

SUPPLEMENTAL INSTRUCTIONS

March 1997 Call Report Materials

The set of report forms that is enclosed in your March 31, 1997, Call materials is generally based on whether your bank has any "foreign offices" (including an International Banking Facility) and on the total assets reported by your bank in its June 30, 1996, Report of Condition (see pages 1 through 3 of the General Instructions section of the Call Report instructions). Based on these criteria, in general:

- o Banks of any size that have "foreign offices" must file the FFIEC 031 forms;
- o Banks without foreign offices and with assets of \$300 million or more must file the FFIEC 032 forms;
- o Banks without foreign offices and with assets of \$100 million or more but less than \$300 million must file the FFIEC 033 forms; and
- o Banks without foreign offices and with assets of less than \$100 million must file the FFIEC 034 forms.

In addition, all FDIC-supervised savings banks must file a supplemental Schedule RC-J which primarily contains interest rate sensitivity data.

Submission of Completed Reports

Banks that electronically submit their Call Reports to Electronic Data Systems Corporation (EDS), the collection agent for the banking agencies, should not mail hard copies of the Call Report to any federal bank supervisory agency unless specifically requested to do so. However, banks using the EDS system to file their Call Reports must maintain in their files a signed and attested printout of the data submitted to EDS showing at least the title of each Call Report item and the reported amount. The cover page of the agency-supplied printed report forms enclosed in the Call Report materials should be used to fulfill the signature and attestation requirement and this cover should be attached to the printout placed in the bank's files. For assistance in transmitting Call Report data to EDS, contact EDS toll free on (800) 255-1571.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; DPSC Software, Inc.; Information Technology, Inc.; and Sheshunoff Information Services, Inc., have been certified for electronic submission by EDS. Information Technology's software operates on mainframe computers while the other three vendors' software products run on personal computers. Banks using Call Report software on personal computers, but not filing their reports directly with EDS, should note that their personal computer software enables them to print a computer-generated hard-copy (facsimile) Call Report that resembles the enclosed Call Report forms. Banks can then submit the personal-computer-generated hard-copy report, along with the signed cover page from the enclosed Call Report forms, to the FDIC or the appropriate Federal Reserve District Bank and need not file their Call Report using the enclosed set of report forms. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

National banks and FDIC-supervised commercial and savings banks submitting hard copy Call Report forms should return the original completed report only to the FDIC's data entry site in Crofton, Maryland, in the special return address envelope provided in the Call Report materials. Banks must affix their own postage to this return envelope since it is not a postage-paid envelope. If overnight delivery service is used (at a bank's expense) in lieu of the special return address envelope, the original report should be addressed to the FDIC, c/o Quality Data Systems, 2127 Espey Court, Suite 204, Crofton, MD 21114. Original completed report forms should *not* be mailed to OCC District or FDIC

Regional Offices. *State member banks* submitting hard copy Call Report forms should return the original completed report and one copy to the appropriate Federal Reserve District Bank. The submission of a copy of the original signed and completed Call Report forms via telephone facsimile machine is not acceptable; the original forms must be delivered to the FDIC or to the Federal Reserve District Bank, as appropriate.

FFIEC Instruction Books

Each commercial and savings bank was mailed a complete revised Call Report instruction book in July 1989. When appropriate, the quarterly Call Report packages sent to each bank include update pages to the instruction books. Currently, your instruction book should include update pages dated 9-89, 3-90, 6-90, 9-90, 12-90, 3-91, 6-91, 9-91, 3-92, 3-93, 6-93, 9-93, 3-94, 6-94, 3-95, 6-95, 3-96, 6-96, and 3-97. (The update pages dated 3-97 are enclosed with this Call Report package.) If your bank needs any of these instructional materials, they can be obtained from the FDIC's Call Reports Analysis Unit (telephone toll free on 800-688-FDIC) or from your Federal Reserve District Bank.

Adoption of GAAP as the Reporting Basis for the Call Report

The FFIEC has adopted generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules in the Call Report, effective with the March 31, 1997, report date. The enclosed update pages for your Call Report instruction book contain revised instructions that conform with GAAP to replace existing instructions that depart from GAAP, but the instructions retain certain specific reporting guidance that falls within the range of acceptable practice under GAAP (see enclosed revised page 10 of the General Instructions). Thus, when preparing your Call Report, your bank should follow GAAP, including the specific reporting guidance, for recognition and measurement purposes. However, banks must continue to follow the line item instructions in order to determine the specific Call Report line item on which assets, liabilities, income, expenses, and other items are to be reported.

Banks that have engaged in transactions or activities prior to January 1, 1997, that they have had to report in the Call Report in accordance with the previous instructions that differed from GAAP are permitted to report them in accordance with GAAP beginning in 1997. The effect of this retroactive application of GAAP on the amount of a bank's Call Report undivided profits as of January 1, 1997, net of applicable income taxes, (i.e., the amount of the "catch-up" adjustment) should be reported as a direct adjustment to equity capital in Schedule RI-A, item 9, and itemized in Schedule RI-E, item 5.a.

FASB Statement No. 125

Financial Accounting Standards Board (FASB) Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," issued in June 1996 and amended in December 1996, provides accounting and reporting standards for these types of transactions. These standards are based on consistent application of a financial-components approach that focuses on control. This means that after a bank transfers financial assets, it recognizes the financial and servicing assets it controls and the liabilities it has incurred, removes financial assets from the balance sheet when control has been surrendered, and removes liabilities from the balance sheet when they have been extinguished. Statement No. 125 provides consistent standards for determining whether transfers of financial assets should be treated as sales or secured borrowings. The statement includes implementation guidance for the accounting for loan participations and syndications, repurchase agreements including "dollar rolls," transfers of receivables with recourse, servicing of financial assets, securitizations, and securities lending transactions.

In general, Statement No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. However, the FASB has amended Statement No. 125 to defer until January 1, 1998, the effective date of this accounting standard's provisions governing the accounting for secured borrowings and collateral and the accounting for repurchase agreement, dollar-roll, securities lending, and similar transactions.

Statement No. 125 also affects the accounting and reporting for servicing contracts in existence before January 1, 1997, and certain other financial assets held on January 1, 1997, that can be prepaid without

the holder recovering substantially all of its recorded investment. Statement No. 125 also supersedes FASB Statement No. 122 on mortgage servicing.

Banks must adopt Statement No. 125 for Call Report purposes in the first quarter of 1997, except for those provisions that have been deferred until 1998. Glossary entries for "Transfers of financial assets," "Extinguishments of liabilities," and "Servicing assets and liabilities," which provide a summary of relevant provisions of this new accounting standard, are included in the update pages for the Call Report instruction books that are being distributed to all banks as part of these March 31, 1997, Call Report materials. Banks are encouraged to consult with their outside accountants for assistance in implementing Statement No. 125.

Allowance for Credit Losses

The American Institute of Certified Public Accountants' Audit and Accounting Guide for Banks and Savings Institutions, issued as of April 1, 1996, 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. Previously, these allowance components often were reported in the aggregate on the balance sheet in the allowance for loan and lease losses (ALLL).

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, until any future revisions are made to the Call Report forms, banks should aggregate these components of the allowance for credit losses when completing Schedule RI-B, part II -- Changes in Allowance for Loan and Lease Losses. Banks are encouraged to disclose the amounts of these components in Schedule RI-E, item 9, "Other explanations."

Under the previous reporting standards, banks have been including the portion of the allowance related to off-balance sheet credit exposures in Tier 2 capital for risk-based capital purposes, subject to specified limits. This regulatory capital treatment remains in effect under the new reporting standards.

Optional Regulatory Capital Worksheet

To assist banks in accurately reporting the items for certain capital and asset amounts used in calculating capital ratios in the Call Report's regulatory capital schedule (Schedule RC-R, items 3.a through 3.f), an *optional* regulatory capital worksheet is enclosed with this Call Report package. Although all banks must complete these six capital-related items, banks are *not* required to use the optional worksheet. Banks may use any reasonable approach to determining the requested capital-related items that is consistent with their primary federal regulator's capital standards.

Residential Mortgage Loan Commitments

When completing Schedule RC-L, item 1, "Unused commitments," banks should report commitments to extend credit secured by 1-to-4 family residential properties for which the bank has charged a commitment fee or other consideration, or otherwise has a legally binding commitment to extend credit in the following manner. Revolving, open-end lines of credit secured by 1-to-4 family residential properties (e.g., home equity lines) should be reported in Schedule RC-L, item 1.a. All other commitments to extend credit secured by 1-to-4 family residential properties should be reported in Schedule RC-L, item 1.e, "Other unused commitments," except any 1-to-4 family residential construction and land development loans. Such secured construction loans should be reported in Schedule RC-L, item 1.c.(1).

Loans Indirectly Representing Premises and Fixed Assets

Loans and advances to individuals, partnerships, and nonmajority-owned corporations for the purpose of purchasing or holding land, buildings, or fixtures occupied or used by the bank should no longer be reported in Schedule RC, item 6, "Premises and fixed assets." Such loans should instead be reported in Schedule RC, item 4.a, "Loans and leases, net of unearned income," and in Schedule RC-C. The instructions to Schedule RC, item 6, have not yet been revised for this reporting change.

Reporting Full-Time Equivalent Employees and Their Compensation Expense

When reporting the number of full-time equivalent employees in Schedule RI, Memorandum item 4 on the FFIEC 032, 033, and 034 and Memorandum item 5 on the FFIEC 031, banks should include as employees individuals who, in form, are employed by an affiliate but who, in substance, do substantially all of their work for the reporting bank. The salaries and benefits of these individuals should be included in Schedule RI, item 7.a. However, banking organizations should not segregate the compensation component of other intercompany cost allocations arising from arrangements other than that described above nor calculate the related pro rata number of full-time equivalent employees for purposes of Schedule RI, item 7.a and the related Memorandum item.

Accounting for Income Taxes

All banks must report income taxes, including deferred taxes, in the Call Report in accordance with FASB Statement No. 109, "Accounting for Income Taxes," as discussed in the Glossary entry for "income taxes" in your Call Report instruction book. For assistance in reporting applicable income taxes and deferred taxes in your Call Report, an *optional* worksheet for calculating a reasonable estimate of year-to-date applicable income taxes is *available upon request*. The worksheet is geared toward smaller banks and the item references on the worksheet are to the FFIEC 034 Reports of Condition and Income. To request a copy of the worksheet, state member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Call Reports Analysis Unit in Washington, D.C., toll free on (800) 688-FDIC.

Asset, Loan, and Other Size Tests

Certain Call Report schedules and items are to be completed only by banks that meet specified size tests. While most of these size tests are based on total assets, some are based on the volume of a bank's agricultural loans or on the total par/notional amount of certain off-balance sheet contracts. The various size tests are generally based on total assets and other amounts as reported in the June 30, 1996, Report of Condition, not on amounts as of the current Call Report date.

Checklist/Preparer's Guide

A Report Preparer's Checklist/Guide has been included with each Call Report package. This checklist should be used as a guide for the verification by the bank of details and totals reported on the Call Report forms. The checklist should not be returned with the completed forms.

Call Report Software Vendors

For information on available Call Report software, banks should contact:

DBI Financial Systems, Inc.
P.O. Box 1249
Cannon Beach, Oregon 97110
Telephone: (800) 774-3279

Information Technology, Inc.
1345 Old Cheney Road
Lincoln, Nebraska 68512
Telephone: (403) 423-2682

DPSC Software, Inc.
23501 Park Sorrento, Suite 105
Calabasas, California 91302
Telephone: (800) 825-3772

Sheshunoff Information Services, Inc.
P.O. Box 13203 Capitol Station
Austin, Texas 78711-3203
Telephone: (800) 456-2340