CALL REPORT

INSTRUCTION BOOK UPDATE

3-98

FILING INSTRUCTIONS

NOTE: The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Reports of Condition and Income* and should be removed and discarded. The pages listed in the column headed "Insert Pages" are the pages included in this update of your instruction book and should be filed promptly in your instruction book.

Remove Pages	**Insert Pages**
iii - iv (9-97)	iii - iv (3-98)
RC-1 - RC-4 (9-97)	RC-1 - RC-4 (3-98)
RC-B-1 - RC-B-6 (9-97)	RC-B-1 - RC-B-6 (3-98)
RC-C-17 - RC-C-18 (9-97)	RC-C-17 - RC-C-18 (3-98)
RC-D-1 - RC-D-2 (9-97)	RC-D-1 - RC-D-2 (3-98)
RC-F-3 - RC-F-4 (9-97)	RC-F-3 - RC-F-4 (3-98)
RC-H-1 - RC-H-4 (9-97)	RC-H-1 - RC-H-4 (3-98)
RC-L-21 - RC-L-23 (9-97)	RC-L-21 - RC-L-23 (3-98)
RC-R-5 - RC-R-20 (9-97)	RC-R-5 - RC-R-24 (3-98)
RI-11 - RI-12 (9-97)	RI-11 - RI-12 (3-98)
RI-B-1 - RI-B-2 (9-97)	RI-B-1 - RI-B-2 (3-98)
RI-B-7 - RI-B-10 (9-97)	RI-B-7 - RI-B-10 (3-98)
RI-E-3 - RI-E-4 (9-97)	RI-E-3 - RI-E-4 (3-98)
A-43 - A-44 (9-97)	A-43 - A-44 (3-98)
A-67 - A-74 (9-97)	A-67 - A-74a (3-98)

GLOSSARY

LINE ITEM INSTRUCTIONS FOR THE CONSOLIDATED REPORT OF CONDITION

The line item instructions should be read in conjunction with the Glossary and other sections of these instructions. See the discussion of the Organization of the Instruction Books in the General Instructions.

SCHEDULE RC - BALANCE SHEET

The form of Schedule RC, Balance Sheet, in the Report of Condition is identical for all banks regardless of size and regardless of the location of the bank's offices. Consequently, certain Schedule RC items related to foreign offices are not applicable to banks with domestic offices only. For banks filing one of the three versions of the Report of Condition for a bank with domestic offices only (FFIEC 032, 033, or 034), Schedule RC includes items 13.b, 13.b.(1), and 13.b.(2) for deposits in foreign offices and item 27, "Cumulative foreign currency translation adjustments." The boxes for these items are shaded and no amounts are to be reported for these items.

ASSETS

Item No. **Caption and Instructions**

1 **Cash and balances due from depository institutions**. On the FFIEC 031, the sum of items 1.a and 1.b must equal Schedule RC-A, item 5, column A, "Total." On the FFIEC 032 and 033, the sum of items 1.a and 1.b must equal Schedule RC-A, item 5, "Total." Schedule RC-A is not applicable to banks filing the FFIEC 034 report forms.

Treatment of reciprocal balances with depository institutions -- Reciprocal balances arise when two depository institutions maintain deposit accounts with each other, i.e., when a reporting bank has both a "due from" and a "due to" balance with another depository institution. Reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. Net "due from" balances should be reported in items 1.a and 1.b below, as appropriate. Net "due to" balances should be reported as deposit liabilities in Schedule RC, item 13 below. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist. See also the Glossary entry for "reciprocal balances."

1.a **Noninterest-bearing balances and currency and coin**. Report the total of all noninterest-bearing balances due from depository institutions, currency and coin, cash items in process of collection, and unposted debits. On the FFIEC 031, the components of this item will also be included in the appropriate items of Schedule RC-A, column A. On the FFIEC 032 and 033, the components of this item will also be included in the appropriate items of Schedule RC-A.

For purposes of these reports, deposit accounts "due from" other depository institutions that are overdrawn are to be reported as borrowings in Schedule RC, item 16.a, except overdrawn "due from" accounts arising in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the

Item No. **Caption and Instructions**

1.a (cont.) period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule RC-E until the funds are remitted). For further information, refer to the Glossary entry for "overdraft."

Cash items in process of collection include:

(1) Checks or drafts in process of collection that are drawn on another depository institution (or on a Federal Reserve Bank) and that are payable immediately upon presentation in the United States. This includes:

(a) Checks or drafts drawn on other institutions that have already been forwarded for collection but for which the reporting bank has not yet been given credit ("cash letters").

(b) Checks or drafts on hand that will be presented for payment or forwarded for collection on the following business day.

(c) Checks or drafts that have been deposited with the reporting bank's correspondent and for which the reporting bank has already been given credit, but for which the amount credited is not subject to immediate withdrawal ("ledger credit" items).

However, if the reporting bank has been given immediate credit by its correspondent for checks or drafts presented for payment or forwarded for collection and if the funds on deposit are subject to immediate withdrawal, the amount of such checks or drafts is considered part of the reporting bank's balances due from depository institutions.

(2) Government checks drawn on the Treasurer of the United States or any other government agency that are payable immediately upon presentation and that are in process of collection.

(3) Such other items in process of collection that are payable immediately upon presentation and that are customarily cleared or collected as cash items by depository institutions in the United States, such as:

(a) Redeemed United States savings bonds and food stamps.

(b) Amounts associated with automated payment arrangements in connection with payroll deposits, federal recurring payments, and other items that are credited to a depositor's account prior to the payment date to ensure that the funds are available on the payment date.

(c) Federal Reserve deferred account balances until credit has been received in accordance with the appropriate time schedules established by the Federal Reserve Banks. At that time, such balances are considered part of the reporting bank's balances due from depository institutions.

(d) Checks or drafts drawn on another depository institution that have been deposited in one office of the reporting bank and forwarded for collection to another office of the reporting bank.

Item No.	Caption and Instructions
1.a (cont.)	(e) Brokers' security drafts and commodity or bill-of-lading rafts payable immediately upon presentation in the U.S. (See the Glossary entries for "broker's security draft" and "commodity or bill-of-lading draft" for the definitions of these terms.)

Exclude from cash items in process of collection:

(1) Cash items for which the reporting bank has already received credit, provided that the funds on deposit are subject to immediate withdrawal. The amount of such cash items is considered part of the reporting bank's balances due from depository institutions.

(2) Credit or debit card sales slips in process of collection (report as noncash items in Schedule RC-F, item 4, "Other" assets). However, when the reporting bank has been notified that it has been given credit, the amount of such sales slips is considered part of the reporting bank's balances due from depository institutions.

(3) Cash items not conforming to the definition of in process of collection, whether or not cleared through Federal Reserve Banks (report in Schedule RC-F, item 4, "Other" assets).

(4) Commodity or bill-of-lading drafts (including arrival drafts) not yet payable (because the merchandise against which the draft was drawn has not yet arrived), whether or not deposit credit has been given. (If deposit credit has been given, report as loans in the appropriate item of Schedule RC-C, part I; if the drafts were received on a collection basis, they should be excluded entirely from the bank's balance sheet, Schedule RC, until the funds have actually been collected.)

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

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

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

Item No.	Caption and Instructions

1.a (cont.)

Include as noninterest-bearing balances due from depository institutions:

(1) Noninterest-bearing balances due from the reporting bank's correspondents, including amounts that its correspondent is to pass through or already has passed through to a Federal Reserve Bank on behalf of the reporting bank (see the Glossary entry for "pass-through reserve balances" for further discussion).

(2) Noninterest-bearing balances that reflect deposit credit received by the reporting bank because of credit or debit card sales slips that had been forwarded for collection. (Until credit has been received, report as noncash items in process of collection in Schedule RC-F, item 4, "Other" assets.)

(3) Amounts that the reporting bank has actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions (see the Glossary entry for "pass-through reserve balances" for further discussion).

Exclude from noninterest-bearing balances due from depository institutions:

(1) Deposit accounts "due to" other depository institutions that are overdrawn (report in Schedule RC-C, part I, item 2, "Loans to depository institutions").

(2) All noninterest-bearing balances that the reporting bank's trust department maintains with other depository institutions.

1.b **Interest-bearing balances**. Report all interest-bearing balances due from depository institutions whether in the form of savings or time balances, including certificates of deposit, but excluding certificates of deposit held for trading. Include balances due from commercial banks in the U.S., other depository institutions in the U.S., Federal Home Loan Banks, banks in foreign countries, and foreign central banks.

On the FFIEC 031, the components of this item will also be included in the appropriate items of Schedule RC-A, column A. On the FFIEC 032 and 033, the components of this item will also be included in the appropriate items of Schedule RC-A.

Exclude from interest-bearing balances:

(1) Loans to depository institutions (report in Schedule RC-C, part I, item 2).

(2) All interest-bearing balances that the reporting bank's trust department maintains with other depository institutions.

(3) Certificates of deposit held for trading (report in Schedule RC, item 5).

2 **Securities**:

2.a **Held-to-maturity securities**. Report the amount from Schedule RC-B, item 7, column A, "Total amortized cost."

2.b **Available-for-sale securities**. Report the amount from Schedule RC-B, item 7, column D, "Total fair value."

SCHEDULE RC-B -- SECURITIES

General Instructions

Exclude from this schedule all securities held for trading. Securities held for trading are to be reported in Schedule RC, item 5, "Trading assets," and, for certain banks that file the FFIEC 031 and 032 report forms, in Schedule RC-D -- Trading Assets and Liabilities.

This schedule has four columns for information on securities, two columns for held-to-maturity securities and two columns for available-for-sale securities.[1] Report the amortized cost and the current fair (market) value of held-to-maturity securities in columns A and B, respectively. Report the amortized cost and the current fair (market) value of available-for-sale debt securities in columns C and D, respectively. Information on equity securities is reported in the columns for available-for-sale securities only (columns C and D). For equity securities with readily determinable fair values, historical cost (not amortized cost) is reported in column C and fair (market) value is reported in column D. For equity securities that do not have readily determinable fair values, historical cost is reported in both columns C and D. See the Glossary entry for "market value of securities" for a discussion of acceptable valuation methods.

Amortized cost is the purchase price of a debt security adjusted for amortization of premium or accretion of discount if the debt security was purchased at other than par or face value. (See the Glossary entry for "premiums and discounts.")

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

For purposes of this schedule, the following events and transactions shall affect the amounts to be reported in Schedule RC-B for the bank's holdings of securities in the manner indicated below:

(1) Purchases of securities under agreements to resell and sales of securities under agreements to repurchase -- These transactions are not to be treated as purchases or sales of securities but as lending or borrowing (i.e., financing) transactions collateralized by these securities if the agreements meet the criteria for a borrowing set forth in FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." For further information, see the Glossary entries for "transfers of financial assets" and "repurchase/resale agreements."

(2) Purchases and sales of participations in pools of securities -- Similarly, these transactions are not to be treated as purchases or sales of the securities in the pool but as lending or borrowing (i.e., financing) transactions collateralized by the pooled securities if the participation agreements meet the criteria for a borrowing set forth in FASB Statement No. 125. For further information, see the Glossary entries for "transfers of financial assets" and "repurchase/resale agreements."

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

General Instructions (cont.)

(3) Pledged securities -- Pledged securities that have not been transferred to the secured party should continue to be included in the pledging bank's holdings of securities that are reported in Schedule RC-B. If the reporting bank has transferred pledged securities to the secured party, the reporting bank should account for the pledged securities in accordance with FASB Statement No. 125.

(4) Securities borrowed and lent -- Securities borrowed and lent shall be reported on the balance sheet of either the borrowing or lending bank in accordance with FASB Statement No. 125. For further information, see the Glossary entries for "transfers of financial assets" and "securities borrowing/lending transactions."

(5) Short sales of securities -- Such transactions are to be reported as described in the Glossary entry for "short position."

(6) Futures, forward, and option contracts -- Treat such open contracts to buy or sell in the future as off-balance sheet items (report in Schedule RC-L, item 14). Under no circumstances shall the dollar amount of securities reported in this schedule be increased or decreased by the purchase or sale of futures, forward, and option contracts. If a futures, forward, or option contract is exercised and an actual transfer of securities occurs, the effects of the acquisition or disposal of the securities should be reflected in the appropriate items of the Reports of Condition and Income. For further information, see the Glossary entry for "derivative contracts."

Item Instructions

Item No. **Caption and Instructions**

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

Exclude all obligations of U.S. Government agencies. Also exclude detached Treasury security coupons and ex-coupon Treasury securities held as the result of either their purchase or the bank's stripping of such securities and Treasury receipts such as CATS, TIGRs, COUGARs, LIONs, and ETRs (report in Schedule RC-B, item 5 below). Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.

Item No.	Caption and Instructions

2 **U.S. Government agency obligations.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all U.S. Government agency obligations (excluding mortgage-backed securities) not held for trading.

Exclude from U.S. Government agency obligations:

(1) Loans to the Export-Import Bank and to federally-sponsored lending agencies (report in "All other loans," Schedule RC-C, part I, item 8 on the FFIEC 034; item 9.b on the FFIEC 031, 032, and 033). Refer to the Glossary entry for "federally-sponsored lending agency" for the definition of this term.

(2) All holdings of U.S. Government-issued or -guaranteed mortgage pass-through securities (report in Schedule RC-B, item 4.a below).

(3) Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by U.S. Government agencies and corporations (report in Schedule RC-B, item 4.b below).

(4) Participations in pools of Federal Housing Administration (FHA) Title I loans, which generally consist of junior lien home improvement loans (report as loans in Schedule RC-C, generally in item 1.c.(2)(b), Loans "secured by junior liens" on 1-to-4 family residential properties).

2.a **Issued by U.S. Government agencies**. Report in the appropriate columns the amortized cost and fair value of all obligations (excluding mortgage-backed securities) not held for trading that have been issued by U.S. Government agencies. For purposes of these reports, a U.S. Government agency is defined as an instrumentality of the U.S. Government whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. Government.

Include, among others, debt securities (but not mortgage-backed securities) of the following U.S. Government agencies:

(1) Export-Import Bank (Ex-Im Bank)
(2) Federal Housing Administration (FHA)
(3) Government National Mortgage Association (GNMA)
(4) Maritime Administration
(5) Small Business Administration (SBA)

Include such obligations as:

(1) Small Business Administration (SBA) "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans for which the SBA has further guaranteed the timely payment of scheduled principal and interest payments.

(2) Participation certificates issued by the Export-Import Bank and the General Services Administration.

Item No.	Caption and Instructions
2.a (cont.)	(3) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes.
2.b	**Issued by U.S. Government-sponsored agencies**. Report in the appropriate columns the amortized cost and fair value of all obligations (excluding mortgage-backed securities) not held for trading that have been issued by U.S. Government-sponsored agencies. For purposes of these reports, U.S. Government-sponsored agencies are defined as agencies originally established or chartered by the U.S. Government to serve public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. Government. Include, among others, debt securities and mortgage-backed bonds (i.e., bonds that are collateralized by mortgages) of the following government-sponsored agencies: (1) Federal Agricultural Mortgage Corporation (Farmer Mac) (2) Federal Farm Credit Banks (3) Federal Home Loan Banks (FHLBs) (4) Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) (5) Federal Land Banks (FLBs) (6) Federal National Mortgage Association (FNMA or Fannie Mae) (7) Financing Corporation (FICO) (8) Resolution Funding Corporation (REFCORP) (9) Student Loan Marketing Association (SLMA or Sallie Mae) (10) Tennessee Valley Authority (TVA) (11) U.S. Postal Service
3	**Securities issued by states and political subdivisions in the U.S.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all securities issued by states and political subdivisions in the United States not held for trading. States and political subdivisions in the U.S., for purposes of this report, include: (1) the fifty States of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and (2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions. Treatment of industrial development bonds (IDBs). Industrial development bonds (IDBs), sometimes referred to as "industrial revenue bonds," are typically issued by local industrial development authorities to benefit private commercial and industrial development. For purposes of these reports, all IDBs should be reported as securities in this item (in Schedule RC-B, item 3.c) or as loans in Schedule RC-C, part I (in item 7 on the FFIEC 034; in item 8 on the FFIEC 031, 032, and 033), consistent with the asset category in which the bank reports IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule RC-B or as loans in Schedule RC-C, part I, all IDBs that meet the definition of a "security" in FASB Statement No. 115 must be measured in accordance with Statement No. 115.

Item No.	Caption and Instructions
3 (cont.)	Treatment of other obligations of states and political subdivisions in the U.S. In addition to those IDBs that are reported as securities in accordance with the preceding paragraph, also include in this item (in the appropriate subitem) as securities issued by states and political subdivisions in the U.S. all obligations other than IDBs that meet any of the following criteria:

(1) Nonrated obligations of states and political subdivisions in the U.S., other than those specifically excluded below, that the bank considers securities for other financial reporting purposes.

(2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service.

(3) Obligations of state and local governments that are guaranteed by the United States Government (excluding mortgage-backed securities).

Exclude from item 3:

(1) All overdrafts of states and political subdivisions in the U.S. (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(2) All lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule RC-C, item 9 on the FFIEC 034; item 10 on the FFIEC 031, 032, and 033).

(3) All IDBs that are reported as loans in accordance with the reporting treatment described above (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(4) All other nonrated obligations of states and political subdivisions in the U.S. that the bank considers loans for other financial reporting purposes (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(5) All mortgage pass-through securities issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4.a below).

(6) Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4.b below).

(7) All obligations of states and political subdivisions in the U.S. held by the reporting bank for trading (report in Schedule RC, item 5).

Item No.	Caption and Instructions
3.a	**General obligations**. Report in the appropriate columns the amortized cost and fair value of all general obligation securities of states and political subdivisions in the U.S. not held for trading. General obligations are securities whose principal and interest will be paid from the general tax receipts of the state or political subdivision.
3.b	**Revenue obligations**. Report in the appropriate columns the amortized cost and fair value of all revenue bonds and similar obligations of states and political subdivisions in the U.S. not held for trading. Revenue obligations are securities whose debt service is paid solely from the revenues of the projects financed by the securities rather than from general tax funds.
3.c	**Industrial development and similar obligations**. Report in the appropriate columns the amortized cost and fair value of all industrial development bonds and similar obligations of states and political subdivisions in the U.S. not held for trading. Industrial development bonds and similar obligations are issued under the auspices of states or political subdivisions for the benefit of a private party or enterprise where that party or enterprise, rather than the government entity, is obligated to pay the principal and interest on the obligation. Exclude mortgage-backed securities issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4, below.)
4	**Mortgage-backed securities**. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all mortgage-backed securities, including mortgage pass-through securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).

Exclude from mortgage-backed securities:

(1) Bonds issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are collateralized by mortgages, i.e., mortgage-backed bonds, (report in Schedule RC-B, item 2.b, Obligations "Issued by U.S. Government-sponsored agencies") and mortgage-backed bonds issued by non-U.S. Government issuers (report in Schedule RC-B, item 5, "Other debt securities," below).

(2) Participation certificates issued by the Export-Import Bank and the General Services Administration (report in Schedule RC-B, item 2.a, Obligations "Issued by U.S. Government agencies").

(3) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule RC-B, item 6.b, "All other equity securities").

(4) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule RC-B, item 2.a).

Part I. (cont.)

FFIEC 034 Item No.	FFIEC 031, 032, and 033 Item No.	Caption and Instructions
7 (cont.)	**8** (cont.)	and industrial development. For purposes of these reports, all IDBs should be reported as securities issued by states and political subdivisions in the U.S. in Schedule RC-B, item 3, or as loans in this item, consistent with the asset category in which the bank reports IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule RC-B or as loans in Schedule RC-C, part I, all IDBs that meet the definition of a "security" in FASB Statement No. 115 must be measured in accordance with Statement No. 115.

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

(1) Industrial development bonds (IDBs) that are reported as securities in accordance with the reporting treatment described above (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).

(2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).

(3) Mortgage-backed securities issued by state and local housing authorities (report as securities in Schedule RC, item 2, and Schedule RC-B, item 4).

(4) Obligations of state and local governments that are guaranteed by the United States Government (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).

(5) Nonrated obligations of states and political subdivisions in the U.S. that the bank considers securities for other financial reporting purposes (report as securities in Schedule RC, item 2, and Schedule RC-B, item 3).

(6) Lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule RC-C, part I, item 9, on the FFIEC 034; in Schedule RC-C, part I, item 10, on the FFIEC 031, 032, and 033).

(7) Obligations of states and political subdivisions in the U.S. held by the reporting bank for trading purposes (report in Schedule RC, item 5).

Part I. (cont.)

FFIEC 034 Item No.	FFIEC 031, 032, and 033 Item No.	Caption and Instructions
8	9	**Other loans**. On the FFIEC 034, report as a single total all loans for purchasing or carrying securities and all other loans that cannot properly be reported in one of the preceding items in this schedule. On the FFIEC 032 and 033, report in the appropriate subitem all loans for purchasing or carrying securities and all other loans that cannot properly be reported in one of the preceding items in this schedule. On the FFIEC 031, report this item as a single total for the fully consolidated bank in column A but with a breakdown between loans for purchasing or carrying securities (item 9.a) and all other loans (item 9.b) for domestic offices in column B.

Loans for purchasing or carrying securities include:

(1) All loans to brokers and dealers in securities (other than those secured by real estate and those to depository institutions).

(2) All loans, whether secured (other than by real estate) or unsecured, to any other borrower for the purpose of purchasing or carrying securities, such as:

- (a) Loans made to provide funds to pay for the purchase of securities at settlement date.
- (b) Loans made to provide funds to repay indebtedness incurred in purchasing securities.
- (c) Loans that represent the renewal of loans to purchase or carry securities.
- (d) Loans to investment companies and mutual funds, but excluding loans to Small Business Investment Companies.
- (e) Loans to "plan lenders" as defined in Section 207.4(a) of Federal Reserve Regulation G.
- (f) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities as described in Section 221.3(q) of Federal Reserve Regulation U, unless the loan is excepted by that section.

For purposes of the Report of Condition, the purpose of a loan collateralized by "stock" is determined as follows:

(1) For loans that are collateralized in whole or in part by "margin stock," as defined by Federal Reserve Regulation U, the purpose of the loan is determined by the latest Statement of Purpose (Form FR U-1) on file.

SCHEDULE RC-D - TRADING ASSETS AND LIABILITIES

General Instructions

Schedule RC-D is to be completed only by banks filing the FFIEC 031 and 032 report forms that have $1 billion or more in total assets or $2 billion or more in par/notional amount of off-balance sheet interest rate, foreign exchange rate, and other commodity and equity contracts.

Banks that (a) regularly underwrite or deal in securities, interest rate contracts, foreign exchange rate contracts, other off-balance sheet commodity and equity contracts, other financial instruments, and other assets for resale (or repurchase), (b) acquire or take positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell (or repurchase) in order to profit from short-term price movements, or (c) acquire or take positions in such items as an accommodation to customers or for other trading purposes shall report in this schedule the value of such items or positions on the report date. Assets, liabilities, and other financial instruments held for trading shall be consistently valued at fair value.

Do not include in this schedule the carrying value of any available-for-sale securities or of any loans or leases that are held for sale. Available-for-sale securities are generally reported in Schedule RC, item 2.b, and in Schedule RC-B, columns C and D. However, a bank may have certain assets that fall within the definition of "securities" in FASB Statement No. 115 (e.g., nonrated industrial development obligations) that the bank has designated as "available-for-sale" which are reported for purposes of the Report of Condition in a balance sheet category other than "Securities" (e.g., "Loans and lease financing receivables"). Loans and leases held for sale should be reported in Schedule RC, item 4.a, "Loans and leases, net of unearned income," and in Schedule RC-C (including part I, Memorandum item 5).

Item Instructions

Item No. **Caption and Instructions**

ASSETS

1 **U.S. Treasury securities (in domestic offices)**. Report the total value of securities issued by the U.S. Treasury (as defined for Schedule RC-B, item 1, "U.S. Treasury securities") held for trading (in domestic offices).

2 **U.S. Government agency obligations (in domestic offices)**. Report the total value of all obligations of U.S. Government agencies (as defined for Schedule RC-B, item 2, "U.S. Government agency obligations") held for trading (in domestic offices).

3 **Securities issued by states and political subdivisions in the U.S. (in domestic offices)**. Report the total value of all securities issued by states and political subdivisions in the United States (as defined for Schedule RC-B, item 3, "Securities issued by states and political subdivisions in the U.S.") held for trading (in domestic offices).

4 **Mortgage-backed securities (in domestic offices)**. Report in the appropriate subitem the total value of all mortgage-backed securities held for trading (in domestic offices).

Item No.	Caption and Instructions
4.a	**Pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA**. Report the total value of all pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.a.(1), Pass-through securities "Guaranteed by GNMA," and item 4.a.(2), Pass-through securities "Issued by FNMA and FHLMC") held for trading (in domestic offices).
4.b	**Other mortgage-backed securities issued or guaranteed by FNMA, FHLMC, or GNMA**. Report the total value of all other mortgage-backed securities issued by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.b.(1), Other mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA") held for trading (in domestic offices).
4.c	**All other mortgage-backed securities**. Report the total value of all other mortgage-backed securities (as defined for Schedule RC-B, item 4.a.(3), "Other pass-through securities," item 4.b.(2), Other mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," and item 4.b.(3) "All other mortgage-backed securities") held for trading (in domestic offices).
5	**Other debt securities (in domestic offices)**. Report the total value of all other debt securities (as defined for Schedule RC-B, item 5, "Other debt securities") held for trading (in domestic offices).
6-8	Not applicable.
9	**Other trading assets (in domestic offices)**. Report the total value of all trading assets (in domestic offices) that cannot properly be reported in items 1 through 5. Exclude revaluation gains on off-balance sheet interest rate, foreign exchange rate, and other commodity and equity contracts (in domestic offices) (report in item 11 below).
10	**Trading assets in foreign offices**. (Item 10 is not applicable to banks filing the FFIEC 032 report form.) On the FFIEC 031 only, report the total value of all assets held for trading in foreign offices. Exclude revaluation gains on off-balance sheet interest rate, foreign exchange rate, and other commodity and equity contracts in foreign offices (report in item 11.b below).
11	**Revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts**. Report (on the FFIEC 031, in the appropriate subitem) the amount of revaluation gains (i.e., assets) from the "marking to market" of interest rate, foreign exchange rate, and other off-balance sheet commodity and equity contracts held for trading purposes. Revaluation gains and losses (i.e., assets and liabilities) from the "marking to market" of the reporting bank's interest rate, foreign exchange rate, and other off-balance sheet commodity and equity contracts executed with the same counterparty

Item No. **Caption and Instructions**

4 (cont.) (12) Cash surrender value of life insurance policies for which the bank is the beneficiary. (Policies acquired after November 14, 1985, should be reported at the amount that could be realized under the insurance contracts as of the report date. For further information, see FASB Technical Bulletin No. 85-4.)

(13) Cost of issuing subordinated notes and debentures, net of accumulated amortization.

(14) Furniture and equipment rented to others under operating leases, net of accumulated depreciation.

(15) Ground rents.

(16) Customers' liability for deferred payment letters of credit.

Exclude from all other assets:

(1) Redeemed U.S. savings bonds and food stamps (report in Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin," and also on the FFIEC 031, 032, and 033 in Schedule RC-A, item 1, "Cash items in process of collection, unposted debits, and currency and coin").

(2) Real estate owned or leasehold improvements to property intended for future use as banking premises (report in Schedule RC, item 6, "Premises and fixed assets").

(3) Accounts identified as "building accounts," "construction accounts," or "remodeling accounts" (report in Schedule RC, item 6, "Premises and fixed assets").

(4) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the bank has not yet received title to the property, and real estate collateral underlying a loan when the bank has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower (report as "All other real estate owned" in Schedule RC-M, item 8.a.(2)).

(5) Due bills representing purchases of securities or other assets by the reporting bank that have not yet been delivered (report as loans in Schedule RC-C).

(6) Factored accounts receivable (report as loans in Schedule RC-C).

5 **Total**. Report the sum of items 1 through 4. This amount must equal Schedule RC, item 11, "Other assets."

Memorandum

Item No. Caption and Instructions

1 **Deferred tax assets disallowed for regulatory capital purposes**. Report in this item the amount of deferred tax assets (included in Schedule RC-F, item 2, above) that are dependent upon future taxable income, net of any valuation allowance for deferred tax assets (included in Schedule RC-F, item 2), that exceeds the lesser of:

(1) The amount of deferred tax assets that are dependent upon future taxable income that is expected to be realized within one year of the calendar quarter-end date, based on the reporting bank's projected future taxable income for that year; or

(2) Ten percent of the amount of the reporting bank's Tier 1 (core) capital that exists before the deduction of any disallowed purchased mortgage servicing rights, any disallowed purchased credit card relationships, and any disallowed deferred tax assets.

Under the federal banking agencies' regulatory capital standards, deferred tax assets in excess of the preceding limit must be deducted from a bank's Tier 1 (core) capital, from its total assets, as defined, for leverage capital purposes, and are not included in its risk-weighted assets for risk-based capital purposes. A bank may calculate one overall limit on deferred tax assets that covers all tax jurisdictions in which the bank operates.

Deferred tax assets that are dependent upon future taxable income are (a) deferred tax assets arising from deductible temporary differences that exceed the amount of taxes previously paid that a bank could recover through loss carrybacks if the bank's temporary differences (both deductible and taxable) fully reverse at the report date and (b) deferred tax assets arising from operating loss and tax credit carryforwards. Therefore, for purposes of this item, all temporary differences should be assumed to fully reverse at the report date.

A bank may use its future taxable income projection for its current fiscal year (adjusted for any significant changes that have occurred or are expected to occur) when determining the regulatory capital limit for its deferred tax assets at an interim calendar quarter-end date rather than preparing a new projection each quarter. Projected future taxable income should not include net operating loss carryforwards expected to be used within one year of the quarter-end report date or the amount of existing temporary differences expected to reverse within that year, but should include the estimated effect of tax planning strategies that are expected to be implemented to realize carryforwards that will otherwise expire during that year.

When determining the amount to be reported in this item, each reporting bank's calculations should be made on a separate entity basis. Under the separate entity method, a bank (together with its consolidated subsidiaries) that is a subsidiary of a holding company is treated as a separate taxpayer rather than as part of the consolidated group of which it is a member.

SCHEDULE RC-H -- SELECTED BALANCE SHEET ITEMS FOR DOMESTIC OFFICES

General Instructions

Schedule RC-H is applicable only to banks filing the FFIEC 031 report forms.

For the following items, report balances outstanding in the bank's domestic offices only.

Item Instructions

Item No. Caption and Instructions

1 **Customers' liability to this bank on acceptances outstanding**. Report the amount in domestic offices of the reporting bank of customers' liability on drafts and bills of exchange that have been accepted by the reporting bank, or by others for its account, and are outstanding. See the Glossary entry for "bankers acceptances" for further information.

2 **Bank's liability on acceptances executed and outstanding**. Report the amount of liability represented by drafts and bills of exchange that have been accepted by domestic offices of the reporting bank, or by others for the account of such offices, and are outstanding. See the Glossary entry for "bankers acceptances" for further information.

3 **Federal funds sold and securities purchased under agreements to resell**. Report the amount of federal funds sold and securities purchased under agreements to resell (as defined for Schedule RC, item 3) held in domestic offices of the reporting bank. See the Glossary entry for "federal funds transactions."

Exclude such assets held in IBFs or in domestic offices of Edge and Agreement subsidiaries.

4 **Federal funds purchased and securities sold under agreements to repurchase**. Report the amount of federal funds purchased and securities sold under agreements to repurchase (as defined for Schedule RC, item 14) held in domestic offices of the reporting bank. See the Glossary entry for "federal funds transactions."

Exclude such liabilities held in IBFs or in domestic offices of Edge and Agreement subsidiaries.

5 **Other borrowed money**. Report the amount of other borrowed money (as defined for Schedule RC, item 16, "Other borrowed money") held in domestic offices of the reporting bank.

6 **Net due from own foreign offices, Edge and Agreement subsidiaries, and IBFs**. (See the instructions following item 7 of this schedule.)

OR

7 **Net due to own foreign offices, Edge and Agreement subsidiaries, and IBFs**. Report in the appropriate item either the "net due from" (item 6) or the "net due to" (item 7) position of the domestic offices of the bank relative to all the bank's Edge and Agreement subsidiaries, foreign branches, IBFs, consolidated foreign subsidiaries, and branches in Puerto Rico and

Item No. **Caption and Instructions**

7 (cont.) U.S. territories and possessions. These items must reflect all intrabank transactions of domestic offices with such other offices of the reporting bank, including investments (both equity and debt) in consolidated foreign subsidiaries. All other items in the Report of Condition (except for the memorandum item below) must exclude intrabank transactions.

Calculate a single net amount for all the intrabank due to and due from positions of the domestic offices and enter it either in item 6 or in item 7 of this schedule, depending on the nature of the single net amount.

8 **Total assets**. Report the amount of total assets (as defined for Schedule RC, item 12, "Total assets") held in domestic offices of the reporting bank. For purposes of this report, "Net due from own foreign offices, Edge and Agreement subsidiaries, and IBFs" should be excluded from total assets in domestic offices.

9 **Total liabilities**. Report the amount of total liabilities (as defined for Schedule RC, item 21, "Total liabilities") held in domestic offices of the reporting bank. For purposes of this report, "Net due to own foreign offices, Edge and Agreement subsidiaries, and IBFs" should be excluded from total liabilities in domestic offices.

NOTE: Items 10 through 17 include held-to-maturity and available-for-sale securities in domestic offices. Report the amortized cost of both held-to-maturity and available-for-sale debt securities in these items. Report the historical cost of both available-for-sale equity securities and equity securities without readily determinable fair values in these items. These amounts will have been included in the amounts reported in Schedule RC-B, columns A and C.

10 **U.S. Treasury securities**. Report the amortized cost of both held-to-maturity and available-for-sale U.S. Treasury securities (as defined for Schedule RC-B, item 1) held in domestic offices of the reporting bank.

11 **U.S. Government agency obligations**. Report the amortized cost of both held-to-maturity and available-for-sale U.S. Government agency obligations (as defined for Schedule RC-B, items 2.a and 2.b) held in domestic offices of the reporting bank. Exclude mortgage-backed securities (report in Schedule RC-H, item 13 below).

12 **Securities issued by states and political subdivisions in the U.S.** Report the amortized cost of both held-to-maturity and available-for-sale securities issued by states and political subdivisions in the U.S. (as defined for Schedule RC-B, item 3) held in domestic offices of the reporting bank.

13 **Mortgage-backed securities**:

13.a **Pass-through securities**. Report in the appropriate subitem the amortized cost of both held-to-maturity and available-for-sale mortgage pass-through securities (as defined for Schedule RC-B, item 4.a) held in domestic offices of the reporting bank.

13.a.(1) **Issued or guaranteed by FNMA, FHLMC, or GNMA**. Report the amortized cost of both held-to-maturity and available-for-sale mortgage pass-through securities issued or guaranteed by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, items 4.a.(1) and 4.a.(2)) held in domestic offices of the reporting bank.

Item No.	Caption and Instructions
13.a.(2)	**Other pass-through securities**. Report the amortized cost of both held-to-maturity and available-for-sale mortgage pass-through securities issued by non-U.S. Government issuers (as defined for Schedule RC-B, item 4.a.(3)) held in domestic offices of the reporting bank.
13.b	**Other mortgage-backed securities**. Report in the appropriate subitem the amortized cost of both held-to-maturity and available-for-sale mortgage-backed securities other than pass-through securities (as defined for Schedule RC-B, item 4.b) held in domestic offices of the reporting bank.
13.b.(1)	**Issued or guaranteed by FNMA, FHLMC, or GNMA**. Report the amortized cost of both held-to-maturity and available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, item 4.b.(1)) held in domestic offices of the reporting bank. Also include REMICs issued by the U.S. Department of Veterans Affairs (VA) held in domestic offices of the reporting bank.
13.b.(2)	**All other mortgage-backed securities**. Report the amortized cost of both held-to-maturity and available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (as defined for Schedule RC-B, items 4.b.(2) and 4.b.(3)) held in domestic offices of the reporting bank.
14	**Other domestic debt securities**. Report the amortized cost of both held-to-maturity and available-for-sale "Other domestic debt securities" (as defined for Schedule RC-B, item 5.a) held in domestic offices of the reporting bank.
15	**Foreign debt securities**. Report the amortized cost of both held-to-maturity and available-for-sale foreign debt securities (as defined for Schedule RC-B, item 5.b) held in domestic offices of the reporting bank.
16	**Equity securities**. Report in the appropriate subitem the historical cost of equity securities (as defined for Schedule RC-B, item 6) held in domestic offices of the reporting bank.
16.a	**Investments in mutual funds and other equity securities with readily determinable fair values**. Report the historical cost of all investments in mutual funds and other equity securities with readily determinable fair values (as defined for Schedule RC-B, item 6.a) held in domestic offices of the reporting bank.
16.b	**All other equity securities**. Report the historical cost of all other equity securities, i.e., equity securities without readily determinable fair values (as defined for Schedule RC-B, item 6.b) held in domestic offices of the reporting bank.
17	**Total held-to-maturity and available-for-sale securities**. Report the sum of items 10 through 16.c. This amount must be less than or equal to Schedule RC-B, item 7, the sum of columns A and C.

Memorandum

Item No. **Caption and Instructions**

1 **Net due from the IBF of the domestic offices of the reporting bank**. (See the instructions following Memorandum item 2 of this schedule.)

OR

2 **Net due to the IBF of the domestic offices of the reporting bank**.

Report in the appropriate item either the "net due from" (Memorandum item 1) or the "net due to" (Memorandum item 2) position of the domestic offices of the reporting bank relative to the IBF established by the bank (but not established by its Edge or Agreement subsidiaries). These items must reflect all intrabank transactions of domestic offices of the bank (excluding any subsidiaries) with the IBF established by the bank.

Calculate a single net amount for all IBF positions of the domestic offices and enter it either in Memorandum item 1 or in Memorandum item 2, depending on the nature of this single net amount.

If the reporting bank has not established an IBF, enter a zero or the word "none."

Memoranda

Item No. Caption and Instructions

1-2 Not applicable.

3 **Unused commitments with an original maturity exceeding one year that are reported in items 1.a through 1.e above.** Report in this item all unused commitments that obligate the bank to extend credit in the form of loans or participations in loans, lease financing receivables, or similar transactions that are included in Schedule RC-L, items 1.a through 1.e, and have an original maturity exceeding one year. Original maturity is defined as the length of time between the date the commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment. Unused commitments with an original maturity exceeding one year are to be reported gross, i.e., include in this item the amounts of commitments acquired from and conveyed to others.

Include only the unused portion of commitments that are fee paid or otherwise legally binding and that have an original maturity exceeding one year. In addition, forward agreements and commitments to issue a commitment at some point in the future that have an original maturity exceeding one year are to be included. For these types of commitments, original maturity is to be measured from the date on which the initial commitment is issued. In other words, the maturities of the commitment to issue a commitment and the commitment itself are viewed on a combined basis when determining original maturity.

Exclude those commitments that are unconditionally cancellable or have a maturity of one year or less. In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, the bank is deemed able to unconditionally cancel the commitment for the purpose of this criterion if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans are defined to be short-term commitments excludable from this item if the bank has the unconditional right to cancel the line of credit at any time, in accordance with applicable law.

3.a **Participations in commitments with an original maturity exceeding one year conveyed to others**.

Memorandum item 3.a is not applicable to banks filing the FFIEC 034 report form.

Report in this item that portion of the reporting bank's commitments to extend credit with an original maturity exceeding one year (that were reported in Memorandum item 3 above) that the bank has conveyed to others.

4 **Standby letters of credit (both financial and performance) (and foreign office guarantees -- for FFIEC 031) issued to non-U.S. addressees (domicile)**.

Memorandum item 4 is to be completed only by those banks filing the FFIEC 031 and 032 report forms that have $1 billion or more in total assets.

Memoranda

Item No. **Caption and Instructions**

4 (cont.) Report the amount of standby letters of credit (and foreign office guarantees) issued to non-U.S. addressees. The distinction between U.S. addressees and non-U.S. addressees is determined by the domicile of the account party, not the domicile of the beneficiary. See the Glossary entry for "domicile."

5 **Loans to individuals for household, family, and other personal expenditures that have been securitized and sold (with servicing retained), amounts outstanding by type of loan**.

Memorandum items 5.a through 5.c are applicable only to banks filing the FFIEC 031 and 032 report forms.

Report in the appropriate subitem the amount outstanding of consumer loans, by type of loan, included in packages of asset-backed securities which the bank has transferred in transactions that have been reported as sales in accordance with these instructions and for which the servicing of the loans has been retained ("securitized loans"). The amounts reported should include loans securitized and sold in all prior quarters as well as in the current quarter. Because they have been reported as sold, these securitized consumer loans are no longer included as assets on the balance sheet of the reporting bank and thus are not reported in Schedule RC-C, item 6, "Loans to individuals for household, family, and other personal expenditures."

Exclude from Memorandum item 5:

(1) Consumer loans that have been sold in a form other than as a package to collateralize an asset-backed security.

(2) Securitized consumer loans that have been sold without servicing retained by either the reporting bank or an affiliate of the reporting bank.

(3) All loans secured by real estate that have been securitized and sold, including loans for the purchase or holding of mobile homes (a) where state laws define the purchase or holding of a mobile home as the purchase or holding of real property and (b) where the loans themselves are secured by the mobile homes as evidenced by mortgages or other instruments on real property.

5.a **Loans to purchase private passenger automobiles**. Memorandum item 5.a is to be completed for the September report only.

Report the amount outstanding of securitized loans to individuals, both direct loans and indirect loans (purchased paper), arising from the retail sale of private passenger automobiles, regardless of whether the loans are collateralized by the automobiles. For purposes of this item, private passenger automobiles include minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use.

Exclude from this item securitized loans to individuals for the purpose of purchasing motorcycles, travel trailers, campers, recreational vehicles (RVs), and other similar vehicles for personal use (report in Memorandum item 5.c below).

Memoranda

Item No.	Caption and Instructions
5.b	**Credit cards and related plans**. Memorandum item 5.b is to be completed each quarter.
	Report the amount outstanding of securitized extensions of credit to individuals for household, family, and other personal expenditures arising from bank credit cards and related plans. (Refer to the instruction for Schedule RC-C, item 6.a, for further information on "Credit cards and related plans.")
5.c	**All other consumer credit**. Memorandum item 5.c is to be completed for the September report only.
	Report the amount outstanding of all other securitized loans to individuals for household, family, and other personal expenditures.
	Include in Memorandum item 5.c loans not secured by real estate:
	(1) Arising from the sale to individuals of new or used private mobile homes, regardless of whether the loan is collateralized by the mobile home.
	(2) For the purchase of boats; motorcycles; travel trailers, campers, and similar recreational vehicles (RVs); household appliances; or furniture.
	(3) For repairs or improvements to the borrower's residence.
	(4) For educational expenses (including all student loans, whether payments are required currently or will begin at a future date, e.g., after graduation), medical expenses, personal taxes, vacations, consolidation of personal (nonbusiness) debts, and other personal expenditures.

General Instructions (cont.)

party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Treatment of Low Level Recourse Transactions -- The banking agencies' risk-based capital standards provide that the amount of risk-based capital that must be maintained for assets transferred with recourse should not exceed the maximum amount of recourse for which a bank is contractually liable under the recourse agreement. This rule, known as the low level recourse rule, applies to transactions accounted for as sales under generally accepted accounting principles (GAAP) in which a bank contractually limits its risk of loss or recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred -- generally, four percent for qualifying first lien 1-to-4 family residential mortgages and eight percent for most other assets. Low level recourse transactions may arise when a bank sells or securitizes assets and:

- Uses contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts), or other assets as credit enhancements. When a credit enhancement is carried as an asset on the bank's Call Report balance sheet in accordance with GAAP and the low level recourse rule applies, the on-balance sheet asset amount of the credit enhancement should be reported in Schedule RC-R, item 8. The "maximum contractual dollar amount of recourse exposure" for the transaction is this on-balance sheet asset amount on a net of tax basis, when appropriate.

OR

- Provides limited recourse to purchasers of the assets sold, but does not use on-balance sheet assets as credit enhancements. In this situation, the "maximum contractual dollar amount of recourse exposure" for a transaction is the maximum contractual amount of the bank's recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with GAAP and reported in Schedule RC, item 20, "Other liabilities."

Banks that have entered into low level recourse transactions should report these transactions in Schedule RC-R using either the "direct reduction method" or the "gross-up method" in accordance with the following guidance. When using the "gross-up method," a bank includes an amount in its risk-weighted assets (the denominator of its risk-based capital ratios) for its "maximum contractual dollar amount of recourse exposure" that is calculated under the assumption that the bank's total risk-based capital ratio equals the 8 percent minimum requirement. In contrast, when using the "direct reduction method," a bank includes an institution-specific amount in its risk-weighted assets for its "maximum contractual dollar amount of recourse exposure" that is calculated using the actual amount of the bank's total risk-based capital. This institution-specific calculation produces the effect of directly reducing Tier 1 and total risk-based capital by the "maximum contractual dollar amount of recourse exposure" without lowering the bank's Tier 1 leverage capital ratio. For a bank whose risk-based capital ratios exceed the required minimums, it is normally preferable to use the "direct reduction method."

- If the bank chooses to use the "direct reduction method," the "maximum contractual dollar amount of recourse exposure," as defined above, should be reported in Schedule RC-R, item 3.e. In addition, the bank should report as a credit equivalent amount in Schedule RC-R, item 7.b, column B, an "institution-specific add-on factor" for its low level recourse exposure. The amount of this factor also should be included in the "net risk-weighted assets" that the bank reports in Schedule RC-R, item 3.d.(1). The "institution-specific add-on factor," which is independent of the risk weight category of the assets to which the recourse applies, is calculated as follows:

General Instructions (cont.)

$$F = \frac{C \times A}{C - R} - A$$

where F = institution-specific add-on factor;
C = total risk-based capital (as reported in Schedule RC-R, item 3.b);
A = net risk-weighted assets excluding low level recourse exposures; and
R = maximum contractual dollar amount of recourse exposure in low level recourse transactions (as reported in Schedule RC-R, item 3.e)

- If the bank chooses to use the "gross-up method," the "maximum contractual dollar amount of recourse exposure" for a transaction, as defined above, should be multiplied by a factor of 12.5, 25, or 62.5 according to whether the assets sold would be assigned to the 100 percent, 50 percent, or 20 percent risk weight category, respectively. The resulting dollar amount should be reported as an off-balance sheet credit equivalent amount in column B of Schedule RC-R in the item (item 7.b, 6.b, or 5.b) appropriate to the risk weight category of the assets sold.

For example, a bank has sold $2 million in first lien residential mortgages subject to two percent recourse. The bank has removed the $2 million in mortgages from its Call Report balance sheet and, in accordance with GAAP, has also established a recourse liability account with a balance of $10,000. The maximum amount for which the bank is liable is $40,000. The mortgages qualify for a 50 percent risk weight and the bank's recourse exposure is less than the $80,000 minimum risk-based capital requirement for these assets sold with recourse. Thus, the low level recourse rule applies. The "maximum contractual dollar amount of recourse exposure" for this transaction is $30,000, the $40,000 maximum contractual amount of the bank's recourse exposure as of the report date, less the $10,000 balance of the recourse liability account for this transaction. The bank's total risk-based capital is $10.5 million and it has net risk-weighted assets excluding this low level recourse exposure of $100 million.

- If the bank chooses to use the "direct reduction method," the bank would report $30,000 -- its "maximum contractual dollar amount of recourse exposure" -- in Schedule RC-R, item 3.e, and would use this amount to calculate its institution-specific add-on factor using the formula provided above. Based on the facts in the example, the bank calculates that its institution-specific add-on factor is $286,533. The bank would report the amount of this add-on factor as a credit equivalent amount in Schedule RC-R, item 7.b, column B, and also include this amount in the "net risk-weighted assets" that it reports in Schedule RC-R, item 3.d.(1).

- If the bank chooses to use the "gross-up method," the bank would report $750,000 as a credit equivalent amount in Schedule RC-R, item 6.b, column B ($30,000 -- its "maximum contractual dollar amount of recourse exposure" -- multiplied by 25 -- the factor for assets that qualify for a 50 percent risk weight). Because the $2 million in mortgages sold have been removed from the balance sheet, the difference between the $750,000 credit equivalent amount and the $2 million is not reported in Schedule RC-R. In addition, because the $750,000 credit equivalent amount is assigned to the 50 percent risk category, the bank would include $375,000 ($750,000 multiplied by 50 percent) in the "net risk-weighted assets" that it reports in Schedule RC-R, item 3.d.(1).

Treatment of Small Business Obligations Transferred with Recourse Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994 -- A "qualifying institution" that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses to businesses that meet the criteria for a small business concern established by the

General Instructions (cont.)

Small Business Administration under Section 3(c) of the Small Business Act (12 U.S.C. 631) are eligible for this favorable risk-based capital treatment.

In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit.

When reporting eligible transfers with recourse in Schedule RC-R, only the amount of retained recourse should be reported as a credit equivalent amount in column B. This amount, which is reported in Schedule RC-L, item 9.c.(2), will normally be accorded a 100 percent risk weight and be included in Schedule RC-R, item 7.b.

Treatment of covered positions by banks that are subject to the market risk capital guidelines -- The banking agencies' risk-based capital standards require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital guidelines if its consolidated trading activity, defined as the sum of trading assets and liabilities, equals: (1) 10 percent or more of the bank's total assets, or (2) $1 billion or more. However, the primary federal supervisory authority may exempt or include a bank if necessary or appropriate for safe and sound banking practices.

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

The value-at-risk (VAR) of the bank's covered positions should be used to determine the bank's measure for market risk. VAR is an estimate of the amount by which a bank's positions in a risk category could decline due to expected losses in the bank's portfolio due to market movements during a given period, measured with a specified confidence level. A bank's measure for market risk equals the sum of its VAR-based capital charge, the specific risk add-on (if any), and the capital charge for de minimus exposures (if any). A bank's market risk equivalent assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio). Banks subject to the market risk capital guidelines must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital (both allocated and excess), Tier 2 capital (both allocated and excess), and Tier 3 capital (allocated for market risk), net of all deductions) to risk-weighted assets and market risk equivalent assets. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

Item Instructions

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1 Test for determining the extent to which Schedule RC-R must be completed.

Item 1 is to be completed only by banks with total assets of less than $1 billion. Indicate in the appropriate box at the right whether the bank has total capital greater than or equal to eight percent of adjusted total assets.

If "total risk-based capital," as reported in item 3.c below, divided by "adjusted total assets" (on an unrounded basis) is greater than or equal to 8.00 percent and the bank has less than $1 billion in total assets, the reporting bank should place an "X" in the box marked "YES." If "total capital" divided by "adjusted total assets" (on an unrounded basis) is less than 8.00 percent, the reporting bank should place an "X" in the box marked "NO." If the box marked "YES" is checked, then the bank must complete only items 2 and 3 of this schedule. If the box marked "NO" is checked, then the bank must complete items 2 through 9 and Memorandum items 1 and 2. In addition, checking the box marked "NO" does not necessarily mean that the bank's actual risk-based capital ratio is less than eight percent or that the bank is not in compliance with the risk-based capital guidelines.

"Adjusted total assets" is defined as total assets (after adjusting available-for-sale securities from fair value to amortized cost) LESS cash, U.S. Treasury securities, U.S. Government agency obligations, and 80 percent of U.S. Government-sponsored agency obligations not held for trading PLUS the allowance for loan and lease losses and selected off-balance sheet items. "Adjusted total assets" should be measured by using amounts reported elsewhere in the Report of Condition according to the following formula:

Total assets	Schedule RC, item 12.c, on the FFIEC 034; Schedule RC, item 12, on the FFIEC 031, 032, and 033
Adjustment to Available-for-Sale Securities	- Schedule RC-B, item 7, column D, + Schedule RC-B, item 7, column C
LESS:	
Cash (currency and coin)	- Schedule RC-M, item 3.b, on the FFIEC 034; - Schedule RC-A, item 1.b, on the FFIEC 031, 032, and 033
U.S. Treasuries (not	
- Schedule RC-B, item 1, sum of columns A and C held for trading)	
U.S. Government agencies (not held for trading)	- Schedule RC-B, item 2.a, sum of columns A and C, plus item 4.a.(1), sum of columns A and C
80% of U.S. Government-sponsored agencies (not held for trading)	- 0.8 x (Schedule RC-B, item 2.b, sum of columns A and C, plus item 4.a.(2), sum of columns A and C, plus item 4.b.(1), sum of columns A and C)
PLUS:	
Allowance for Loan and Lease Losses	+ Schedule RC, item 4.b

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1 (cont.)	Unused Commitments	+ Schedule RC-L, sum of items 1.a through 1.e
	Financial Standby Letters of Credit, Net	+ Schedule RC-L, item 2 minus item 2.a
	Performance Standby Letters of Credit, Net	+ Schedule RC-L, item 3 minus item 3.a
	Commercial Letters of Credit	+ Schedule RC-L, item 4
	Participations Acquired in Acceptances	+ Schedule RC-L, item 6
	Securities Lent	+ Schedule RC-L, item 8
	Financial Assets Transferred with Recourse	+ Schedule RC-L, sum of items 9.a.(1), 9.b.(1), and 9.c.(2)
	Credit Derivatives	+ Schedule RC-L, sum of items 10.a and 10.b
	Forward Contracts	+ Schedule RC-L, item 14.b, sum of columns A through D
	Exchange-Traded Purchased Options	+ Schedule RC-L, item 14.c.(2), sum of columns A through D
	Over-the-Counter Purchased Options	+ Schedule RC-L, item 14.d.(2), sum of columns A through D
	Swaps	+ Schedule RC-L, item 14.e, sum of columns A through D
	Other Off-Balance Sheet Liabilities	+ Schedule RC-L, item 12
	EQUALS:	= Adjusted Total Assets

2 **<u>Portion of qualifying limited-life capital instruments (original weighted average maturity of at least five years) that is includible in Tier 2 capital.</u>** The portion of a bank's qualifying limited-life capital instruments that is includible in Tier 2 capital is the amount that remains after discounting those instruments, if any, with five years or less until maturity and then applying any applicable percentage of Tier 1 capital limit. For limited-life capital instruments with serial maturities or with sinking fund provisions, the amount associated with each maturity date is to be treated as a separate issue and discounted on an individual basis. If the holder of the reporting bank's subordinated debt or intermediate-term or long-term preferred stock has the right to require the bank to redeem, repay, or repurchase the instrument prior to the original stated maturity, then maturity would be defined as the earliest possible date on which the holder can put the instrument back to the issuing bank.

2.a **<u>Subordinated debt and intermediate-term preferred stock.</u>** Report the portion of the reporting bank's qualifying term subordinated debt and intermediate-term preferred stock (including any related surplus) that is includible in Tier 2 capital. These capital instruments must have an original weighted average maturity of at least five years. Include as

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2.a (cont.)	intermediate-term preferred stock those issues of preferred stock with an original maturity of less than 20 years.

Include as subordinated debt the amount of any mandatory convertible debt that has common or perpetual preferred stock dedicated (in accordance with guidelines issued or established by the bank's primary federal bank supervisory authority) to redeem, in whole or in part, such outstanding issues. Otherwise, mandatory convertible debt should be excluded from this item.

Qualifying term subordinated debt and intermediate-term preferred stock is the amount that remains after discounting any instruments with five years or less until maturity. The portion of this qualifying amount that is includible in Tier 2 capital is limited to 50 percent of Tier 1 capital. This portion is calculated as follows:

(1)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than five years	_____ x 100% = _____
(2)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than four years, but less than five years	_____ x 80% = _____
(3)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than three years, but less than four years	_____ x 60% = _____
(4)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than two years, but less than three years	_____ x 40% = _____
(5)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of more than one year, but less than two years	_____ x 20% = _____
(6)	Amount of subordinated debt and intermediate-term preferred stock with a remaining maturity of one year or less	_____ x 0% = _____
(7)	Qualifying subordinated debt and intermediate-term preferred stock (sum of discounted amounts of lines (1) through (6))	_____
(8)	Tier 1 capital (from Schedule RC-R, item 3.a)	_____
(9)	Multiplied by 50 percent	x 50%
(10)	Limit for qualifying subordinated debt and intermediate-term preferred stock (line (8) multiplied by 50 percent)	_____
(11)	Portion of qualifying subordinated debt and intermediate-term preferred stock includible in Tier 2 capital (lesser of lines (7) and (10))	_____

Report the amount from line (11) in Schedule RC-R, item 2.a.

2.b **Other limited-life capital instruments.** Report the portion of the reporting bank's qualifying other limited-life capital instruments, such as long-term preferred stock with an original maturity of 20 years or more, that is includible in Tier 2 capital.

Qualifying other limited-life capital instruments is the amount that remains after discounting any instruments with five years or less until maturity. The entire amount of this qualifying

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2.b (cont.) amount is the portion that is includible in Tier 2 capital. This portion is calculated as follows:

(1)	Amount of other limited-life capital instruments with a remaining maturity of more than five years	_____ x 100% = _____
(2)	Amount of other limited-life capital instruments with a remaining maturity of more than four years, but less than five years	_____ x 80% = _____
(3)	Amount of other limited-life capital instruments with a remaining maturity of more than three years, but less than four years	_____ x 60% = _____
(4)	Amount of other limited-life capital instruments with a remaining maturity of more than two year, but less than three years	_____ x 40% = _____
(5)	Amount of other limited-life capital instruments with a remaining maturity of more than one year, but less than two years	_____ x 20% = _____
(6)	Amount of other limited-life capital instruments with a remaining maturity of one year or less	_____ x 0% = _____
(7)	Portion of qualifying other limited-life capital instruments (sum of discounted amounts of lines (1) through (6))	_____

Report the amount from line (7) in Schedule RC-R, item 2.b.

3 **Amounts used in calculating regulatory capital ratios**. Report in the appropriate subitem the indicated amounts used in calculating the bank's risk-based and leverage capital ratios.[1] Some of these amounts are also used in calculating other regulatory limitations, such as limits on loans to insiders. The amounts to be reported in these subitems should be those determined by the bank for its own internal regulatory capital analyses consistent with applicable capital standards and these instructions and they are subject to examiner review.

3.a.(1) **Tier 1 capital**. Report the amount of the bank's Tier 1 capital. The amount reported in this item is the numerator of the bank's Tier 1 risk-based capital ratio and its Tier 1 leverage ratio.

Tier 1 (core) capital consists of:
(1) common stockholders' equity capital,
(2) noncumulative perpetual preferred stock and any related surplus, and
(3) minority interests in equity capital accounts of consolidated subsidiaries,
less goodwill, other disallowed intangible assets, and disallowed deferred tax assets, and any other amounts that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority.

[1] For purposes of Schedule RC-R, items 3.a.(1), 3.d.(1), and 3.f, insured state banks with real estate subsidiaries whose continued operations have been approved by the FDIC pursuant to Section 362.4 of the FDIC's Rules and Regulations should deduct from the parent bank's Tier 1 capital and assets, as appropriate: (a) any equity investment in the subsidiary, (b) any debt issued by the subsidiary that is held by the insured state bank or guarantees of any debt issued by the subsidiary by the insured state bank, and (c) any extensions of credit from the insured state bank to the subsidiary. Insured state banks with FDIC-approved phase-out plans for real estate subsidiaries need not make these deductions.

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3.a.(1) (cont.)	NOTE: For regulatory capital purposes, common stockholders' equity capital includes any net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, but excludes other net unrealized holding gains (losses) on available-for-sale securities. For most banks, Tier 1 capital will equal common stockholders' equity capital (Schedule RC, the sum of items 24, 25, 26.a, and 27, less any net unrealized holding losses on available-for-sale equity securities with readily determinable fair values) less goodwill and other disallowed intangible assets and less disallowed deferred tax assets. (Net unrealized holding losses on available-for-sale equity securities with readily determinable fair values can be determined from Schedule RC-B, item 6.a. In general, if item 6.a, column C, is greater than item 6.a, column D, the excess should be deducted from Tier 1 capital. Intangible assets are reported in Schedule RC, item 10, and in Schedule RC-M, item 6. Disallowed deferred tax assets are reported in Schedule RC-F, Memorandum item 1.) If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R (as discussed in the General Instructions to Schedule RC-R), do not deduct any of the bank's "maximum contractual dollar amount of recourse exposure in low level recourse transactions," as reported in Schedule RC-R, item 3.e, from the amount of Tier 1 capital that the bank reports in this item.
3.a.(2)	**Tier 2 capital**. Report the amount of the bank's Tier 2 capital. The amount reported in this item must be less than or equal to the amount reported in Schedule RC-R, item 3.a,(1), "Tier 1 capital." Tier 2 (supplementary) capital is limited to 100 percent of Tier 1 capital and consists of: (1) cumulative perpetual preferred stock and any related surplus, (2) long-term preferred stock (original maturity of 20 years or more) and any related surplus (discounted for capital purposes as it approaches maturity), (3) auction rate and similar preferred stock (both cumulative and noncumulative), (4) hybrid capital instruments (including mandatory convertible debt securities), (5) term subordinated debt and intermediate-term preferred stock (original weighted average maturity of five years or more) to the extent of 50 percent of Tier 1 capital (and discounted for capital purposes as they approach maturity), and (6) the allowance for credit losses, i.e., the allowance for loan and lease losses plus any portions of the allowance for credit losses related to off-balance sheet exposures (limited to the lesser of the balance of the allowance or 1.25 percent of gross risk-weighted assets). For most banks, Tier 2 capital will equal the allowable portion of the allowance for loan and lease losses (Schedule RC, item 4.b) and is further limited to 100 percent of Tier 1 capital. Banks with other capital components (e.g., subordinated debt and preferred stock) should refer to the definition of total capital set forth above and to the risk-based capital guidelines for the proper treatment of such components.
3.a.(3)	**Tier 3 capital.** (Item 3.a.(3) is to be completed only by banks that file the FFIEC 031 or 032 report forms.) Report the amount of the bank's Tier 3 capital allocated for market risk. This item is only applicable to banks that are subject to the market risk capital guidelines. The amount reported in this item may only be used to satisfy the bank's

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3.a.(3) (cont.)	market risk capital requirement and may not be used to support credit risk. The sum of the amount reported in this item and the amount reported in Schedule RC-R, item 3.a.(2), "Tier 2 capital," must be less than or equal to the amount reported in Schedule RC-R, item 3.a.(1), "Tier 1 capital." In addition, Tier 3 capital allocated for market risk plus Tier 2 capital allocated for market risk are limited to 71.4 percent of a bank's measure for market risk.
3.b	**Total risk-based capital**. Report the amount of the bank's total risk-based capital. The amount reported in this item is the numerator of the bank's total risk-based capital ratio. Total risk-based capital is the sum of Tier 1 capital, Tier 2 capital, and Tier 3 capital allocated for market risk, net of all deductions. Deductions are made for investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and other deductions as determined by the reporting bank's primary federal supervisory authority. For most banks, total risk-based capital will equal the sum of Schedule RC-R, item 3.a.(1), "Tier 1 capital," and item 3.a.(2), "Tier 2 capital." If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R (as discussed in the General Instructions to Schedule RC-R), do not deduct the bank's "maximum contractual dollar amount of recourse exposure in low level recourse transactions," as reported in Schedule RC-R, item 3.e, from the amount of total risk-based capital that the bank reports in this item.
3.c	**Excess allowance for loan and lease losses**. Report the amount, if any, by which the bank's allowance for credit losses exceeds 1.25 percent of the bank's gross risk-weighted assets. The allowance for credit losses is reported in Schedule RI-B, part II, item 6. On the FFIEC 034 in quarters when Schedule RI-B, part II, is not completed, the allowance for credit losses generally is the allowance for loan and lease losses as reported in Schedule RC, item 4.b. However, the allowance for credit losses also includes any portions of the allowance for credit losses related to off-balance sheet credit exposures reported elsewhere on the balance sheet (Schedule RC). Gross risk-weighted assets is the amount of the bank's risk-weighted assets before deducting the amount of any excess allowance for loan and lease losses. (Note: The amount reported in Schedule RC-R, item 3.d.(1), is net risk-weighted assets. Do not multiply the amount reported in item 3.d.(1) by 1.25 percent to determine the amount of the bank's excess allowance for loan and lease losses.) For banks that are subject to the market risk capital guidelines, report the amount, if any, by which the allowance for credit losses exceeds 1.25 percent of the sum of market risk equivalent assets (as reported in Schedule RC-R, item 3.d.(2)) plus gross risk-weighted assets.
3.d.(1)	**Net risk-weighted assets**. Report the amount of the bank's risk-weighted assets net of all deductions. The sum of the amount reported in this item and any amount reported in Schedule RC-R, item 3.d.(2), "Market risk equivalent assets," is the denominator of the bank's total risk-based capital ratio.

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3.d.(1) (cont.) When determining the amount of risk-weighted assets, on-balance sheet assets are assigned an appropriate risk weight (zero percent, 20 percent, 50 percent, or 100 percent) and off-balance sheet items are first converted to a credit equivalent amount and then assigned to one of the four risk weight categories. All covered positions that are subject to the market risk capital guidelines, except for foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives, are excluded from the amounts used to determine risk-weighted assets. Foreign exchange positions outside of the trading account and all OTC derivatives have a counterparty credit risk capital charge and are included in net risk-weighted assets. The on-balance sheet assets and the credit equivalent amounts of off-balance sheet items are then multiplied by the appropriate risk weight percentages and the sum of these risk-weighted amounts, less certain deductions, is the bank's gross risk-weighted assets. These deductions are for goodwill, other disallowed intangible assets, disallowed deferred tax assets, investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and other deductions as determined by the reporting bank's primary federal supervisory authority. Gross risk-weighted assets minus any excess allowance for loan and lease losses (reported in Schedule RC-R, item 3.c) and minus any allocated transfer risk reserve is the bank's net risk-weighted assets, which is the amount to be reported in this item.

If the bank has any low level recourse exposures, it should include in the net risk-weighted assets reported in this item the appropriate amount for these exposures as determined under the "direct reduction method" or the "gross-up method." These methods are discussed in the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

3.d.(2) **Market risk equivalent assets.** (Item 3.d.(2) is to be completed only by banks that file the FFIEC 031 or 032 report forms.) Report the amount of the bank's market risk equivalent assets. This item is only applicable to banks that are subject to the market risk capital guidelines. Market risk equivalent assets equals the bank's measure for market risk multiplied by 12.5. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

3.e **Maximum contractual dollar amount of recourse exposure in low level recourse transactions.** If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R, report the "maximum contractual dollar amount of recourse exposure" for these transactions in accordance with the guidance in the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

If the bank has no low level recourse transactions or if the bank chooses to use the "gross-up method" for reporting its low level recourse transactions in Schedule RC-R, report a zero in this item.

3.f **"Average total assets."** Report the amount of the bank's "average total assets," i.e., the denominator of the bank's Tier 1 leverage capital ratio.

"Average total assets" consists of the quarterly average for "total assets" as reported in the Call Report, less goodwill, other disallowed intangible assets, disallowed deferred tax assets, and any other assets that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory

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3.f (cont.) authority. For FDIC-supervised banks, the quarterly average for "total assets" must be adjusted for any securities subsidiary subject to Section 337.4 of the FDIC's Rules and Regulations.

For most banks, "average total assets" will equal Schedule RC-K, item 7 on the FFIEC 034, item 9 on the FFIEC 031, 032, and 033, less goodwill and other disallowed intangible assets and less disallowed deferred tax assets. Intangible assets are reported in Schedule RC, item 10, and in Schedule RC-M, item 6. Disallowed deferred tax assets are reported in Schedule RC-F, Memorandum item 1.

4 **Assets and credit equivalent amounts of off-balance sheet items assigned to the Zero percent risk category**. Report in the appropriate subitem:

(1) Currency and coin (domestic and foreign) held in the bank or in transit (from Schedule RC-A on the FFIEC 031, 032, and 033; from Schedule RC-M, item 3.b, on the FFIEC 034);

(2) Securities issued by and other direct claims (such as loans or leases) on the U.S. Government and other OECD central governments (including U.S. Treasury securities from Schedule RC-B, item 1);

(3) Portions of claims on other counterparties that are unconditionally guaranteed by the U.S. Government and its agencies and other OECD central governments (including GNMA and SBA securities and loans guaranteed by the Export-Import Bank);

(4) Local currency claims on, and the portions of local currency claims that are unconditionally guaranteed by, non-OECD central governments (including central banks) to the extent that the bank has liabilities booked in that currency; and

(5) Gold bullion held in the bank's vaults or in another's vaults on an allocated basis, to the extent offset by gold bullion liabilities.

For national and state member banks, this item includes those claims, or portions of claims, that (a) are collateralized by cash on deposit in the reporting bank or by securities issued by, or directly and unconditionally guaranteed by, the U.S. Government or its agencies or the central government of an OECD country and (b) qualify for a zero percent risk weight in accordance with the risk-based capital standards issued by the reporting bank's primary federal supervisory authority. The extent to which qualifying securities are recognized as collateral is determined by their current market value. If a claim is partially secured, that is, the market value of the pledged securities is less than the face amount of an asset or off-balance sheet item, only the portion that is covered by the market value of the collateral is to be reported in this item. The face amount of a claim secured by two types of qualifying collateral is to be reported in the items appropriate to the collateral types, apportioned according to the market value of each of the two types of collateral.

Claims on OECD central governments includes balances due from the Federal Reserve Banks (including Federal Reserve Bank stock) and central banks in other OECD countries. If the reporting bank is the correspondent bank in a pass-through reserve balance relationship, report the amount of its own reserves as well as those reserve balances actually passed through to a Federal Reserve Bank on behalf of its respondent depository institutions.

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4 (cont.) If the reporting bank is the respondent bank in a pass-through reserve balance relationship, report in this item the amount of the bank's reserve balances due from its correspondent bank that its correspondent has actually passed through to a Federal Reserve Bank on the reporting bank's behalf, i.e., for purposes of this item, treat these balances as balances due from a Federal Reserve Bank. This treatment differs from that required in Schedule RC-A, item 2 (on the FFIEC 031, 032, and 033), "Balances due from depository institutions in the U.S.," which would treat balances held by a bank's correspondent as balances due from a depository institution as opposed to balances due from the Federal Reserve.

For banks that are subject to the market risk capital guidelines, exclude all covered positions except for foreign exchange positions that are outside of the trading account and over-the-counter (OTC) derivatives. The book value or credit equivalent amount, as appropriate, of foreign exchange positions that are outside of the trading account and all OTC derivatives assigned to the Zero percent risk category should continue to be included in this item. Covered positions include all positions in a bank's trading account, and all foreign exchange and commodity positions whether or not in the trading account.

4.a **Assets recorded on the balance sheet**. Report the book value (i.e., fair value for assets held for trading) of all assets recorded on the reporting bank's balance sheet which are assigned a Zero percent risk weight under the risk-based capital guidelines. However, for available-for-sale securities assigned to the Zero percent risk category, report the amortized cost of such securities rather than the fair value at which they are reported on the balance sheet.

4.b **Credit equivalent amount of off-balance sheet items**. Report the credit equivalent amount, as determined under the risk-based capital guidelines, for those off-balance sheet items that are to be risk weighted at Zero percent in accordance with the guidelines. Include the credit equivalent amount of those off-balance sheet direct claims on, or claims unconditionally guaranteed by the U.S. Government and other OECD central governments.

5 **Assets and credit equivalent amounts of off-balance sheet items assigned to the 20 percent risk category**. Report in the appropriate subitem:

(1) Cash items in the process of collection (from Schedule RC-A on the FFIEC 031, 032, and 033; a portion of Schedule RC, item 1.a on the FFIEC 034);

(2) Claims on (including balances due from), and the portion of claims guaranteed by, U.S. depository institutions and other OECD banks (except as noted below);

(3) Short-term (one year or less) claims on, and the portions of short-term claims guaranteed by, non-OECD banks;

(4) Portions of claims collateralized by securities issued, or guaranteed, by the U.S. Government and other OECD central governments that, under the risk-based capital standards issued by the reporting bank's primary federal supervisory authority, do not qualify for the zero percent risk weight category;

(5) Portions of securities, loans, and other claims conditionally guaranteed by the U.S. Government and its agencies and other OECD central governments (e.g., VA and FHA mortgage loans and student loans on which the U.S. Department of Education acts as a reinsurer);

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5 (cont.) (6) Portions of local currency claims that are conditionally guaranteed by the central governments of non-OECD countries, to the extent that the bank has liabilities booked in that country;

NOTE: A guarantee is conditional if its validity is dependent upon some affirmative action by the bank or a third party (e.g., servicing requirements).

(7) General obligation claims on, and the portion of claims that are guaranteed by the full faith and credit of local governments and political subdivisions in the U.S. and other OECD local governments;

(8) Portions of claims collateralized by cash on deposit in the reporting bank -- including standby letters of credit collateralized by cash -- that, under the risk-based capital standards issued by the reporting bank's primary federal supervisory authority, do not qualify for the zero percent risk weight category;

NOTE: Claims collateralized by deposits in other depository institutions (e.g., certificates of deposit issued by other banks) do not qualify for a 20 percent risk weight. Such collateralized claims are to be reported in Schedule RC-R, item 6 or item 7, as appropriate.

(9) Claims (including securities from Schedule RC-B) on or guaranteed by U.S. Government-sponsored agencies;

(10) Portions of claims collateralized by securities issued or guaranteed by U.S. Government-sponsored agencies (e.g., loans collateralized by FHLMC pass-through securities);

(11) Certain privately-issued mortgage-backed securities representing indirect ownership of U.S. Government agency or U.S. Government-sponsored agency mortgage-backed securities (e.g., GNMA, FNMA, and FHLMC pass-through securities); and

(12) Claims on, guaranteed by, or collateralized by securities of, official multilateral lending institutions or regional development banks, e.g., the World Bank including the International Finance Corporation.

Include as claims guaranteed by U.S. depository institutions and foreign banks all risk participations in bankers acceptances, standby letters of credit, and commitments that are conveyed to such institutions. Do not include in this item the portion of loans insured under the FHA Title I insurance program, claims on bank holding companies, or holdings of bank-issued securities that qualify as capital of the issuing bank for risk-based capital purposes (report in item 7). In addition, claims on foreign official institutions that are not multilateral lending institutions or regional development banks (e.g., agencies of the United Nations other than the World Bank and the International Finance Corporation) are not to be reported in this item (report in item 7).

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

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5 (cont.) reported in the items appropriate to the collateral types, apportioned according to the market value of each of the two types of collateral.

If a claim is partially guaranteed or covered by two types of guarantees, then the aforementioned treatment of claims that are collateralized is applicable.

For banks that are subject to the market risk capital guidelines, exclude all covered positions except for foreign exchange positions that are outside of the trading account and over-the-counter (OTC) derivatives. The book value or credit equivalent amount, as appropriate, of foreign exchange positions that are outside of the trading account and all OTC derivatives assigned to the 20 percent risk category should continue to be included in this item. Covered positions include all positions in a bank's trading account, and all foreign exchange and commodity positions whether or not in the trading account.

5.a **Assets recorded on the balance sheet.** Report the book value (fair value for assets held for trading) of all assets recorded on the reporting bank's balance sheet which are assigned a 20 percent risk weight under the risk-based capital guidelines. However, for available-for-sale securities assigned to the 20 percent risk category, report the amortized cost of such securities rather than the fair value at which they are reported on the balance sheet.

5.b **Credit equivalent amount of off-balance sheet items**. Report the credit equivalent amount, as determined under the risk-based capital guidelines, for those off-balance sheet items that are risk weighted at 20 percent. Include the credit equivalent amount of off-balance sheet claims collateralized by cash on deposit (e.g., standby letters of credit collateralized by cash) that, under the risk-based capital standards issued by the reporting bank's primary federal supervisory authority, do not qualify for the zero percent risk weight category.

6 **Assets and credit equivalent amounts of off-balance sheet items assigned to the 50 percent risk category**. Report the book value (fair value for assets held for trading) of all assets recorded on the reporting bank's balance sheet and the credit equivalent amount of all off-balance sheet items which are assigned a 50 percent risk weight under the risk-based capital guidelines. However, for available-for-sale securities assigned to the 50 percent risk category, report the amortized cost of such securities rather than the fair value at which they are reported on the balance sheet. In addition, the 50 percent risk weight is the maximum risk weight to be applied to the credit equivalent amounts of interest rate and foreign exchange rate contracts.

For banks that are subject to the market risk capital guidelines, exclude all covered positions except for foreign exchange positions that are outside of the trading account and over-the-counter (OTC) derivatives. The book value or credit equivalent amount, as appropriate, of foreign exchange positions that are outside of the trading account and all OTC derivatives assigned to the 50 percent risk category should continue to be included in this item. Covered positions include all positions in a bank's trading account, and all foreign exchange and commodity positions whether or not in the trading account.

6.a **Assets recorded on the balance sheet**. Report in this item loans that are fully secured by first liens on 1-to-4 family residential properties (including certain presold residential construction loans) that were made in accordance with prudent underwriting standards, that are performing in accordance with their original terms, and that are not 90 days or more past due or in nonaccrual status. If a bank holds the first and junior lien(s) on a residential property and no other party holds an intervening lien, the transaction is treated

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6.a (cont.) as a single loan secured by a first lien only for purposes of determining whether the loan-to-value ratio is consistent with prudent underwriting standards. Loans secured by 1-to-4 family residential properties that do not meet all of the specified criteria, including loans secured by junior lien(s) when the reporting bank also holds the first lien and no other party holds an intervening lien, are assigned a 100 percent risk weight and are to be reported in Schedule RC-R, item 7.a below.

Also report in this item loans fully secured by first liens on multifamily residential properties that have been prudently underwritten and meet the requirements specified in the risk-based capital standards for loan-to-value ratios, level of annual net operating income to required debt service, maximum amortization period, minimum original maturity, and demonstrated timely repayment performance.

Also include certain privately-issued mortgage-backed securities representing direct and indirect ownership of the aforementioned mortgage loans if the criteria for privately-issued mortgage-backed securities outlined in the risk-based capital guidelines (and listed below) are met. For example, a homebuilder issues a pass-through security that is backed by a pool of first mortgages on 1-to-4 family residential mortgages that are prudently underwritten and are not restructured, past due, or in nonaccrual status. The criteria outlined in the risk-based capital guidelines allowing these securities to be risk-weighted on the basis of the pool of mortgage collateral rather than on the issuer require that:

(1) the underlying assets are held by an independent trustee and the trustee has a first priority, perfected security interest in the underlying assets on behalf of the holders of the security;

(2) either (a) the holder of the security has an undivided pro rata ownership interest in the underlying mortgage assets or (b) the trust or single purpose entity that issues the security has no liabilities unrelated to the issued securities;

(3) the security is structured such that the cash flow from the underlying assets in all cases fully meets the cash flow requirements of the security without undue reliance on any reinvestment income; and

(4) there is no material reinvestment risk associated with any funds awaiting distribution to the holders of the security.

In addition, include revenue bonds or similar claims that are obligations of U.S. state or local governments, or other OECD local governments, for which the government is committed to repay the debt only out of revenues from the facilities financed.

Exclude from this item loans collateralized by mortgage notes that the reporting bank has indirectly financed, e.g., mortgage warehousing lines.

6.b **Credit equivalent amount of off-balance sheet items**. Report the credit equivalent amount, as determined under the risk-based capital guidelines, for those off-balance sheet items that are to be risk weighted at 50 percent in accordance with the guidelines. Include in this item the credit equivalent amounts of interest rate and foreign exchange rate contracts that are not accorded a lower risk weight as a result of the counterparty, collateral, or a guarantee.

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6.b (cont.) Exclude the credit equivalent amount of the unused portions of commitments with an original maturity exceeding one year that are secured by junior lien(s) on 1-to-4 family residential properties when the reporting bank also holds the first lien and no other party holds an intervening lien. The credit equivalent amount of such commitments is to be risk weighted at 100 percent and reported in Schedule RC-R, item 7.b below.

7 **Assets and credit equivalent amounts of off-balance sheet items assigned to the 100 percent risk category**. Report the book value (fair value for assets held for trading) of all assets recorded on the reporting bank's balance sheet and the credit equivalent amount of all off-balance sheet items which are assigned a 100 percent risk weight under the risk-based capital guidelines. For available-for-sale securities assigned to the 100 percent risk category, report the amortized cost of such securities rather than the fair value at which they are reported on the balance sheet.

For banks that are subject to the market risk capital guidelines, exclude all covered positions except for foreign exchange positions that are outside of the trading account and over-the-counter (OTC) derivatives. The book value or credit equivalent amount, as appropriate, of foreign exchange positions that are outside of the trading account and all OTC derivatives assigned to the 100 percent risk category should continue to be included in this item. Covered positions include all positions in a bank's trading account, and all foreign exchange and commodity positions whether or not in the trading account.

7.a **Assets recorded on the balance sheet**. Report all assets that are not reportable in items 4 through 6 above or in item 8 below. Include:

(1) Stripped mortgage-backed securities (e.g., interest-only and principal-only strips);
(2) Residual and subordinated interests in asset-backed securities;
(3) Mortgage servicing assets and purchased credit card relationships (excluding any portion that is disallowed for regulatory capital purposes);
(4) Premises and fixed assets;
(5) Industrial development bonds;
(6) Loans, debt securities, and other claims where the counterparty is a private obligor;
(7) Margin accounts on futures contracts;
(8) Other real estate owned;
(9) Net deferred tax assets (excluding any portion that is disallowed for regulatory capital purposes); and
(10) All other assets not already reported above (excluding those reportable in Schedule RC-R, item 8 below).

For purposes of this schedule, the amount to be reported in this item should be reduced by the amount of any valuation allowances the reporting bank maintains against assets other than loans and available-for-sale securities (e.g., valuation allowances for other real estate owned).

7.b **Credit equivalent amounts of off-balance sheet items**. Report the credit equivalent amount, as determined under the risk-based capital guidelines, for those off-balance sheet items that are risk weighted at 100 percent in accordance with the guidelines. Include those off-balance sheet items where the counterparty is a private obligor and which are not accorded a lower risk weight as a result of collateral or a guarantee.

Item No. **Caption and Instructions**

8 **On-balance sheet asset values excluded from and deducted in the calculation of the risk-based capital ratio**. Report in this item the difference between the fair value and the amortized cost of the reporting bank's available-for-sale debt securities (and report the amortized cost of these debt securities in Schedule RC-R, items 4 through 7 above). Furthermore, to the extent that the amount of net deferred tax assets carried on the balance sheet (Schedule RC) and reported in Schedule RC-F, item 2, includes the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the net deferred tax asset amount reported as a 100 percent risk weight asset in Schedule RC-R, item 7.a. If these deferred tax assets are excluded, they should be reported in this item and this reporting treatment must be followed consistently over time. For available-for-sale equity securities, if fair value exceeds cost, include the difference between the fair value and the cost in this item and report the cost of these equity securities in items 5 through 7 above; if cost exceeds fair value, report the fair value of these equity securities in items 5 through 7 above and include no amount in this item.

Include in this item any portion of the bank's mortgage servicing assets, purchased credit card relationships, and net deferred tax assets that is disallowed for regulatory capital purposes as well as all other intangible assets (including servicing assets related to financial assets other than mortgages) and other assets that are required to be deducted from regulatory capital in accordance with the capital standards issued by the bank's primary federal regulatory agency.

If the bank has low level recourse transactions that use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts) or other assets as credit enhancements, the on-balance sheet asset amount of the credit enhancements should be included in this item. The "maximum contractual dollar amount of recourse exposure" for low level recourse transactions should be converted into off-balance sheet credit equivalent amounts and reported in accordance with the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

Also report in this item the on-balance sheet asset values (or portions thereof) of off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts that are treated for risk-based capital purposes as off-balance sheet items even though they may have on-balance sheet amounts included on Schedule RC. In addition, include in this item the on-balance sheet asset values related to (1) foreign exchange contracts with an original maturity of fourteen calendar days or less, (2) instruments traded on organized exchanges that require daily payment and receipt of variation margin (e.g., futures contracts), and (3) other interest rate, foreign exchange, equity derivative, and commodity and other contracts not covered under the risk-based capital guidelines such as over-the-counter written options. These on-balance sheet asset values may have been reported on Schedule RC on a net basis in accordance with the FASB Interpretation No. 39, as described in the Glossary entry for "Offsetting." (Purchased options that are traded on an organized exchange are to be included in the calculation of the risk-based capital ratio because such option contracts are not subject to a daily variation margin.) For banks that are subject to the market risk capital guidelines, to the extent that their on-balance sheet amounts have not already been included in this item in accordance with the preceding instructions, also report in this item the on-balance sheet asset values of all positions in the trading account and commodity positions.

Item No.	**Caption and Instructions**
8 (cont.)	For those off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts subject to risk-based capital, banks should report the on-balance sheet asset values (or portions thereof) in this item to avoid a capital charge against the on-balance sheet amounts in addition to the capital charge against the credit equivalent amounts calculated under the risk-based capital guidelines. The amount to be reported in this item for each off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contract should equal the lower of the contract's positive on-balance sheet asset amount included in Schedule RC or its positive market value included in computing the credit equivalent amount of the transaction. (For purposes of this comparison, if the amount of any accrued receivable is included in the calculation of the credit equivalent amount of an off-balance sheet derivative contract, this amount should be treated as part of the contract's positive on-balance sheet asset amount.) If either amount is zero or negative, then report for that contract in this item the amount, if any, which has been included in the on-balance sheet asset amount reported for such contract on Schedule RC. For example, a forward contract that is marked to market for reporting purposes will have its on-balance sheet market value, if positive, reported in this item and, as a result, this on-balance sheet asset amount will be excluded from the risk-based capital ratio computation. The positive market value, however, will be included in the credit equivalent amount of this off-balance sheet item for risk-based capital purposes. If the on-balance sheet asset value of a purchased option exceeds the market value of the purchased option, then the excess is not to be included in this item; rather, the excess is to be included in the appropriate risk weight category in Schedule RC-R, items 4 through 6 above. However, if the market value equals or exceeds the on-balance sheet asset value, the full on-balance sheet amount would be included in this item. Exclude from this item any accrued receivables associated with off-balance sheet derivative contracts that are not included in the calculation of the credit equivalent amounts of these contracts and margin accounts related to derivative contracts. Margin accounts must be assigned to the 100 percent risk category while accrued receivables not reported in this item are to be included in the appropriate risk-weight category.
9	**Total assets recorded on the balance sheet**. Report in column A the sum of items 4.a, 5.a, 6.a, 7.a, and 8, column A. On the FFIEC 034, this amount must equal Schedule RC, item 12.c plus items 4.b and 4.c. On the FFIEC 031, 032, and 033, this amount must equal Schedule RC, item 12 plus items 4.b and 4.c.

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Item No.	Caption and Instructions

1 **Current credit exposure across all off-balance-sheet derivative contracts covered by the risk-based capital standards**. Report a single current credit exposure amount for off-balance-sheet derivative contracts covered by the risk-based capital standards after considering applicable legally enforceable bilateral netting agreements. For purposes of this item, include the current credit exposure for off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts. For descriptions of these contracts, refer to the instructions for Schedule RC-L, item 14. For banks that are subject to the market risk capital guidelines, exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives. Foreign exchange derivatives that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable interest rate and foreign exchange contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable interest rate and foreign exchange contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards.

Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk-based capital standards (e.g., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement.

The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.

2 **Notional principal amounts of off-balance-sheet derivative contracts**. Report in the appropriate subitem and column below the notional amount or par value of off-balance-sheet contracts included in Schedule RC-L, item 14, that are subject to risk-based capital requirements. Such contracts include swaps, forwards, and purchased options. Report notional amounts and par values in the column corresponding to the contract's remaining

Memoranda

Item No. **Caption and Instructions**

2 (cont.) term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Do not report the notional amount for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; foreign exchange contracts with an original maturity of 14 days or less; and futures contracts.

The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.)

The notional amount to be reported for an amortizing off-balance-sheet derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 14.

2.a Interest rate contracts. Report the remaining maturities of interest rate contracts that are subject to risk-based capital requirements.

2.b Foreign exchange contracts. Report the remaining maturities of foreign exchange contracts that are subject to risk-based capital requirements.

2.c Gold contracts. Report the remaining maturities of gold contracts that are subject to risk-based capital requirements.

2.d Other precious metals contracts. Report the remaining maturities of other precious metals contracts that are subject to risk-based capital requirements. Report all silver, platinum, and palladium contracts.

2.e Other commodity contracts. Report the remaining maturities of other commodity contracts that are subject to risk-based capital requirements. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

2.f Equity derivative contracts. Report the remaining maturities of equity derivative contracts that are subject to risk-based capital requirements.

FFIEC 032, 033, and 034 Item No.	FFIEC 031 Item No.	Caption and Instructions
2	2	early withdrawals that exceed the interest accrued or paid to the date of withdrawal should not be treated as a reduction of interest expense but should be included in "All other noninterest income" on the FFIEC 034 in Schedule RI, item 5.b.(2), and on the FFIEC 031, 032, and 033 in Schedule RI, item 5.f.(2).
-	2.a.(1)	**Interest on deposits in domestic offices**:
2.a.(1)	2.a.(1)(a)	**Interest on transaction accounts (NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts)**. Report interest expense on the three interest-bearing categories of transaction accounts (NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts) reportable in Schedule RC-E, (part I,) column A, "Total transaction accounts." Exclude all costs incurred by the bank in connection with demand deposits which are noninterest-bearing transaction accounts. See the Glossary entry for "deposits" for the definitions of "NOW accounts," "ATS accounts," and "telephone or preauthorized transfer accounts."
2.a.(2)	2.a.(1)(b)	**Interest on nontransaction accounts**. Report in the appropriate subitem interest expense on all deposits reportable in Schedule RC-E, (part I,) column C, "Total nontransaction accounts."
2.a.(2)(a)	2.a.(1)(b)(1)	**Interest on money market deposit accounts (MMDAs)**. Report interest expense on all deposits reportable in Schedule RC-E, (part I,) Memorandum item 2.a.(1), "Money market deposit accounts (MMDAs)."
2.a.(2)(b)	2.a.(1)(b)(2)	**Interest on other savings deposits**. Report interest expense on all deposits reportable in Schedule RC-E, (part I,) Memorandum item 2.a.(2), "Other savings deposits."
2.a.(2)(c)	2.a.(1)(b)(3)	**Interest on time deposits of $100,000 or more**. Report interest expense on all deposits reportable in Schedule RC-E, (part I,) Memorandum item 2.c, "Total time deposits of $100,000 or more."
2.a.(2)(d)	2.a.(1)(b)(4)	**Interest on time deposits of less than $100,000**. Report interest expense on all deposits reportable in Schedule RC-E, (part I,) Memorandum item 2.b, "Total time deposits of less than $100,000."
-	2.a.(2)	**Interest on deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs**. Report interest expense on all deposits in foreign offices reportable in Schedule RC, item 13.b.(2), "Interest-bearing deposits in foreign offices, Edge and Agreement subsidiaries, and IBFs."

Item No. **Caption and Instructions**

2.b **Expense of federal funds purchased and securities sold under agreements to repurchase**. Report the gross expense of all liabilities reportable in Schedule RC, item 14, "Federal funds purchased and securities sold under agreements to repurchase."

Report the income of federal funds sold and securities purchased under agreements to resell in Schedule RI, item 1.f; do not deduct from the gross expense reported in this item. However, if amounts recognized as payables under repurchase agreements have been offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in Schedule RC, Balance Sheet, in accordance with FASB Interpretation No. 41, the income and expense from these agreements may be reported on a net basis in Schedule RI, Income Statement.

2.c **Interest on demand notes issued to the U.S. Treasury, trading liabilities, and other borrowed money**. Report the interest expense on all liabilities reportable in Schedule RC, item 15.a, "Demand notes issued to the U.S. Treasury," item 15.b, "Trading liabilities," and item 16, "Other borrowed money."

2.d Not applicable.

2.e **Interest on subordinated notes and debentures**. Report the interest expense on all liabilities reportable in Schedule RC, item 19, "Subordinated notes and debentures."

Include amortization of expenses incurred in the issuance of subordinated notes and debentures. Capitalize such expenses, if material, and amortize them over the life of the related notes and debentures.

Exclude dividends declared or paid on limited-life preferred stock (report dividends declared in Schedule RI-A, item 7, and, for the report periods ending March 31, June 30, and September 30 on the FFIEC 034, in Schedule RI, Memorandum item 5).

2.f **Total interest expense**. Report the sum of items 2.a through 2.e.

3 **Net interest income**. Report the difference between Schedule RI, item 2.f, "Total interest expense," and Schedule RI, item 1.g, "Total interest income." If the amount is negative, enclose it in parentheses.

4 **Provisions**:

4.a **Provision for credit losses**. Report the amount needed to make the allowance for loan and lease losses, as reported in Schedule RC, item 4.b, adequate to absorb expected loan and lease losses, based upon management's evaluation of the bank's current loan and lease portfolio. Also report in this item any amount provided for credit losses related to off-balance sheet credit exposures, based upon management's evaluation of the bank's current off-balance sheet credit exposures. The amount reported in this item must equal Schedule RI-B, part II, item 4, "Provision for credit losses." Enclose negative amounts in parentheses.

The amount reported here may differ from the bad debt expense deduction taken for federal income tax purposes.

Refer to the Glossary entry for "allowance for loan and lease losses" for additional information.

SCHEDULE RI-B -- CHARGE-OFFS AND RECOVERIES ON LOANS AND LEASES AND CHANGES IN ALLOWANCE FOR CREDIT LOSSES

For those banks required to establish and maintain an allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 351 of the FDIC's Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies, this schedule excludes charge-offs and recoveries of loans and leases through such an allocated transfer risk reserve and excludes a reconcilement of this reserve.

Part I. Charge-offs and Recoveries on Loans and Leases

General Instructions

This part has two columns. In column A report loans and leases charged off against the allowance for loan and lease losses during the current calendar year-to-date. In column B report amounts recovered through the allowance for loan and lease losses during the calendar year-to-date on loans and leases previously charged off.

These instructions should be read in conjunction with the Glossary entry for "allowance for loan and lease losses" and "domicile."

Item Instructions

NOTE: The item instructions for part I for the FFIEC 033 and 034 report forms are presented on pages RI-B-1 through RI-B-4. The item instructions for part I for the FFIEC 031 and 032 report forms are presented on pages RI-B-5 through RI-B-7.

Item Instructions for the FFIEC 033 and 034

Schedule RI-B is one of four schedules (and one memorandum item) in the FFIEC 033 and 034 Reports of Condition and Income in which banks are permitted to report loan detail in terms of general loan categories that are based upon each bank's own internal loan categorization system. While the definitions for the general loan categories are left to the choice of each reporting bank, each bank must use consistent definitions for these categories in each of the four schedules and the memorandum item. For further information, refer to the discussion of "Reporting of Loan Detail by Banks with Assets of Less Than $300 Million and No Foreign Offices" in the General Instructions section of this book.

Item No. Caption and Instructions

1 **Real estate loans**. Report in columns A and B, as appropriate, real estate loans charged off and recovered. For purposes of this schedule, real estate loans include those loans that each reporting bank characterizes as such in its own recordkeeping systems or for its own internal purposes. For further information, refer to the discussion of "Reporting of Loan Detail by Banks with Assets of Less Than $300 Million and No Foreign Offices" in the General Instructions section of this book.

Part I. (cont.)

Item Instructions for FFIEC 033 and 034 (cont.)

Item No.	Caption and Instructions
2	**Installment loans**. Report in columns A and B, as appropriate, installment loans charged off and recovered. For purposes of this schedule, installment loans include those loans that each reporting bank characterizes as such in its own recordkeeping systems or for its own internal purposes. For further information, refer to the discussion of "Reporting of Loan Detail by Banks with Assets of Less Than $300 Million and No Foreign Offices" in the General Instructions section of this book.
3	**Credit cards and related plans**. Report in columns A and B, as appropriate, all extensions of credit under credit cards and related plans charged off and recovered. For purposes of this schedule, credit cards and related plans include those loans that each reporting bank characterizes as such in its own recordkeeping systems or for its own internal purposes. For further information, refer to the discussion of "Reporting of Loan Detail by Banks with Assets of Less Than $300 Million and No Foreign Offices" in the General Instructions section of this book.
4	**Commercial (time and demand) and all other loans**. Report in columns A and B, as appropriate, commercial (time and demand) and all other loans charged off and recovered. For purposes of this schedule, commercial (time and demand) and all other loans is a residual category and, for each bank, its contents will depend on the contents of the three preceding categories of loans. For further information, refer to the discussion of "Reporting of Loan Detail by Banks with Assets of Less Than $300 Million and No Foreign Offices" in the General Instructions section of this book.
5	**Lease financing receivables**. Report in columns A and B, as appropriate, all leases (as defined on the FFIEC 034 for Schedule RC-C, part I, item 9, and on the FFIEC 033 for Schedule RC-C, part I, item 10, "Lease financing receivables (net of unearned income)") charged off and recovered.
6	**Total**. Report in columns A and B the sum of items 1 through 5. The amount reported in column A must equal Schedule RI-B, part II, item 3, "Charge-offs," and the amount reported in column B must equal Schedule RI-B, part II, item 2, "Recoveries."

Memoranda

FFIEC 034 Item No.	FFIEC 033 Item No.	Caption and Instructions
-	1	**Loans to foreign governments and official institutions included in part I, items 1 through 4 above**. Report in columns A and B, as appropriate, loans to foreign governments and official institutions (as defined for Schedule RC-C, part I, item 7, " Loans to foreign governments and official institutions") charged off and recovered. These charge-offs and recoveries will have been included in one or more of items 1 through 4 above.

Part I. (cont.)

Item Instructions for the FFIEC 031 and 032 (cont.)

Memorandum

Item No.	Caption and Instructions
5	**Loans secured by real estate (in domestic offices)**. Report in the appropriate subitem all loans secured by real estate included in Schedule RI-B, part I, item 1, above. On the FFIEC 031, the sum of Memorandum items 5.a through 5.e must not exceed the amount reported in Schedule RI-B, part I, item 1. On the FFIEC 032, the sum of Memorandum items 5.a through 5.e must equal Schedule RI-B, part I, item 1.
5.a	**Construction and land development**. Report in columns A and B, as appropriate, loans secured by real estate for construction and land development purposes (as defined for Schedule RC-C, part I, item 1.a, (column B on the FFIEC 031)) charged off and recovered.
5.b	**Secured by farmland**. Report in columns A and B, as appropriate, loans secured by farmland (as defined for Schedule RC-C, part I, item 1.b, (column B on the FFIEC 031)) charged off and recovered.
5.c	**Secured by 1-4 family residential properties**. Report in the appropriate subitem all loans secured by 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c, (column B on the FFIEC 031)) charged off and recovered.
5.c.(1)	**Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit**. Report in columns A and B, as appropriate, all revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit (as defined for Schedule RC-C, part I, item 1.c.(1), (column B on the FFIEC 031)) charged off and recovered.
5.c.(2)	**All other loans secured by 1-4 family residential properties**. Report in columns A and B, as appropriate, all closed-end loans secured by first or junior liens on 1-4 family residential properties (as defined for Schedule RC-C, part I, item 1.c.(2), (column B on the FFIEC 031)) charged off and recovered.
5.d	**Secured by multifamily (5 or more) residential properties**. Report in columns A and B, as appropriate, all loans secured by multifamily (5 or more) residential properties (as defined for Schedule RC-C, part I, item 1.d, (column B on the FFIEC 031)) charged off and recovered.
5.e	**Secured by nonfarm nonresidential properties**. Report in columns A and B, as appropriate, all loans secured by nonfarm nonresidential properties (as defined for Schedule RC-C, part I, item 1.e, (column B on the FFIEC 031)) charged off and recovered.

Part II. Changes In Allowance for Credit Losses

General Instructions

Report the reconcilement of the allowance for credit losses on a calendar year-to-date basis. On the FFIEC 034, Schedule RI-B, part II is to be completed for the report period ending December 31.

The AICPA's Audit and Accounting Guide for Banks and Savings Institutions requires the allocation on the balance sheet of the allowance for credit losses between on-balance sheet financial instruments and off-balance sheet credit exposures. For purposes of these reports, banks should allocate the allowance for credit losses on Schedule RC, Balance Sheet, consistent with their allocation methodology for other financial reporting purposes. Portions of the allowance related to off-balance sheet credit exposures that are reported as liabilities should be reported in Schedule RC, item 20, "Other liabilities," and in item 4 of Schedule RC-G. However, banks should aggregate these components of the allowance for credit losses when completing Schedule RI-B, part II. Banks are encouraged to disclose the amounts of these components in Schedule RI-E, item 9, "Other explanations."

Exclude the balances of any capital reserves included in Schedule RC, item 26.a, "Undivided profits and capital reserves," and the effects of any transactions therein.

Refer to the Glossary entry for "allowance for loan and lease losses" for further information.

If the bank has entered into a business combination that became effective during the reporting period which has been accounted for as a pooling of interests, include the recoveries, charge-offs, and provisions of the combined bank or other business for the calendar year-to-date. Report the balance as of the end of the previous year of the allowance for credit losses of the bank or other business acquired in the pooling in item 5, "Adjustments."

If the bank purchased another bank or business during the reporting period, include the recoveries, charge-offs, and provisions of the combined bank or other business only after its acquisition. Report the amount of the allowance for credit losses of the bank or other business acquired as of the effective date of the business combination in item 5, "Adjustments."

If the bank was acquired in a transaction which became effective during the reporting period and push down accounting was used to account for the acquisition, include only the recoveries, charge-offs, and provisions from the effective date of the bank's acquisition through the end of the year-to-date reporting period. Report the change in the balance of the allowance for credit losses from the end of the previous year through the effective date of the bank's acquisition in item 5, "Adjustments."

For further information on poolings of interests, purchase acquisitions, and push down accounting, see the Glossary entry for "business combinations."

Part II. (cont.)

Item Instructions

Item No. **Caption and Instructions**

1 **Balance originally reported in the December 31, 19xx, Reports of Condition and Income**. Report the balance in the allowance for credit losses from the Reports of Condition and Income as of the previous calendar year-end. The allowance for credit losses includes the allowance for loan and lease losses plus any portions of the allowance for credit losses related to off-balance sheet credit exposures. The amount reported in this item should equal the amount originally reported as the ending balance in Schedule RI-B, part II, item 6, for the previous calendar year-end before the filing of any amended report(s).

2 **Recoveries**. Report the amount credited to the allowance for loan and lease losses for recoveries during the calendar year-to-date on amounts previously charged against the allowance for loan and lease losses. Also include amounts credited to any portions of the allowance for credit losses related to off-balance sheet credit exposures for recoveries on amounts previously charged-off against this allowance.

On the FFIEC 033 and 034, the amount reported in this item must equal Schedule RI-B, part I, item 6, column B, plus any recoveries credited to portions of the allowance for credit losses related to off-balance sheet credit exposures. On the FFIEC 031 and 032, the amount reported in this item must equal Schedule RI-B, part I, item 9, column B, (plus any recoveries credited to portions of the allowance for credit losses related to off-balance sheet credit exposures.

3 **LESS: Charge-offs**. Report the amount of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date. Also include the amount of losses on off-balance sheet credit exposures charged to any portions of the allowance for credit losses related to off-balance sheet credit exposures.

On the FFIEC 033 and 034, the amount reported in this item must equal Schedule RI-B, part I, item 6, column A, plus any losses charged against any portions of the allowance for credit losses related to off-balance sheet credit exposures. On the FFIEC 031 and 032, the amount reported in this item must equal Schedule RI-B, part I, item 9, column A, plus any losses charged against any portions of the allowance for credit losses related to off-balance sheet credit exposures.

4 **Provision for credit losses**. Report the amount expensed as the provision for credit losses during the calendar year-to-date. The provision for credit losses includes the amount needed to make the allowance for loan and lease losses adequate to absorb expected loan and lease losses plus any amount provided for credit losses related to off-balance sheet credit exposures, based upon management's evaluation of the bank's current loan, lease, and off-balance sheet credit exposures. The amount reported in this item must equal Schedule RI, item 4.a. If the amount reported in this item is negative, enclose it in parentheses.

5 **Adjustments**. Report the net cumulative effect of all corrections and adjustments made in any amended report(s) to the amount originally reported as the ending balance of the allowance for credit losses in the Reports of Condition and Income as of the previous calendar year-end.

Part II. (cont.)

Item No.	Caption and Instructions
5 (cont.)	Report the allowance for credit losses of a bank or other business acquired in a business combination during the calendar year-to-date reporting period. Determine the amount to be reported in this item in accordance with the General Instructions at the beginning of part II. If the bank was acquired in a transaction which became effective during the reporting period and push down accounting was used to account for the acquisition, report the change in the balance of the allowance for credit losses from the end of the previous year through the effective date of the bank's acquisition in this item. For those banks required to establish and maintain an allocated transfer risk reserve, report all allowable adjustments made during the reporting period between the regular allowance for loan and lease losses and the allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Federal Reserve Regulation K, Part 351 of the FDIC Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies. For banks with foreign offices that file the FFIEC 031 report forms, report any increases or decreases resulting from the translation into dollars of any portions of the allowance for credit losses which are denominated in a foreign currency. If the amount reported in this item is negative, enclose it in parentheses. State the dollar amount of and describe each transaction included in this item in Schedule RI-E, Explanations, item 8.
6	**Balance end of current period**. Report the sum of items 1, 2, 4, and 5, minus item 3. The amount reported in this item must equal Schedule RC, item 4.b, "Allowance for loan and lease losses," plus any portions of the allowance for credit losses related to off-balance sheet credit exposures. Banks are encouraged to disclose the amounts of these other portions of the allowance for credit losses in Schedule RI-E, item 9, "Other explanations."

Item No. **Caption and Instructions**

3 (cont.) If an extraordinary item or other adjustment is a loss or otherwise reduces the bank's income, enclose the dollar amount reported in parentheses. If an applicable income tax effect is a tax benefit (rather than a tax expense), enclose the dollar amount reported in parentheses.

4 **Equity capital adjustments from amended Reports of Income**. List and briefly describe in items 4.a and 4.b the dollar amount of each adjustment included in Schedule RI-A, item 2, "Equity capital adjustments from amended Reports of Income, net." If Schedule RI-A, item 2, includes more than two adjustments, report the additional adjustments in Schedule RI-E, item 9 below.

If an equity capital adjustment represents a reduction of the bank's equity capital, enclose the dollar amount reported in parentheses.

5 **Cumulative effect of changes in accounting principles from prior years**. List and briefly describe in items 5.a and 5.b the dollar amount of the cumulative effect, net of applicable income taxes, of each change in accounting principle included in Schedule RI-A, item 9. If Schedule RI-A, item 9, includes the effect of more than two changes, report the additional cumulative effects in Schedule RI-E, item 9 below.

If the cumulative effect of a change represents a reduction of the bank's equity capital, enclose the dollar amount reported in parentheses.

6 **Corrections of material accounting errors from prior years**. List and briefly describe in items 6.a and 6.b the dollar amount of each correction, net of applicable income taxes, of a material accounting error from a prior year that is included in Schedule RI-A, item 10. If Schedule RI-A, item 10, includes more than two corrections, report the additional corrections in Schedule RI-E, item 9 below.

If the correction of a material accounting error represents a reduction of the bank's equity capital, enclose the dollar amount reported in parentheses.

7 **Other transactions with parent holding company**. List and briefly describe in items 7.a and 7.b the dollar amount of each type of other transaction with the bank's parent holding company that is included in Schedule RI-A, item 12 (item 13 on the FFIEC 031). If Schedule RI-A, item 12 (item 13 on the FFIEC 031), includes more than two types of other transactions, report the additional types of other transactions in Schedule RI-E, item 9 below.

If the effect of a type of other transaction with the bank's parent holding company is to reduce the bank's equity capital, enclose the dollar amount reported in parentheses.

8 **Adjustments to allowance for credit losses**. List and briefly describe in items 8.a and 8.b the dollar amount of each adjustment to the allowance for credit losses that is included in Schedule RI-B, part II, item 5. If Schedule RI-B, part II, item 5, includes more than two adjustments, report the additional adjustments in Schedule RI-E, item 9 below.

If the effect of an adjustment is to reduce the bank's allowance for credit losses, enclose the dollar amount reported in parentheses.

Item No. **Caption and Instructions**

9 **Other explanations**. In the space provided on the report form, the bank may, at its option, list and briefly describe any other significant items relating to the Report of Income. The bank's other explanations must not exceed 750 characters, including punctuation and standard spacing between words and sentences.

Income Taxes (cont.):

(2) Deferred income tax expense or benefit measured as the change in the net deferred tax assets or liabilities for the period reported. Deferred tax liabilities and assets represent the amount by which taxes payable (or receivable) are expected to increase or decrease in the future as a result of "temporary differences" and net operating loss or tax credit carryforwards that exist at the reporting date.

The deferred portion of the total applicable income taxes for the calendar year should be reported in the December Report of Income in Schedule RI, Memorandum item 12.

The actual tax liability (or receivable) calculated on the bank's tax returns may differ from the estimate reported as currently payable or receivable on the year-end Report of Income. An amendment to the bank's year-end and subsequent Reports of Condition and Income may be appropriate if the difference is significant. Minor differences should be handled as accrual adjustments to applicable income taxes in Reports of Income during the year the differences are detected. The reporting of applicable income taxes in the Report of Income for report dates other than year-end is discussed below under "interim period applicable income taxes."

Temporary differences result when events are recognized in one period on the bank's books but are recognized in another period on the bank's tax return. These differences result in amounts of income or expense being reported in the Report of Income in one period but in another period in the tax returns. There are two types of temporary differences. Deductible temporary differences reduce taxable income in future periods. Taxable temporary differences result in additional taxable income in future periods.

For example, a bank's provision for loan and lease losses is expensed for financial reporting purposes in one period. However, for some banks, this amount may not be deducted for tax purposes until the loans are actually charged off in a subsequent period. This deductible temporary difference "originates" when the provision for loan and lease losses is recorded in the financial statements and "turns around" or "reverses" when the loans are subsequently charged off, creating tax deductions. Other deductible temporary differences include writedowns of other real estate owned, the recognition of loan origination fees, and other postemployment benefits expense.

Depreciation can result in a taxable temporary difference if a bank uses the straight-line method to determine the amount of depreciation expense to be reported in the Report of Income but uses an accelerated method for tax purposes. In the early years, tax depreciation under the accelerated method will typically be larger than book depreciation under the straight-line method. During this period, a taxable temporary difference originates. Tax depreciation will be less than book depreciation in the later years when the temporary difference reverses. Therefore, in any given year, the depreciation reported in the Report of Income will differ from that reported in the bank's tax returns. However, total depreciation taken over the useful life of the asset will be the same under either method. Other taxable temporary differences include the undistributed earnings of unconsolidated subsidiaries and associated companies and amounts funded to pension plans which exceed the recorded expense.

Some events do not have tax consequences and therefore do not give rise to temporary differences. Certain revenues are exempt from taxation and certain expenses are not deductible. These events were previously known as "permanent differences." Examples of such events (for federal income tax purposes) are interest received on certain obligations of states and political subdivisions in the U.S., amortization of purchased goodwill, premiums paid on officers' life insurance policies where the bank is the beneficiary, and 85 percent of cash dividends received on the corporate stock of domestic U.S. corporations.

Income Taxes (cont.):

Deferred tax assets shall be calculated at the report date by applying the "applicable tax rate" (defined below) to the bank's total deductible temporary differences and operating loss carryforwards. A deferred tax asset shall also be recorded for the amount of tax credit carryforwards available to the bank. Based on the estimated realizability of the deferred tax asset, a valuation allowance should be established to reduce the recorded deferred tax asset to the amount that is considered "more likely than not" (i.e., greater than 50 percent chance) to be realized.

Deferred tax liabilities should be calculated by applying the "applicable tax rate" to total taxable temporary differences at the report date.

Operating loss carrybacks and carryforwards and tax credit carryforwards -- When a bank's deductions exceed its income for federal income tax purposes, it has sustained an operating loss. An operating loss that occurs in a year following periods when the bank had taxable income may be carried back to recover income taxes previously paid. The tax effects of any loss carrybacks that are realizable through a refund of taxes previously paid is recognized in the year the loss occurs. In this situation, the applicable income taxes on the Report of Income will reflect a credit rather than an expense. Banks may carry back operating losses for two years. (For tax years beginning before 1998, banks could carry back operating losses for three years.)

Generally, an operating loss that occurs when loss carrybacks are not available (e.g., occurs in a year following periods of losses) becomes an operating loss carryforward. Banks may carry operating losses forward 20 years. (For tax years beginning before 1998, banks could carry operating losses forward 15 years.)

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

Applicable tax rate -- The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or paid. If the bank's income level is such that graduated tax rates are a significant factor, then the bank shall use the average graduated tax rate applicable to the amount of estimated taxable income in the period in which the deferred tax asset or liability is expected to be realized or settled. When the tax law changes, banks shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule RI, item 9, "Applicable income taxes (on item 8)."

Valuation allowance -- A valuation allowance must be recorded, if needed, to reduce the amount of deferred tax assets to an amount that is more likely than not to be realized. Changes in the valuation allowance generally shall be reported in Schedule RI, item 9, "Applicable income taxes (on item 8)." The following discussion of the valuation allowance relates to the allowance, if any, included in the amount of net deferred tax assets or liabilities to be reported on the balance sheet (Schedule RC) and in Schedule RC-F, item 2, or Schedule RC-G, item 2. This discussion does not address the determination of the amount of deferred tax assets, if any, that is disallowed for regulatory capital purposes and reported in Schedule RC-F, Memorandum item 1.

Preferred Stock: Preferred stock is a form of ownership interest in a bank or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation.

Limited-life preferred stock is preferred stock that has a stated maturity date or that can be redeemed at the option of the holder. It excludes those issues of preferred stock that automatically convert into perpetual preferred stock or common stock at a stated date.

Perpetual preferred stock is preferred stock that does not have a stated maturity date or that cannot be redeemed at the option of the holder. It includes those issues of preferred stock that automatically convert into common stock at a stated date.

Premiums and Discounts: A premium arises when a bank purchases a security, loan, or other asset at a price in excess of its par or face value, typically because the current level of interest rates for such assets is less than its contract or stated rate of interest. The difference between the purchase price and par or face value represents the premium which all banks are required to amortize.

A discount arises when a bank purchases a security, loan, or other asset at a price below its par or face value, typically because the current level of interest rates for such assets is greater than its contract or stated rate of interest. A discount is also present on instruments which do not have a stated rate of interest such as U.S. Treasury bills and commercial paper. The difference between par or face value and the purchase price represents the discount which all banks are required to accrete.

Premiums and discounts are accounted for as adjustments to the yield on an asset over the life of the asset. A premium must be amortized and a discount must be accreted from date of purchase to maturity, not to call or put date.[1] The preferable method for amortizing premiums and accreting discounts involves the use of the interest method for accruing income on the asset. The objective of the interest method is to produce a constant yield or rate of return on the carrying value of the asset (par or face value plus unamortized premium or less unaccreted discount) at the beginning of each amortization period over the asset's remaining life. The difference between the periodic interest income that is accrued on the asset and interest at the stated rate is the periodic amortization or accretion. However, a straight-line method of amortization or accretion is acceptable if the results are not materially different from the interest method.

A premium or discount may also arise when the reporting bank, acting either as a lender or a borrower, is involved in an exchange of a note for assets other than cash and the interest rate is either below the market rate or not stated, or the face amount of the note is materially different from the fair value of the noncash assets exchanged. The noncash assets and the related note shall be recorded at either the fair value of the noncash assets or the market value of the note, whichever is more clearly determinable. The market value of the note would be its present value as determined by discounting all future payments on the note using an appropriate interest rate, i.e., a rate comparable to that on new loans of similar risk. The difference between the face amount and the recorded value of the note is a premium or discount. This discount or premium shall be accounted for as an adjustment of the interest income or expense over the life of the note using the interest method described above.

For further information, see APB Opinion No. 21, "Interest on Receivables and Payables."

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[1] For an asset acquired at a premium prior to the effective date of a bank's adoption of FASB Statement No. 91, the premium should be amortized to the asset's maturity date unless it is more conservative in its effect on current income to amortize the premium in two stages: (1) first to the call or "put" date and price and (2) then to the maturity date and par or face value.

Purchase Acquisition: See "business combinations."

Put Option: See "derivative contracts."

Real Estate ADC Arrangements: See "acquisition, development, or construction (ADC) arrangements."

Real Estate, Loan Secured By: See "loan secured by real estate."

Reciprocal Balances: Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting bank has both a due to and a due from balance with another depository institution.

For purposes of the balance sheet of the Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

Renegotiated Troubled Debt: See "troubled debt restructurings."

Reorganizations: See "business combinations."

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the "sale" of financial assets by one party to another, subject to an agreement by the "seller" to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the "purchase" of financial assets by one party from another, subject to an agreement by the "purchaser" to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA's Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages), and generally have different principal amounts.

General rule -- Consistent with FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," repurchase and resale agreements involving financial assets (e.g. securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring ("selling") institution maintains control over the transferred assets. (See the Glossary entry for "transfers of financial assets" for further discussion of control criteria).

If a repurchase agreement both entitles and obligates the "selling" bank to repurchase or redeem the transferred assets from the transferee ("purchaser") before their maturity, the "selling" bank should report the transaction as a secured borrowing if and only if the following conditions have been met:

(1) The assets to be repurchased or redeemed are the same or "substantially the same" as those transferred, as defined by FASB Statement No. 125.

Repurchase/Resale Agreements (cont.):

(2) The "selling" institution has the ability to repurchase or redeem the transferred assets on substantially the agreed terms, even in the event of default by the transferee ("purchaser"). This ability is presumed to exist if the "selling" bank has obtained cash or other collateral sufficient to fund substantially all of the cost of purchasing replacement assets from others.

(3) The agreement is to repurchase or redeem the transferred assets before maturity, at a fixed or determinable price.

(4) The agreement is entered into concurrently with the transfer.

Participations in pools of securities are to be reported in the same manner as security repurchase/resale transactions.

Repurchase agreements reported as secured borrowings. If a repurchase agreement qualifies as a secured borrowing, the "selling" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "sold" under agreements to repurchase are reported in Schedule RC, item 14, "Federal funds purchased and securities sold under agreements to repurchase."

(2) Financial assets (other than securities) "sold" under agreements to repurchase are reported as follows:

(a) If the repurchase agreement matures in one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 14, "Federal funds purchased and securities sold under agreements to repurchase."

(b) If the repurchase agreement matures in more than one business day or is not in immediately available funds, it should be reported in Schedule RC, item 16, "Other borrowed money."

In addition, the "selling" institution may need to record further entries depending on the terms of the agreement. If the "selling" institution does not have the right and ability to redeem the transferred securities or other financial assets on short notice (e.g., by substituting other collateral for the assets) and the "purchaser" has the right to sell or repledge the assets, the "selling" institution should recategorize the transferred financial assets as "assets receivable" and report them in Schedule RC, item 11, "Other assets." Otherwise, the financial assets should continue to be reported in the same asset category as before the transfer (e.g., securities should continue to be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate).

Resale agreements reported as secured borrowings. Similarly, if a resale agreement qualifies as a secured borrowing, the "purchasing" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "purchased" under agreements to resell are reported in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."

Repurchase/Resale Agreements (cont.):

(2) Financial assets (other than securities) "purchased" under agreements to resell are reported as follows:

(a) If the resale agreement matures in one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."

(b) If the resale agreement matures in more than one business day or is not in immediately available funds, it should be reported in Schedule RC, item 4.a, "Loans and leases, net of unearned income."

In addition, the "purchasing" institution may need to record further entries depending on the terms of the agreement. If the "seller" does not have the right and ability to redeem the transferred securities or other financial assets on short notice (e.g., by substituting other collateral for the financial assets) and the "purchasing" institution has the right to sell or repledge the assets, the "purchasing" bank should report the transferred financial assets on its balance sheet in the appropriate asset category (e.g., transferred securities should be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate) and should record a liability to return the transferred financial assets in Schedule RC, item 20, "Other liabilities." Otherwise, the "purchasing" bank should not report the transferred financial assets (i.e., the financial assets "purchased" under the resale agreement) on its balance sheet.

Repurchase/resale agreements reported as sales -- If a repurchase agreement does not qualify as a secured borrowing under FASB Statement No. 125, the selling bank should account for the transaction as a sale of financial assets and a forward repurchase commitment. The selling bank should remove the transferred assets from its balance sheet, record the proceeds from the sale of the transferred assets (including the forward repurchase commitment), and record any gain or loss on the transaction. Similarly, if a resale agreement does not qualify as a borrowing under FASB Statement No. 125, the purchasing bank should account for the transaction as a purchase of financial assets and a forward resale commitment. The purchasing bank should record the transferred assets on its balance sheet, initially measure them at fair value, and record the payment for the purchased assets (including the forward resale commitment).

Reserve Balances, Pass-through: See "pass-through reserve balances."

Sales of Assets for Risk-Based Capital Purposes: This entry provides guidance for determining whether sales of loans, securities, receivables, and other assets are subject to the agencies' risk-based capital requirements and are reportable in Schedule RC-L, Off-Balance Sheet Items, and Schedule RC-R, Regulatory Capital. For information on the reporting of transfers of financial assets for purposes of the balance sheet, income statement, and related schedules, see the Glossary entry for "transfers of financial assets."

Under the agencies' risk-based capital standards, assets sold with recourse, if not already included on the balance sheet, are risk-weighted by using a two-step process. First, the full outstanding amount of assets sold with recourse must be converted to an on-balance sheet credit equivalent amounts using a 100 percent credit conversion factor, except for low level recourse transactions and small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994. (The reporting treatment of these specific types of asset sales with recourse is discussed in the General Instructions for Schedule RC-R.) Second, the credit equivalent amount is assigned to the appropriate risk weight category according to the obligor or, if relevant, the guarantor or the nature of the collateral.

Sales of Assets for Risk-Based Capital Purposes (cont.):

For purposes of reporting in Schedule RC-R, some transactions involving the "sale" of assets are not subject to the risk-based capital requirements and others are subject to these requirements and must be treated as "asset sales with recourse." Under the following general rule, the risk-based capital treatment required for any particular transfer of assets depends upon whether the "seller" retains risk of loss in connection with the transfer of the assets.

General rule -- A transferring institution should treat a transfer of loans, securities, receivables, or other assets that qualifies for sale treatment under generally accepted accounting principles as a sale of the transferred assets that is not subject to risk-based capital only if the transferring institution:

(1) retains no risk of loss from the assets transferred resulting from any cause and

(2) has no obligation to any party for the payment of principal or interest on the assets transferred resulting from:

  (a) default on principal or interest by the obligor of the underlying instrument or from any other deficiencies in the obligor's performance,

  (b) changes in the market value of the assets after they have been transferred,

  (c) any contractual relationship between the seller and purchaser incident to the transfer that, by its terms, could continue even after final payment, default, or other termination of the assets transferred, or

  (d) any other cause.

If risk of loss or obligation for payment of principal or interest is retained by, or may fall back upon, the seller in an asset transfer that qualifies for sale treatment under generally accepted accounting principles, the transaction must be considered an "asset sale with recourse" for purposes of reporting risk-based capital information in Schedule RC-R. The transaction must also be reported as an asset transfer with recourse in Schedule RC-L, item 9.

Assets transferred in transactions that do not qualify as sales under generally accepted accounting principles should continue to be reported as assets on the Call Report balance sheet and are subject to the agencies' regulatory capital requirements.

Exception to the general rule -- Contractual provisions in sales of assets that

(1) provide for the return of the assets to the seller in instances of incomplete documentation or fraud, or

(2) allow the purchaser a specific limited period of time to determine that the assets transferred are in fact as represented by the seller and to return deficient paper to the seller

will not by themselves and in the absence of any other recourse provision or retention of risk cause the transfer to be treated as an "asset sale with recourse" for purposes of Schedule RC-R.

Sales of Assets for Risk-Based Capital Purposes (cont.):

Interpretations and illustrations of the general rule:

(1) For any given transfer, the determination of whether risk is retained by the transferring institution is to be based upon the substance of the transfer agreement or other relevant documents or informal commitments and understandings, or subsequent actions of the parties to the transactions, not upon the form or particular terminology used. The presence of a bona fide "sale with recourse" provision would establish the transaction as an asset sale with recourse for purposes of risk-based capital and Schedule RC-R. However, the absence of a recourse provision, the absence of the term "recourse," even the presence of a statement to the effect that there is no recourse or, in the case of a participation, the use of the terms "pass-through" or "pure pass-through" will not by themselves establish a transaction as a sale that is not subject to risk-based capital. If other conditions and provisions of the transfer are such as to leave the transferor with risk of loss as described in the general rule, the transfer is an asset sale with recourse for purposes of risk-based capital and Schedule RC-R.

(2) If assets are sold subject to specific contractual terms that limit the seller's risk to a percentage of the value of the assets sold or to a specific dollar amount, the entire outstanding amount of the assets sold represents an asset sale with recourse for risk-based capital purposes. For example, if assets are sold subject to a ten percent recourse provision (i.e., the seller's risk is limited to ten percent of the value of the assets sold), the total outstanding amount of the assets sold is subject to risk-based capital, not just the ten percent limit, unless the low level recourse rule (discussed in the General Instructions to Schedule RC-R) applies.

However, if the risk retained by the seller is limited to some fixed percentage of any losses that might be incurred and there are no other provisions resulting in retention of risk, either directly or indirectly, by the seller, the maximum amount of possible loss for which the selling bank is at risk (the stated percentage times the amount of assets to which the percentage applies) is subject to risk-based capital and reportable in Schedule RC-R and the remaining amount of the assets transferred would be treated as a sale that is not subject to the risk-based capital requirements. For example, a seller would treat a sale of $1,000,000 in assets, with a recourse provision that the seller and buyer proportionately share in losses incurred on a ten percent and 90 percent basis, and with no other retention of risk by the seller, as a $100,000 asset sale with recourse and a $900,000 sale not subject to risk-based capital.

(3) Among the transfers where risk of loss has been retained by the seller and that should be considered by the seller as asset sales with recourse for purposes of Schedule RC-R are arrangements such as the following (this list is illustrative of the principles involved in the application of the general rule and is not all-inclusive) --

(a) the sale of an asset with a realistic bona fide put option allowing the purchaser, at its option, to return the asset to the seller;

(b) the sale of an asset guaranteed by a standby letter of credit issued by the seller;

(c) the sale of an asset guaranteed by a standby letter of credit issued by any other party in which risk, either directly or indirectly, rests with the seller;

(d) the sale of an asset guaranteed by an insurance contract in which the seller, either directly or indirectly, indemnifies or otherwise protects the insurer in any manner against loss;

(e) the sale of a short-term loan under a long-term credit commitment (a so-called "strip participation"); and

<u>Sales of Assets for Risk-Based Capital Purposes (cont.):</u>

(f) sales and securitizations of assets which use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, or retained securities (e.g., collateral invested amounts and cash collateral accounts) as credit enhancements. If the low-level recourse rule applies to these credit enhancements, the maximum contractual dollar amount of the bank's recourse exposure is generally limited to the amount carried as an asset on the balance sheet in accordance with generally accepted accounting principles.

(4) A transfer where the seller retains risk as a result of a difference in terms between the instrument of transfer and the asset transferred, regardless of the other characteristics of the sale or participation, should be treated by the seller as an asset sale with recourse for purposes of Schedule RC-R. For example, <u>any</u> transfer in which there is a difference in maturity between the underlying asset and the instrument of transfer should be treated as an asset sale with recourse.

However, the sale of a loan or other asset subject to an agreement under which the seller will pass through to the purchaser a rate of interest that differs from the stated rate of interest on the transferred asset would not, for this reason alone, require the transaction to be treated as an asset sale with recourse for risk-based capital purposes provided (1) the seller's obligation to pass interest through to the purchaser is contingent upon the continued interest payment performance of the underlying obligor of the transferred asset (i.e., the seller has no obligation to pass interest through if the obligor defaults in whole or in part on interest or principal) and (2) none of the other characteristics of the sale or participation results in risk to the seller.

(5) The general rule applies to all transfers of assets (other than those specifically covered in the exception), including sales of a single asset or of a pool of assets and sales of participations in a single asset or in a pool of assets (whether of similar or dissimilar instruments). In participations that are not "syndications" (as described in the Glossary item for that term), the seller of the participations should handle the transfer of shares to participants in accordance with the general rule on sales of assets for risk-based capital purposes, even though the assets being participated were acquired or accumulated for the express purpose of issuing participations and even though the participation was prearranged with the purchasers of the participations. However, the rule does not apply to the <u>initial</u> operation and distribution of participations in the form of syndications, since in a syndication there is no transfer of assets involved of the type to which the general rule on sales of assets for risk-based capital purposes is addressed. Any <u>subsequent</u> transfers of shares, or parts of shares, in a syndicated loan would be subject to the general rule.

(6) The general rule (and interpretations and exception) is also applicable to asset transfers that are made to special or limited purpose entities that are not technically affiliated with the seller. Regardless of the legal structure of the transaction, if risk of loss is retained by the seller, either contractually or otherwise, either directly or indirectly, the seller should treat the transaction as an asset sale with recourse for purposes of risk-based capital and Schedule RC-R even if the sale to the special purpose entity is stated as being without recourse.

<u>Savings Deposits:</u> <u>See</u> "deposits."

Securities Borrowing/Lending Transactions: Securities borrowing/lending transactions are typically initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer's failure to deliver securities sold. A transferee ("borrower") of securities generally is required to provide "collateral" to the transferor ("lender") of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities "borrowed."

Most securities borrowing/lending transactions do not qualify as sales under FASB Statement No. 125 because the agreement entitles and obligates the securities lender to repurchase or redeem the transferred assets before their maturity. (See the Glossary entry for "transfers of financial assets" for further discussion of sale criteria.) When such transactions do not qualify as sales, securities lenders and borrowers should account for the transactions as secured borrowings in which cash (or securities that the holder is permitted by contract or custom to sell or repledge) received as "collateral" by the securities lender is considered the amount borrowed and the securities "loaned" are considered pledged against the amount borrowed. Securities "loaned" in securities lending transactions that are accounted for as secured borrowings should be reported in the Report of Condition like other pledged assets, as set forth in FASB Statement No. 125.

If the securities borrowing/lending transaction meets the criteria for a sale under FASB Statement No. 125, the lender of the securities should remove the securities from its balance sheet, record the proceeds from the sale of the securities (including the forward repurchase commitment), and recognize any gain or loss on the transaction. The borrower of the securities should record the securities on its balance sheet at fair value and record the payment for the purchased assets (including the forward resale commitment).

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

Servicing Assets and Liabilities: The accounting and reporting standards for servicing assets and liabilities are set forth in FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities" as amended by Statement No. 125. A summary of the relevant sections of these accounting standard follows. For further information, see FASB Statements No. 125 and No. 65 and the Glossary entry for "transfers of financial assets."

Servicing of mortgage loans, credit card receivables, or other financial assets includes, but is not limited to, collecting principal, interest, and escrow payments from borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets. Servicers typically receive certain benefits from the servicing contract and incur the costs of servicing the assets.

Servicing is inherent in all financial assets; it becomes a distinct asset or liability only when contractually separated from the underlying financial assets by sale or securitization of the assets with servicing retained or by a separate purchase or assumption of the servicing. When a bank undertakes an obligation to service financial assets, it must recognize a servicing asset or liability for that servicing contract unless it securitizes the assets, retains all of the resulting securities, and classifies the securities as held-to-maturity debt securities. Servicing assets result from contracts to service financial assets for which the benefits of servicing (revenues from contractually specified servicing fees, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets for which the benefits of servicing are not expected to adequately compensate the servicer for performing the servicing. Contractually specified servicing fees are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and

Servicing Assets and Liabilities (cont.):
would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. Adequate compensation is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required including the profit that would be demanded by a substitute servicer in the marketplace.

When a bank sells or securitizes financial assets and retains the servicing asset, the bank shall allocate the cost of the financial assets to the servicing assets and the financial assets (without the servicing) based on their relative fair values. If it is not practicable to estimate the fair values of the servicing assets and the financial assets (without the servicing), the entire cost shall be allocated to the financial assets (without the servicing) and no cost shall be allocated to the servicing assets. If a bank incurs a servicing liability in a sale or securitization, the servicing liability should initially be measured at fair value. If a bank securitizes assets, retains all of the resulting securities, and classifies the securities as held-to-maturity debt securities, no separate servicing asset or liability shall be recorded. If a bank purchases servicing assets or assumes servicing liabilities in a transaction other than a sale or securitization of the financial assets being serviced, the asset or liability shall be recorded at fair value. For purchased servicing assets, the fair value is presumptively the price paid to acquire the servicing.

All servicing assets and liabilities carried on the books of reporting banks shall be amortized in proportion to, and over the period of, estimated net servicing income (servicing revenue in excess of servicing costs) or net servicing loss (servicing costs in excess of servicing revenue). The book value of servicing assets and liabilities should be reviewed at least quarterly. If the book value of a stratum of a servicing asset exceeds its fair value, the servicing asset is considered to be impaired and the book value shall be reduced to fair value through a valuation allowance for that stratum. The servicing assets shall be stratified into groups based on one or more of the predominant risk characteristics of the underlying financial assets for purposes of determining fair value. If the fair value of a servicing liability increases above the book value, the increased obligation shall be recognized as a loss in current earnings. The fair value of servicing assets (liabilities) is the amount at which the assets (liabilities) could be bought (incurred) or sold (settled) in a bona fide transaction between willing parties.

For each servicing contract in existence before January 1, 1997, previously recognized servicing rights and "excess servicing" receivables that do not exceed contractually specified servicing fees shall be combined, net of any previously recognized servicing obligations under that contract, as a servicing asset or liability as of January 1, 1997. The servicing asset or liability should subsequently be accounted for as described above. Previously recognized servicing receivables that exceed contractually specified servicing fees shall be reclassified as interest-only strips receivable.

For purposes of these reports, servicing assets resulting from contracts to service loans secured by real estate (as defined for Schedule RC-C, Part I, item 1, in the Glossary entry for "Loans secured by real estate") should be reported in Schedule RC-M, item 6.a, "Mortgage servicing assets." Servicing assets resulting from contracts to service all other financial assets should be reported in Schedule RC-M, item 6.b.(2), "All other identifiable intangible assets."

Settlement Date Accounting: See "trade date and settlement date accounting."

Shell Branches: Shell branches are limited service branches that do not conduct transactions with residents, other than with other shell branches, in the country in which they are located. Transactions at shell branches are usually initiated and effected by their head office or by other related branches outside the country in which the shell branches are located, with records and supporting documents maintained at the initiating offices. Examples of such locations are the Bahamas and the Cayman Islands.