeds 25 percent of the bank's total equity capital reported in Schedule RC, item 27.a.)
- (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) Shipperside or docksideside 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 27.a. 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.

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 27.a. 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 27.a.)
- (2) Internally developed intangible assets.

## SCHEDULE RC-O – OTHER DATA FOR DEPOSIT INSURANCE AND FICO ASSESSMENTS

### General Instructions

Each bank must complete items 1 and 2 (and, on the FFIEC 031 report, item 3), Memorandum item 1, and, if applicable, Memorandum items 2, 3, and 4 of Schedule RC-O on an unconsolidated single FDIC certificate number basis. Each separately chartered depository institution that is insured by the FDIC has a unique FDIC certificate number. When an insured bank owns another depository institution as a subsidiary, each institution should report only its own deposit liabilities in Schedule RC-O under its own FDIC certificate number (i.e., the parent bank should not combine the subsidiary institution's deposit liabilities with its own in Schedule RC-O).

In addition, an institution that meets one of the criteria discussed below must complete items 4 and 5 (and, on the FFIEC 031 report, item 6) of Schedule RC-O on an unconsolidated single FDIC certificate number basis each quarter.

Effective March 31, 2008, an institution that (a) reported \$1 billion or more in total assets as of the March 31, 2007, report date (regardless of its asset size in subsequent quarters) or (b) became insured by the FDIC on or after April 1, 2007, but before January 1, 2008, must report both quarter-end balances and daily averages for the quarter in Schedule RC-O. (The calculation of daily averages is discussed below in these General Instructions.) In addition, an institution that meets one of the following criteria must report both quarter-end deposit totals and daily averages in Schedule RC-O:

- (1) If an institution reports \$1 billion or more in total assets in two consecutive Reports of Condition and Income subsequent to its March 31, 2007, report, the institution must begin reporting both quarter-end balances and daily averages for the quarter beginning on the later of the March 31, 2008, report date or the report date six months after the second consecutive quarter in which it reports total assets of \$1 billion or more. For example, if an institution reports \$1 billion or more in total assets in its reports for June 30 and September 30, 2007, it would have to begin reporting daily averages in its report for March 31, 2008. If the institution reports \$1 billion or more in total assets in its reports for December 31, 2008, and March 31, 2009, it would have to begin reporting daily averages in its report for September 30, 2009.
- (2) If an institution becomes newly insured by the FDIC on or after January 1, 2008, the institution must report daily averages in Schedule RC-O beginning in the first quarterly Reports of Condition and Income that it files. The daily averages reported in the first report the institution files after becoming FDIC-insured would include the dollar amounts for the days since the institution began operations and zero for the days prior to the date the institution began operations, effectively pro-rating the first quarter's assessment base.
- (3) If an institution chose to begin reporting both quarter-end deposit totals and daily averages in Schedule RC-O as of any quarter-end report date during the interim period covering the March 31, 2007, through December 31, 2007, report dates, it must continue to report daily averages each quarter in 2008 and thereafter.

The deposit insurance assessment base of an institution that reports daily averages for total deposits and allowable exclusions will be determined using the daily averages rather than the institution's quarter-end balances.

### **General Instructions (cont.)**

Any institution that reported less than \$1 billion in total assets in its March 31, 2007, report may continue to report only quarter-end total deposits and allowable exclusions until it meets the two-consecutive-quarter asset size test for reporting daily averages. Alternatively, the institution may opt permanently at any time to begin reporting daily averages for purposes of determining its assessment base. After an institution begins to report daily averages for its total deposits and allowable exclusions, either voluntarily or because it is required to do so, the institution is not permitted to switch back to reporting only quarter-end balances.

The amounts to be reported as daily averages are the sum of the gross amounts of total deposits (domestic and foreign) and allowable exclusions for each calendar day during the quarter divided by the number of calendar days in the quarter (except as noted above for an institution that becomes insured on or after January 1, 2008, in the first report it files after becoming insured). For days that an office of the reporting institution (or any of its subsidiaries or branches) is closed (e.g., Saturdays, Sundays, or holidays), the amounts outstanding from the previous business day would be used. An office is considered closed if there are no transactions posted to the general ledger as of that date.

### **Item Instructions**

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

- 1**        **Total deposit liabilities before exclusions (gross) as defined in Section 3(l) of the Federal Deposit Insurance Act and FDIC regulations.** Report on an unconsolidated single FDIC certificate number basis the gross total deposit liabilities as of the calendar quarter-end report date that meet the statutory definition of deposits in Section 3(l) of the Federal Deposit Insurance Act before deducting exclusions from total deposits that are allowed in the determination of the assessment base upon which deposit insurance assessments (and FICO premiums) are calculated. Since the FDIC's amendments to its assessment regulations in 2006 did not substantially change the definition of deposits for assessment purposes, an institution's gross total deposit liabilities are the combination of:
- All deposits in "domestic offices" reported in Schedule RC, item 13.a;
  - All deposits in "foreign offices" reported in Schedule RC, item 13.b, on the FFIEC 031 report;
  - Interest accrued and unpaid on deposits in "domestic offices" reported in Schedule RC-G, item 1.a;
  - Interest accrued and unpaid on deposits in "foreign offices" included in Schedule RC-G, item 1.b;
  - Uninvested trust funds held in the institution's own trust department;
  - Deposits of consolidated subsidiaries and the interest accrued and unpaid on such deposits;
  - The amount by which demand deposits reported in Schedule RC, item 13, have been reduced from the netting of the reporting institution's reciprocal demand balances with foreign banks and foreign offices of other U.S. banks (other than insured branches in Puerto Rico and U.S. territories and possessions); and
  - The amount by which any other deposit liabilities reported in Schedule RC, item 13, have been reduced by assets netted against these liabilities in accordance with generally accepted accounting principles;
  - Less the amount of unamortized premiums included in the amount of deposit liabilities reported in Schedule RC, item 13;

## SCHEDULE RC-R – REGULATORY CAPITAL

### General Instructions

The instructions for Schedule RC-R should be read in conjunction with the capital guidelines issued by the reporting bank's primary federal supervisory authority. Under the banking agencies' risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the bank's total risk weighted assets which comprises the denominator of the risk-based capital ratio.

Risk weights for derivative contracts and off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" is determined. In the case of derivative contracts, the credit equivalent amount is the sum of the current credit exposure (fair value of the contract, if positive) and the potential future exposure. In the case of most off-balance sheet items, the credit equivalent amount is determined by multiplying the face value or notional amount of the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like a balance sheet asset and generally is assigned to the appropriate risk category according to the obligor or, if relevant, the guarantor or the nature of the collateral. A summary of the credit conversion factors for off-balance sheet items is presented below.

In general, if a particular asset, derivative contract, or off-balance sheet item has features that could place it in more than one risk category, it is assigned to the category that has the lowest risk weight. For example, a holding of a U.S. municipal revenue bond that is fully guaranteed by a U.S. bank would be assigned the 20 percent risk weight appropriate to claims guaranteed by U.S. banks, rather than the 50 percent risk weight appropriate to U.S. municipal revenue bonds.

At each bank's option, assets and the credit equivalent amounts of derivative contracts and off-balance sheet items that are assigned to a risk weight category of less than 100 percent may be included in the amount reported for a higher risk weight category (e.g., the 100 percent category) than the risk weight category to which the asset or credit equivalent amount of the off-balance sheet item would otherwise be assigned.

For risk-based capital purposes, the term "claim" refers to loans to, securities issued by, balances due from, accrued interest receivable from, and all other claims against the various entities with which the reporting bank conducts its business.

If a reporting bank has conveyed risk participations in bankers acceptances, standby letters of credit, and commitments, it may segregate the amounts conveyed from the total outstanding amount. The bank may then risk weight the amounts conveyed according to the guarantors (i.e., the parties that have acquired the conveyances) separately from the amounts retained if this results in a lower risk weight for the amounts conveyed.

When assets have been transferred with recourse, the amount of risk-based capital required to be maintained to support this exposure may not exceed the maximum amount of recourse for which the transferring institution is contractually liable under the recourse agreement. This rule applies to recourse transactions in which a bank contractually limits its recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred – generally, four percent for first lien residential mortgage loans and eight percent for most other assets. These types of asset transfers are referred to as low level recourse transactions and should be reported in Schedule RC-R, item 50, column A.

**General Instructions (cont.)**

Credit Conversion Factors for Off-Balance Sheet Items – A summary of the credit conversion factors follows. For further information on these factors, refer to the risk-based capital guidelines.

Off-balance sheet items subject to a 100 percent conversion factor:

- (1) Direct credit substitutes, including general guarantees of indebtedness and guarantee -type instruments, such as financial standby letters of credit.
- (2) Risk participations acquired in bankers acceptances and in direct credit substitutes such as financial standby letters of credit.
- (3) Sale and repurchase agreements and assets sold with recourse, if not included on the balance sheet, except low level recourse transactions and small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, each of which is discussed below.
- (4) Forward agreements/contingent obligations to purchase assets with drawdown certain. (Exclude forward agreements that are reported as derivative contracts.)
- (5) Securities lent, if the lending bank is exposed to risk of loss.

Off-balance sheet items subject to a 50 percent conversion factor:

- (1) Transaction-related contingencies, including performance standby letters of credit, shipside guarantees, bid bonds, performance bonds, and warranties.
- (2) Unused portions of commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines.
- (3) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, regardless of maturity.

Off-balance sheet items subject to a 20 percent conversion factor:

- (1) Short-term, self-liquidating, trade-related contingencies, including commercial letters of credit.

Off-balance sheet items subject to a zero percent conversion factor:

- (1) Unused portions of commitments with an original maturity of one year or less.
- (2) Unused portions of commitments (regardless of maturity) which are unconditionally cancellable at any time, provided a separate credit decision is made before each drawing.

**Item Instructions****Item No.   Caption and Instructions****Tier 1 Capital**

- |   |   |
|---|---|
| 1 | <b><u>Total bank equity capital.</u></b> Report the amount of the bank's total equity capital as reported in Schedule RC, item 27.a.  |
| 2 | <b><u>LESS: Net unrealized gains (losses) on available-for-sale securities.</u></b> Report the amount of net unrealized holding gains (losses) on available-for-sale securities that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income." If the amount is a net unrealized holding gain, report it as a positive value in this item. If the amount is a net unrealized holding loss, report it as a negative value in this item. |
| 3 | <b><u>LESS: Net unrealized loss on available-for-sale equity securities.</u></b> Report as a positive value the amount of any net unrealized holding loss on available-for-sale equity securities that is included in Schedule RC, item 26.b, "Accumulated other comprehensive income."   |

**Item No.    Caption and Instructions**

- 6**            **Qualifying noncontrolling (minority) interests in consolidated subsidiaries.** Report the portion of noncontrolling interests (also called minority interests) in consolidated subsidiaries included in Schedule RC, item 27.b, that is eligible for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, banks may include noncontrolling interests in equity capital accounts (both common and noncumulative perpetual preferred stocks) of consolidated subsidiaries unless such accounts would not otherwise qualify for inclusion in Tier 1 capital. For example, a bank may not include noncontrolling interests representing cumulative preferred stock in consolidated subsidiaries since such preferred stock if issued directly by the bank would not be eligible for inclusion in Tier 1 capital.

Exclude any noncontrolling interests in consolidated asset-backed commercial paper conduits if the consolidated program assets are excluded from risk-weighted assets.

- 7.a**           **LESS: Disallowed goodwill and other disallowed intangible assets.** Report the portion of goodwill included in Schedule RC, item 10.a, and the portion of other identifiable intangible assets included in Schedule RC-M, item 2.c, that does not qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, all goodwill reported in Schedule RC, item 10.a, and all other identifiable intangible assets reported in Schedule RC-M, item 2.c, do not qualify for Tier 1 capital and should be included in this item.

However, if the bank has a deferred tax liability that is specifically related to (a) goodwill acquired in a taxable purchase business combination or (b) an intangible asset (other than servicing assets and purchased credit card relationships) acquired in a nontaxable purchase business combination that it chooses to net against the intangible asset for regulatory capital purposes, the amount of disallowed intangibles to be reported in this item should be reduced by the amount of this deferred tax liability. However, a deferred tax liability that the bank chooses to net against the related intangible asset for purposes of this item may not also be netted against deferred tax assets when the bank determines the amount of deferred tax assets that are dependent upon future taxable income and calculates the maximum allowable amount of such deferred tax assets for regulatory capital purposes.

For state member banks, if the amount reported for other identifiable intangible assets in Schedule RC-M, item 2.c, includes intangible assets that were recorded on the reporting bank's balance sheet on or before February 19, 1992, the remaining book value as of the report date of these intangible assets may be excluded from this item.

- 7.b**           **LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness.** When determining the fair value of a financial liability reported on Schedule RC – Balance Sheet, that is accounted for under a fair value option, banks should consider the effect of a change in their own creditworthiness on the fair value of the liability. The agencies have determined that banks should exclude from Tier 1 capital the cumulative change in the fair value of financial liabilities accounted for under a fair value option that is included in retained earnings (Schedule RC, item 26.a) and is attributable to changes in the bank's own creditworthiness. Banks should report in this item the amount of this cumulative change, net of applicable taxes.

If the amount of the cumulative change is a net gain, report it as a positive value in this item. If the amount of the cumulative change is a net loss, report it as a negative value in this item.

**Item No.    Caption and Instructions**

**8**            **Subtotal.** Report the sum of Schedule RC-R, items 1 and 6, less items 2, 3, 4, 5, and 7.a, and 7.b. The amount reported in this item should be used to determine the limitations 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, below.

**9.a**            **LESS: Disallowed servicing assets and purchased credit card relationships.** Report the portion of servicing assets and purchased credit card relationships included in Schedule RC-M, items 2.a and 2.b, that **does not** qualify for inclusion in Tier 1 capital based on the capital guidelines of the bank's primary federal supervisory authority. Generally, servicing assets and purchased credit card relationships (PCCRs) are limited to 100 percent of Tier 1 capital. In addition, nonmortgage servicing assets and PCCRs are subject to a separate sublimit of 25 percent of Tier 1 capital. Banks may use the following approach to determine the amount of disallowed servicing assets and PCCRs.

***Disallowed Mortgage Servicing Assets, Nonmortgage Servicing Assets, and PCCRs Calculation***

- (a) Enter the amount from Schedule RC-R, item 8 \_\_\_\_\_
- (b) Enter 25% of the amount in (a) above \_\_\_\_\_
- (c) Enter the amount of nonmortgage servicing assets and 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), (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) \_\_\_\_\_



### **Risk-Weighted Assets**

The instructions for Schedule RC-R, items 34 through 54 provide general directions for the allocation of bank balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items to the risk weight categories in columns C through F and, for items 34 through 43 only, to the items not subject to risk-weighting in column B. These instructions should provide sufficient guidance for most banks for risk-weighting their balance sheet assets and credit equivalent amounts. However, these instructions may not identify every asset and other bank transaction that qualifies for a risk weight lower than the maximum risk weight. For further information on allocating assets and off-balance sheet transactions to the proper risk weight category, banks should consult the risk-based capital guidelines of their primary federal supervisory authority.

In order to save time and reduce burden, a bank may decide not to determine every asset or off-balance sheet transaction that is accorded a risk weight lower than 100% (50% for derivative contracts).

**Accordingly, at its option, a bank may risk-weight any asset or credit equivalent amount at a higher risk weight than the risk weight that would otherwise apply to the asset or credit equivalent amount, e.g., an asset that qualifies for a 20% risk weight may be assigned a 100% risk weight.**

For items 34 through 43 of Schedule RC-R, column B should include the amount of the reporting bank's on-balance sheet assets that are deducted or excluded (not risk weighted) in the determination of risk-weighted assets. Column B should include assets that are deducted from capital such as goodwill, disallowed deferred tax assets, disallowed servicing assets and purchased credit card relationships, disallowed credit-enhancing interest-only strips, intentional reciprocal cross-holdings of bank capital instruments, the adjusted carrying value of nonfinancial equity investments subject to a Tier 1 capital deduction, and any other assets that must be deducted in accordance with the requirements of a bank's primary federal supervisory authority. Column B should also include items that are excluded from the calculation of risk-weighted assets such as the allowance for loan and lease losses, allocated transfer risk reserves, and certain on-balance sheet asset amounts associated with derivative contracts that are included in the calculation of their credit equivalent amounts. For items 34 through 43 of Schedule RC-R, the sum of columns B through F must equal the balance sheet asset amount reported in column A.

For items 44 through 54 of Schedule RC-R, column B should include the credit equivalent amounts of the reporting bank's derivative contracts and off-balance sheet items that are covered by the risk-based capital standards. For off-balance sheet items, the credit equivalent amount to be reported in column B is calculated by multiplying the face or notional amount in column A by the appropriate credit conversion factor. The credit equivalent amounts in column B are to be risk weighted in columns C through F. For items 44 through 54 of Schedule RC-R, the sum of columns C through F must equal the credit equivalent amount reported in column B.

The following are some of the most common exceptions to the risk weight category assignments that are described below in the instructions for items 34 through 54. These exceptions enable a bank, **at its option**, to assign assets, derivatives, and off-balance sheet items to lower risk weight categories than under the instructions for each of these items.

#### ***Column C – 0% column:***

- All claims (defined broadly to include securities, loans, and leases) that are direct claims on, or the portion of claims that are directly and unconditionally guaranteed by, the U.S. Government, other OECD central governments, or U.S. Government agencies.
- For national and state member banks, claims that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies (refer to the risk-based capital guidelines for the collateral criteria).
- For state nonmember banks, claims on, or guaranteed by, qualifying securities firms incorporated in the U.S. or in other OECD countries that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies (refer to the risk-based capital guidelines for the collateral and qualifying securities firm criteria).

**Risk-Weighted Assets (cont.)*****Column D – 20% column:***

- The portion of claims that are conditionally guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies.
- The portion of claims that are collateralized by cash on deposit in the bank or by securities issued or guaranteed by the U.S. Government, other OECD central governments, or U.S. Government agencies that are not included in zero percent column.
- The portion of local currency securities that are conditionally guaranteed by non-OECD central governments (to the extent that the bank has liabilities booked in that currency).
- General obligation claims on, or portions of claims guaranteed by the full faith and credit of, states or other political subdivisions of the U.S.
- Claims on, and the portions of claims guaranteed by, multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member.
- Claims on, or guaranteed by, qualifying securities firms incorporated in the U.S. or in other OECD countries provided the firm meets certain rating criteria, the claim is guaranteed by the firm's parent company and that company meets the rating criteria, or the claim is a repurchase/resale agreement or a securities borrowing/lending transaction that is collateralized and meets certain criteria (refer to the risk-based capital guidelines for the rating, collateral, and qualifying securities firm criteria).

The extent to which qualifying securities are recognized as collateral for risk-based capital purposes is determined by their current market value. If a claim is partially secured, that is, the market value of the pledged securities is less than the face amount of an asset or off-balance sheet item, only the portion that is covered by the market value of the collateral is to be reported in this item. The face amount of a claim secured by two types of qualifying collateral is to be reported in the items appropriate to the collateral types, apportioned according to the market value of each of the two types of collateral.

If a claim is partially guaranteed or covered by two types of guarantees, then the preceding discussion on the treatment of claims that are collateralized is applicable. A guarantee is conditional if its validity is dependent upon some affirmative action by the bank or a third party (e.g., servicing requirements).

NOTE: Claims collateralized by deposits in other depository institutions (e.g., certificates of deposit issued by other banks) do *not* qualify for a 20 percent risk weight. Such collateralized claims are to be reported in the 50 percent or 100 percent risk weight category in columns E or F of Schedule RC-R, as appropriate, according to the obligor or, if relevant, the guarantor or the nature of any other collateral.

These instructions contain several references to the OECD, i.e., the Organization for Economic Cooperation and Development. The following countries are members of the OECD: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. In addition, Saudi Arabia should be treated as an OECD country. All other countries should be treated as non-OECD countries.

**Ratings-Based Approach** – The risk-based capital guidelines include a ratings-based approach that sets the risk-based capital requirements for asset-backed and mortgage-backed securities and other positions in securitization transactions and structured finance programs<sup>1</sup> (except credit-enhancing interest-only strips) according to their relative risk using credit ratings from nationally recognized statistical rating organizations, i.e., rating agencies, to measure the level of risk. (The ratings-based approach does **not** apply to corporate bonds, municipal bonds, or other debt securities that have been rated by a rating agency.) In general, under the ratings-based approach, the risk-based capital requirement for a position

<sup>1</sup> Structured finance programs include, but are not limited to, collateralized debt obligations.

**Risk-Weighted Assets (cont.)**

in a securitization or structured finance program (hereafter referred to collectively as a securitization) is computed by multiplying the face amount of the position by the risk weight appropriate for the external credit rating of the position. The risk weights for long-term and short-term external ratings are as follows:

Long-Term Rating Category	Examples	Risk Weight
Highest or second highest investment grade	AAA or AA	20%
Third highest investment grade	A	50%
Lowest investment grade	BBB	100%
One category below investment grade	BB	200%
More than one category below investment grade, or unrated	B or unrated	Not eligible for ratings-based approach

Short-Term Rating Category	Examples	Risk Weight
Highest investment grade	A-1, P-1	20%
Second highest investment grade	A-2, P-2	50%
Lowest investment grade	A-3, P-3	100%
Below investment grade, or unrated	B or unrated	Not eligible for ratings-based approach

Under the ratings-based approach, a position in a securitization that is a "traded position," as defined in the risk-based capital guidelines, must receive at least one external rating. If a traded position receives more than one external ratings, the lowest rating will apply. For a position in a securitization that is not a traded position to be eligible for the ratings-based approach, the position must receive at least two publicly available external ratings that are based on the same criteria used to rate traded positions. The lowest external rating will determine the risk weight category for the position.

In addition, a position (other than a residual interest) in a securitization or structured finance program that is not externally rated may use the credit rating for the position under one of three alternative standards to determine the risk weight for the position. These alternatives are internal risk ratings for direct credit substitutes (but not purchased credit-enhancing interest-only strips) supporting asset-backed commercial paper programs and program ratings and credit assessment computer programs for credit enhancements (but not residual interests) supporting structured finance programs. Under these alternatives, a position receiving an investment grade rating is assigned a 100% risk weight and a position receiving a rating one category below investment grade is assigned a 200% risk weight.

**Banks That are Subject to the Market Risk Capital Guidelines** – The banking agencies' risk-based capital standards require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital guidelines if its consolidated trading activity, defined as the sum of trading assets and liabilities as reported in its Call Report for the previous quarter, equals: (1) 10 percent or more of the bank's total assets as reported in its Call Report for the previous quarter, or (2) \$1 billion or more. However, the primary federal supervisory authority may exempt or include a bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital guidelines must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions. Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk-weighted as part of the bank's gross risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk

**Risk-Weighted Assets (cont.)**

capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

For a bank that is subject to the market risk capital guidelines, positions in the trading account arising from asset securitizations, including recourse obligations, residual interests, and direct credit substitutes, should be treated for risk-based capital purposes in accordance with those guidelines. However, the bank remains subject to the concentration limit for credit-enhancing interest-only strips (see the instructions for Schedule RC-R, item 10, "Other additions to (deductions from) Tier 1 capital").

**Balance Sheet Asset Categories**

Assets Sold with Recourse and Purchased Credit-Enhancing Interest-Only Strips – When an on-balance sheet asset that is a position in an asset securitization or structured finance program qualifies for the ratings-based approach, the asset should be reported in the appropriate asset category in Schedule RC-R (items 34 to 42) and risk-weighted 20%, 50%, 100%, or 200% according to its rating. (See the paragraph below for further information on assets subject to a 200% risk weight.)

Otherwise, in an asset sale with recourse in which a bank has retained on-balance sheet assets that act as credit enhancements (including retained credit-enhancing interest-only strips) that do not qualify for the ratings-based approach, these assets should be reported in column B, "Items Not Subject to Risk-Weighting," of the appropriate Schedule RC-R asset category (items 34 to 42). Similarly, purchased credit-enhancing interest-only strips should be reported in column B. Depending on the nature of the individual recourse transactions, the risk-weighting of these transactions will take place in Schedule RC-R, item 49, "Retained recourse on small business obligations sold with recourse," item 50, "Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low level exposure rule and residual interests subject to a dollar-for-dollar capital requirement," or item 51, "All other financial assets sold with recourse." Purchased credit-enhancing interest-only strips are to be risk-weighted in Schedule RC-R, item 50. However, exclude disallowed credit-enhancing interest-only strips that have been deducted from Tier 1 capital and assets from Schedule RC-R, items 49, 50, and 51.

Assets Subject to a 200% Risk Weight – Asset-backed and mortgage-backed securities and other on-balance sheet positions in asset securitizations and structured finance programs that are rated one category below investment grade (e.g., BB) by a rating agency are subject to a 200% risk weight. Because Schedule RC-R does not have a column for the 200% risk weight, assets in this risk weight category should be reported in the following manner in Schedule RC-R:

- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) at amortized cost, e.g., in "Held-to-maturity securities," report (1) the asset's amortized cost multiplied by 2 in column F–100% risk weight, and (2) the asset's amortized cost as a negative number in column B.
- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like an "Available-for-sale debt security," i.e., at fair value with unrealized gains (losses) reported in "Other comprehensive income," report (1) the difference between the asset's fair value and amortized cost in column B as a positive number if fair value exceeds cost or as a negative number if cost exceeds fair value, (2) the asset's amortized cost multiplied by 2 in column F–100% risk weight, and (3) the asset's amortized cost as a negative number in column B.
- If a 200% risk-weighted asset is reported on the balance sheet (Schedule RC) like a "Trading asset," i.e., at fair value with unrealized gains (losses) included in current earnings, report (1) the asset's fair value multiplied by 2 in column F–100% risk weight, and (2) the asset's fair value as a negative number in column B.

**Balance Sheet Asset Categories (cont.)**

Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach – A direct credit substitute is “an arrangement in which a bank assumes, in form or in substance, credit risk associated with an on- or off-balance sheet credit exposure that was not previously owned by the bank (third-party asset) and the risk assumed by the bank exceeds the pro rata share of the bank’s interest in the third-party asset.” A purchased subordinated security in a securitization or structured finance program, as defined in the agencies’ risk-based capital standards, is a direct credit substitute. Examples of such direct credit substitutes include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so-called senior tranche of a securitization or structured finance program (hereafter referred to collectively as a securitization) is not a direct credit substitute provided it cannot absorb credit losses prior to another designated senior tranche.

If a purchased subordinated security is rated more than one category below investment grade (e.g., below BB-) or unrated, the security is not eligible for the ratings-based approach described above. In this situation, or if a bank elects not to use the ratings-based approach for an eligible purchased subordinated security, the risk-weighted asset calculation for the security is based on the “face amount” of the bank’s purchased subordinated security<sup>1</sup> plus the pro rata portion of all the more senior positions currently outstanding in the securitization that the bank’s security supports. If the resulting risk-based capital requirement for the purchased subordinated security, i.e., the risk-weighted asset amount for the security multiplied by the risk weight applicable to the security multiplied by 8 percent, is greater than the face amount of the security, the low-level exposure rule would apply to the security. The low-level exposure rule in effect imposes a dollar-for-dollar capital requirement on the purchased subordinated security.

Banks should use the following approach to determine whether the low-level exposure rule applies to a purchased subordinated security that is not eligible for the ratings-based approach.

***Applicability of Low-Level Exposure Rule to a Purchased Subordinated Security***

- (a) Currently outstanding par value of the bank’s purchased subordinated security divided by the currently outstanding par value of the entire tranche (e.g., 60%<sup>2</sup>) \_\_\_\_\_
- (b) Currently outstanding par value of the more senior positions in the securitization that are supported by the tranche in which the bank owns a subordinated security \_\_\_\_\_
- (c) Pro rata share of the more senior positions currently outstanding in the securitization that are supported by the bank’s purchased subordinated security: enter (b) multiplied by (a) \_\_\_\_\_
- (d) Face amount<sup>1</sup> of the bank’s purchased subordinated security \_\_\_\_\_
- (e) Enter the sum of (c) and (d) \_\_\_\_\_
- (f) Risk weight applicable to the assets underlying the securitization (e.g., 100%) \_\_\_\_\_

<sup>1</sup> For risk-based capital purposes, the “face amount” of an available-for-sale security and a held-to-maturity security is its amortized cost; the “face amount” of a trading security is its fair value.

<sup>2</sup> For example, if the currently outstanding par value of the entire tranche is \$100 and the currently outstanding par value of the bank’s purchased subordinated security is \$60, then the bank would enter 60% in (a).

**Balance Sheet Asset Categories (cont.)**

- (g) Risk-weighted asset amount of the bank's purchased subordinated security: enter (e) multiplied by (f) \_\_\_\_\_
- (h) Capital charge for the risk-weighted asset amount of the bank's purchased subordinated security: enter (g) multiplied by 8% \_\_\_\_\_
- (i) Check for applicability of the low-level exposure rule: is (h) greater than (d), enter yes or no \_\_\_\_\_

If yes, the low-level exposure rule applies to the bank's purchased subordinated security. If no, the low-level exposure rule does not apply. Instead, the pro rata gross-up treatment applies to the bank's purchased subordinated security.

***Reporting in Schedule RC-R When the Low-Level Exposure Rule Does Not Apply (Pro Rata Gross-Up Treatment Applies):***

If the bank's purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, "Available-for-sale securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 36, "Available-for-sale securities." Because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, a gross unrealized loss on the bank's security (i.e., fair value is less than amortized cost) should be reported as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities"; a gross unrealized gain (i.e., fair value is greater than amortized cost) should be reported as a positive number in column B of Schedule RC-R, item 36. In addition, because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 36, "Available-for-sale securities." The bank must then report the risk-weighted asset amount of the bank's purchased subordinated security from line (g) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 36 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 36, column A, for the bank's available-for-sale purchased subordinated security equals the sum of item 36, columns B through F.

If the bank's purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, "Held-to-maturity securities," and on the regulatory capital schedule in column A of Schedule RC-R, item 35, "Held-to-maturity securities." A held-to-maturity security is risk-weighted using its amortized cost. Because the bank's security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank's pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 35, "Held-to-maturity securities." The bank must then report the risk-weighted asset amount of the bank's purchased subordinated security from line (g) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 35 (e.g., column F, "100%") based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 35, column A, for the bank's held-to-maturity purchased subordinated security equals the sum of item 35, columns B through F.

If the bank's purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the

### **Balance Sheet Asset Categories (cont.)**

regulatory capital schedule in column A of Schedule RC-R, item 41, “Trading assets.” A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the bank’s security is subject to the pro rata gross-up treatment for risk-based capital purposes, the bank’s pro rata share of the more senior positions supported by its purchased subordinated security is also subject to risk-weighting, which is the amount from line (c) in the low-level exposure rule calculation above. Therefore, the bank must report the amount from line (c) as a negative number in column B of Schedule RC-R, item 41, “Trading assets.” The bank must then report the risk-weighted asset amount of the bank’s purchased subordinated security from line (g) in the low-level exposure rule calculation above in the appropriate risk weight category column of item 41 (e.g., column F, “100%”) based on the risk weight applicable to the assets underlying the securitization (from line (f) in the low-level exposure rule calculation above). This will ensure that the amount reported in item 41, column A, for the bank’s trading purchased subordinated security equals the sum of item 41, columns B through F.

#### *Reporting in Schedule RC-R When the Low-Level Exposure Rule Applies:*

When the low-level exposure rule applies to the bank’s investment in a purchased subordinated security, a dollar-for-dollar capital charge applies to the security. Regardless of whether the security is categorized as an available-for-sale security, a held-to-maturity security, or a trading security on the Report of Condition balance sheet (Schedule RC), it will not be risk-weighted as an on-balance sheet asset in Schedule RC-R. Instead, as discussed in the following paragraphs, the security will be risk weighted as an off-balance sheet item and the face amount of the bank’s security must be reported in column A of Schedule RC-R, item 50, “Recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low-level exposure rule and residual interests subject to a dollar-for-dollar capital requirement.” The face amount of an available-for-sale security and a held-to-maturity security is its amortized cost; the face amount of a trading security is its fair value.

If the bank’s purchased subordinated security is an available-for-sale security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.b, “Available-for-sale securities,” and on the regulatory capital schedule in column A of Schedule RC-R, item 36, “Available-for-sale securities.” Because the low-level exposure rule applies to the bank’s purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 36, “Available-for-sale securities,” and no amount should be reported for this security in columns C through F of item 36. This will ensure that the amount reported in item 36, column A, for the bank’s available-for-sale purchased subordinated security equals the sum of item 36, columns B through F. Next, because available-for-sale securities are risk-weighted using their amortized cost rather than their fair value, the face amount (i.e., amortized cost) of the bank’s purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the “direct reduction method” or the “gross-up method” described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, “100%.”

If the bank’s purchased subordinated security is a held-to-maturity security, the amortized cost of this security is included on the Report of Condition balance sheet in Schedule RC, item 2.a, “Held-to-maturity securities,” and on the regulatory capital schedule in column A of Schedule RC-R, item 35, “Held-to-maturity securities.” Because the low-level exposure rule applies to the bank’s purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the amortized cost of the security must first be reported as a positive number in column B of Schedule RC-R, item 35, “Held-to-maturity securities,” and no amount should be reported for this security in columns C through F of item 35. This will ensure that the amount reported in item 35, column A, for the bank’s held-to-maturity purchased subordinated security equals the sum of item 35, columns B through F. Next, because held-to-maturity securities are risk-weighted using their amortized cost, the face amount (i.e., amortized cost)

**Balance Sheet Asset Categories (cont.)**

of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. The bank must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

If the bank's purchased subordinated security is a trading security, the fair value of this security is included on the Report of Condition balance sheet in Schedule RC, item 5, "Trading assets," and on the regulatory capital schedule in column A of Schedule RC-R, item 41, "Trading assets." A trading security is risk-weighted using its fair value if the bank is not subject to the market risk rule. Because the low-level exposure rule applies to the bank's purchased subordinated security and the security must be risk weighted as an off-balance sheet item, the fair value of the security must first be reported as a positive number in column B of Schedule RC-R, item 41, "Trading assets," and no amount should be reported for this security in columns C through F of item 41. This will ensure that the amount reported in item 41, column A, for the bank's trading purchased subordinated security equals the sum of item 41, columns B through F. Next, because trading securities are risk-weighted using their fair value, the face amount (i.e., fair value) of the bank's purchased subordinated security (from line (d) in the low-level exposure rule calculation above) must be reported in column A of Schedule RC-R, item 50. It must then apply either the "direct reduction method" or the "gross-up method" described in the instructions for item 50 in order to determine the credit equivalent amount of its purchased subordinated security that should be reported in column B of item 50. This credit equivalent amount must also be assigned to the 100 percent risk weight category (regardless of the risk weight that applies to the assets underlying the securitization) and reported in Schedule RC-R, item 50, column F, "100%."

Treatment of Embedded Derivatives – If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under FASB Statement No. 133, then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R (items 34 to 42). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Treatment of Asset-Backed Commercial Paper Conduits – If a bank that sponsors an asset-backed commercial paper (ABCP) program is required to consolidate the ABCP conduit in accordance with FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, the sponsoring bank is permitted to exclude the consolidated ABCP program assets from its risk-weighted asset base when it calculates its risk-based capital ratios. In this situation, the sponsoring bank should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule RC-R. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the agencies' risk-based capital standards, and risk weights them accordingly. However, unless this consolidation option has been chosen, a sponsoring bank must continue to hold risk-based capital against all exposures arising in connection with its ABCP program, whether or not the program is consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule RC-R. In addition, any noncontrolling (minority) interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital) and should not be included in Schedule RC-R, item 6, "Qualifying noncontrolling (minority) interests in consolidated subsidiaries," if the bank excludes the consolidated ABCP program assets from risk-weighted assets as permitted by the agencies' risk-based capital standards.



## SCHEDULE RC-T – FIDUCIARY AND RELATED SERVICES

This schedule should be completed on a fully consolidated basis, i.e., including any trust company subsidiary (or subsidiaries) of the reporting institution. For report dates through December 31, 2008, the information reported in Schedule RC-T, items 12 through 18, 19.a (on the FFIEC 031), and 20 through 23, on fiduciary and related services income and in all of Memorandum item 4 on fiduciary settlements, surcharges, and other losses will not be made available to the public on an individual institution basis. Beginning with the March 31, 2009, report date, all of the information reported in Schedule RC-T for each bank will be publicly available.

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

- 1        **Does the institution have fiduciary powers?** Federally-chartered institutions granted trust powers by the OCC to administer accounts in a fiduciary capacity should answer "Yes." State-chartered institutions should answer "Yes" if (a) the state has granted trust powers to the institution to offer fiduciary services as defined by the state **and** (b) the institution's federal supervisory agency (the FDIC or the Federal Reserve) has granted consent to exercise the trust powers (see Sections 333.2 and 333.101 of the FDIC's regulations and Federal Reserve Regulation H). Institutions with trust company subsidiaries should also answer "Yes." Institutions responding "No" should not complete the remainder of this schedule. Fiduciary capacity generally means trustee, executor, administrator, registrar of stocks and bonds, transfer agent, guardian, assignee, receiver, custodian under a uniform gifts to minors act, investment adviser (if the institution receives a fee for its investment advice), any capacity in which the institution possesses investment discretion on behalf of another, or any other similar capacity.
  
- 2        **Does the institution exercise the fiduciary powers it has been granted?** Institutions exercising their fiduciary powers should respond "Yes." Exercising fiduciary powers means that an institution, or a trust company subsidiary of the institution, serves in a fiduciary capacity as defined in the instructions for item 1 of this schedule.
  
- 3        **Does the institution have fiduciary or related activity (in the form of assets or accounts)?** Institutions (including their trust company subsidiaries) with fiduciary assets, accounts, income, or other reportable fiduciary related services should respond "Yes." Institutions responding "No" should not complete the remainder of this schedule.

Reportable fiduciary and related services include activities that do not require trust powers but are incidental to fiduciary services. Specifically, this includes custodial services for assets held by the institution in a fiduciary capacity. An institution should report custodial activities that are offered through the fiduciary business unit or through another distinct business unit that is devoted to institutional custodial services. Institutions should exclude those custodial and escrow activities related to commercial bank services such as retail and institutional brokerage assets, escrow assets held for the benefit of third parties, safety deposit box assets, and any other similar commercial arrangement.

Institutions with fiduciary activities that are limited to only land trusts and/or custodial activity for mortgage-backed securities (such as GNMA or FNMA) should respond "No."

If the answer to item 3 is "Yes," complete the applicable items of Schedule RC-T, as follows:

Institutions with total fiduciary assets (item 9, sum of columns A and B) 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:

- Items 4 through 19 on the FFIEC 041 quarterly; items 4 through 19.a on the FFIEC 031 quarterly;
- Items 20 through 23 annually with the December report; and
- Memorandum items 1 through 4 annually with the December report.

**Item No.    Caption and Instructions**

**3**            Institutions with total fiduciary assets (item 9, sum of columns A and B) greater than  
(cont.)        \$100 million but less than \$250 million (as of the preceding December 31) that do not meet  
the fiduciary income test for quarterly reporting must complete:

- Items 4 through 23 annually with the December report; and
- Memorandum items 1 through 4 annually with the December report.

Institutions with total fiduciary assets (Item 9, sum of columns A and B) of \$100 million or less (as of the preceding December 31) that do not meet the fiduciary income test for quarterly reporting must complete:

- Items 4 through 10 on the FFIEC 041 annually with the December report; items 4 through 11 on the FFIEC 031 annually with the December report; and
- Memorandum items 1 through 3 annually with the December report.

**Fiduciary and Related Assets**

Institutions should generally report fiduciary and related assets using their market value as of the report date. While market value quotations are readily available for marketable securities, many financial and physical assets held in fiduciary accounts are not widely traded or easily valued. If the methodology for determining market values is not set or governed by applicable law (including the terms of the prevailing fiduciary agreement), the institution may use any reasonable method to establish values for fiduciary and related assets for purposes of reporting on this schedule. Reasonable methods include appraised values, book values, or reliable estimates. Valuation methods should be consistent from reporting period to reporting period. This "reasonable method" approach to reporting market values applies both to financial assets that are not marketable and to physical assets. Common physical assets held in fiduciary accounts include real estate, equipment, collectibles, and household goods.

Institutions that have Individual Retirement Accounts, Keogh Plan accounts, and similar accounts that consist solely of deposits in the bank itself and are not administered by the institution's trust department or other fiduciary activity should not report these accounts in Schedule RC-T.

If two institutions are named co-fiduciary in the governing instrument, both institutions should report the account. In addition, where one institution contracts with another for fiduciary or related services (i.e., Bank A provides custody services to the trust accounts of Bank B, or Bank A provides investment management services to the trust accounts of Bank B) both institutions should report the accounts in their respective capacities.

Exclude unfunded insurance trusts, testamentary executor appointments, and any other arrangements representing potential future fiduciary accounts.

Asset values reported on this schedule should generally exclude liabilities. For example, an employee benefit account with associated loans against account assets should be reported gross of the outstanding loan balances. As another example, an account with a real estate asset and corresponding mortgage loan should be reported gross of the mortgage liability. However, there are two exceptions. First, for purposes of this schedule, overdrafts should be netted against gross fiduciary assets. Second, the fair value of derivative instruments, as defined in FASB Statement No. 133, should be included in (i.e., netted against) gross assets even if the fair value is negative.

Securities borrowing/lending transactions should be reflected as sales or as secured borrowings according to FASB Statement No. 140. A transferee ("borrower") of securities generally is required to provide "collateral" to the transferor ("lender") of securities. When such transactions do not qualify as sales, securities "lenders" and "borrowers" should account for the transactions as secured borrowings in

**Item No. Caption and Instructions**

- 10**      **Custody and safekeeping accounts.** Report the market value and the number of accounts for all personal and institutional custody and safekeeping accounts held by the institution. Safekeeping and custody accounts are a type of agency account in which the reporting institution performs one or more specified agency functions but the institution is not a trustee and also is not responsible for managing the asset selection for account assets. These agency services may include holding assets, processing income and redemptions, and other recordkeeping and customer reporting services. For employee benefit custody or safekeeping accounts, the number of accounts reported should reflect the total number of plans administered rather than the number of plan participants. Include accounts in which the institution serves in a sub-custodian capacity. For example, where one institution contracts with another for custody services, both institutions should report the accounts in their respective capacity.

Accounts in which the institution serves as trustee or in an agency capacity in addition to being custodian should be reported in the category of the primary relationship. For example, personal trust accounts in which the institution also serves as custodian should be reported as personal trust accounts and not as custodian accounts. An institution should report an account only once in Schedule RC-T, items 4 through 8 and 10.

Report custodian accounts that are incidental to fiduciary services. Include those custody and safekeeping accounts that are administered by the trust department, and those that are administered in other areas of the institution through an identifiable business unit that focuses on offering fiduciary related custodial services to institutional clients. Exclude those custodial and escrow activities related to commercial bank services such as retail and institutional brokerage assets, securities safekeeping services for correspondent banks, escrow assets held for the benefit of third parties, safety deposit box assets, and any other similar commercial arrangement.

NOTE: Item 11 is applicable only to banks filing the FFIEC 031 report form.

- 11**      **Fiduciary accounts held in foreign offices.** Report the dollar amount and number of accounts included in Schedule RC-T, items 9 and 10, above that are attributable to accounts held in foreign offices.

**Fiduciary and Related Services Income**

The following income categories correspond to the fiduciary asset categories described in Schedule RC-T, items 4 through 10, above. For a detailed definition of the categories, please refer to the corresponding account descriptions. Income and expenses should be reported on an accrual basis. Institutions may report income and expense accounts on a cash basis if the results would not materially differ from those obtained using an accrual basis. For report dates through December 31, 2008, the information reported in Schedule RC-T, items 12 through 18, 19.a (on the FFIEC 031), and 20 through 23, on fiduciary and related services income will not be made available to the public on an individual institution basis. Beginning with the March 31, 2009, report date, all of the information reported in Schedule RC-T for each bank will be publicly available.

**Item No. Caption and Instructions**

- 12**      **Personal trust and agency accounts.** Report gross income generated from personal trust and agency accounts as defined for item 4 of this schedule.
- 13**      **Retirement related trust and agency accounts:**

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

- 13.a**    **Employee benefit – defined contribution.** Report gross income generated from defined contribution employee benefit trust and agency accounts as defined for item 5.a of this schedule.
- 13.b**    **Employee benefit – defined benefit.** Report gross income generated from defined benefit employee benefit trust and agency accounts as defined for item 5.b of this schedule.
- 13.c**    **Other retirement accounts.** Report gross income generated from other retirement accounts as defined for item 5.c of this schedule.
- 14**      **Corporate trust and agency accounts.** Report gross income generated from corporate trust and agency relationships as defined for item 6 of this schedule.
- 15**      **Investment management agency accounts.** Report gross income generated from investment management agency accounts as defined for item 7 of this schedule.
- 16**      **Other fiduciary accounts.** Report gross income generated from other trust and agency accounts as defined for item 8 of this schedule.
- 17**      **Custody and safekeeping accounts.** Report gross income generated from custody and safekeeping agency accounts as defined for item 10 of this schedule.
- 18**      **Other fiduciary and related services income.** Report all other gross fiduciary related income that cannot properly be reported in Schedule RC-T, items 12 through item 17, above. Include income received from others (including affiliates) for fiduciary and related services provided by the institution. Also include income received from investment advisory activities when the assets are not held by the institution. Income received from investment advisory services in which the account assets are held in a custody or safekeeping account at the reporting institution should be reported in item 17 of this schedule. Also include net income generated from securities lending activities (i.e., after broker rebates and income paid to lending accounts). Include income from custodial activities for land trusts and mortgage-backed securities. Exclude allocations of income to the trust department from other areas of the institution such as credits for fiduciary cash held as a deposit in the commercial bank.
- 19**      **Total gross fiduciary and related services income.** Report the sum of items 12 through 18. This item must equal Schedule RI, item 5.a, "Income from fiduciary activities."

NOTE: Item 19.a is applicable only to banks filing the FFIEC 031 report form.

- 19.a**    **Fiduciary and related services income – foreign offices.** Report the total amount of fiduciary and related services income included in Schedule RC-T, item 19, above that is attributable to fiduciary accounts held in foreign offices.
- 20**      **Less: Expenses.** Report total direct and indirect expenses attributable to the fiduciary and related services reported in this schedule. Include salaries, wages, bonuses, incentive pay, and employee benefits for employees assigned to reportable activities. If only a portion of their time is allocated to reportable activities, report that proportional share of their salaries and employee benefits. Include direct expenses related to the use of premises, furniture, fixtures and equipment, as well as depreciation/amortization, ordinary repairs and maintenance, service or maintenance contracts, utilities, lease or rental payments, insurance coverage, and real estate and other property taxes if they are directly chargeable to the

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

**3.f Short term investments/Money market.** Report funds that invest in short-term money market instruments with an average portfolio maturity that is limited to 90 days with individual securities limited to maturities of 13 months or less. Money market instruments may include U.S. Treasury bills, commercial paper, bankers acceptances, and repurchase agreements. Include taxable and nontaxable funds.

**3.g Specialty/Other.** Include funds that specialize in equity securities of particular sectors (e.g., technology, health care, financial, and real estate). Also include funds that do not fit into any of the above categories.

**3.h Total collective investment funds.** Report the sum of Memorandum items 3.a. through 3.g.

**4 Fiduciary settlements, surcharges, and other losses.** Report aggregate gross settlements, surcharges, and other losses arising from errors, misfeasance, or malfeasance on managed accounts in column A and on non-managed accounts in column B. For the definitions of managed and non-managed accounts, refer to the instructions for the Fiduciary and Related Assets section of this schedule. Gross losses should reflect losses recognized on an accrual basis before recoveries or insurance payments. Exclude contingent liabilities for fiduciary-related loss contingencies, including pending or threatened litigation, for which a loss has not yet been recognized in accordance with FASB Statement No. 5.

Report recoveries in column C. Recoveries may be for current or prior years' losses and should be reported when payment is actually realized. The filing of an insurance claim does not serve as support for a recovery.

For report dates through December 31, 2008, the information reported in all of Schedule RC-T, Memorandum item 4, on fiduciary settlements, surcharges, and other losses will not be made available to the public on an individual institution basis. Beginning with the March 31, 2009, report date, all of the information reported in Schedule RC-T for each bank will be publicly available.

**4.a Personal trust and agency accounts.** Report gross losses and recoveries for personal trust and agency accounts as defined for item 4 of this schedule.

**4.b Retirement related trusts and agency accounts.** Report gross losses and recoveries for retirement related trust or agency accounts as defined for item 5 of this schedule.

**4.c Investment management agency accounts.** Report gross losses and recoveries for investment management agency accounts as defined for item 7 of this schedule.

**4.d Other fiduciary accounts and related services.** Report gross losses and recoveries for all other fiduciary accounts and related services that are not included in Schedule RC-T, Memorandum items 4.a, 4.b, and 4.c, above. Include losses and recoveries from corporate trust or agency accounts, other fiduciary accounts, custody or safekeeping accounts, and other fiduciary related services.

**4.e Total fiduciary settlements, surcharges, and other losses.** Report the sum of Memorandum items 4.a through 4.d. The sum of columns A and B minus column C must equal Schedule RC-T, item 21, above.

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## OPTIONAL NARRATIVE STATEMENT CONCERNING THE AMOUNTS REPORTED IN THE REPORTS OF CONDITION AND INCOME

The management of the reporting bank may, if it wishes, submit a brief narrative statement on the amounts reported in the Reports of Condition and Income. This optional statement will be made available to the public, along with the publicly available data in the Reports of Condition and Income, in response to any request for individual bank report data. **BANKS CHOOSING TO SUBMIT THE NARRATIVE STATEMENT SHOULD ENSURE THAT THE STATEMENT DOES NOT CONTAIN THE NAMES OR OTHER IDENTIFICATIONS OF INDIVIDUAL BANK CUSTOMERS OR ANY OTHER INFORMATION THAT THEY ARE NOT WILLING TO HAVE MADE PUBLIC OR THAT WOULD COMPROMISE THE PRIVACY OF THEIR CUSTOMERS.** Banks choosing not to make a statement may check the "No comment" box and should make no entries of any kind in the space provided for the narrative statement; i.e., **DO NOT** enter in this space such phrases as "No statement," "Not applicable," "N/A," "No comment," and "None."

The optional statement must be entered on the sheet provided by the agencies. The statement should not exceed 100 words. Further, regardless of the number of words, the statement must not exceed 750 characters, including punctuation, indentation, and standard spacing between words and sentences. If any submission should exceed 750 characters, as defined, it will be truncated at 750 characters with no notice to the submitting bank and the truncated statement will appear as the bank's statement both on agency computerized records and in computer-file releases to the public.

All information furnished by the bank in the narrative statement must be accurate and not misleading. Appropriate efforts shall be taken by the submitting bank to ensure the statement's accuracy. The statement must be signed, in the space provided, by a senior officer of the bank who thereby attests to its accuracy.

If, subsequent to the original submission, material changes are submitted for the data reported in the Reports of Condition and Income, the existing narrative statement will be deleted from the files, and from disclosure; the bank, at its option, may replace it with a statement, under signature, appropriate to the amended data.

The optional narrative statement will appear in agency records and in release to the public exactly as submitted (or amended as described in the preceding paragraph) by the management of the bank (except for the truncation of statements exceeding the 750-character limit described above). **THE STATEMENT WILL NOT BE EDITED OR SCREENED IN ANY WAY BY THE SUPERVISORY AGENCIES FOR ACCURACY OR RELEVANCE. DISCLOSURE OF THE STATEMENT SHALL NOT SIGNIFY THAT ANY FEDERAL SUPERVISORY AGENCY HAS VERIFIED OR CONFIRMED THE ACCURACY OF THE INFORMATION CONTAINED THEREIN. A STATEMENT TO THIS EFFECT WILL APPEAR ON ANY PUBLIC RELEASE OF THE OPTIONAL STATEMENT SUBMITTED BY THE MANAGEMENT OF THE REPORTING BANK.**

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## GLOSSARY

The definitions in this Glossary apply to the Reports of Condition and Income and are not necessarily applicable for other regulatory or legal purposes. Similarly, the accounting discussions in this Glossary are those relevant to the preparation of these reports and are not intended to constitute a comprehensive presentation on bank accounting.

**Acceptances:** See "bankers acceptances."

**Accounting Changes:** Changes in accounting principles – The accounting principles that banks have adopted for the preparation of their Reports of Condition and Income should be changed only if (a) the change is required by a newly issued accounting pronouncement or (b) the bank can justify the use of an allowable alternative accounting principle on the basis that it is preferable when there are two or more generally accepted accounting principles for a type of event or transaction. If a bank changes from the use of one acceptable accounting principle to one that is more preferable at any time during the calendar year, it must report the income or expense item(s) affected by the change for the entire year on the basis of the newly adopted accounting principle regardless of the date when the change is actually made. However, a change from an accounting principle that is neither accepted nor sanctioned by bank supervisors to one that is acceptable to supervisors is to be reported as a correction of an error as discussed below.

New accounting pronouncements that are adopted by the Financial Accounting Standards Board (or such other body officially designated to establish accounting principles) generally include transition guidance on how to initially apply the pronouncement. In general, the pronouncements require (or allow) a bank to use one of the following approaches, collectively referred to as "retrospective application":

- Apply a different accounting principle to one or more previously issued financial statements; or
- Make a cumulative-effect adjustment to retained earnings, assets, and/or liabilities at the beginning of the period as if that principle had always been used.

Because each Report of Income covers a single discrete period, only the second approach under retrospective application is permitted in the Reports of Condition and Income. Therefore, when an accounting pronouncement requires the application of either of the approaches under retrospective application, banks must report the effect on the amount of retained earnings at the beginning of the year in which the new pronouncement is first adopted for purposes of the Reports of Condition and Income (net of applicable income taxes, if any) as a direct adjustment to equity capital in Schedule RI-A, item 2, and describe the adjustment in Schedule RI-E, item 4.

In the Reports of Condition and Income in which a change in accounting principle is first reflected, the bank is encouraged to include an explanation of the nature and reason for the change in accounting principle in Schedule RI-E, item 7, "Other explanations," or in the "Optional Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income."

Changes in accounting estimates – Accounting and the preparation of financial statements involve the use of estimates. As more current information becomes known, estimates may be changed. In particular, accruals are derived from estimates based on judgments about the outcome of future events and changes in these estimates are an inherent part of accrual accounting.

Reasonable changes in accounting estimates do not require the restatement of amounts of income and expenses and assets, liabilities, and capital reported in previously submitted Reports of Condition and Income. Computation of the cumulative effect of these changes is also not ordinarily necessary. Rather, the effect of such changes is handled on a prospective basis. That is, beginning in the period

**Accounting Changes (cont.):**

when an accounting estimate is revised, the related item of income or expense for that period is adjusted accordingly. For example, if the bank's estimate of the remaining useful life of certain bank equipment is increased, the remaining undepreciated cost of the equipment would be spread over its revised remaining useful life. Similarly, immaterial accrual adjustments to items of income and expenses, including provisions for loan and lease losses and income taxes, are considered changes in accounting estimates and would be taken into account by adjusting the affected income and expense accounts for the year in which the adjustments were found to be appropriate.

However, large and unusual changes in accounting estimates may be more properly treated as constituting accounting errors, and if so, must be reported accordingly as described below.

Corrections of accounting errors – A bank may become aware of an error in a Report of Condition or Report of Income after it has been submitted to the appropriate federal bank regulatory agency through either its own or its regulator's discovery of the error. An error in the recognition, measurement, or presentation of an event or transaction included in a report for a prior period may result from:

- A mathematical mistake;
- A mistake in applying accounting principles; or
- The oversight or misuse of facts that existed when the Reports of Condition and Income for prior periods were prepared.

According to SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), the effects of prior year errors or misstatements (“carryover effects”) should be considered when quantifying misstatements identified in current year financial statements. SAB 108 describes two methods for accumulating and quantifying misstatements. These methods are referred to as the “rollover” and “iron curtain” approaches:

- The rollover approach “quantifies a misstatement based on the amount of the error originating in the current year income statement” only and ignores the “carryover effects” of any related prior year misstatements. The primary weakness of the rollover approach is that it fails to consider the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years.
- The iron curtain approach “quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement’s year(s) of origination.” The primary weakness of the iron curtain approach is that it does not consider the correction of prior year misstatements in the current year financial statements to be errors because the prior year misstatements were considered immaterial in the year(s) of origination. Thus, there could be a material misstatement in the current year income statement because the correction of the accumulated immaterial amounts from prior years is not evaluated as an error.

Because of the weaknesses in these two approaches, SAB 108 states that the impact of correcting all misstatements on current year financial statements should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach. When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, an adjustment to the financial statements would be required. Guidance on the consideration of all relevant factors when assessing the materiality of misstatements is provided in SEC Staff Accounting Bulletin No. 99, *Materiality* (SAB 99) (codified as Topic 1.M. in the Codification of Staff Accounting Bulletins).

**Accounting Changes (cont.):**

For purposes of the Reports of Condition and Income, all banks should follow the sound accounting practices described in SAB 108 and SAB 99. Accordingly, banks should quantify the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year reports by applying both the "rollover" and "iron curtain" approaches and evaluating the impact of the error measured under each approach. When the misstatement that exists after recording the adjustment in the current year Reports of Condition and Income is material (considering all relevant quantitative and qualitative factors), the appropriate prior year report(s) should be amended, even though such revision previously was and continues to be immaterial to the prior year report(s). If the misstatement that exists after recording the adjustment in the current year Reports of Condition and Income is not material, then amending the immaterial errors in prior year reports would not be necessary.

When a bank's primary federal bank regulatory agency determines that the bank's Reports of Condition and Income contain a material accounting error, the bank may be directed to file amended condition and/or income report data for each prior period that was significantly affected by the error. Normally, such refilings will not result in restatements of reports for periods exceeding five years. If amended reports are not required, the bank should report the effect of such corrections on retained earnings at the beginning of the year, net of applicable income taxes, in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and in Schedule RI-E, item 4. The effect of such corrections on income and expenses since the beginning of the year in which the error is discovered should be reflected in each affected income and expense account on a year-to-date basis in the next quarterly Report of Income to be filed and not as a direct adjustment to retained earnings.

In addition, a change from an accounting principle that is neither accepted nor sanctioned by bank supervisors to one that is acceptable to supervisors is to be reported as a correction of an error. When such a change is implemented, the cumulative effect that applies to prior periods, calculated in the same manner as described above for other changes in accounting principles, should be reported in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and in Schedule RI-E, item 4. In most cases of this kind undertaken voluntarily by the reporting bank in order to adopt more acceptable accounting practices, such a change will not result in a request for amended reports for prior periods unless substantial distortions in the bank's previously reported results are in evidence.

In the Reports of Condition and Income in which the correction of an error is first reflected, the bank is encouraged to include an explanation of the nature and reason for the correction in Schedule RI-E, item 7, "Other explanations," or in the "Optional Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income."

For further information on these three topics, see FASB Statement No. 154, "Accounting Changes and Error Corrections."

**Accounting Errors, Corrections of:** See "accounting changes."

**Accounting Estimates, Changes in:** See "accounting changes."

**Accounting Principles, Changes in:** See "accounting changes."

**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 transferor<sup>1</sup> 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 6, 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.”

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<sup>1</sup> 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."

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**Bankers Acceptances (cont.):**

The following description covers the treatment in the Report of Condition of (1) acceptances that have been executed by the reporting bank, that is, those drafts that have been drawn on and accepted by it; (2) "participations" in acceptances, that is, "participations" in the accepting bank's obligation to put the holder of the acceptance in funds at maturity, or participations in the accepting bank's risk of loss in the event of default by the account party; and (3) acceptances owned by the reporting bank, that is, those acceptances – whether executed by the reporting bank or by others – that the bank has discounted or purchased.

- (1) Acceptances executed by the reporting bank – With the exceptions described below, the accepting bank must report on its balance sheet the full amount of the acceptance in both (1) the liability item, "Other liabilities" (Schedule RC, item 20), reflecting the accepting bank's obligation to put the holder of the acceptance in funds at maturity, and (2) the asset item, "Other assets" (Schedule RC, item 11), reflecting the account party's liability to put the accepting bank in funds at or before maturity. The acceptance liability and acceptance asset must also be reported in both Schedule RC-G, item 4, "All other liabilities," and Schedule RC-F, item 6, "All other assets," respectively.

Exceptions to the mandatory reporting by the accepting bank of the full amount of all outstanding drafts accepted by the reporting bank in both "Other liabilities" (Schedule RC, item 20) and "Other assets" (Schedule RC, item 11) on the balance sheet of the Consolidated Report of Condition occur in the following situations:

- (a) One exception occurs in situations where the accepting bank acquires – through initial discounting or subsequent purchase – and holds its own acceptance (i.e., a draft that it has itself accepted). In this case, the reporting bank's own acceptances that are held by it should not be reported in the "Other liabilities" and "Other assets" items noted above. The bank's holdings of its own acceptances should be reported in "Loans and leases held for sale" (Schedule RC, item 4.a), "Loans and leases, net of unearned income" (Schedule RC, item 4.b), or "Trading assets" (Schedule RC, item 5), as appropriate.
- (b) Another exception occurs in situations where the account party anticipates its liability to the reporting bank on an acceptance outstanding by making a payment to the bank that reduces the customer's liability in advance of the maturity of the acceptance. In this case, the reporting bank should decrease "Other assets" (Schedule RC, item 11) by the amount of such prepayment; the prepayment will not affect the bank's "Other liabilities" (Schedule RC, item 20), which would continue to reflect the full amount of the acceptance until the bank has repaid the holder of the acceptance at the maturity date specified in the instrument. If the account party's payment to the accepting bank before the maturity date is not for the purpose of immediate reduction of its indebtedness to the reporting bank or if receipt of the payment does not immediately reduce or extinguish that indebtedness, such advance payment will not reduce item 11 of Schedule RC but should be reflected in the bank's deposit liabilities.

In all situations other than these two exceptions just described, the accepting bank must report the full amount of its acceptances in "Other liabilities" (Schedule RC, item 20) and in "Other assets" (Schedule RC, item 11). There are no other circumstances in which the accepting bank can report as a balance sheet liability anything less than the full amount of the obligation to put the holder of the acceptance in funds at maturity. Moreover, there are no circumstances in which the reporting bank can net its acceptance assets against its acceptance liabilities.

NOTE: The amount of a reporting member (both national and state) bank's acceptances that are subject to statutory limitations on eligible acceptances as set forth in federal statute 12 USC 372 and in Federal Reserve regulation 12 CFR Part 250 may differ from the required reporting of

**Bankers Acceptances (cont.):**

acceptances on the balance sheet of the Consolidated Report of Condition, as described above. These differences are mainly attributable to ineligible acceptances, to participations in the reporting bank's acceptances conveyed to others, to participations acquired by the reporting bank in other banks' acceptances, and to the effect of the consolidation of subsidiaries in the Report of Condition.

- (2) "Participations" in acceptances – The general requirement for the accepting bank to report on its balance sheet the full amount of the total obligation to put the holder of the acceptance in funds applies also, in particular, to any situation in which the accepting bank enters into any kind of arrangement with others for the purpose of having the latter share, or participate, in the obligation to put the holder of the acceptance in funds at maturity or in the risk of loss in the event of default on the part of the account party.<sup>1</sup> In any such sharing arrangement or participation agreement -- regardless of its form or its contract provisions, regardless of the terminology (e.g., "funded," "risk," "unconditional," or "contingent") used to describe it and the relationships under it, regardless of whether it is described as a participation in the customer's liability or in the accepting bank's obligation or in the risk of default by the account party, and regardless of the system of debits and credits used by the accepting bank to reflect the participation arrangement -- the existence of the participation or other agreement does not reduce the accepting bank's obligation to honor the full amount of the acceptance at maturity nor change the requirement for the accepting bank to report the full amount of the acceptance in the liability and asset items described above.

The existence of such participations is not to be recorded on the balance sheet (Schedule RC) of the accepting bank that conveys shares in its obligation to put the holder of the acceptance in funds or shares in its risk of loss in the event of default on the part of the account party, and similarly is not to be recorded on the balance sheets (Schedule RC) of the other banks that are party to, or acquire, such participations. However, in such cases of agreements to participate, the nonaccepting bank acquiring the participation will report the participation in Schedule RC-R, item 47, "Risk participations in bankers acceptances acquired by the reporting institution." This same reporting treatment applies to a bank that acquires a participation in an acceptance of another (accepting) bank and subsequently conveys the participation to others and to a bank that acquires such a participation. Moreover, the bank that both acquires and conveys a participation in another bank's acceptance must report the amount of the participation in the acceptance participation item in Schedule RC-R.

- (3) Acceptances owned by the reporting bank – The treatment of acceptances owned or held by the reporting bank (whether acquired by initial discount or subsequent purchase) depends upon whether the acceptances are held for trading, for sale, or in portfolio and upon whether the acceptances held have been accepted by the reporting bank or by other banks.

All acceptances held for trading by the reporting bank (whether acceptances of the reporting bank or of other banks) are to be reported in Schedule RC, item 5, "Trading assets." Banks that must complete Schedule RC-D, Trading Assets and Liabilities, will identify these holdings in item 9, "Other trading assets."

The reporting bank's holdings of acceptances other than those held for trading (whether acceptances of the reporting bank or of other banks) are to be reported in Schedule RC, item 4.a, "Loans and leases held for sale," or in item 4.b, "Loans and leases, net of unearned income," as appropriate, and in Schedule RC-C, part I, "Loans and Lease financing receivables."

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<sup>1</sup> This discussion does not deal with participations in holdings of bankers acceptances, which are reportable as loans. Such participations are treated like any participations in loans as described in the Glossary entry for "transfers of financial assets."



**Bankers Acceptances (cont.):**

In Schedule RC-C, part I, the reporting bank's holdings of other banks' acceptances, other than those held for trading, are to be reported in "Loans to depository institutions and acceptances of other banks" (item 2). On the other hand, the bank's holdings of its own acceptances, other than those held for trading, are to be reported in Schedule RC-C, part I, according to the account party of the draft. Thus, holdings of own acceptances for which the account parties are commercial or industrial enterprises are to be reported in Schedule RC-C, part I, in "Commercial and industrial loans" (item 4); holdings of own acceptances for which the account parties are other banks (e.g., in connection with the refinancing of another acceptance or for the financing of dollar exchange) are to be reported in Schedule RC-C, part I, in "Loans to depository institutions and acceptances of other banks" (item 2); and holdings of own acceptances for which the account parties are foreign governments or official institutions (e.g., for the financing of dollar exchange) are to be reported in Schedule RC-C, part I, "Loans to foreign governments and official institutions" (item 7).

The difference in treatment between holdings of own acceptances and holdings of other banks' acceptances reflects the fact that, for other banks' acceptances, the holding bank's immediate claim is on the accepting bank, regardless of the account party or of the purpose of the loan. On the other hand, for its holdings of its own acceptances, the bank's immediate claim is on the account party named in the accepted draft.

If the account party prepays its acceptance liability on an acceptance of the reporting bank that is held by the reporting bank (in the held-for-sale account, in the loan portfolio, or as trading assets) so as to immediately reduce its indebtedness to the reporting bank, the recording of the holding – in "Commercial and industrial loans," "Loans to depository institutions and acceptances of other banks," or "Trading assets," as appropriate – is reduced by the prepayment.

**Bank-Owned Life Insurance:** FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*, and Emerging Issues Task Force (EITF) Issue No. 06-5, *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4*, address the accounting for bank-owned life insurance. According to Technical Bulletin No. 85-4, only the amount that could be realized under the insurance contract as of the balance sheet date should be reported as an asset. In general, this amount is the cash surrender value reported to the institution by the insurance carrier less any applicable surrender charges not reflected by the insurance carrier in the reported cash surrender value, i.e., the net cash surrender value. An institution should also consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract in accordance with EITF Issue No. 06-5.

Because there is no right of offset, an investment in bank-owned life insurance should be reported as an asset separately from any related deferred compensation liability.

Banks that have entered into split-dollar life insurance arrangements should follow the guidance issued by the EITF on the accounting for the deferred compensation and postretirement benefit aspects of such arrangements. EITF Issue No. 06-4 addresses endorsement split-dollar arrangements while EITF issue No. 06-10 covers collateral assignment split-dollar arrangements. In general, in an endorsement split-dollar arrangement, a bank owns and controls the insurance policy on the employee, whereas in a collateral assignment split-dollar arrangement, the employee owns and controls the insurance policy. According to the EITF's consensus on these issues, a bank should recognize a liability for the postretirement benefit related to a split-dollar life insurance arrangement if, based on the substantive agreement with the employee, the bank has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit. This liability should be measured in accordance with either FASB Statement No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract), and reported on the balance sheet in

**Bank-Owned Life Insurance (cont.):**

Schedule RC, item 20, "Other liabilities," and in Schedule RC-G, item 4, "All other liabilities." In addition, for a collateral assignment split-dollar arrangement, the EITF also reached a consensus that an employer such as a bank should recognize and measure an insurance asset based on the nature and substance of the arrangement.

The amount that could be realized under bank-owned life insurance policies as of the report date should be reported on the balance sheet in Schedule RC, item 11, "Other assets," and in Schedule RC-F, item 5, "Life insurance assets." The net earnings (losses) on or the net increases (decreases) in the bank's life insurance assets should be reported in the income statement in Schedule RI, item 5.I, "Other noninterest income." Alternatively, the gross earnings (losses) on or increases (decreases) in these life insurance assets may be reported in Schedule RI, item 5.I, and the life insurance policy expenses may be reported in Schedule RI, Item 7.d, "Other noninterest expense." If the absolute value of the earnings (losses) on or the increases (decreases) in the bank's life insurance assets are reported in Schedule RI, item 5.I, "Other noninterest income," are greater than \$25,000 and exceed 3 percent of "Other noninterest income," this amount should be reported in Schedule RI-E, item 1.b.

**Banks, U.S. and Foreign:** In the classification of banks as customers of the reporting bank, distinctions are drawn for purposes of the Reports of Condition and Income between "U.S. banks" and "commercial banks in the U.S." and between "foreign banks" and "banks in foreign countries." Some report items call for one set of these categories and other items call for the other set. The distinctions center around the inclusion or exclusion of foreign branches of U.S. banks and U.S. branches and agencies of foreign banks. For purposes of describing the office location of banks as customers of the reporting bank, the term "United States" covers the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. (This is in contrast to the usage with respect to the offices of the reporting bank, where U.S.-domiciled Edge and Agreement subsidiaries and IBFs are included in "foreign" offices. Furthermore, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, offices of the reporting bank in Puerto Rico and U.S. territories and possessions are also included in "foreign" offices, but, for banks chartered and headquartered in Puerto Rico and U.S. territories and possessions, offices of the reporting bank in Puerto Rico and U.S. territories and possessions are included in "domestic" offices.)

U.S. banks – The term "U.S. banks" covers both the U.S. and foreign branches of banks chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. On the other hand, the term "banks in the U.S." or "commercial banks in the U.S." (the institutional coverage of which is described in detail later in this entry) covers the U.S. offices of U.S. banks (including their IBFs) and the U.S. branches and agencies of foreign banks, but excludes the foreign branches of U.S. banks.

Foreign banks – Similarly, the term "foreign banks" covers all branches of banks chartered and headquartered in foreign countries (including foreign banks owned by U.S. nationals and institutions), including their U.S.-domiciled branches and agencies, but excluding the foreign branches of U.S. banks. In contrast, the term "banks in foreign countries" covers foreign-domiciled branches of banks, including the foreign branches of U.S. banks, but excluding the U.S. branches and agencies of foreign banks.

**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," as amended. For further information, refer to FASB Statement No. 114.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) at a level that is appropriate to cover 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. 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. For the remainder of the portfolio, an appropriate allowance must be maintained in accordance with FASB Statement No. 5, "Accounting for Contingencies." For comprehensive guidance on the maintenance of an appropriate allowance, banks should refer to the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 13, 2006, 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, loans are impaired under FASB Statement No. 114 when, based on current information and events, it is probable 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 identifying loans to be individually evaluated for impairment under FASB Statement No. 114. When an individually evaluated loan is deemed impaired under FASB Statement No. 114, an institution should 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. An institution may choose the appropriate Statement No. 114 measurement method on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral dependent loan. As discussed in the following paragraph, the agencies require impairment of a collateral dependent loan to be measured using the fair value of collateral method. 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,

**Loan Impairment (cont.):**

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."

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 an impaired 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, a loan secured by real estate is a loan secured wholly or substantially by a lien or liens on real property for which the lien or liens are 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 or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral (after deducting any more senior liens held by others) must be greater than 50 percent of the principal amount of the loan at origination.<sup>1</sup>

A loan satisfying the criteria above, except a loan to a state or political subdivision in the U.S., is to be reported as a loan secured by real estate in Schedule RC-C, part I, item 1, and related items in the Reports of Condition and Income, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of the department within the bank or bank subsidiary that made the loan; (3) regardless of how the loan is categorized in the bank's records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan's principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would

<sup>1</sup> Banks should apply this revised definition of "loan secured by real estate" prospectively beginning April 1, 2009. Banks need not reevaluate and, if appropriate, recategorize loans that they currently report as loans secured by real estate into other loan categories on Schedule RC-C, part I, Loans and Leases.

**Loan Secured by Real Estate (cont.):**

the loan not be considered a loan secured by real estate for purposes of the Reports of Condition and Income. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral (after deducting any more senior liens held by others) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in these reports based on the purpose of the loan.

The following are examples of the application of the preceding guidance:

- (1) A bank loans \$700,000 to a dental group to construct and equip a building that will be used as its dental office. The loan will be secured by both the real estate and the dental equipment. At origination, the estimated values of the building, upon completion, and the equipment are \$400,000 and \$350,000, respectively. The loan should be reported as a loan secured by real estate in Schedule RC-C, part I, item 1.a.(2), "Other construction loans and all land development and other land loans." In contrast, if the estimated values of the building and equipment at origination were \$340,000 and \$410,000, respectively, the loan should not be reported as a loan secured by real estate. Instead, the loan should be reported in Schedule RC-C, part I, item 4, "Commercial and industrial loans."
- (2) A bank grants a \$25,000 line of credit and a \$125,000 term loan to a commercial borrower for working capital purposes on the same date. The loans will be cross-collateralized by equipment with an estimated value of \$40,000 and a third lien on the borrower's residence, which has an estimated value of \$140,000 and first and second liens with unpaid balances payable to other lenders totaling \$126,000. The two loans should be considered together to determine whether they are secured by real estate. Because the estimated equity in the real estate collateral available to the bank is \$14,000, the two cross-collateralized loans for \$150,000 should not be reported as loans secured by real estate. Instead, the loans should be reported in Schedule RC-C, part I, item 4, "Commercial and industrial loans."
- (3) A bank grants a \$50,000 working capital loan and takes a first lien on a vacant commercial building lot as collateral. The estimated value of the lot is \$30,000. The loan should be reported as a loan secured by real estate in Schedule RC-C, part I, item 1.a.(2), "Other construction loans and all land development and other land loans," unless the lien has been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien.
- (4) A bank grants a \$10,000 home equity line of credit secured by a junior lien on a 1-4 family residential property. The bank also has a loan to the same borrower that is secured by a first lien on the same 1-4 family residential property and has an unpaid principal balance of \$71,000. There are no intervening liens and the line of credit will be used for household, family, and other personal expenditures. The estimated value of the residential property at the origination of the home equity line of credit is \$75,000. Consistent with the risk-based capital treatment of these loans, the two loans should be considered together to determine whether the home equity line of credit should be reported as a loan secured by real estate. Because the value of the collateral is greater than 50 percent of the first lien balance plus the amount of the home equity line of credit, loans extended under the line of credit should be reported as loans secured by real estate in Schedule RC-C, part I, item 1.c.(1), "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit." In contrast, if a creditor other than the bank holds the first lien on the borrower's property, the estimated value of the collateral to the bank for the home equity line of credit would have been \$4,000 (\$75,000 less the \$71,000 first lien held by the other creditor), which is 50 percent or less of the amount of the line of credit at origination. In this case, the bank should not report loans extended under the line of credit as loans secured by real estate in Schedule RC-C, part I, item 1. Rather, the loans should be reported as "Loans to individuals for household, family, and other personal expenditures" in Schedule RC-C, part I, item 6.b, "Other revolving credit plans."

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**Offsetting (cont.):**

Offsetting of assets and liabilities is also permitted by other accounting pronouncements identified in Interpretation No. 39. These pronouncements apply to such items as leveraged leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under Interpretation No. 41 must be applied consistently.

According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, FASB Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore, for purposes of the Report of Condition, banks should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 are met.

See also "reciprocal balances."

**One-Day Transaction:** See "federal funds transactions."

**Option:** See "derivative contracts."

**Organization Costs:** See "start-up activities."

**Other Depository Institutions in the U.S.:** See "depository institutions in the U.S."

**Other Real Estate Owned:** See "foreclosed assets" and the instruction to Schedule RC-M, item 3.

**Overdraft:** An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a "loan" rather than being treated as a negative deposit balance.

Planned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, by type of loan according to the nature of the overdrawn depositor. For example, a planned overdraft by a commercial customer is to be classified as a "commercial and industrial loan."

Unplanned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, as "All other loans," unless the depositor is a depository institution, a foreign government or foreign official institution, or a state or political subdivision in the U.S. Such unplanned overdrafts would be reported in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 7, "Loans to foreign governments and official institutions," and item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," respectively.

For purposes of treatment of overdrafts in depositors' accounts, a group of related transaction accounts of a single type (i.e., demand deposit accounts or NOW accounts, but not a combination thereof) maintained in the same right and capacity by a customer (a single legal entity) that is established under a bona fide cash management arrangement by this customer function as, and are regarded as, one account rather than as multiple separate accounts. In such a situation, overdrafts in one or more of the

**Overdraft (cont.):**

transaction accounts within the group are not to be classified as loans unless there is a net overdraft position in the group of related transaction accounts taken as a whole. (NOTE: Affiliates and subsidiaries are considered separate legal entities.) For further information, see "cash management arrangements."

The reporting bank's overdrafts on deposit accounts it holds with other banks (i.e., its "due from" accounts) are to be reported as borrowings in Schedule RC, item 16, except overdrafts arising in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule RC-E until the funds are remitted).

**Participations:** See "transfers of financial assets."

**Participations in Acceptances:** See "bankers acceptances."

**Participations in Pools of Securities:** See "repurchase/resale agreements."

**Pass-through Reserve Balances:** Under the Monetary Control Act of 1980, and as reflected in Federal Reserve Regulation D, depository institutions that are members of the Federal Reserve System must maintain their required reserves (in excess of vault cash) directly with a Federal Reserve Bank. However, nonmember depository institutions may maintain their required reserves (in excess of vault cash) in one of two ways: either (1) directly with a Federal Reserve Bank or (2) indirectly in an account with another institution (referred to here as a "correspondent"), which, in turn, is required to pass the reserves through to a Federal Reserve Bank. This second type of account is called a "pass-through account," and a depository institution passing its reserves to the Federal Reserve through a correspondent is referred to here as a "respondent." This pass-through reserve relationship is legally and for supervisory purposes considered to constitute an asset/debt relationship between the respondent and the correspondent, and an asset/debt relationship between the correspondent and the Federal Reserve. The required reporting of the "pass-through reserve balances" reflects this structure of asset/debt relationships.

In the balance sheet of the respondent bank, the pass-through reserve balances are to be treated as a claim on the correspondent (not as a claim on the Federal Reserve) and, as such, are to be reflected in the balance sheet of the Report of Condition, Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin," or item 1.b, "Interest-bearing balances," as appropriate. For respondent banks with foreign offices or with \$300 million or more in total assets, the pass-through reserve balances would also be reflected in Schedule RC-A, item 2, "Balances due from depository institutions in the U.S."

In the balance sheet of the correspondent bank, the pass-through reserve balances are to be treated as balances due to respondents and, to the extent that the balances have actually been passed through to the Federal Reserve, as balances due from the Federal Reserve. The balances due to respondents are to be reflected in the balance sheet of the Report of Condition, Schedule RC, item 13.a, "Deposits in domestic offices," and on in Schedule RC-E, Deposit Liabilities, (part I), item 4.<sup>1</sup> The balances due from the Federal Reserve are to be reflected on the balance sheet in Schedule RC, item 1.b, "Interest-bearing balances," and, for correspondent banks with foreign offices or with \$300 million or more in total assets, in Schedule RC-A, item 4.

<sup>1</sup> When an Edge or Agreement Corporation acts as a correspondent, its balances due to respondents are to be reflected on the FFIEC 031 report form in Schedule RC, item 13.b, "Deposits in foreign offices," and in Schedule RC-E, part II, item 2.



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

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

**Treasury Stock:** Treasury stock is stock that the bank has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock, whether carried at cost or at par value, is a deduction from a bank's total equity capital. For purposes of the Reports of Condition and Income, the carrying value of treasury stock should be reported (as a negative number) in Schedule RC, item 26.c, "Other equity capital components."

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule RI, Income Statement, but should be reflected in Schedule RI-A, item 6, "Treasury stock transactions, net." Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule RC, item 25, "Surplus."

For further information, see Accounting Research Bulletin No. 43, as amended by APB Opinion No. 6.

**Troubled Debt Restructurings:** The accounting standards for troubled debt restructurings are set forth in FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." A summary of this amended accounting standard follows. For further information, see FASB Statements No. 15 and No. 114.

A troubled debt restructuring is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan or other debt instrument (hereafter referred to collectively as a "loan") may include, but is not necessarily limited to: (1) the transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for "foreclosed assets" for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured troubled loan.

The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

All loans whose terms have been modified in a troubled debt restructuring, including both commercial and retail loans, must be evaluated for impairment under FASB Statement No. 114. Accordingly, a bank should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for "loan impairment." Under FASB Statement No. 114, when measuring impairment on a restructured troubled loan using the present value of expected future cash flows method, the cash flows should be discounted at the effective interest rate of the original loan, i.e., before the restructuring. For a residential mortgage loan with a "teaser" or starter rate that is less than the loan's fully indexed rate, the starter rate is not the original effective interest rate. FASB Statement No. 114 also permits a bank to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent troubled debt restructurings, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

**Troubled Debt Restructurings (cont.):**

See the Glossary entry for "nonaccrual status" for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.

A troubled debt restructuring in which a bank receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, should be accounted for in accordance with paragraph 34 of FASB Statement No. 15, as amended. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for "foreclosed assets."

Despite the granting of some type of concession by a bank to a borrower, a troubled debt restructuring may still result in the recorded amount of the loan bearing a market yield, i.e., an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the bank is willing to accept for a new extension of credit with comparable risk. This may arise as a result of reductions in the recorded amount of the loan prior to the restructuring (e.g., by charge-offs). All loans that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured loans in Schedule RC-C, part I, Memorandum item 1. However, a restructured loan that is in compliance with its modified terms and yields a market rate need not continue to be reported as a troubled debt restructuring in this memorandum item in calendar years after the year in which the restructuring took place.

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two step process. First, the recorded amount of the loan is reduced by the fair value less cost to sell of the property received. Second, the institution should measure any impairment on the remaining recorded balance of the restructured loan in accordance with the guidance concerning impaired loans set forth in FASB Statement No. 114.

A restructuring may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a "new" loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value.

A credit analysis should be performed for a restructured loan in conjunction with its restructuring to determine its collectibility and estimated credit loss. When available information confirms that a specific restructured loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The bank should periodically evaluate the collectibility of the restructured loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

**Trust Preferred Securities:** As bank investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be 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, and the U.S. Virgin Islands.

**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.

**When-Issued Securities Transactions (cont.):**

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 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.