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Federal Savings Association Executive Teleconference

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

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Tim Wilson: Welcome to today's FSA Executive Teleconference: Migration from the TFR to the Call Report, Allowances, Accounting and Credit and Other Supervision Topics, presented by the Office of the Comptroller of the Currency. And with that said, at this time it's my pleasure to turn things over to today's OCC moderator, Jennifer Kelly. Jennifer is the Senior Deputy Comptroller for Midsize and Community Bank Supervision. So Jennifer, welcome.

Jennifer Kelly: Thank you very much Tim, and good afternoon everyone. I want to welcome you to the call. We were very pleased with the strong response that we received to this call when we offered it. And we have done our best to put together I think a very informative program. We'll be interested in your feedback on it. But without further ado, since we do have a lot of information we want to share today and then we want to have plenty of time for your questions at the end, I'm going to turn things over to Tim Ward, who is the Deputy Comptroller for Thrift Supervision.

Tim Ward: Thank you Jennifer. Welcome to the first of the two teleconferences we have set up with Thrift executives. We've scheduled these calls as a follow on to the informational sessions we held across the country between January and March of this year. I hope you were able to attend one of those sessions.

So a quick update for you. We have 674 OTS employees who reported for duty at the OCC in locations around the country on July 18th. We've worked very hard over the past year to ensure a smooth transition, and we've now succeeded in moving to a single regulator for National Banks and Federal Thrifts.

As we said before in the outreach sessions, we will need every bit of the talent and experience of former OTS staff to help fulfill our combined supervisory mission. On July 21st, we had 643 Federal Thrifts, with approximately $906 billion in assets, who transferred to OCC Supervision. And there are over 600 of those Thrifts on the call today. So thank you for your participation.

As we talked about also in the outreach meetings, former OTS staff and institutions have been integrated into existing OCC teams and the OCC supervisory model. So I think you've probably met some of your new team members, portfolio manager, ADC and the like. Our goal remains for a consistent, balanced supervisory approach for all federally charted financial institutions. The combined examinations have begun, and some have even been completed. But it's probably too early to generalize any feedback from the examination process. Maybe on our next call.

The next call will be on November 7th at 2:00 PM Eastern, and the topic will be Supervisory Expectations for Interest Rate Risk Management. And we hope you'll be able to join us for that call.

Today's call topics include, as was announced, the Migration from the Thrift Financial Report to the Call Report, Allowance Considerations and Accounting and Credit Issues. We will leave plenty of time at the end of the call for your questions. So we're going to get right into it and I'll introduce the speakers. First we'll have Kathy Murphy, our Chief Accountant. Then Jeffrey Geer, our Deputy Chief Accountant, who was formerly Chief Accountant at OTS. Then Darrin Benhart, Deputy Comptroller for Credit and Market Risk. And we have some others who may be answering questions when they come up.

So with that, I'll turn it over to Kathy Murphy.

Kathy Murphy: Thank you Tim. Good afternoon everyone, or good morning depending on where you are in the country. I have the pleasure of starting today, and we'll begin by giving an overview of the TFR to Call Report Migration. I will start by covering highlights of the migration decision, give you some notable comparisons between the TFR and the call report, and also give you some helpful tools.

During the Q&A session, I very much look forward to any questions that you have. To begin, let's start with slide four. This gives a recap of the decisions that were made in regards to moving from the TFR to the Call Report. As everyone knows, the last TFR will be filed for the December 31st, 2011 reporting period, with the Call Report beginning in the first quarter of 2012. However, early adoption is permitted, beginning in the third or fourth quarters. We did in fact have a few savings associations that early adopted in the third quarter.

The last point on slide four discusses the CMR schedule which will not be carried forward into the Call Report. As Tim mentioned, there will

be another OCC tele-briefing solely on interest rate risk management on November 7th. I encourage you to participate in that tele-briefing.

Moving to slide five. Here is where you can find the necessary information on the Call Report. This includes links to the Central Data Repository, which we also call the CDR. My understanding is you can register on the CDR now, regardless of when you start filing. So I would encourage you to do so. In addition, we have the links to the Call Report forms and instructions. I encourage you to familiarize yourself with the sites if you haven't already.

Slide six lists the conversion points of contact. The individuals that you may have been familiar with from the OTS's financial reporting division, will continue to be the points of contact as they have transferred to the FDIC's data collection analysis section. Please feel free to contact them. If you need technical assistance on the processing, there is the CDR help desk line. And the last point, if you have accounting policy questions, do not hesitate to call your supervisory office or my office directly, the OCC's Office of the Chief Accountant.

Turning to slide seven, let's discuss the Call Report communications and changes. FFIEC instructional changes and clarifications to the Call Report are made quarterly and communicated through the FDIC's financial institution letters. Once a year, additions and deletions to the Call Report are proposed for comment and then finalized. This is done purposely to reduce burden on Call Report filers by having clarifications only on a quarterly basis and changes only once a year. I encourage you to comment on our annual proposals and Call Report changes. We rarely receive any comments directly from financial institutions, but discover concerns after the new items are already implemented.

Beginning on slide eight, this is the first of a few tools that I wanted to share that are designed to assist you in filing an accurate Call Report. The first item is the Call Report Supplemental Instructions. The Call Report Supplemental Instructions is a quarterly document that not only discusses Call Report changes and instructional clarifications, but also updates on new GAAP issuances or other hot topics and any implications to the Call Report. I encourage you to read this document. It's typically only eight to ten pages, and it is designed to assist you and hopefully save you time in keeping on top of accounting and Call Report changes.

Just to give you a quick example, the September 2011 version has almost three pages on Troubled Debt Restructurings, also known as TDRs. It discusses criteria for evaluating TDRs as well as the new guidance issues by the FASB. Supplemental Call Report Instructions also has a list of the current Call Report vendors who can assist you in your migration to the Call Report.

Slide nine has another tool I'd like to highlight that is published by the OCC. It is what we call our BAAS, the Bank Accounting Advisory Series. It is a document that has real examples with interpretations made by the OCC. It is quite lengthy, 250 pages and organized by topics. For example, we have a section solely on Non-Accrual and another solely on Business Combination Accounting. One topic we are currently doing is reviewing the TFR question and answer document for policy interpretations that should be incorporated into our BAAS. I also encourage you to use this document. I know that many banks, audit firms and others, do as well.

One other tool I'll mention that I don't have a slide on is the Call Report Glossary. It has the GAAP accounting requirements for the key areas of a bank or Thrift, as well as interpretations made when GAAP does not cover.

Starting on slide ten, I will discuss just a few comparisons between the TFR and Call Report. There was a mapping posted by the OTS that can be helpful, but there are a few overriding things to remember, to keep things in perspective. My advice, don't get overwhelmed when reviewing the mapping. Here's why, first, for both regulatory reports, we follow Generally Accepted Accounting Principles, also known as GAAP. Many policy and statements that may have outlined expectations on implementing GAAP, are also interagency. And many regulatory requirements are the same, for example, deposit assessments.

So what does this all mean? This means that there are very little differences in the accounting since the roles and interpretations are the same. There may be some operational differences, such as SVAs, but still very few and hence why we're talking about SVAs today.

On slide 11 we start to move into differences. One of the key differences not listed here is that the Call Report and TFR are designed differently. The Call Report has detailed instructions and as I mentioned before, a glossary that summarizes many areas of GAAP and our interagency policy requirements. The TFR glossary was not designed to do this. You must look at OTS policies in the TFR's Q&A document in addition to the TFR glossary and instructions themselves to determine the appropriate guidance.

Also, one reason why the mapping may look a bit overwhelming, is the use of thresholds in the Call Report. Due to the high number of Call Report filers, including larger, more complex institutions, lines were added to the Call Report to primarily collect the information from the banks that engage in the bulk of the activity, hence resulting in setting multiple thresholds. While due to the lower number of TFR filers, if additional information was needed from larger organizations, OTS would just ask for it directly.

So what does this mean? This means that many lines may not even apply to you. So this slide on differences gets you back to similarities. The line items that apply to you in the Call Report were very likely similar in the TFR.

Slide 12 looks at a few other overall differences. Just to touch on the points briefly. Although Thrifts are not required to change their fiscal year to a calendar year basis for financial statement purposes, they must report the Call Report on a calendar, year to date basis. The TFR only requires quarterly reporting and not year to date information. The second point notes that there are different timeframes for when amendments can occur. The third point, the average balance schedule will change to just weekly or daily calculations for the Call Report, where the TFR calculations also allows monthly. And last but not least, specific valuation allowances will not be permitted in the Call Report. More to come on that.

Slide 13 gives an example of a savings association and national bank difference that will continue under the Call Report until further notice. For the calculation of the tier one leverage ratio, the calculation of total assets will be the quarterly average for national banks while savings associations will use quarter end totals. We did a quick review to compare the quarter end totals to the average assets as reported in the TFR, and did not notice a significant difference between the two. However, we will monitor this going forward, as we review the differing regulations for savings associations and national banks.

Just to ensure it is clear when there are differences that will continue, in this example and if there are others, we will revise the Call Report instructions to include this information.

And last but not least, slide 14 reiterates a point I made earlier. Because of a design difference between the glossaries of the TFR and the Call Report, this does not generally mean that there are different accounting requirements. For example, two questions I've received is whether the non-accrual status guidance is similar and is the restoration of accrual status the same. Since the non-accrual policies were agreed to and issued on an interagency basis, the policies should be interpreted the same.

So the example on the slide has the TFR glossary language, which is slightly different on the non-accrual status, but is intended to be the same since it all comes from interagency policy. And although the TFR instructions do not include any information on the restoration of accrual status, that guidance can be found in various OTS policies. Again, since interagency, they are the same.

So just to wrap up, my advice in migrating from the TFR to the Call Report, is to familiarize yourself with the Call Report, reach out to vendors if need be, look at your own data and how it will be reported,

and my hope is it won't be as overwhelming as you think. And please reach out to us if you need us. With that, I'll turn to Jeff.

Jeffrey Geer: Thanks Kathy. My name is Jeffrey Geer, and I'm the Deputy Chief Accountant here at the OCC. Now let's move on to the area of Specific Valuation Allowances, or SVAs as we like to call them. SVAs represent one of the areas where there are some important differences in the practices of savings institutions and banks. In the interest of full disclosure, I will tell you that I'm the former Chief Accountant of the OTS before the transfer date, SVAs were not my invention. They were around long before my tenure.

I will admit though that I was a bit caught off guard by the amount of attention that SVAs have received since becoming part of the OCC team. There does seem to be a lot of concern, confusion and misunderstanding about SVAs. So hopefully this discussion will alleviate those concerns.

In addition, as we started putting this presentation together, we did check with some of our field staff and we discovered that there is a great deal of diversity in practice in how SVAs are actually being used by savings institutions, often in ways that are different from the way they were intended. So I think it's probably a good thing that we're going to do away with SVAs in the Thrift industry as savings institutions migrate to the Call Report.

For those of you who have questions about the concept of SVA as it applies to loans, I think perhaps a good way to think about it is in the context of accounting for Other Real Estate Owned or OREO. We used to call it REO at OTS, but we now call it OREO. Banks use Valuation Allowances specific to individual OREO properties in a manner that's very similar to the way Thrifts use SVAs on loans.

So as you know, in an OREO property, you initially record it at fair value less cost to sale, which becomes the new cost basis for that property at foreclosure. However, subsequent to that initial recording of OREO, it is carried at the lower of that cost basis, or its current fair value less cost to sale. So if the fair value of an OREO property declines while the bank's holding it, that decline is usually recognized through the establishment of a valuation allowance that is specific to that real estate asset. And if after that decline the property subsequently increases in value, banks can recognize that increase in value back up to the original cost basis at the time of foreclosure.

So just to give you a quick example, if you foreclose and you initially recorded an OREO property at $100, let's say one year later you get a new valuation and you estimate the fair value less cost to sale at $80. Generally you would establish a $20 valuation allowance, which we would call an SVA at the OTS. And then say two years after foreclosure, you get another appraisal and it comes back in at $92. So let's say that it's partial recovery, it went down $20, it's now

recovered $12 of that $20 back up to $92. So you could reduce that Specific Valuation Allowance to $8 and recognize the $12 recovery. And that was the purpose of using SVAs instead of charge offs in the Thrift industry.

Of course you could never recover above the initial cost basis, so if the value came in at $110, you would never be able to go beyond $100. You would just eliminate the SVA to zero, but not recognize any gain. So hopefully that helps you think about SVAs in a manner similar to something you're used to seeing, if you're not familiar with the concept of SVAs.

Moving on to slide 16, and first I wanted to start with the written policy guidance on SVAs.. This guidance is found in the OTS Examination Handbook, which explains that SVAs are separate and distinct from the Allowance for Loan and Lease Losses, or as we call it, ALLL. So they're separate from the ALLL, and it notes that OTS does not allow savings associations to use the ALLL to cover any amount classified as loss. It states, when a loss classification is determined, either by a savings association or an examiner, 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 would change due to changing market conditions.

Moving on to slide 17, OTS Examination Handbook also points out there are situations where an SVA is not appropriate. It states that savings associations should not use SVAs in lieu of charge offs when they classify certain credits as loss, such as unsecured loans, non-residential consumer loans, credit cards, or instances where the collateral will likely be acquired through foreclosure. In all of those cases a charge off is appropriate.

Moving to slide 18, the other area where there's written guidance is from the Federal Financial Institutions Examinations Council (FFIEC). FAS114, or as it's now codified as ASC310-10-35, became effective in 1995. In February of that year the FFIEC issued a statement concerning the nature of FAS114 allowances and whether or not they qualified for inclusion in Tier-2 capital. And in that statement, the FFIEC said that the portion of the institution's allowance established pursuant to FAS114 should be reported as part of the ALLL, which is includable in Tier-2 capital subject to current limitations.

But they also reaffirmed existing regulatory reporting policies that require banks to promptly charge off identified losses. And they noted similarly, savings associations are required to either promptly charge off identified losses, or to create specific valuation allowances which are to be reported separately from the ALLL. Lastly it noted, with respect to impaired collateral dependent loans, the un-collectable portion of the loan balance that exceeds the amount that's adequately secured by the fair value of the collateral, is generally classified as loss.

So to reiterate, allowances established pursuant to FAS114 are reported as part of the ALLL. Amounts classified loss must be charged off, or if you were a Thrift prior to adopting the Call Report an SVA could be established instead of a charge off, consistent with the OTS policies mentioned on the previous slides.

Moving to slide 19. So what was the intent of permitting SVAs? Well, the intent of the policy was really to permit savings associations to have the ability to adjust those SVAs in cases where the loss classification might be expected to change as a result of changing market conditions. Such a situation might arise where there was a decline in the value of loan collateral that was expected to be temporary, and the collateral value might be expected to at least partially recover in the future.

SVAs then were mainly intended for impaired collateral dependent loans, both residential and commercial mortgages, with collateral deficiencies that were classified as loss, as well as for OREO properties. Not all Thrifts use SVAs. Some have always taken the charge off option for all loss classifications, and that of course has always been acceptable.

Moving to slide 20. SVAs are similar to charge offs, but they're not identical. They're very similar in that SVAs, when properly applied, must be included in the calculation of loss rates and that they're not part of the ALLL and therefore not included in Tier-2 capital. The main difference relates to recovery. When you charge off an amount it cannot be rebooked or reduced based on a change in the fair value of the collateral. Whereas an SVA could be reduced if it could be objectively supported that the fair value had subsequently increased.

Moving on to slide 21, and this is really I think a very important slide. The issue here is that we found that there has been a great deal of confusion in the application of the OTS SVA policies by some staff and some savings institutions. And so the question we're asking here, and by the way, I'm going to use the term FAS114 throughout my presentation because ASC 310-10-35 just doesn't flow naturally off the tongue very eloquently. But the question we're asking is: are FAS114 allowances the same as SVAs?

Some people think the answer to that question is yes, and I think that's where we've gotten into a lot of issues. The correct answer to that question is no. FAS114 allowances are not the same as SVAs. FAS114 allowances are allocations of the allowance for loan and lease losses to individual loans. Whereas SVAs were permitted to be recorded for portions of collateral dependent loans that were classified loss based on regulatory credit classification definitions and guidelines.

Moving to slide 22. So as a result of this misunderstanding of SVAs, we have observed there have been some unintended consequences.

The first one I'll talk about is a bad thing. The second one is probably more conservative on the part of the institution. So in the first area, some institutions have improperly excluded some or all of their SVAs in the calculation of loss rates.

SVA provisions and transfers to the SVA from the ALLL,must be included in loss rates just like they would if the amounts classified as loss had been charged off. This is the way it's reflected on Schedule VA of the TFR. On the TFR, SVA provisions and transfers to the SVA are added to the net charge offs against the ALLL, to arrive at a total net charge offs. So that is what was intended to be done and if this is not being done, it can lead to an understatement of the allowance, or the ALLL, for ALLL methodologies that incorporate historical loss rates, which most do.

Secondly, we've seen some institutions have treated all FAS114 allowances as if they were SVAs. And so what this has done is created more SVAs than necessary and resulting in less ALLL being included in Tier-2 capital. So they've sort of penalized themselves in a sense, assuming they had not already exceeded the Tier-2 limitation for including ALLL.

Moving to slide 23. This slide illustrates how SVAs are reported on the TFR. First and most importantly, SVAs are reported separately from the ALLL, and they're not, as I've said probably ten times now, includable in Tier-2 capital. SVAs are netted against the recorded investment in the loan, and that net amount is reported on the appropriate TFR line item.

So if you look at the example at the bottom of the slide on the chart, we have $100 of recorded investment in loans and specific valuation allowances of $4. Those separate amounts are not reported anywhere on the balance sheet of the TFR. Those two amounts, the loan's face value and the related SVAs, are netted and it's only the $96 that's reported on the statement of condition on the TFR, Schedule SC, line 230. And that is just like what would be reported on the Call Report, Schedule RC, line 4B. And then you reduce that net amount by $10, which is our ALLL in this example, and the ALLL is reported on Schedule SC, line 283 on the TFR in the Call Report, Schedule RC, line 4C. And then you come down to a net carrying amount of $86, which would be the same on the TFR and the Call Report.

Moving to slide 24. How are we going to treat SVAs going forward? Well, between now and the end of the year, first of all, as Kathy noted, savings associations do have the option to early adopt the Call Report. So once they adopt the Call Report, SVAs are done. You will no longer be able to report SVAs on the Call Report. Secondly, savings associations are not required to use SVAs, that was always an option. So the practice could be discontinued at any time.

If I were a Thrift manager, I don't think I'd be establishing anymore SVAs at this time in October and then writing them off at the end of December. So I think it's something that I would encourage savings institutions to consider, but it's certainly not required.

And then lastly I think the most important message on this slide is that savings institutions must, if they've improperly excluded SVAs from their historical loss rates, they have to go back and put them into the proper historical period for determining loss rates that are used in their ALLL methodologies to make sure that they are not understating the amount of allowance needed. On 12/31/2011 of course that's the last TFR that can be filed and that's the last reporting of SVAs and I will be very grateful when I never have to discuss this topic again.

Slide 25. Going forward after 12/31/2011, as I mentioned, SVAs are no longer permitted and they will have to be eliminated when a savings institutions adopts the Call Report. The presumption will be that SVAs represent confirmed losses that must be charged off against the recorded investment in the loan unless it can be proven that they were in fact really FAS114 allowances that should have been part of the ALLL and were misclassified as SVAs.

So how will you do that? Well, if you turn to slide 26, the elimination of SVAs first and foremost will not impact earnings and will not reduce the amount of the ALLL. They're eliminated by a debit to the SVA account and a credit to the recorded investment in the loan to which each SVA relates. So if you use the numbers from the preceding example that we went over, we simply reduce the recorded investment in the loan by the $4 SVA, reducing the Specific Valuation Allowance by $4, and then you would have the exact same reporting on the TFR as you would on the Call Report.

With that, I'll turn it over to Darrin Benhart, our Deputy Comptroller for Credit and Market Risk.

Darrin Benhart: Thanks Jeff. We thought it would be appropriate to spend a little time today to talk about the intersection of accounting and credit risk, since we were anticipating that we'd probably have folks on the line who prepare the Call Report, who are in the finance area and who also do credit risk, because these areas are so often really interlinked a lot.

And I want to spend a little bit of time today trying to debug some of the significant confusion that is potentially out there with everybody on the difference between FAS114, the loss classification and confirmed loss. So if we turn to slide 28, here we have the three terms, loss classification, confirmed loss and charge off. These terms are really all interchangeable. I think a lot of times there's, interestingly enough, a little confusion about those terms.

So I want to talk a little bit about the FAS 114 analysis and the confirmed loss. Again, impairment is an accounting defined concept

that requires credit judgement and is really meant to make sure that the loan is on the books at fair value when you have an impaired loan. The Call Report, and as Jeff mentioned FAS114 (I'll continue to use the term here) talk about and have guidance on establishing the appropriate impairment.

Whereas in contrast, the amount of charge off is really a credit-based decision that is based on the regulatory classification definition. I know Kathy often receives questions around the accounting that ultimately leads to well, what should the charge off be? And when that question comes up, she gives me a call to say, "Darrin, accounting doesn't define the charge off, and it doesn't require the charge off. What's the charge off?"

So that's where, again, hopefully the credit folks on the line will step in and look to identify the credit charge off amount. We've put for your benefit down at the bottom, the interagency definition of what a charge off is. And I'll just emphasize the first line there. It's assets classified loss that are considered uncollectible and of such little value that the continuance as a bankable asset is not warranted. I wish that sentence was as easy as it may sound, but we'll go into some of the next slides talking about how we have tried to put additional clarity around that statement.

So if you'd turn to slide 29, I think in the retail credit area it really is fairly straightforward hopefully, and there shouldn't be a lot of confusion in this area. Both agencies have interagency guidance on this topic for the OCC bulletin 2000-20 and for the OTS, it's the CEO memo number 128, just for your historical references.

For closed-end retail credits that are 120 days past due (except residential mortgages), you're required to charge those assets off down to the fair value of collateral at that time.

For open end credits and residential mortgages, open or closed- end, the charge off date is 180 days past due. On this slide we have also provided the links to the documents and obviously there are a whole lot of other situations where charge off earlier than those could be appropriate, and I won't go into those at this time. But again, those are just the broad concepts and I don't think we've really seen a lot of confusion on this topic in the retail area.

If we move on to slide 30, in the commercial area there really does need to be a lot more judgement used. And here we want to talk, and again, hopefully provide you with some clarification and clarity around FAS114, the ALLL and commercial loss confirmation events. The loss classification here requires judgment, and we're going to focus on secured collateral-dependent commercial real estate loans because that was one of the areas where SVAs could have properly been used by the savings associations.

Generally a current valuation, *i.e.,* an appraisal or an evaluation, whichever was required, that comes back below a loan balance of a collateral dependent loan, is a confirming event. This assumes that the primary repayment source is impaired and you are looking to the collateral to repay the loan. There are a few examples where you need to use judgment. From a credit perspective, often these are situations where the credit classification would correspond to a doubtful classification. Usually there is a pending event that will support the credit or confirm the loss in the near future.

So, for example, situations such as collateral valuations are not timely or you don't have reasonable assumptions or conclusions. Again, hopefully you're working to rectify those quickly, but obviously if they run across a quarterly Call Report date, you need to use your best judgment in those situations. And it could be a situation where you perform an impairment analysis, and establish an impairment amount at that time.

Another situation could be where you have a current valuation, but it's only minimally below the loan balance and cash flows are in place to support the debt service on a reasonable repayment schedule. Again, you have to look at all the facts and circumstances to determine in those cases if it's appropriate to retain a FAS 114 impairment amount, or if you have a confirmed loss. And of course where the loan is not collateral dependent, you need to look at the cash flows of the loan and the primary repayment source.

After the analysis and review of all the facts and circumstances, these scenarios could warrant a FAS 114 reserve impairment or a charge off. There just isn't any hard and fast rule in this area. That's the key takeaway.

We do have for you today also a few examples to hopefully give you some perspective on how this could be applied. These are very basic, simple examples for demonstration purposes, and I'm not going to discuss the entire analysis process or appraisal review process. We just have to assume the facts as they are given in the scenario today.

So on example one on slide thirty-one, we have a $6 million commercial construction loan. The building was recently completed and the institution has agreed to lend through the lease-up stabilization period. Currently the debt service coverage ratio on this loan is only point six times because the building is still being leased up. In making the decision to lend through the lease-up stabilization period, the institution ordered a current appraisal. That appraisal came back and had an "as is" market value today of $4.2 million and an "as stabilized" market value of $5 million in the future.

Hopefully you already had some perspective that those market rents had dropped before you got the current appraisal. So in some cases

you may have already established a FAS 114 impairment on this loan. But this appraisal would serve as a confirming event. Of course, the borrowers might be in negotiations with future occupants and it looks like that they're actually making some progress in getting this building leased up.

So what are the results? Let's turn to slide 32. Again, generally we would see a risk/rating classification on this loan of $4.2 million, substandard, non-accrual, which represents the "as is" appraised amount. There would be a doubtful classification because this building is still leasing up. There is still activity, and throwing out that this is all happening in a reasonable period of time, the "as stabilized" amount could be classified, doubtful, and you would have $1 million in loss, or a confirmed loss because that is the amount that is not supported by either value in the appraisal.

So you'd have $5 million remaining book balance after the charge off. The FAS114 impairment, as I had mentioned before, would correspond to the doubtful amount, or $800,000 in this case. So you would have the loan on the books at a net of $4.2 million, or the "as is" fair value.

Moving on to slide 33 and in example 2, again, here is a situation where there's no recent collateral valuation. You'll notice the asterisk on this slide because it corresponds to an example that we've taken out of our prudent commercial real estate workout guidance. Again, this is an interagency document and you see the relevant OCC bulletin, 2009-32, and the OTS CEO Memo number 325. And specifically this is example C, scenario three.

I would encourage all of you, if you haven't, to take some time to go back through this document. Again, it has been out now a little while, but it really does provide some good examples of credit risk classification, non-accrual and TDR designation. So it can be a very helpful document. As we walk through this example here, we have a $400,000 residential construction spec loan. Of course the repayment is contingent on the sale of the property and the bank plans to foreclose because it is a collateral-dependent loan.

There is no new appraisal at the current time. But as in many cases, whether it is on the residential or commercial side, there has been a lot of other appraisals that the banks have gotten. There is ability to do some market analysis and similar homes are selling between $250,000 and $300,000 with a 10% cost to sell. So the expected proceeds from the sale of this property range between $225,000 and $270,000.

If we turn to slide 34, the risk rating in this situation would be $225,000 substandard, non-accrual that reflects the most likely estimate or outcome; a doubtful classification, pending the valuation of a best case scenario of $45,000, which reflects the $225,000 to

$270,000 range; and $130,000 loss or charge off amount, which totals to the $400,000. In this case we have a $270,000 remaining book balance after the charge off. Again, the FAS114 impairment of $45,000 reflects the range or unknown amount that will be pending the valuation, which should again be a confirming event in this case.

We could go on with more and more examples, but the key takeaway is, as I indicated before, there are no bright lines and usually there is required use of judgment. As I mentioned earlier, there may be instances where collateral valuation is minimally below the loan balance, indicating impairment. But you have to look at all the facts and circumstances to determine if it's appropriate to have a FAS 114 reserve or if it's a confirmed loss. Both a charge off and the measurement of impairment need to be performed using guidance provided in the regulatory classification guidelines, the Call Report instructions and accounting standards. Again, there are a lot of resources for you to use, and of course you can always reach out to your local exam team or the headquarters folks here for assistance on that.

With that, I think we've tried to leave a fair amount of time for questions because we really anticipated hopefully a lot of give and take on these items. I'll turn it back over to Tim at this time.

Tim Ward: Thank you Darrin. Before we open it up for your call in questions, we did have some questions that were submitted in advance. So I'm going to start the first one. John Brown, who's our commercial credit lead expert in the Western district, in Denver, Colorado has the first question. So John, I'll turn it over to you.

John Brown: Thanks Tim. I've got a two-part question here that's—it goes, what will examiners be doing or emphasizing during this Call Report, TFR transition and post-transition periods? Also, what should bank management do if they have questions? And the answer's really shouldn't—institutions shouldn't see a significant change or emphasis on this particular transition. As part of every examination we do some level of testing to ensure Call Report and financial reporting accuracy at institutions.

If examiners find concerns during those exams, we obviously will dig further into those particular issues to find the root cause and what the particular corrective action might be. Around the SVA issue in particular, as part of our examinations, we will ensure institutions have sound processes related both to the inclusion of SVAs in their allowance historical loss numbers, which has been said several times already, and also a correct FAS114 or 310-10-35 impairment reserve process. We want to make sure both of those are functioning effectively.

These are, as we've said also before, these are areas where we have identified issues in the exams that we've conducted to date. Many of

the other transition items that we're talking about here today are hopefully fairly straightforward. But if management does have questions, they should definitely reach out to their EICs or their ADCs with questions. That's it.

Tim Ward: All right, thank you John. Tim Wilson, I am going to turn it back to you so you can provide instructions for the callers if they have questions please.

Tim Wilson: All right, very good. Let's open up those phone lines and if you have a question, all you need to do is press "star 1" on the touchtone keypad of your telephone, star followed by a 1. That will then place you into our question queue and when your turn comes up, I will call on you by the city you're located in. And we do ask that if you're using a speaker phone and it's all possible, please pick up the handset when you ask your question. We'll all be able to hear you much better that way. And when replacing the handset, remember to press and hold the speakerphone button so that you're not disconnected, but should that happen, simply dial back in, re-enter your PIN, you'll be immediately reconnected to our program.

So if you have a question, press "star 1" on your touchtone telephone, and we do have a few callers in the queue right now. So why don't we take one of those, we'll go to Santa Rosa, California and go ahead, your line is open.

Santa Rosa: Thank you. So my question is, I realize we won't be reporting SVAs anyplace on the Call Report, but you would—the SEC wouldn't have any problem with a Thrift still maintaining SVA balances, assuming that we treated them properly, like you've described today, because we don't have the ability to charge them right off of our books and still maintain a customer balance, a true customer balance.

Tim Ward: You know, I think our—what we're trying to communicate is that you do need to eliminate the SVAs. So if you have bookkeeping procedures that you have to do to try and keep your loan trial balance—to keep track of the contractual amount due, I mean, I think that we would accept that. But you should not, on your general ledger, continue to carry SVAs. Because the idea on reversing them is that you debit the SVA and credit the recorded investment in that particular loan.

So it would adjust the amount of the carrying value of that asset. Do you have another way to keep track of that? Caller?

Tim Wilson: I'll take—and I'm sorry, I released the caller from the queue, but if they want to re-enter, we can go ahead and put them back in by pressing "star 1." There we go and yeah, go ahead, your line is open again.

Santa Rosa: So I understand there is, in our institution, only one trial balance and that's the customer trial balance. I don't see what the difficulty would

be as renaming our SVA to a contra-asset. The net effect on all regulatory reports and loss calculations and GVAs or ALLL, would be exactly the same.

Darrin Benhart: This is Darrin. I think you're asking a relatively specific operational question. We would probably need to have the local folks talk to you and specifically talk through exactly how you plan to do that. But again, it was our understanding that, as Jeff indicated, that the SVA would be eliminated off of the ledgers of the bank.

Kathy Murphy: Just to add, this is Kathy Murphy, What Jeff had talked about is that the key difference between a charge off and an SVA, is that there are timing differences on recoveries. So that's why we're saying not to set up the SVA, you need to charge it off, so there's no confusion about if you then had an increase in the value of the collateral, that you could not recover it. That wouldn't be in line with Call Report instructions. I hope that helps.

Santa Rosa: I think what I'm saying is, we can follow all your rules and still have something on our books called an SVA, and I don't see why we would have a—anybody would have a problem against that language on the general ledger for operational purposes. But we can, as you suggested, we can talk to our local office. Thank you.

Tim Wilson: All right, and thank you. Let's take another call. We have a caller from Wisconsin, California, Illinois and more, and let's go to Brooklyn, New York for our next call and your line is open. Go ahead Brooklyn, New York, James' location.

Brooklyn: Yes, I have a question about the classifications, substandard and non-accrual. Is there a policy on substandard and nonaccrual, that you can have an accruing loan that's also substandard?

Darrin Benhart: Absolutely. There are plenty of substandard loans that are on accrual that just have well defined weaknesses, but there is no doubt as to full collectability of principal and interest yet. In the examples that we gave here we were trying to give examples related to the difference between FAS 114 impairment and charge off. Because there was a charge off in all of our examples that by definition would be a nonaccruing asset.

Brooklyn: Would you have any issue with a policy where if it was on accrual basis prior to its being declared substandard, it stayed on accrual and you wouldn't have to comply to the six months of good history to get it back to accrual?

Darrin Benhart: Again, that sounds like from a policy standpoint, I'm not exactly sure what you're talking about there. Usually we have indicated that if you have a non-accruing asset that has returned back and there's no longer doubt as to full collection of principal and interest, we would like to see a period of performance before that is returned to accrual

status. But if you have a loan that wasn't on non-accrual to begin with, then that wouldn't apply.

So without more information or more detail, I don't know that I can answer.

Jeffrey Geer: This is Jeff Geer. I think those are two separate decisions really about whether you place a loan on non-accrual or on accrual versus its regulatory risk rating classification. So, like Darrin was saying, I don't think it's automatic that one goes with the other (nonaccrual and classification). When you classify a loan as substandard you do not automatically have to put it on non-accrual and therefore you have to wait for six months to start accruing again. I don't think that's the case.

Brooklyn: That's exactly what I was looking to hear. Thank you.

Tim Wilson: And thank you for the question. And if you have a question, press "star 1" on your touchtone telephone. Next caller comes from Fort Lauderdale, Florida, and go ahead please.

Fort Lauderdale: Hi, I have a question on example one. I believe in the prudent commercial real estate guidance, it said you can—that fair value alone based on the "as stabilized" value, is if your primary source of repayment wasn't from the sale of the collateral. So is this example just not specific to that?

Darrin Benhart: The prudent workout guidance says you can consider the "as stabilized" value, but you always need to reference back to the current "as is" market value. So yes, we didn't go through all the facts and circumstances and we clearly indicated that this loan was collateral dependent. The only repayment source was from the repayment or sources of income from this loan. So that's why this loan ran down this path.

Clearly other facts and circumstances and other patterns where you had a different repayment source, you had guarantors, etc, would play into that determination. Again, here you have a situation where an appraisal is telling you that the cash flows from this property, even "as stabilized value," would only be worth $5 million. That's why we have to recognize that as a confirmed loss in this case, because there is no other source of cash flows.

Fort Lauderdale: Yeah, I'm really talking about the $800,000 doubtful.

Darrin Benhart: Well, the $800,000—and that's what we're saying, the $800,000 is the doubtful piece that corresponds back to the market value that you have to also consider. You just can't ignore the market value in this case. We are allowing you to keep that effectively on the books as a FAS 114, which again, as the fair value changes, you can adjust that on a quarter to quarter basis. So to some extent in that way, FAS 114

acknowledges that this is an estimate process and would allow you to have some flexibility there.

So we're allowing that flexibility but again, you need to recognize the current market value today.

Fort Lauderdale: You're putting 100% provision on something that's doubtful by just—you're recommending that?

Jeffrey Geer: This is Jeff Geer. From an accounting perspective, this is an impaired loan under FAS 114. So you have to measure it under FAS 114, and under our regulatory guidelines we limit there's three different measurement methods in FAS 114. But for collateral dependent loans, we require you to use the fair value of collateral method in this situation. So that's why you would have to reference the $4.2 million because that's the current fair value of the collateral, and that would be the amount of the FAS 114 allowance required after the charge off.

Fort Lauderdale: So you always use the as is, you would never use the as stabilized?

John Brown: I think it's important to highlight here that this is an impaired collateral dependent loan and the example in the guidance is not an impaired collateral dependent loan. It's a classification of a different set of facts and circumstances.

Fort Lauderdale: Right, because it was saying that if the property was leased up, it would be able to have a debt service coverage. And that's pretty much what the "as stabilized" is. All right, so you're really not saying that if you classify a loan as doubtful, that portion, you have to put 100% reserve on it.

Darrin Benhart: Clearly in all cases the doubtful portion wouldn't always be 100% allocation, because there are situations where you use doubtful for other reasons. In this case though, based on the facts clearly laid out by the appraisal, which is our best estimate from an outside, independent third-party source,and the loan is collateral- dependent loan, you would have 100% of the doubtful amount as the impairment in this case. That's not a hard and fast rule either. You have to look at all the facts and circumstances when you do your FAS 114 analysis. In other cases you may have doubtful amounts that are higher and you wouldn't have 100% doubtful allocation.

Tim Wilson: And with that, we have about ten other callers in the queue. So we'll move along. Take our next call from Rock Island, Illinois, Heidi's location is with us. Go ahead. And go ahead Rock Island, Illinois.

Rock Island: Hello?

Tim Wilson: Yeah, go ahead. We can hear you now.

Rock Island: All right, I have a question regards to the FAS114 versus the SVA. If we've always treated—if we're primarily a residential lender and you've got valuations on your properties, if you always carry those as a specific reserve in the past, I mean, how do you do that going forward? I know the one individual asked earlier about statement notices and stuff like that and, you know, we—if you appraise the property and there is a valuation that says it's worth less than what is owed, I mean, we've always just treated it as a specific reserve. And then once the property is titled in the bank's name, then we charge it off at that point and treat it as a loss. But it sounds like you're saying that's incorrect?

Jeffrey Geer: Well, it wasn't incorrect I don't think in the past, but that would not be the way that we would expect it going forward. So that you would have to charge it off rather than establish an SVA, but I do think that you're correct in that if you're getting an appraisal report and it indicates a value and you're using that value, that would be the confirmed loss and that would require charge off at that time and not wait till you foreclose and receive title.

Rock Island: Okay.

Tim Wilson: All right, and thank you for the question. We have Placerville, California with us. Let's go there for our next question, and your line is open.

Placerville: Yes, I had just a simple question. I have been trying to locate on the OCC website the BAAS, and I can't find it.

Kathy Murphy: This is Kathy Murphy. Thanks for that question. It's the Bank Accounting Advisory Series or the BAAS. It is on OCCgov, there is an accounting subtopic in there. If you click on that, you can find it there, and I think there's other ways to get to it. If you go on OCCgov and just put in BAAS, it will likely come up. If you still can't find it, let us know. We're happy to flip it to you.

Jeffrey Geer: Please send us an email if you can't find it. We'll send you the link.

Tim Wilson: And thank you for the question. We'll move along to Elizabethtown, Tennessee, Carol's location and your line is now open.

Elizabethtown: Good afternoon. I've got a question concerning the early part of your presentation. Is there a specific software vendor or set of vendors you recommend for the OCC reporting or the Call Reports?

Kathy Murphy: This is Kathy Murphy. Thank you for that question. I mentioned this briefly when I discussed the Call Report supplemental instructions that comes out every quarter. On the last page we do list the Call Report software vendors. We don't endorse a particular one. We just give you the information of all the ones that do offer software for Call Report purposes. So if you pull up the supplemental instructions, we

did give you the link to the FDIC website which has all the FFIEC instructional forms, which include the supplemental. So in the September 30th's version, it's on page ten. If you can't find it, also let us know.

Jeff Geer: Nine of them I think.

Kathy Murphy: Let's see, yes nine right now.

Elizabethtown: Okay, thank you very much.

Kathy Murphy: Thank you.

Tim Wilson: Our next caller is in Fort Smith, Arkansas, and go ahead with your question.

Fort Smith: Yeah, I'd like to ask a question a little bit—it would appear like cash flow is kind of king a little bit in determining a little bit about what is a charge off and what's an impairment. In other words, for instance, if we have a borrower whose debt service coverage on this particular asset is, like, point six oh, like your example. But their global cash flow is, like, one point one five, and they're current on their loan here. But the [indiscernible] value and then you see that it is impaired asset. It's not worth—and you are worried about the long-term viability of the customer, but he has not broken his promise, his contractual obligations or anything with us. But you go ahead and impair it, because of that global cash flow and his ability to show that cash flow, that would not be a charge off, is that correct?

Darrin Benhart: This is Darrin. Again, if I give you an answer to that, there are hundreds of other people on this call that have a scenario that's sort of just about like that.

Fort Smith: But my question is, you don't have to answer that, [indiscernible], but if the cash flow and the current nature of his assets, wouldn't that—basically reading your stuff, it looks like that would allow you to keep it impaired and not have to charge it off.

Darrin Benhart: I think, you're presenting some information that yes, clearly cash flow and the ability to repay, is important. Of course you get into it when you talk about global cash flow. You get into when we indicate in our prudent workout guidance that you need to consider global cash flow and look at that. But is it—is that person specifically signed on the note? Are they a guarantor? Do you only have that asset? Do you truly have recourse? I mean, you get into a detailed level and nature of questions. I would say yes, from what you've told me, that could be a situation where you could use judgement possibly. But again, it's difficult without knowing all the individual nuances, to give you a yes or no answer on that question. Again, cash—you're absolutely right, cash flow is king. The ability to repay is the first thing you need to

look at in assessing credit classification, non-accrual, accrual and ultimately a confirmed loss or an impaired loan decision in that case.

So again, I think you've described one of those situations where yes, it probably does require judgment. Sorry I can't be more specific than that.

Fort Smith: I think you've kind of answered. The second part of my question, the very first caller had a—I thought a very good question just on the operational side. For instance, if a loan is—maybe delinquent or two over a couple of payments, but it's been—it's not being crammed down. The principal balance is still—and they're trying to—they're still trying to work through it and everything like that. You know, if we write down that loan, if we take our specific reserve off our GL and write down that loan because that's—if you take it off the GL's specific reserve, you only—you have to net it into your trial balance there.

Which means you have reconciling issues then going forward, but the big thing is, your accrual calculation, if I change that principal balance on my sub-ledger, my accrual calculation isn't correct. And that creates great problems sending out statements and everything when you're—when the borrower is trying to contractually obligated to that amount. So I guess my question, like she was saying, can't we keep some sort of reserve in—because we don't want to cram down the balance on our trial balance because we're trying to contractually still get that amount and we need our system to operate correctly to get that amount.

Darrin Benhart: This is Darrin again. I'm not familiar with your specific operation. Obviously banks need to be able to track the legal balances, as it's sometimes termed, which is, as you indicated, the full amount that that borrower still owes you. But obviously there are situations where—and again this happens fairly frequently on the commercial side, where there could have been a charge off or a partial charge off of a loan, but you're still looking to collect the full, legal balance that the customer owes you.

So again, it is a kind of a specific operational issue and many institutions have recovery systems that allow them to track the legal balance against the current book balance as it were, *i.e.*, what's being reported on your general ledger. So I think to some extent that's just an operational issue that you'll have to think about with your vendors and your specific trial balance and general ledger folks. I don't know if the accounting folks want to add anything else.

Kathy Murphy: This is Kathy Murphy. I would just mention, whatever process you have right now to handle charge offs and still maintain the contractual legal balance, is what you should use. I think the other aspect, because I think these are all very good questions, from just the accounting perspective is it is important to document your allowance methodologies using the interagency policy statements on the

allowance. The way we've always described FAS 5 and 114, is it's a way of building your allowance. But the allowance is really available for the entire loan portfolio.

So be transparent with what's in the scope of 114, which loans are collateral dependent where you have to use the fair value of collateral versus the ones that are not where you use a net present value of cash flow approach. Make sure your policies are very clear on that standpoint and your allowance methodologies are clearly documented, that's often helpful.

And again, I would think you have a process for handling the accounting side of things, including charge offs in your systems already.

Darrin Benhart: Well, I know there are more challenges on the retail side, like the residential retail side and residential systems are more challenged in tracking partial charge offs. So there probably are some work-arounds that you may need to consider in doing that.

Fort Smith: Thank you.

Tim Wilson: And with that, we have about a dozen callers in the queue. So we'll take a call from West Bend, Wisconsin, who's been waiting patiently, so let's go there for our next question.

West Bend: I think that's us, hello?

Tim Wilson: Yes, go ahead please.

West Bend: Well, one question I have, our first question was, I think, already sort of answered, same as everybody else's. But I also have a question on how are you able to break out your loan into three—well, I guess it would be two, because the last part is charged off. But to say that part of it is doubtful and part of it is substandard, how is that done on the system automatically? Or is this all manual?

Darrin Benhart: This is Darrin. Again, banks have many different ways I guess of tracking and flagging those types of situations. In some cases, I've seen institutions use a manual process for the doubtful piece depending on the volumes that you have you can even do a specific spreadsheet. John, do you want to comment on maybe what you've seen how institutions have kind of separated or broken those loans out?

John Brown: Like, you mentioned earlier, they've got the processes within their systems that track it, usually through the allowance methodology where they're breaking out the separate classification balances. As far as the legal book balances of those loans, they're not individually tracked. Did I get to the point or--?

Darrin Benhart: Well, and this is Darrin, maybe let me just add that, again, maybe a nuance between commercial and retail. Generally on the retail side, we don't often use a doubtful classification. Usually for retail classification purposes, the classification is triggered by delinquency, and then we just have the charge off that is triggered at 120 days or 180 days.

So, from a classification standpoint, we don't as often use the doubtful classification on the retail side. So I guess, I wouldn't be as concerned because we have the kind of hard and fast charge off that backs that up at 120 or 180 days.

Tim Wilson: Let's take another call. We have calls from Indiana, South Carolina and more, but first Jacksonville, Florida, and your line is now open.

Jacksonville: Hi, I have a specific question. Now I understand that FAS114 and the SVA is not the same. If I just look at the old OTS report on the VA schedule, under the general VA allowance, were we meant to be reporting FAS114 under the general VA 105, 115s, 165s?

Jeffrey Geer: Yes, that's where—and I think that's created a lot of confusion because of that word "specific" and because 114, you're usually individually calculating impairment on a particular loan. I think people—honestly, I got this confused when this issue first came out. When 114 first came out, I misunderstood it too because I thought all 114s were specific. But yes, what we were trying to explain is that even though you are calculating impairment and associating it with an individual loan, because it's not a charge off, it shouldn't have been an SVA. It should have been in with the FAS 114 component of the ALLL and the FAS 114 amounts should both have been under the general impairment (ALLL) category.

Jacksonville: That's very helpful, thank you. One more question, in terms of—on page 30 and after we talk about commercial loss confirmations, did I understand correctly that once the order and appraisal—if that appraisal comes back evaluated below the loan balance of the collateral dependent loan, that it's a—that is confirmation of a loss? We're trying—we're struggling a little bit with defining confirmation of a loss.

Darrin Benhart: Sure, and that's why we tried to put these in here. And again, as you note on the slides prior to that, we indicate that yes, generally when you do get an appraisal back on a collateral-dependent impaired credit, that is below the loan amount - and you'll see that in the Call Report instructions also- it does indicate that likely is a charge off. We try to indicate to you that there is some judgment that needs to be taken if you have other facts and circumstances that might mitigate that in some way. But again, we would look at that as a fairly good indication of, to some extent, you have a charge off unless there is some other very strong reason why you don't believe it should be at this point.

Jacksonville: One more question then. Defining a collateral dependent loan, if some [indiscernible] or cash flows could get affected from recovery of rental units or guarantor, is that considered a collateral dependent loan? Just because you're using collateral as part of the cash flow? Or does it have to be solely collateral dependent?

Kathy Murphy: Yes, I think that's always a very good question, because obviously there's judgment required in determining what are collateral dependent. But the way we've always defined it is, if you're still having cash flows from other sources, it may not be collateral dependent, depending on what that source is. But if you really are looking at cash flow and not just solely the sale or operation of the collateral, then it's not collateral dependent.

Darrin Benhart: So in your example, clearly when you have a guarantor and that guarantor shows the ability and willingness to provide support to this loan, then no, likely you do not have a collateral dependent loan because you have other cash flows and other sources other than the sale or operation of that specific piece of collateral. That's the easy one. Of course the easy one on the other side is, you only have these lots, for example, then that is the only collateral you have. You have no guarantors. You're solely dependent on the sale of that collateral to repay this loan, again that's fairly easy on the other side. That's a collateral dependent loan.

And then you have the full range of situations, in between as far as using a little bit of judgment about whether they are or they aren't collateral dependent.

Jacksonville: Thank you very much. That's all I had.

Tim Wilson: Thank you. And if you have a question, press "star 1" on your touchtone telephone and up next, Lawrenceburg, Indiana, we'll go to Stephen's location.

Lawrenceburg: Hello, I just wanted to throw another wrinkle into all the discussion that's been going on. If you have a collateral dependent loan, say for $100, but you sold 30% of it to another investor. So you really have a loan on your books that you own $70 and the participant owns $30. And it's a collateral dependent loan that you're foreclosing on, and you've determined by an appraisal that if you were to sell it, you would get 70% of the proceeds, which would say, in my example come out to $40. So you have a $30 loss. We really can't apply a $30 loss and write down the loan from $100 down to $70 because we have a participant in there. So how would you—you know, it was just so much better just to say what the specific reserve, which was never including in ALLL. And if it does go to foreclosure, then I would write it down or apply it after we had just put our $70 into OREO. What do you think about that?

Darrin Benhart: Well, I'm just going to say that whether you have a participation or not, it shouldn't matter. You need to make sure that your books and records accurately reflect what you know your confirmed loss should be. So if you have an appraisal that comes back that shows you a loss amount, you need to take in your case, 70% of that loss so the participation amount that's on your books is accurately reflected. And I'll throw it over to the accountants if they have anything else.

Kathy Murphy: Yes, this is Kathy Murphy. I think, as you're going through the fact patterns, I have a lot of other questions about the accounting side. Did you get sales treatment when you participated out? And what do you have on your books? But I think just to reiterate what Darrin was saying, regardless, when you're looking at classification and going through the process, you're going to look at what's happening with that borrower, rate it accordingly. And then depending what you have on your books, that's where you get into, do I have additional allowance? Do I have additional charge off?

So I guess it does get more complicated and we see the same thing when you have purchase loans. And so let's say you purchased them and had a fairly large fair value discount and recorded at $40 . So does that mean I don't have to classify it? Well, no, likely you still would have to if there's trouble with the borrower. But you may only have $40 shown as a substandard credit or what have you. And then getting into impairment, you may or may not have impairment, depending on what's happened since you purchased it.

So a lot of what you're saying reminds me of that.

Lawrenceburg: I don't have a problem with buying a participation because we only show on our books what we purchased. But when you're the lead lender and you sell a percentage off of it to somebody else, now I wouldn't think your accountants would have a problem with the fact that if you wrote it down 30 in my example, it no longer has the same participation balance that you originally established, your 70/30 in this example. Because now you've changed, you know, the ownership difference, and you cannot assume what your participant is going to—if they're going to—if they feel similar to you, that they should write down their balance a proportionate amount.

Darrin Benhart: This is Darrin again. We're assuming you have sold that 30% that you talked about and, if you get an appraisal and you believe you have a confirmed loss, this gets back to the legal balance that is owed and you would still have to track that for you and the participant that you have, because you have a $100 obligation. But on your books you only reflect the amount that you own today. And so you would have to take the proportional amount of the confirmed loss you believe you have identified on your books. And, it would be up to the participant, which hopefully would make the right decision also to take the rest of the confirmed loss that reflects their share of the credit on their books. You have no control over what the participant does.

Then you would have to continue to track the legal balance owed from that customer, and you would have a different balance on your books. And that gets back to some of the questions that we've talked about previously on maintaining a somehow separate ledger, general accounting ledger versus a trial balance. I think that's the nuance we're talking about here.

Lawrenceburg: I guess the whole point is, I'm not really sure why you guys are so adamant about writing it down, whether we have a contra account on our books or not. I mean, if we're still going to report the net amount on the proper line on the Call Report, what's the big deal? You know, I mean, are we going to be criticized by OCC examiners if we have a specific reserve on our books?

Darrin Benhart: If it doesn't confirm with the FAS 114 and what's proper for a FAS 114, and if we would see that what you have on your books is a contra asset really should be reflected as a charge off, yes, we would be critical. If you look at the Call Report and the regulatory definition of what a loss is, if you're not writing those off of your books, then yes, we probably would be critical. But again, it has to meet the loss classification for it to be taken off your books. And if it's going to stay on your books, it needs to meet the FAS 114 definition. That's the simplest way I can say it.

Jeffrey Geer: This is Jeff Geer. It would not change your participation percentage, just to be clear on that.

Lawrenceburg: Well no, it would be. If we wrote down our $100,000 by the 30 that we have a specific reserve on now and I actually do have this situation on my books right now, then now the loan is showing $70 on our subsidiary ledger, which is our loan trial balance as well as our GL. So no, I have to write it down, from what you're saying.

Jeffrey Geer: This goes back to the issue that we've been talking about with a lot of people. It seems like there's systems problems, differentiating what your carrying amount is for accounting purposes versus what the legal contractual amount due is. And so for percentage, ownership percentage, you would still be owed $100 in total and you would participate—the participant would still have $30 participating interest. And so they would still have a 30% interest. I understand that their 30 is now a big percentage of the 40 that you're carrying it at, but those are two different items, accounting carrying amount versus legal amount contractually due.

And so I think maybe if you will talk with your new OCC team and explain what this issue is to them, they could maybe direct you more—direct you better on how they would be comfortable with you dealing with this issue.

Lawrenceburg: Okay.

Kathy Murphy: Yes, this is Kathy Murphy. I'd also like to add, I think as Jeff said, reach out, we'll work with you to get through all the operational challenges. But really, when you migrate to the Call Report, it is what all the other 8,000 institutions that file a Call Report are doing. So it's not a new concept for us and it's been a longstanding requirement.

Lawrenceburg: Yeah, I guess the thing is that you have me at a disadvantage because I've been doing the TFR for a heck of a long time and I'm not really very familiar with the OCC Call Report at this point. Obviously I will be shortly.

Kathy Murphy: Yes and feel free to reach out to us, reach out to your supervisor. We're happy to help you work through this. We understand there are a lot of operational issues, and we're happy to help you work through that.

Lawrenceburg: Okay, thank you.

Tim Wilson: And thank you. And we do have quite a number of callers in the queue and about 40 minutes left. So in order that we might address as many questions as possible from different people, I ask that our callers limit themselves to just one question. Now if you do have more than one question, I ask that you please re-enter the queue by dialling "star 1" after your first question is addressed. So again, let's limit it to one question per caller and we can cover a lot more ground that way.

That said, let's go to Los Angeles, California and Christopher's location and your line is open.

Los Angeles: Okay, thank you. Quick question. If I had a collateral dependent loan, first identified as clearly impaired loan. It's collaterally dependent. My only source of repayment really is liquidating the collateral. And so I've identified, I value it, identify the net realizable value after taking out the cost and I do a, according to outside—the guidance, I go ahead and take a partial charge off. I'm going to make this a general question. Since I've done the impairment analysis, I've done a partial charge off, I was understanding that—I've done my FAS-B analysis, taken my partial charge off, that you do not have anything allocated, or you have nothing in the ALLL beyond that. In fact there is nothing in the ALLL for FAS114. That's only limited to FAS-5. Once you've done an impairment analysis, I was always told, if the loan's fully covered, you would not put anything in the reserve if it's an impaired loan and you identify it's fully covered by collateral, you wouldn't put anything in. Somebody's mentioning FAS114 in the general allowance and I didn't think that's the way it's done.

Darrin Benhart: John, do you want to address this first and then we'll jump in?

John Brown: When I was listening to it, just to complicate matters a little more, you could wind up with a FAS114 allocation in the specific example that

you gave for selling costs. Obviously the confirmed loss portion provided by the appraisal for the asset itself, would be classified loss and charged off. So you could be taking a loss and having an allowance allocation both.

Los Angeles: Okay, but you're saying for the selling costs, but we usually just—we actually get to the net realizable. So we'll take the appraised value less the selling cost and then we take our charge off.

Darrin Benhart: This is Darrin. I think in this case, and we've said in some of our various guidances, that if you have already had a charge off, then the FAS 114 may be zero or minimal. But you have to remember that on a quarterly basis, you have to look at the market value. So there could have been, since you took that last charge off, additional deterioration that you may need to account for on an ongoing basis.

But yes, as of the date, if you have an appraisal and you did a charge off down to that appraised amount, and they correspond very closely to the quarter end date, could you have a—or would you have a FAS 114 specific to that loan? Possibly not.

Jeff Geer: I think the best way to look at this, is if you look at our example 2 on slide 34. So we're saying that the most likely scenario in that case is we think we're going to get 225,000. That's our best estimate of loss. But we're saying in a best case scenario, you might get to 270,000. So we're only going to require recognizing a confirmed loss of $130,000, the difference between the 400,000 and the 270,000 best case scenario. That's all that's been confirmed. But GAAP requires you use the best estimate for your impairment analysis under 114. So after you charge off the 130,000 confirmed loss, then your FAS 114 impairment using your best estimate would require an additional $45,000 in impairment allowance. Is that helpful?

Los Angeles: It is, but there's some outstanding guidance in the joint agency guidance. They talk about do your impairment analysis. Taking it down to your net realizable value and then not having anything in the ALLL for the remaining asset. Once you've really written it down to, you take—once you've written it down, because they call that layering. And so they didn't want anything else on it. So I have a little different understanding of it, but I do follow your explanation.

Kathy Murphy: This is Kathy Murphy. I think what you're getting into is addressed in the interagency 2006 guidance, which is OCC bulletin language is 2006-47. We have commonly asked questions, and I can tell you that half of them have to do with 114. But we do have some that talk about where they're using FAS-5 as your measurement approach, where you're looking at groups of loans and coming up with impairment versus 114 which is individual impairment. And it says once you're in FAS-5, you're in FAS-5. Once you're in 114, you're in 114.

That's the concept of layering. That if you have an impaired—individually impaired loan, and you do a 114 measurement, that 114 measurement is all that you do. Now we also have another question in there, specifically question ten, that talks about if you've taken a charge off, do we generally expect there to be an allowance? And our answer is in most cases is yes. I think Darrin gave a scenario about, if your appraisal date and your fair value date, meaning your reporting date, is exactly the same, then maybe you wouldn't.

But often what we see is the fair value date may not be the same and there could have been further deterioration in the environment. If it's collateral dependent, the fair value of the collateral analysis is as of that balance sheet date. So I encourage you to look at 2006-47. I don't know if you know the comparable OTS, CEO memo. I don't have it memorized on that side.

But if you go through that, I think that'll be helpful. Does that help at all?

Jeff Geer: It was a CEO memo from December 2006, so December 13th. So I don't know the number. I remember the date.

Tim Wilson: Okay, let's take another call. We have Greer, South Carolina with us and we'll go to Jennifer's location.

South Carolina: You hear me? Okay—

Jeffrey Geer: Yes, go Clemson Tigers!

South Carolina: Quick question, this is probably for Kathy. Do we have to—this may be a stupid question, do we have to register for the CDR and get the vendor? I mean, we've already got our vendor in place, but I was under the inception, they get all the information from the CDR and we did not have to register. But is that wrong?

Kathy Murphy: No, if you've engaged the vendor, they're going to set you up and link everything up appropriately.

South Carolina: So—I mean, we've got our vendor and we got our software, but we haven't really—I don't know that they got any updates through the CDR. So I just didn't know if we needed to, as an institution level, register, or just rely on the vendor.

Kathy Murphy: Check with your vendor.

Jeffrey Geer: I think some of them are a little bit different, but I think probably not.

Kathy Murphy: I'm sure that's part of their checklist to do that for you, but ask your vendor.

South Carolina: Okay, I mean, after we did our webinar, I was under the assumption that they do it as well. But I just wanted to confirm we didn't have to do it at an institution level. And I want to just say, talking about the operational side of things and some of the concerns people are having, I know our core processors has a—we just got a [relief] for an update. We used [FiservVision], and they're coming out with a shadow accounting that will reflect their books. You can still keep your contractual principal balance out there and accruing the amount of interest, but it will also have a shadow balance to reflect the charged down principal balance.

So that kind of is behind the scenes work, institution accounting books purposes. So that may help, I don't know what other people are doing as far as their core processor. But I think that's going to help in these situations.

Kathy Murphy: Thank you, I think that's very helpful for everyone on the line.

Tim Wilson: Up next in our queue we have Cleveland, Ohio and go ahead with your question.

Cleveland: In an instance where you have a partial charge off on a residential loan, how are—what's the preferred treatment for future payments that are actually received? Are they treated as recoveries? Are they treated as pay down on the remaining principal? Is it interest? Is it a combination? What's actually the preferred treatment?

Kathy Murphy: That's a very good question. This is Kathy Murphy. I am going to refer you to the Call Report glossary non-accrual status section. There is a section about cash payments received. It requires judgment. As you receive cash payments it may be applied directly to principal. There could be other situations where it is appropriate to recover part of the charge off, or you have some recognition of income. I don't know if John or anyone else wants to add anything, but I think the answer could vary and I would refer you to the guidance that we have.

Tim Wilson: Okay, and thank you. We have about ten callers in the queue, and a little bit less than a half hour to go, so let's go next to Oakland, California. Jeff's location is with us, and go ahead with your question.

Oakland: Yeah, my question relates specifically to residential assets. [Indiscernible] there is a range of [indiscernible] on a residential asset, and for example if your loan is $400,000 and you get an AVM or a BPO valuation it can give you something in the range of say 240 to 280. If management estimates that at 260, would the expectation be between the low point in the range and management's best estimate that you would have a 114 on that? Or would you then just simply charge off the difference between management's best estimate of the fair value and the loan amount?

John Brown: This is John Brown. I think I would refer you first to the guidance that was issued in December of 2010 regarding appraisals and the appropriate use of BPOs and other type of automated valuation services first for determining what the fair value of this asset would be. Then, management's best estimate would be where we would place most of our emphasis, but that best estimate could also result in a range from the use of those other tools, not just because they resulted in the numbers that they did, but because of the fact that they—many of them assume, well, all of them assume normative property conditions, which may or may not be particularly applicable to the collateral we're talking about.

Oakland: Okay. I don't know if I totally understood that answer. I mean, I recognize that based on the appraisal guidance that came out that obviously you do need to apply judgement, but in the case where you don't have an appraisal because you don't have access to the property, you would then just—am I right to assume we would use management's best estimate and charge off the difference?

John Brown: I think you would want to use management's best estimate as the starting point for determining where your charge off would be, and the amount of uncertainty and other factors that might be affecting the precision of that particular estimate of value in establishing a range for an impairment reserve or a charge off. Again, it's specific. You can't, without specific facts, it's hard to put a fine point on it. The point is it's where you start the judgment process.

Jeffrey Geer: This is Jeff Geer, I would just add that, I don't think you always have to go to the worst case scenario if that's not your best estimate of loss. But you can't just assume that the midpoint is always the best estimate of loss either. But if 260,000 is really your best estimate of the loss, I don't think that there's an automatic requirement that you'd have to recognize another 20,000 impairment to get down to your worst case scenario of 240.

Oakland: Okay. Well, thank you. That answers my question.

Tim Wilson: And thank you for the call. If you have a question, press "star 1" on your touchtone telephone. Up next, Munster, Indiana, and your line is open. Munster, Indiana, are you there?

Munster: Yes, can you hear me?

Tim Wilson: Yes. Go ahead.

Munster: Okay. I just, unfortunately, had another allowance question. I just want to run through the cycle. I have a new impaired single-family collateral dependent loan on the books for $100. I'm going to move it into my impairment calculation for my allowance. I don't have an appraisal yet because it's going to take me a few months, and it just moved in. So, just based on my knowledge, I think it's worth less than the $100. I

think the appraisal is going to come back at maybe $80. So, initially, I have that $20 that I think loss, but I don't have an appraisal to back it up yet.

So, I don't want to charge that off yet. I want to keep it in my allowance, and then a few months later, a month or two later when I get the appraisal, it comes back at $80, and then I have my confirmed loss. Then I charge it off. And then I like to be conservative and say, well, even though it appraised at $80, I would like to, you know, further write it down maybe 10 or 20% and keep that 10 or 20% in my allowance but not charge it off because it's just trying to be conservative. Does that make sense?

Darrin Benhart: This is Darrin, and no questions on the allowance are ever unfortunate, just the answers, you know. So, we're into scenarios and everybody is playing in their head like, "Oh, I have something similar to that." You know, what you described didn't seem totally implausible to me if, for example, you have a short timeframe for when you're getting an appraisal; could it be appropriate for you to have that as a FAS 114 impairment because there's uncertainty? Yet at this point that could be proper, although of course the Catch 22 is here if we begin to see this as a broad systemic issue that looks as if you're just simply deferring known losses that can run you into a problem.

So, I say what you described didn't sound improbable, or how you proposed handling it didn't necessarily cause me a problem. But I can give you a scenario where that would cause me heartburn with additional facts and circumstances. So, I would just caution you on how you do that. When you talk about, after you get the appraisal, continuing to have some type of reserve because you still feel there is some level of uncertainty in the value, or as quarters go on you get additional information that gives you further uncertainty, that sounds again like a FAS 114 item to me that it would seem reasonable to keep some additional reserves against that loan.

Again, I can tell you a scenario where that would cause me concern now also, but the way you described it here to me today that seemed reasonable. And, I think what examiners are going to be looking for is that you have consistent processes in how you're going about this, and what you're doing isn't resulting in systemically deferring losses or pushing off confirmed losses.

Munster: Thank you very much.

Tim Wilson: Yes, thank you for that call. Let's take a call now from Troy, Michigan. We have Eric's location with us, and your line is now open.

Troy: Great. Thank you. This question is in regards to the charge off of the collateral value at 180 days past due for residential loans. The question is, is any consideration given to loans that are in active loss

mitigation negotiations in hope of modifying and returning it to a performing credit?

Darrin Benhart: This is Darrin. What we've said in those cases is that, yes, you still have to comply with the interagency charge off guidance because clearly this loan has exhibited significant financial difficulties if they have progressed to 180 days past due. So, we would require you to recognize, on your books a charge off down to the collateral value in that case.

Troy: Okay. Great. Thank you.

Moderator: Thanks for the call. We'll take another call now from Bloomington, Illinois, and we go to Vick's location for that question.

Bloomington: Yeah. This is a quick, maybe an administrative question on the filing deadline. I know the 30th is a Sunday, and the OTS's typical practice was to move that to Monday. Is the OCC expecting TFR filers to have that submitted by end of day Sunday on the 30th?

Kathy Murphy: Yes, unfortunately. This is Kathy Murphy. I guess we weren't as nice on that in giving you the weekend, but it is just a straight 30 days, so it would be due on Sunday.

Bloomington: All right. Thank you.

Kathy Murphy: Sorry.

Tim Wilson: And we'll stay in the Midwest, take another call from Corydon, Indiana, and Joe's location. Your line is now open.

Corydon: Yes, question for you. When this all came up I started looking for some National Bank Releases, Earning Releases, and I found one that I'd just like to share with you what it says and let you clear this up for us. It says, "Allowance for loan and lease loss components, the allowance is the sum of three components, one, asset specific individually, impaired reserves." And it says, "quantitative and qualitative." And it says, "while we make allocations to specific loans and pools of loans, the total reserve is available for loans lease losses." So, what's the difference in what we do today, just that we put it in a different place on our Call Report and what this National Bank is doing?

Kathy Murphy: Thanks for that question. These are all excellent questions. This is Kathy Murphy. You'll see a lot of different terminology when people describe their allowance methodology, but when we're talking about the allowance, we're not talking about confirmed losses. We're just talking about things that weren't a confirmed loss that you had impairment.

So, what you'll see there is they're talking about their FAS-5, which ASC450 is its codified term, and then the 114 or the ASC 310-10. We totally understand how confusing this can be because 114 is an individual assessment of that loan and coming up with an impairment amount. But really you're just adding them all up and coming up with your allowance, and then comparing it to your allowance that you had before and then calculating a provisioning expense. So when we are referring to confirmed losses that's charge offs and not reflected in the allowance.

Jeffrey Geer: This a good observation. I made the same observation and talked to Kathy about this when I first came over to the OCC. I see some National banks use that word 'specific allowance' and we tend to think of it as in the OTS context of specific valuation allowance, and I think they tend to mean it in the FAS114 context. It's a lot to do with terminology and using the same word to mean two different things.

Corydon: Well, just to have, we'll have a discussion with our examiner, but I guess from our standpoint if we have a specific, what we call today a specific reserve to a particular loan, you know, we always break it out separately, but that is a specific reserve because we're not sure either what the potential loss is, whether it's a true loss or is it doubtful, or where it falls. But we'll have that discussion with our examiner when they come onsite.

Darrin Benhart: I think that's best and why we tried to spend a fair amount of time on this call because as Kathy indicated, hopefully, that National Bank has written all the confirmed loss off of their books already. And again, as Jeff indicated, this removal of the SVA should have minimal impact if they were properly applied because those should have already been loss classifications.

We simply, with the implementation of the Call Report, remove your ability to effectively write those SVAs up as you saw improvement. That's the only change. If you were properly applying SVAs, that's the only change that you would see. But, we realize it is a confusing item, and please reach out to your local staff, and they will funnel those questions up to us for clarification if necessary.

Corydon: All right. Thank you.

Tim Wilson: Thanks for the question. We'll take our next call from Maryland, Salisbury, Maryland, and Diane's location. And go ahead with your question.

Salisbury: Hello, can you hear me?

Tim Wilson: Yes, we can.

Salisbury: Okay. I have a question regarding TDRs, and they're not collateral dependent, but in this situation we have one to four family mortgages.

They're really good customers. They pay ahead, or pay on time, good credit scores, cash to make payments. However, we tried to keep those loans so we didn't lose them, so we offered them, you know, current rates, current terms that we were offering to anybody walking in the door. And whenever we did the appraisal, the appraisal doesn't come out to be, you know, still an 80% loan to value ratio.

So, when OTS was here they made us count them all as TDRs, even though they were good customers and not collateral dependent, and they made us set up a specific reserve for them based on an impairment calculation because say, their rate used to be 6% and now the going rate is 5% because we're offering a 10-1 [ph]. You know, they made us do an impairment calculation and set up a specific reserve for that. But we'll never lose that money, so, I guess those specific reserves I just move over into my Allowance for Loan Loss because I'm not going to write the loan down. I'm not going to lose money on it.

Amanda: Hi. This is Amanda Freedle I'm a Senior Policy Accountant in the Chief Accountant's office, and I spend a lot of time working with TDRs. I think, first and foremost, the thing that you have to remember when you do a modification or some type of refinancing is that to be classified as a TDR you have to have two specific elements. One, you have to have a borrower who has financial difficulty, and two, you have to have a concession that's granted for that borrower because of the financial difficulties they're experiencing.

Salisbury: You work at OCC, but OTS didn't take that approach. They [inaudible] one thing was wrong. It had to be a TDR, and we're recording those as TDRs.

Jeffrey Geer: Well, I was the Chief Accountant at OTS, and that is the guidance that we followed in OTS policies as well I don't know if you had a specific case where we weren't following our policies.

Salisbury: What Amanda has said.

Jeffrey Geer: Yeah. We're consistent. That's GAAP. I mean, that's not agency policy, it comes straight from GAAP.

Amanda: And that has been long-standing for many, many years.

Jeffrey Geer: Yes. So, it's possible we may have had a situation where your examiners were a little tougher on you than they should have been. But I would have to know all the facts and circumstances to understand your situation.

Salisbury: Oh, yeah. Because we argued till we were blue in the face that it wasn't right and didn't make sense, and they would not back down.

Jeffrey Geer: You should have called me.

Salisbury: I will from now on.

Amanda: I think that's really a good takeaway there. If you are having these conversations with your exam team and you disagree with what their accounting interpretation is, certainly reach out to our district accountants or give us a call here at headquarters so that we can help facilitate that conversation and be sure that we're all speaking the same language and get to the right answer with that. With the pattern that you described there, I don't believe those were TDRs because you did not have borrowers that had financial difficulties. So, therefore, you would have kept those loans in your FAS-5 pool.

Salisbury: Right. We explained to them. We sent letters out to them wanting them to refinance because we wanted to keep good customers. We were tired of loan payoffs. But okay. Thank you.

Jeffrey Geer: Well, let me just clarify because that triggers something with me. We did have a policy that said that you had to do the underwriting to prove that you knew that there wasn't financial difficulty. And so if you were just offering to refi customers without doing any re-underwriting, then the presumption in these difficult economic times was that they were TDRs. We couldn't just say—if you don't look, then you escape TDRs. You have to look, and know whether there is financial difficulty or not financial difficulty. So, that may have been where the rub was.

Salisbury: We pull credit reports and credit scores. I mean, we pull our credit reports and appraisals.

Jeffrey Geer: Okay. So, that's fair then.

Salisbury: Yeah. Okay.

Jeffrey Geer: Okay.

Tim Wilson: All right. Great call. And we'll release that and move along and take another call from Fort Lauderdale, Florida. And go ahead with your question, ma'am, excuse me on that. Now, your line is open. Go ahead, please.

Fort Lauderdale: Okay. Is it the OCC's position that an appraised value that's lower than the carrying value of a loan and the loan is collateral dependent then that is a confirmed loss?

Darrin Benhart: This is Darrin. As we indicated in the presentation, generally that would indicate a confirmed loss, and you will see that again, as I indicated in the Call Report instructions that, if you have an impairment, you have an impairment on a collateral dependent loan that would correlate to a charge off. So, generally that is the case. We tried to go over examples where you had to use judgment, but if you're asking me for a general answer that is the case.

Fort Lauderdale: Because usually our appraisals aren't that good. I mean, they move over time, and also today's environment too. So, we'd never really considered that a confirmed loss.

Darrin Benhart: Well, of course, if you've got issues and, we could have a whole separate call on appraisal review processes and issues around appraisals and things like that. But assuming you have a good reviewed appraisal that you think is a good value, we would generally see that as an expert opinion, an expert estimate of the current market value today. On a collateral dependent loan you should probably charge off any amount above that.

Fort Lauderdale: So, that would be considered a confirmed loss because appraisals are just estimates.

Darrin Benhart: Exactly. But it's the best estimate that we have, and I think you have the current market value of that asset, and if that asset is the only thing you have to pay that loan then that's reflective of what you should be carrying it on your books at. So, again, facts and circumstances for any given loan can certainly and should certainly be considered, but broadly that would be the case.

Fort Lauderdale: Okay. And then, secondly, if you aren't using the SVAs in your loss experience, would you have to start doing that in September?

Darrin Benhart: John, you want to cover that?

John Brown: If you're not using your SVAs in your loss experience, you would want to start doing that now, and particularly start doing the homework to figure out how far back you might need to go to accurately reflect the loss history from the SVA activity. You guys want to add anything.

Darrin Benhart: This is Darrin. What that means is if you established an SVA for this loan that you thought was a confirmed loss in 2007 or in 2008 or in 2009, you should make your best efforts to put those loss amounts in those specific time periods, especially because many allowance analysis rely as a starting point on historical loss experiences over a set period of time. You clearly don't want to throw them all in this year because they all didn't likely occur this year necessarily.

John Brown: No, you would go back and put them in the proper periods and then look over the confirmation period, you know, of this current period.

Jeffrey Geer: And then you have to update your ALLL estimate using those new loss rates to make sure that the amount calculated using the proper loss rates results in sufficient and appropriate ALLL.

John Brown: Right. Because it could, if that, if historical loss rates are a key driver as they are in many allowance methodologies it could change your allowance amount.

Tim Wilson: All right. Thank you for the call. We have just a couple of minutes left here for questions. Let's take one more. We'll go to Mount Pleasant, South Carolina, and go ahead with your question.

Mount Pleasant: Yes. Mercifully, I have a question that doesn't relate to the allowance, impaired loans or specific valuation allowances. But earlier on when you talked about the Tier 1 leverage ratio, back on slide13, the [inaudible] for Thrifts will continue to be the corporate end balance rather than the average total asset balance, and it just says that that will continue until further notice. Does that mean it will continue beyond December?

Kathy Murphy: Yes. This is Kathy Murphy. That was an example of if—that came from the regulations themselves, so that will continue unless the regulation changes for savings associations. But just to know that there are those differences we will be, we will be updating the Call Report instructions to make that very clear. So, yes, the answer to your question is yes.

Mount Pleasant: Okay. So, we'll continue to use the quarter end total assets?

Kathy Murphy: Correct.

Mount Pleasant: All right. Thank you.

Kathy Murphy: Thank you.

Tim Wilson: And we actually have time for another caller. Let's go to Kewanee, Illinois, Michael's location, and your line is open.

Kewanee: Yes. My question actually has to relate to the filing of the new Call Report, or the new Call Report for us, but do we need to have a third party vendor in order to file that Call Report, or is that something that we're able to access without any third party vendors?

Amanda: Hi. This is Amanda Friedel again. I don't think you necessarily have to use a specific vendor that's listed in the supplemental instructions to the Call Report, but you do have to have a mechanism to be able to submit the information electronically. There are some, you know, more specific information about that in the General Instructions and Supplemental Instructions to the Call Report, or if you're having trouble finding that, you know, certainly feel free to call or email our office, and I can be sure to get you the appropriate information you would need to do that.

Tim Wilson: And with that we're running out of time. Let me pass things over to Jennifer Kelly. I know you wanted a few moments for some closing comments today.

Tim Ward: This is Tim Ward. I'll make closing comments. I really appreciate all of the questions today and all of the participation. We had, as I said, well over 600 callers. We do have the next call on November 7th. We will discuss interest rate risk management, and I don't think Darrin and Kathy will be here because they'll be afraid that they'll get more impairment and allowance questions.

So, if you do have those, please, please reach out to your local field office and work with them. About two weeks ago we had the exact same call with all of the MCBS, Midsize and Community Bank Supervision Examiners so we went through this exact same set of slides. We talked to them about the questions that they may be getting from Thrifts, so that they would be up to speed. So, please reach out to your local field office or to policy folks here in Washington, and we'll all be glad to help you. So, with that, I thank you again for your participation, and I'll turn it back over to Tim.

Tim Wilson: Okay. Well, thank you so much, and that concludes today's FSA Executive Teleconference, Migration from the TFR to the Call Report, Allowances, Accounting and Credit, and Other Supervision Topics, presented by the Office of the Comptroller of the Currency. Special thanks to all of our speakers and Jennifer Kelly and Timothy Ward for helping facilitate today's event. And we especially we want to thank you for attending. So, thank you for joining us today and enjoy the rest of your day. You may hang up now.

[End of Recording]