OMB NO. 3064-0057

Federal Deposit Insurance Corporation
Assessable Deposit Compliance Program

DEPOSIT REPORTING SELF ASSESSMENT GUIDE FOR THRIFTS WITH TRUST FUNDS

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Dear Chief Executive Officer,

This guide is intended for use as a reference and as a self-assessment tool for properly reporting your trust deposits (trust accounts with credit balances) and trust overdrafts (trust accounts with debit balances) per TFR Schedule SC712, and Schedule DI610. It addresses some of the most prevalent reporting errors our analysts are currently encountering. We encourage you to forward this guide to your regulatory compliance officer for utilization within their responsibilities.

It is NOT necessary to respond back to us. This guide is intended for your internal use only. If your regulatory reporting staff has any questions, concerns, or issues regarding the proper reporting of assessable deposits, please do not hesitate to have them contact us at (972)761-2169 or DCAS@fdic.gov.

The Assessable Deposit Compliance Program is working to improve assessable deposit reporting industry-wide. This Deposit Reporting Self Assessment Guide is intended to help accomplish that work by assisting the preparers of the Thrift Financial Report in understanding and properly applying assessable deposit reporting standards as set forth in the Federal Deposit Insurance Act, the FDIC Rules and Regulations, and the Thrift Financial Report Instructions.

Sincerely,

David Wisnewski

David Wisnewski
Financial Manager
Assessable Deposit Compliance Program

The Following Information and Questions Pertain to Uninvested Trust Funds Reported in SC712 (Escrows) and DI610(Non-Interest Bearing Demand Deposits)

Uninvested Trust Funds (Cash) Held by the Thrift

Schedule SC712, states that Escrows include "Credit Balances of uninvested trust funds that you hold. Do not offset balances of different accounts. Report only accounts with credit balances; report accounts with debit balances as loans." Since most trust departments maintain deposit accounts with their thrift, these funds would normally be reflected in deposit accounts and already reported in Schedule SC712. However, trust overdrafts (debits) are usually combined (netted against) these funds.

Trust overdrafts occur when either the principal cash or the income cash is negative. Many trust systems automatically net principal and income, which can hide an overdraft of principal or income cash. As with regular deposit overdrafts, trust overdrafts must be added back (restored) to uninvested trust cash.

Principal and income cash may be netted (the net overdraft amount reported) only for a trust customer who has the sole right to both the principal and income (funds held in the same right and capacity). Therefore, trust overdrafts must be reported on a gross basis for trust accounts that have different principal and income beneficiaries. Additionally, trust overdrafts in internal trust accounts (often referred to as suspense, in-house, operating accounts, etc.) must be added back to deposits (and reported as loans) in this item unless there is an offsetting credit within deposits.

For examples of an offsetting credit in deposits, let's assume that the Sales Suspense Account (SALSUS) on the Trust Cash Trial Balance (TCTB) has a debit balance that represents receivables for funds (credits) already advanced to trust customers. The debit balance in this account could be reduced by:

- ***Funds (credits) received, in the Trust Department's DDA account, which are reflected in another suspense account on the TCTB but haven't yet been applied to the SALSUS account.***
- ***Funds received by the thrift for deposit, but not yet deposited, to the Trust Department's DDA account which will be applied to the SALSUS account by the Trust Department. This assumes that the thrift is reporting these funds as deposits on its general ledger.***
- ***Funds received by the thrift in a wire transfer, or similar account, for the Trust Department to apply to the SALSUS account. This assumes that the wire account is reported in deposits or that the funds (credits) are reclassified to deposits during the preparation of the TFR.***
- ***Funds that were to be applied to the SALSUS account were posted to the wrong trust account in error. This assumes that the funds remained in this account on the report date and were not "swept."***

In summary, any trust overdraft, in any trust account, must be restored (added back) to deposits in Schedule SC712, and reported as loans (with some exceptions as noted in 1 through 4 above). Trust overdrafts in an account in which the trust customer has the sole right to both the principal and income (funds held in the same right and capacity) may be netted and only the net trust overdraft restored to deposits (if the trust agreement allows).

Special Note

Total trust overdrafts may be reduced by the amount of any loan advance (including any reserve for trust overdrafts) to the trust department that is included as a deposit in the TFR. This entry most often is recorded as a debit to an asset account such as "Advance to Trust" and as a credit to deposits often with the same or similar title.

Special Note

While not very common, there may be an instance when the Trust Department receives trust funds that it is holding that have not yet been deposited. These funds should also be reported as deposits (usually as an adjustment when preparing the TFR.)

Question Number 1 Trust Powers

Does your institution exercise Trust powers?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

If your institution does not exercise trust powers, then Questions 2 through 6 would not apply. If they do not, please go to Question number 7.

Uninvested Trust Funds - Continued

Uninvested trust funds are deposits as defined by Section 3(l)(2) of the Federal Deposit Insurance Act (FDI Act) and must be reported as such on the Call Report.

Thrifts can report uninvested trust funds in three different ways. The first and most common way is for the Trust Department to maintain a deposit account(s) with the thrift. Accordingly, these funds should automatically be included along with the thrift's other deposits. In this case, in Schedule SC712.

Second, if the Trust Department does not maintain a deposit account with the thrift, the funds may be recorded in a general ledger account in the deposit section of the thrift's general ledger. Again, these funds should be reported along with the thrift's other deposits in Schedule SC712.

Third, some thrifts will have their uninvested trust funds, all or in part, on deposit at another financial institution. This is often seen when an affiliate (or servicing) financial institution does the trust processing for the reporting thrift. In this instance, the reporting thrift should only report the uninvested trust funds that it is actually holding (SC712) and the other financial institution should report the uninvested trust funds that it is holding.

Question Number 2 Uninvested Trust Funds

Are your uninvested trust funds reported on the Thrift Financial Report by one or more of the three methods described above?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

As previously noted, trust overdrafts must be properly restored (added back) to total deposits on the TFR. For many thrifts, the amount of trust overdrafts may not be a readily available number and trust system documents must be analyzed in order to derive the amount. An important document used by the Trust Department is the Trust Cash Trial Balance (TCTB). The TCTB is a listing of all uninvested trust cash (principal and income) by individual trust customer; it also usually has suspense accounts listed. Excluding reconciling differences, the net amount of principal and income trust cash on the TCTB should be the amount the Trust Department reports as deposits. (See Question Number 2.) Trust overdrafts can be hidden within this amount.

Like some DDA customers, some trust customers' accounts have overdrafts. These Trust overdrafts are not restored (added back) to deposits by the DDA system so they must be added back separately. Unlike DDA accounts, trust account cash has two parts – principal and income. Either or both of these can be in an overdraft position. The TCTB must be reviewed to determine those accounts that have an overdraft in either principal or income. In order to properly calculate the amount of trust overdrafts to restore to deposits, the beneficiaries of the principal and income should be reviewed.

If the principal and income of an account are maintained in the same right and capacity, and the trust agreement allows the account to be netted, only the net overdraft amount, if any, must be restored. If the principal and income of an account are maintained with separate beneficiaries, then the overdraft must be restored on a gross basis. That is, an overdraft in the principal cash or in the income cash must be restored even if the net cash balance is positive.

The most common way of restoring trust overdrafts is to restore them to deposits in Schedule SC712, and reclassify these trust overdrafts to loans.

Special Note

The incorrect reporting of trust overdraft amounts continues to be one of the most prevalent types of trust fund reporting inaccuracies identified.

Question Number 3 TCTB Overdrafts

Are trust overdrafts being properly restored (added back) to deposits?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

Trust Overdrafts

Some suspense accounts on the Trust Cash Trial Balance (TCTB) will reflect an overdraft (debit) balance. Many of these result from the Trust Department reflecting receivables on the TCTB. That is, they have advanced funds to trust customers and reflected the offset in a suspense account. Some examples of these would be SALSUS (sales suspense), MATSUS (maturities suspense), INTSUS (interest suspense), DIVSUS (dividend suspense), and Sales Fails, among others. (Please refer back to page 2, paragraph 4, for examples of possible offsets to debits in suspense accounts.)

While these types of accounts are not those of an individual trust customer, debits in these accounts still result in the reduction of overall deposits and must be added back along with all other trust overdrafts.

Question Number 4 Suspense Accounts

Are trust overdrafts (debits) in internal accounts (such as suspense, operating, in-house, etc.), being properly restored to deposits?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

Sweeps

Often, uninvested trust funds are swept to an outside investment firm. Sometimes this sweep occurs on a same-day basis; this means the funds are swept, settled, and wired out of the thrift all on the same-day. Sometimes the sweep occurs on a day-lag basis; this means that funds are swept on day one, but not wired out of the thrift and settled until the next day.

Trust funds swept to an investment firm on a same-day basis usually cause no problems in the trust overdraft calculation. That is because the settlement for purchases and sales will already have been made and a wire (to/from an outside investment firm) will already have been sent or received.

However, trust funds swept on a day-lag basis can result in a miscalculation of trust overdrafts. When trust funds are swept on a day-lag basis, a suspense account(s) is often used. Such an account might be on the thrift's general ledger or the TCTB; it will contain credits that represent funds taken from trust customers' accounts for purchases (investments), and debits that represent receivables from sales (disinvestments).

The credits in this account(s) represent deposit liabilities. However, the debit receivables ARE NOT legitimate reductions of deposits. Accordingly, such accounts should be analyzed to determine the amount of gross credits and gross debits. The credits must be reported in deposits in Schedule SC712; any debits that have reduced deposits must be restored (added back) to Schedule SC712 and reported as loans.

If the suspense accounts are reflected on the thrift's general ledger, then the debits should be added back to deposits if the account is reflected in a deposit category. If the account is reflected in a non-deposit category on the thrift's general ledger, the credits should be added to deposits.

Question Number 5 Sweeps

Are some uninvested trust funds swept to an outside investment firm on a day-lag basis?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

DI610 Non-Interest Bearing Demand Deposits

The TFR requires that all uninvested trust funds (total credits net of eligible debits) be reported in Schedule SC712 (Escrows). The amounts in Schedule SC712 are reported as "time and savings" deposits for assessment invoicing purposes; however, part or all of these trust funds reported in Schedule SC712, may be "demand" deposits. Accordingly, these trust funds should be analyzed to determine how much of the amount reported in Schedule SC712, represents demand deposits. That amount should also be reported in Schedule DI610 (Non-Interest Bearing Deposits).

Question Number 6 Schedule DI610 Non-Interest Bearing Demand Deposits

Does the bank hold trust funds standing to the credit of others?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

Funds Standing to the Credit of Others

Trust funds that the thrift might be holding for "others" are also deposit liabilities. Some examples of "others" would be other financial institutions and funds due to brokers. These funds should also be reported in deposits.

Question Number 7 Funds Standing to the Credit of Others

Does the bank hold trust funds standing to the credit of others?

- ☐ Yes
- ☐ No
- ☐ Not Applicable

THIS CONCLUDES THE DEPOSIT REPORTING SELF ASSESSMENT GUIDE FOR BANKS WITH TRUST FUNDS
YOU MAY CONTACT US AT 972 761-2169 OR DCAS@FDIC.GOV