Comptroller of the Currency
Administrator of National Banks

Presents:

Federal Savings Association Executive Teleconference

Migration from the TFR to the Call Report;
Allowances, Accounting and Credit; and
Other Supervision Topics

Telephone Seminar

Thursday, October 13, 2011

2:00 PM – 4:00 PM Eastern
1:00 PM – 3:00 PM Central
12:00 PM – 2:00 PM Mountain
11:00 AM – 1:00 PM Pacific

Presented By:

Jennifer C. Kelly
Timothy T. Ward
Kathy K. Murphy
Jeffrey J. Geer
Darrin Benhart

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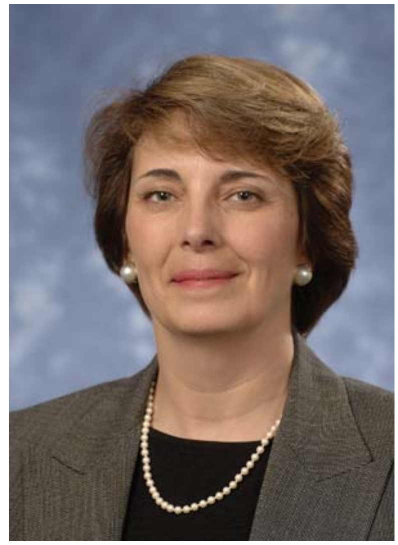
AGENDA
Federal Savings Association Teleconference
Thursday, October 13, 2011
2:00 p.m. – 4:00 p.m. (Eastern)

Welcome	Jennifer Kelly Senior Deputy Comptroller Midsize and Community Bank Supervision
Introductory Remarks	Timothy Ward Deputy Comptroller for Thrift Supervision Midsize and Community Bank Supervision
TFR to Call Report Migration	Kathy Murphy Chief Accountant
Specific Valuation Allowance (SVA)	Jeffrey Geer Deputy Chief Accountant
Call Reporting – Confirmed Losses	Darrin Benhart Deputy Comptroller, Credit and Market Risk
Questions	All



Jennifer C. Kelly
Senior Deputy Comptroller
Midsize and Community Bank Supervision

Jennifer C. Kelly is the Senior Deputy Comptroller (SDC) for Midsize and Community Bank Supervision in the Office of the Comptroller of the Currency (OCC).

As SDC for Midsize and Community Bank Supervision, Ms. Kelly is responsible for supervising more than 2,000 national banks and federal savings associations, as well as 2,000 OCC employees. She serves as a member of the OCC's Executive Committee and the Committee on Bank Supervision. She assumed these duties in April 2008.

Previously, Ms. Kelly served as Deputy Comptroller for Midsize and Credit Card Bank Supervision, where she was responsible for supervision and oversight of the OCC's Midsize and Credit Card Bank Supervision programs. Prior to that, she served as the Deputy Comptroller for Continuing Education, with responsibility for the training and development of the OCC's examining staff.

Ms. Kelly joined the OCC in 1979 as an Assistant National Bank Examiner in San Francisco and was commissioned as a National Bank Examiner in 1983. She has a broad supervision background, including extensive experience in problem bank supervision and policy development. Also, she completed a yearlong assignment in the Bank of England's bank supervision department.

Ms. Kelly is a native of Glens Falls, New York. She holds a bachelor of arts degree in economics from Mount Holyoke College in South Hadley, Massachusetts.

Timothy T. Ward
Deputy Comptroller for Thrift Supervision

Timothy T. Ward is Deputy Comptroller for Thrift Supervision at the Office of the Comptroller of the Currency (OCC).

In this role, Mr. Ward will report to the Senior Deputy Comptroller for Midsize and Community Bank Supervision and lead the planning process for integration of the Office of Thrift Supervision (OTS) examination and supervision functions and staff. Following the July 2011 transfer date, this position will continue in fulfillment of the Dodd-Frank Wall Street Reform and Consumer Protection Act requirement to establish a Deputy Comptroller position dedicated to thrift supervision. Mr. Ward assumed these responsibilities in November 2010.

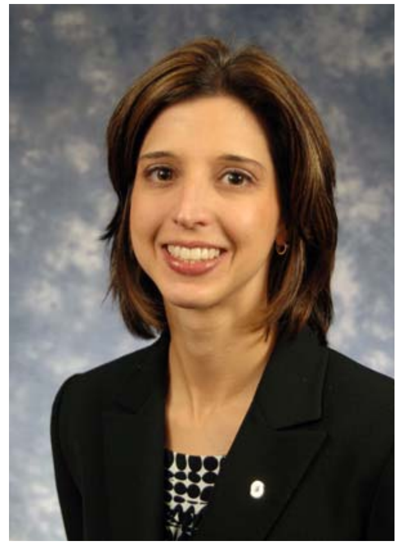
Mr. Ward joined the OCC in February 2010 as a Deputy Comptroller and Senior Advisor to the Senior Deputy Comptroller for Midsize and Community Bank Supervision, where he was involved in a wide range of OCC bank supervision issues.

Prior to joining the OCC, Mr. Ward served at the OTS and its predecessor agency for more than 26 years, where he held a variety of thrift supervision and leadership roles. He was Deputy Director for Examinations, Supervision, and Consumer Protection from 2007 to 2009, overseeing OTS's four regional offices responsible for supervising approximately 800 savings associations and their parent holding companies. He was also responsible for establishing OTS policy in a number of other areas, including corporate applications, consumer affairs, international operations, economic analysis and research, interest rate risk management, and Basel II capital accord implementation. He also oversaw OTS's Chief Information Officer and the Chief Financial Officer.

Mr. Ward served in dual capacity as the OTS's Chief Financial Officer and Chief Information Officer (CIO) from January 2002 through April 2007, and as the agency's CIO from September 2000. He moved to OTS headquarters in 1998 to coordinate its regional information systems functions after transferring to the agency when it was created in 1989 by the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

Mr. Ward began his public service career in 1983 when he joined the Federal Home Loan Bank of Atlanta. He graduated magna cum laude with a bachelor of science degree in Business Administration/Finance from Auburn University in 1982.

Kathy K. Murphy
Chief Accountant



Kathy K. Murphy is the Chief Accountant at the Office of the Comptroller of the Currency (OCC).

As Chief Accountant, Ms. Murphy serves as the OCC's authoritative source for bank accounting and financial reporting, providing accounting counsel to examiners, the banking industry and the accounting profession. She also represents the OCC on the Federal Financial Institutions Examination Council's Reports Task Force and the Accounting Task Force of the Basel Committee on Bank Supervision. She assumed these duties in July 2009 after serving various roles at the OCC, including four years as Deputy Chief Accountant. In addition, she has led numerous OCC and interagency initiatives surrounding the Allowance for Loan and Lease Losses.

Ms. Murphy joined the OCC in 2002 after serving in public accounting with two large national accounting firms. She graduated in 1997 from the University of Maryland cum laude with a bachelor of accountancy and finance degrees. She is also a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and Women in Housing and Finance.

Jeffrey J. Geer
Deputy Chief Accountant
Office of the Chief Accountant

Jeffrey (Jeff) J. Geer is the Deputy Chief Accountant at the Office of the Comptroller of the Currency (OCC) in Washington, DC. Mr. Geer manages a staff in the OCC Office of the Chief Accountant and serves as a senior technical official on accounting and auditing matters. Mr. Geer works with various parties to identify and resolve issues, and to provide assistance in the development, interpretation, and application of regulations, policies, and practices in the areas of accounting, financial reporting, internal control, and auditing/attestation. In performing these duties, he works with OCC personnel, national banks and federal savings associations, regulatory agencies, public accountants, trade associations, professional organizations, and accounting and auditing/attestation standard-setting bodies. Mr. Geer also represents the OCC on the Accounting Task Force of Basel Committee on Banking Supervision.

Mr. Geer joined the OCC in July 2011 through the merger of the Office of Thrift Supervision (OTS) with the OCC. Before joining the OCC, Mr. Geer served as the OTS Chief Accountant from August 2004 to July 2011. Prior to moving to Washington, DC, Mr. Geer was the OTS Southeast Regional Accountant and Capital Markets Manager. Mr. Geer began his supervisory career at the Federal Home Loan Bank of Atlanta (later OTS) in 1988. Mr. Geer began his career as an auditor in the Atlanta office of KPMG.

Mr. Geer is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. Geer holds a Bachelor of Science degree in Accounting (Magna Cum Laude) from Clemson University in South Carolina.

Darrin Benhart
Deputy Comptroller
Credit and Market Risk

Darrin Benhart is Deputy Comptroller for Credit and Market Risk at the Office of the Comptroller of the Currency (OCC). He serves as a principal advisor on emerging systemic risks facing the banking system. His group is primarily responsible for setting policies and conducting credit analysis for the commercial and retail credit areas. He also co-chairs the National Risk Committee, which coordinates the OCC's risk identification practices.

Darrin has over 19 years of experience as a field examiner with the OCC. During that time he has held a wide range of technical and managerial roles at community and large banks. These roles included Director for Commercial Credit, Credit Team Leader at Bank of America and Wachovia, and serving as a member of the Commercial Credit Network Group Advisory Committee.

Darrin received his undergraduate degree in business administration with an emphasis in finance from the University of Northern Iowa and is a Commissioned National Bank Examiner.

Comptroller of the Currency
Administrator of National Banks

Federal Savings Associations Teleconference

TFR to Call Report Migration

October 13, 2011

Agenda

- *TFR to Call Report Migration Overview*
  - *Similarities & Differences*
- *Specific Valuation Allowance (SVA)*
- *Confirmed Losses*

TFR to Call Report Migration Overview

Call Report to TFR Migration

- Savings associations will be required to file the Call Report beginning with the 3/31/2012 reporting period
  - Last TFR will be filed for the 12/31/2011 reporting period
  - Early adoption of the Call Report is permitted beginning the quarter ended 9/30/2011
  - Once the Call Report is adopted, the decision may not be reversed
- Schedule CMR will be filed until savings associations convert to the Call Report; however:
  - Schedule CMR should not be filed for savings associations with:
    - A composite rating of “1” or “2,”
    - A sensitivity component rating of “1” or “2,” **and**
    - Their own means to adequately measure & monitor interest rate risk

Call Report to TFR Migration

- Information regarding the Call Report Filing Process and the Central Data Repository (CDR) can be accessed from the following web sites:
  - https://cdr.ffiec.gov/CDR/Public/CDRHelp/CDRHelp.html
  - http://www.ffiec.gov/find/callreportdata.htm
- Call Report forms and instructions are accessible on-line, from the web sites of either the FDIC or the FFIEC
  - FFIEC Web site: http://www.ffiec.gov/ffiec_report_forms.htm
  - FDIC Web site: http://www.fdic.gov/callreports

Conversion to the Call Report from the TFR Points of Contact

- Former OTS Financial Reporting Division (FRD) staff will continue to be the primary contacts for TFR reporting issues and through the report conversion. FRD staff were transferred to the FDIC Data Collection and Analysis Section. New phone numbers of the FRD staff were published in the June 2011 Financial Reporting Bulletin.
  - Link to the June 2011 Financial Reporting Bulletin: *http://www.ots.treas.gov/_files/78261.pdf*
- Savings associations can also contact the FDIC's Data Collection and Analysis Section in Washington, D.C., by telephone at (800) 688-FDIC (3342) or e-mail at *insurance-research@fdic.gov.*
- For technical assistance with the Central Data Repository (CDR), contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at *CDR.Help@ffiec.gov.*
- For accounting policy questions contact your OCC supervisory office or the OCC's Office of the Chief Accountant.

Call Report to TFR Migration

- Institutions that file the Call Report are notified of changes by the FFIEC through the Financial Institution Letters (FILs) distributed by the FDIC. Call Report-related FILs are entitled: Consolidated Reports of Condition and Income.

- FILs are addressed to institutions' CEOs and provide an overview of Call Report updates and changes. FILs can be accessed from the web site below. Savings associations are encouraged to sign-up for electronic receipt of FILs using the instructions at the top of the FIL web page.

  – http://www.fdic.gov/news/news/financial/2011/index.html

- Call Report Instruction Updates are the changed pages of the Call Report Instruction Book.

Call Report-Supplemental Instructions

- The Supplemental Instructions provide more detail and contextual background regarding Call Report changes
- Guidance on how to account for and report new "GAAP" issues or recent hot topics
- Clarification on reporting specific items in the Call Report
- September 2011 topics include: Loan Participations including SBA loans, TDRs, and OTTI
- Helpful tool for hot topics and reporting changes for financial institutions

Bank Accounting Advisory Series (BAAS)

- Question and answer format prepared by the OCC's Office of the Chief Accountant updated at least once per year

- Questions derived from examiner, banker, and auditor inquiries not directly answered in current GAAP or subject to interpretation

- Provides 250 pages of guidance covering 11 topics and answering over 400 questions

- GAAP applies to all industries; the BAAS has interpretations made over the years on bank specific issues

- TFR Q&A will be reviewed for any policy interpretations that need to be retained and included in the BAAS

TFR – Call Report Similarities

- Both regulatory financial reports are prepared on the same consolidated basis in accordance with U.S. generally accepted accounting principles (GAAP).
- TFR filers and Call Report filers follow many of the same regulations such as for regulatory capital requirements. Therefore, reporting is very similar.
- TFR filers and Call Report filers must report the same information required for deposit insurance assessment calculations as well as for other schedules such as for reporting small business lending data.

TFR – Call Report Differences

- Two versions of the Call Report
  - FFIEC 031 for institutions with domestic and foreign offices
  - FFIEC 041 for institutions with domestic offices only
- Amount of data required to be reported in the Call Report
  - Depends largely on an institution's asset size
  - Also depends on extent to which institution engages in certain activities
  - Most common asset-size threshold is $300 million in total assets
  - Other size thresholds include $100 million, $500 million, $1 billion and $10 billion
  - Most thresholds measured as of June 30 of preceding calendar year
- For reporting beginning 3/31/12, determination of most thresholds would be based on 6/30/11 TFR data
  - Refer to pages 2-4 of Call Report General Instructions

TFR – Call Report Differences

- Results/activity based TFR reports - such as the income statement and consolidated valuation allowances - are based on quarterly results/activity. Comparable Call Report data is based on year-to-date results/activity.
- The TFR can be amended up to 135 days after quarter end. The Call Report may be amended for up to 5 years.
- Average balances in the TFR may be calculated on a monthly, weekly, or daily basis. The Call Report average balances must be based on weekly or daily calculations.
- Specific Valuation Allowances (SVAs) are permitted in the TFR but not in the Call Report, which requires charge-offs.

  NOTE: More to come on SVAs on the following slides.

Call Report Instructional Differences

- Call Report instructions will clarify that regulatory capital for thrifts will remain the same as to the starting point for the calculation of total assets for the Tier 1 leverage ratio:
  - For banks, is average total assets (from Schedule RC-K, Quarterly Averages)
  - For savings associations, will remain quarter-end total assets until further notice (as it is on the TFR)

TFR – Call Report Comparison
Schedule RC-N, Past Due and Nonaccrual

- Conditions for placing assets in nonaccrual status are similar.
- While the following TFR language is slightly different, the interpretation and application should be the same:
  – "With principal or interest in default unless the value of the property securing the loan exceeds the receivable balance, including principal, interest, and escrows, and collection is probable."
  – Savings associations should interpret the TFR policy similar to the OCC'S policy of "in default for a period of 90 days or more," and "both well secured and in the process of collection."

Specific Valuation Allowance (SVA) Discussion

OTS Guidance on SVAs

- OTS Examination Handbook*
  - OTS does not allow savings associations to use ALLL to cover any amount classified as Loss
  - When a Loss classification is determined, either by the savings association or examiners, an SVA can be used instead of a charge off when the institution determines that it is likely that the amount of the Loss classification will change due to market conditions such as when:
    - Fair value of the collateral increases or decreases and
    - Foreclosure is not imminent

* Section 260 Asset Quality / Classification of Assets (page 260.9) as revised by OTS Regulatory Bulletin 37-58 dated July 1, 2010: http://www.ots.treas.gov/_files/74879.pdf

OTS Guidance on SVAs

- OTS Examination Handbook
  - Savings associations should not use an SVA in lieu of charge offs when they classify certain credits as Loss, such as:
    - Unsecured loans
    - Consumer (nonresidential) loans
    - Credit cards, and
    - Instances where the collateral will likely be acquired through foreclosure (or repossessed as with personal property)
  - In all of those cases, a charge off is appropriate

FFIEC Guidance on SVAs

- FFIEC's *Implementation Issues Arising from FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan**
  - The portion of an institution's allowance established pursuant to FAS 114 should be reported as part of the ALLL, which is includable in Tier 2 capital subject to current limitations
  - Reaffirmed existing regulatory reporting policies that require banks to promptly charge-off identified losses
  - Similarly, savings associations are required to promptly charge-off identified losses, or create SVAs which are reported separately from the ALLL
  - With respect to impaired collateral-dependent loans, the uncollectible portion of the loan balance that exceeds the amount that is adequately secured by the fair value of the collateral is generally classified as Loss

* Published in the Federal Register on February 10, 1995

http://www.gpo.gov/fdsys/pkg/FR-1995-02-10/pdf/95-3392.pdf

What was the intent of permitting SVAs?

- Savings associations have been permitted to establish SVAs for portions of assets classified as Loss instead of recording charge-offs.
- The intent of the policy was to permit savings associations to have the ability to adjust SVAs in cases where the Loss classification might be expected to change as a result of changing market conditions.
  - Such a situation may arise when there is a decline in the value of the loan collateral that is expected to be temporary
- SVAs were mainly intended for impaired collateral-dependent loans (residential and commercial estate loans) with a collateral deficiency classified Loss and for other real estate owned (OREO).

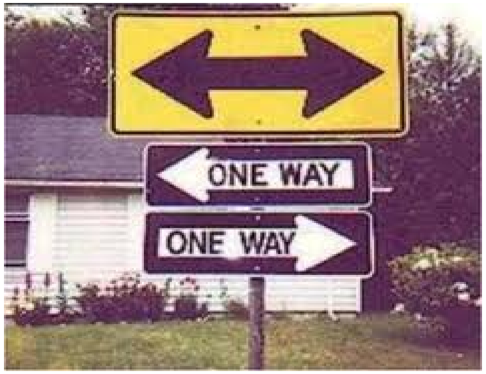
Are SVAs equivalent to charge-offs? If not, what is the difference between them?

- SVAs, applied appropriately, are similar to charge-offs since they:
  - MUST BE included in the calculation of loss rates
  - Are not part of the ALLL and therefore not includable in Tier 2 Capital
- The only difference is recovery:
  - While the charged-off amount cannot be re-booked/reduced based on a change of the fair value of the collateral, an SVA may be reduced if it can be objectively supported that such fair value has subsequently increased

Are FASB ASC 310-10-35 (former FAS 114) allowances the same as SVAs?

- No:
  - FAS 114 allowances are allocations of the ALLL to individual loans
  - SVAs may be recorded on the portions of collateral-dependent loans that are classified Loss based on regulatory credit classification guidelines

Significant Confusion



Unintended Consequences

- Some institutions have improperly excluded some or all SVAs in the calculation of loss rates. SVAs must be included in loss rates, just like they would be if the amounts classified Loss were charged off.
  - May lead to understatement of the ALLL for methodologies that incorporate historical loss rates.
- Some institutions have treated all FAS 114 allowances as SVAs.
  - As a result of this misallocation, SVAs have been overstated and the ALLL has been understated by a similar amount. Therefore, the amount that could have been includable in Tier 2 Capital was underreported.

How are SVA’s reported on the TFR?

- SVAs are reported separately from the ALLL and SVAs are **not** includable in Tier 2 capital.
- SVAs are netted against the recorded investment in the loan and the loan is reported net on the appropriate TFR line item.
- Example:

Description	Amount	TFR Schedule VA/SC line	Call Report Schedule RC line
Recorded investment in (mortgage) loans	$100		
Less: Specific valuation allowance (SVA)	(4)	VA168	
(Mortgage) loans	$ 96	SC230	RC 4b
Less: ALLL	(10)	SC283	RC 4c
Loans, net	$ 86		RC 4d

Going forward:
SVAs Treatment between now and 12/31/11

- Between now and 12/31/11
  - Savings associations have the option to early adopt the Call Report.
  - Savings associations are not required to use SVAs. The practice may be discontinued at any time.
  - Savings associations that have improperly excluded SVAs from historical loss rates must include them in the proper historical period for the ALLL methodology.
- On 12/31/11
  - It will be the last quarter that savings associations will be permitted to file the TFR, and therefore to report SVAs.

Going forward:
SVAs Treatment after 12/31/11

- After 12/31/11
  - SVAs will no longer be permitted and will need to be eliminated when saving associations adopt the Call Report.
  - The presumption will be that SVAs represent confirmed losses that must be charged off (*see example on next slide*) unless proven that they are FAS 114 allowances that should be transferred to the ALLL.

How will the elimination of SVAs be recorded?

- The elimination of SVAs will not impact earnings or reduce the ALLL level
- SVAs will be eliminated by:
  - A debit to the SVAs account and
  - A credit to the recorded investment in the loan to which each SVA relates
- Using the numbers from the previous example, the related reporting line items would be as follows after the elimination of the SVAs:

Description	Amount before SVAs elimination	Amount after SVAs elimination	TFR Schedule VA / SC line	Call Report Schedule RC line
Recorded investment in (mortgage) loans	$100	$96		
Less: Specific valuation allowance (SVA)	(4)	(0)	VA168	
(Mortgage) loans - No change	$ 96	$ 96	SC230	RC 4b
Less: ALLL - No change	(10)	(10)	SC283	RC 4c
Loans, net - No change	$ 86	$ 86		RC 4d

Call Reporting: Confirmed Losses

Loss Classification = Confirmed Loss = Charge-off

- The amount of impairment on a loan is based on credit judgment and accounting (FAS 114) standards.
- The amount to charge-off is a *credit* decision based on regulatory classification definitions.

"Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future."

Retail Credit Loss Classification

Follow interagency guidance in OCC Bulletin 2000-20*/OTS CEO Memo # 128**

- Charge-off to the value of collateral less cost to sell after 120 days past due
  - Closed-end credits (except residential mortgages)
- Charge-off to the value of collateral less cost to sell after 180 days past due
  - Open-end credits
  - Residential mortgages (open or closed-end)

* http://occ.gov/news-issuances/bulletins/2000/bulletin-2000-20.html

** http://www.ots.treas.gov/_files/25128.pdf

Commercial Loss Confirmation vs. FAS 114 ALLL

- Generally:
  - A current collateral valuation (i.e., an appraisal or evaluation) below the loan balance of a collateral dependent loan is confirmation of a loss
- Use judgment when:
  - Collateral valuations are not timely or do not have reasonable assumptions or conclusions
  - Current collateral valuation is minimally below the loan balance, but cash flow from the collateral can support debt service requirements on a reasonable repayment schedule
  - Loan is not collateral dependent

Example 1 -Collateral Valuation Confirms Loss

- $6MM CRE construction loan
- Building recently completed
- Institution lending through lease-up stabilization
- Debt Service Coverage = 0.6X
- Current appraised value
  - $4.2MM “as is”
  - $5MM “as stabilized”
- Borrower in negotiations with future occupants
- Although lease-up process was slow, expected to meet current stabilization assumptions

Example 1 (continued)

- Risk rating classification:
  - $4.2MM – Substandard, nonaccrual - (“as is” appraised amount)
  - $0.8MM – Doubtful (pending lease-up) - (“as stabilized” less “as is”)
  - $1.0MM – Loss (charge-off) - (loan in excess of “as stabilized” amount)

  $6.0MM
- $5.0MM – Remaining book balance after charge-off
- ASC 310-10-35 (FAS 114) impairment:
  $5MM remaining book balance, compared to $4.2MM “as is” fair value results in impairment measurement and individual ALLL allocation of $0.8MM

Example 2 –No Recent Collateral Valuation*

- $400M Residential construction “spec” loan
- Repayment contingent on sale of property
- Plans to foreclose
- Waiting for new appraisal
- Current market data
  - reflects similar homes selling between $250M-$300M
  - 10% cost to sell
- Expected proceeds $225M-$270M

** Example taken from OCC Bulletin 2009-32/OTS CEO Memo #325 (Example C, Scenario 3)*

Example 2* (continued)

- Risk rating classification:
  $225M – Substandard, nonaccrual - Most likely estimate
  $45M – Doubtful (pending valuation) – Best case scenario
  $130M – Loss (charge-off) – Confirmed loss
  $400M

- $270M – Remaining book balance after charge-off

- ASC 310-10-35 (FAS 114) impairment:
  –$270M remaining book balance, compared to best estimate fair value of $225M results in impairment measurement and individual ALLL allocation of $45M

  ** Example taken from OCC Bulletin 2009-32/OTS CEO Memo #325 (Example C, Scenario 3)*

QUESTIONS