

## SUPPLEMENTAL INSTRUCTIONS

### March 2006 Call Report Materials

A sample set of the March 31, 2006, report form applicable to your bank is enclosed. Banks with domestic offices only must file the FFIEC 041 report form. Banks with domestic and foreign offices must file the FFIEC 031 report form.

Please retain the enclosed sample report form for reference. Sample forms also are available on both the FFIEC's Web site ([www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC's Web site ([www.fdic.gov/regulations/resources/call/index.html](http://www.fdic.gov/regulations/resources/call/index.html)). A paper copy of the Call Report forms, including the cover (signature) page, can be printed from the Web sites. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software.

Please note that with the implementation of the FFIEC's Central Data Repository (CDR) and the availability of sample Call Report forms on the Internet and from Call Report software, the agencies are discontinuing the regular quarterly mailing of sample Call Report forms to banks after this quarter. The agencies currently plan to mail sample forms to banks only when there are significant revisions to the forms. Accordingly, sample June 30 and December 31, 2006, forms will **not** be mailed to banks, but the agencies plan to send a sample set of the September 30, 2006, forms to banks because certain Call Report revisions will take effect that quarter. See Financial Institution Letter (FIL) 7-2006, dated January 27, 2006 ([http://www.ffiec.gov/pdf/ffiec\\_forms/FFIEC031\\_041\\_FIL7\\_20060127.pdf](http://www.ffiec.gov/pdf/ffiec_forms/FFIEC031_041_FIL7_20060127.pdf)), for further information about these Call Report revisions.

### Submission of Completed Reports

Each bank's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>) using one of the two methods described in the banking agencies' cover letter for the March 31, 2006, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (301) 495-7864, or by e-mail at [CDR.Help@ffiec.gov](mailto:CDR.Help@ffiec.gov).

Banks are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the FFIEC's sample report forms, but should show at least the caption of each Call Report item and the reported amount. Either the cover page of the enclosed sample set of report forms, a photocopy of the cover page, or a copy of the cover page printed from Call Report software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the hard-copy record of the Call Report data file that must be placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Fidelity Regulatory Solutions (previously The InterCept Group); Financial Architects US; FRS, an S1 Corporation Business; IDOM, Inc.; Information Technology, Inc.; and Jack Henry & Associates, Inc. (previously Sheshunoff Information Services) meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. The addresses and telephone numbers of these vendors are listed at the end of these Supplemental Instructions.

### Amending Previously Submitted Reports

Should your bank find that it needs to revise Call Report data in its report for quarters beginning September 30, 2005, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' cover letter for the March 31, 2006, report date. Should your bank need to amend its Call Report data for June 30, 2005, or an earlier date, please contact your Call Report analyst at the FDIC (for

national banks and FDIC-supervised banks) or your Federal Reserve District Bank (for state member banks) for instructions on how to submit amendments to prior period data. Corrections to prior period data are no longer accepted by Electronic Data Systems Corporation (EDS), the agencies' pre-CDR electronic collection agent.

### **FFIEC Instruction Books**

Enclosed with this quarter's Call Report materials is an update to your Call Report instruction book. Please follow the filing instructions on the inside of the cover page of the update package. The Call Report instructions are available on both the FFIEC's Web site ([www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC's Web site ([www.fdic.gov/regulations/resources/call/index.html](http://www.fdic.gov/regulations/resources/call/index.html)). Copies of the Call Report instructions may also be obtained from the FDIC's Data Collection and Analysis Section (telephone toll free at 800-688-FDIC) or from your Federal Reserve District Bank.

### **"Oakar Deposit" Reporting No Longer Required**

With the enactment of the Federal Deposit Insurance Reform Act earlier this year, banks with "Oakar deposits" no longer need to report information on purchases and sales of deposits during the quarter. Therefore, banks with "Oakar deposits" that have engaged in such transactions during the first quarter of 2006 – as well as all other banks – should report zeros in items 8.a.(1), 8.a.(2), and 8.b of Schedule RC-O in their March Call Report.

### **Reporting Securities Borrowing and Lending Transactions on the Balance Sheet**

Banks are permitted to offset assets and liabilities in the Call Report balance sheet (Schedule RC) when a "right of setoff" exists. FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, defines "right of setoff" and specifies what conditions must be met to have that right. FASB Interpretation No. 41 modifies Interpretation No. 39 to permit offsetting in the balance sheet of payables and receivables that represent repurchase agreements and reverse repurchase agreements when the agreements meet specified conditions. According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore, for Call Report purposes, banks should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 have been met.

### **FASB Statement No. 123 (Revised 2004) and Share-Based Payments**

FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (FAS 123(R)), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. Banks must adopt FAS 123(R) for Call Report purposes in accordance with the standard's effective date and transition provisions. Public companies other than small business issuers, including banks that are subsidiaries of such public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after June 15, 2005. All other companies, including small business issuers and banks that are not subsidiaries of public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after December 15, 2005. Thus, all banks with a calendar year fiscal year must implement FAS 123(R) as of January 1, 2006.

Under FAS 123(R), the "compensation cost for an award of share-based employee compensation classified as equity shall be recognized over the requisite service period," which is typically the same as the vesting period, "with a corresponding credit to equity (generally, paid-in capital)." The recording of the compensation cost also gives rise to deferred tax consequences, i.e., a deferred tax asset, that must be recognized (and evaluated for realizability). For Call Report purposes, the compensation expense should be included in Schedule RI, item 7.a., "Salaries and employee benefits," with the corresponding credit included in Schedule RC, item 25, "Surplus." In Schedule RI-A, Changes in Equity Capital, this credit should be included in item 5, "Sale, conversion, acquisition, or retirement of capital stock, net." This reporting treatment applies regardless of whether the shares awarded to the employee are shares of bank stock or shares of the bank's parent holding company.

### **Privatization of the Student Loan Marketing Association**

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring

them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. For Call Report purposes, banks should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule RC-B, item 2.b. SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule RC-D, item 2. Banks should refer to the guidance in their primary federal regulator's risk-based capital standards on the treatment of collateralized claims to determine the appropriate risk weight for these SLMA debt securities.

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Banks should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule RC-B, item 6.a. SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule RC-D, item 5. Banks should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule RC-B, item 5, unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule RC-B, item 7, unless held for trading purposes. SLM Corporation debt securities, common stock, and preferred stock should be risk-weighted 100 percent. Its asset-backed securities should be risk-weighted in accordance with the ratings-based approach described on page RC-R-16 of the Call Report instructions.

### **Agency Prepayment-Linked Notes**

In 2004, the Federal National Mortgage Association and the Federal Home Loan Banks began to issue a type of fixed rate debt securities known as prepayment-linked or index amortizing notes. Principal and interest on the notes are paid monthly, with the principal payments indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security. However, the notes are not collateralized by the mortgages or mortgage-backed security and they have stated final maturity dates that are generally 5 to 12 years from the date of issuance. Because these securities are direct unsecured obligations of the issuing government-sponsored agency, banks should report their holdings of these prepayment-linked notes in Schedule RC-B, item 2.b, if they are not held for trading purposes. In addition, these securities are considered structured notes because of their repayment characteristics and, if not held for trading purposes, must also be reported in Schedule RC-B, Memorandum item 4. For risk-based capital purposes, these agency prepayment-linked notes are a claim on a U.S. government-sponsored agency and should be assigned a 20 percent risk weight.

### **Reporting the Number and Amount of Deposits and Uninsured Deposits in Schedule RC-O**

Banks must report the number and amount of deposit accounts of \$100,000 or less and of deposit accounts of more than \$100,000 in Schedule RC-O, Memorandum item 1. In addition, banks must report their estimated uninsured deposits in Schedule RC-O, Memorandum item 2. These Memorandum items cover deposits in domestic offices of the bank (and in insured branches in Puerto Rico and U.S. territories and possessions). When completing Memorandum items 1 and 2, banks should exclude deposits of consolidated subsidiaries held in the domestic offices of the bank (and in insured branches in Puerto Rico and U.S. territories and possessions) that have been eliminated in consolidation in accordance with the "Rules of Consolidation" in the General Instructions section of the Call Report instructions.

### **Tobacco Transition Payment Program**

The Fair and Equitable Tobacco Reform Act, commonly referred to as the "Tobacco Buyout," was enacted into law on October 22, 2004, as part of the American Jobs Creation Act of 2004. This Act established the Tobacco Transition Payment Program, which is administered by the U.S. Department of Agriculture (USDA). Under this program, the Commodity Credit Corporation (CCC) makes annual payments to eligible tobacco quota holders (i.e., landowners) and tobacco producers (i.e., farmers) from 2005 through 2014.

The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, the statute and the rules implementing the tobacco buyout program permit a private party, such as a bank, to make a lump-sum payment to the quota holder or producer in return for the right to receive one or more of the annual payments to be made by the CCC under the buyout program. More specifically, a quota holder or producer can obtain a lump-sum payment from a bank or other party by executing an "assignment" of tobacco buyout payments or a "successor-in-interest" contract. Under both of these financing

arrangements, the consideration paid to the quota holder or producer must be greater than or equal to the present value of the transferred annual payments discounted at the prime rate plus two percentage points rounded to the nearest whole number. Assignment contracts and successor-in-interest contracts become effective only upon the approval of the CCC. The annual payments by the CCC will be made directly to the assignee or successor party.

However, any annual payments to be made to a bank or other party under an assignment contract will be reduced if the quota holder or producer owes any debt to an agency of the United States at any time over the life of the contract, thereby exposing the assignee to credit risk. On the other hand, on a successor-in-interest contract, a successor party obtains all rights to the transferred payments and the annual payments cannot be reduced for any debt owed by the quota holder or producer to an agency of the United States subsequent to the CCC's approval of the successor-in-interest contract. Nevertheless, the CCC will reduce any annual payments to the successor party if the successor owes any debt to an agency of the United States. In addition, to be eligible to be the successor to a producer contract, a bank or other party must have been in compliance with the wetlands and highly erodible land provisions of the USDA's regulations and with controlled substances statutes in 2002, 2003, and 2004.

Banks that enter into CCC-approved assignment contracts and successor-in-interest contracts and make lump-sum payments to tobacco quota holders or producers should report these financing arrangements as "Loans to finance agricultural production and other loans to farmers" in Schedule RC-C, part I, item 3. The discount reflected in these lump-sum payments should be recognized as interest income over the life of the contract using the interest method. For risk-based capital purposes, assignment contracts should be risk weighted at 100 percent because of the potential exposure to payment reductions for any debt owed by the quota holder or producer to an agency of the United States as outlined above. Successor-in-interest contracts from both quota holders and producers are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at zero percent.

### **Other-Than-Temporary Impairment of Securities**

Under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, an institution must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other than temporary, the cost basis of the individual security must be written down to fair value through earnings, thereby establishing a new cost basis for the security.

In November 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1 to address the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance in this FASB Staff Position is to be applied to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost beginning in 2006. Under the FASB Staff Position, institutions should apply existing other-than-temporary impairment guidance to the determination of whether an impairment is other than temporary. Such guidance includes FASB Statement No. 115, EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (Topic 5.M. in the Codification of Staff Accounting Bulletins).

### **Commitments to Originate and Sell Mortgage Loans**

Commitments to originate mortgage loans that will be held for resale, which are referred to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including both mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Institutions must also account for loan sales agreements that meet the definition of a derivative, which are referred to as forward loan sales commitments, at fair value on the balance sheet. The agencies provided guidance on the appropriate accounting and reporting for these commitments in their May 2005 Interagency Advisory on

Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans, which can be accessed on each of the agencies' Web sites.

According to the advisory, under a typical derivative loan commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment.

Banks are expected to apply the guidance in the advisory when preparing their Call Reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for Call Report purposes. All other derivative loan commitments should be reported in the Call Report with a bank's over-the-counter written interest rate options in Schedule RC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule RC-L. For further information on the reporting of loan commitments, please refer to the guidance on this subject in the Call Report Supplemental Instructions for June 30, 2005, which can be accessed via the FFIEC's Web site ([www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf)).

### **GNMA Mortgage Loan Optional Repurchase Program**

A seller-servicer must report all delinquent residential mortgage loans backing Government National Mortgage Association mortgage-backed securities that must be rebooked as assets in accordance with FASB Statement No. 140 (GNMA loans), whether they have been repurchased or are eligible for repurchase, as loans held for sale (Schedule RC, item 4.a) or loans held for investment (Schedule RC, item 4.b), based on facts and circumstances, in accordance with generally accepted accounting principles. In addition, if a bank services GNMA loans, but was not the transferor of the loans that have been securitized, and purchases individual delinquent loans out of the GNMA securitization, the bank must also report the purchased loans as loans held for sale or held for investment. All GNMA loans recognized as assets should be reported as past due in Schedule RC-N in accordance with their contractual repayment terms. Such delinquent GNMA loans should be reported in items 1.c, 10, and 10.b of Schedule RC-N.

An institution that forecloses on real estate backing a delinquent GNMA loan should report the property as "other real estate owned" and not as an "other asset" on the Call Report balance sheet. Effective this quarter, the agencies are adding a new subitem to Schedule RC-M, item 3.b, "All other real estate owned," in which institutions should separately disclose the amount of such foreclosed real estate.

### **Reporting Asset-Backed Commercial Paper Conduits in Schedule RC-R**

An asset-backed commercial paper (ABCP) program is usually carried out through a bankruptcy-remote special-purpose entity, which generally is sponsored and administered by a bank to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program.

In July 2004, the banking agencies issued a final rule that sets forth the risk-based capital treatment for assets in ABCP conduits that sponsoring banks are required to consolidate in accordance with FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*. The final rule permits sponsoring banks to exclude the consolidated ABCP program assets from their risk-weighted asset bases when they calculate their risk-based capital ratios. It also imposes a 10 percent credit conversion factor on eligible ABCP program liquidity facilities with an original maturity of one year or less that provide liquidity support to these programs. Eligible liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. In contrast, ineligible liquidity facilities (both short-term and long-term) are treated as direct credit substitutes or recourse obligations and are subject to a 100 percent credit conversion factor. In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital) if the bank excludes the consolidated ABCP program assets from risk-weighted assets pursuant

to the final rule. Banks involved with ABCP programs should refer to the final rule for complete information on the risk-based capital treatment of these programs.

Under the agencies' final rule, bank sponsors of any consolidated ABCP programs should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule RC-R, Regulatory Capital. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the final rule, and risk weights them accordingly. However, unless this consolidation option has been chosen, sponsoring banks must continue to hold risk-based capital against all exposures arising in connection with these programs, whether or not the programs are consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule RC-R.

Banks that provide liquidity facilities to ABCP programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R (unless a sponsor has chosen the consolidation option). The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an *eligible* liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), banks should report the full amount of the unused portion of the facility in Schedule RC-R, item 51, column A. Finally, any minority interests in consolidated ABCP programs should not be included in Schedule RC-R, item 6, "Qualifying minority interests in consolidated subsidiaries," if the consolidated program assets are excluded from risk-weighted assets.

#### **FASB Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities**

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2005. These Supplemental Instructions can be accessed via the FFIEC's Web site ([www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf)).

#### **Reporting of Funds Invested Through Bentley Financial Services, Inc.**

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2003. These Supplemental Instructions can be accessed via the FFIEC's Web site ([www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst0603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf)).

#### **Call Report Software Vendors**

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

DBI Financial Systems, Inc.  
P.O. Box 14027  
Bradenton, Florida 34280  
Telephone: (800) 774-3279  
[www.e-dbi.com](http://www.e-dbi.com)

Fidelity Regulatory Solutions  
27200 Agoura Road, Suite 100  
Calabasas Hills, California 91301  
Telephone: (800) 825-3772  
[www.callreporter.com](http://www.callreporter.com)

Financial Architects US  
12040 Provincetowne Drive  
Charlotte, North Carolina 28277  
Telephone: (800) 763-7070  
[www.finarch.com](http://www.finarch.com)

FRS, an S1 Corporation Business  
2815 Coliseum Centre Drive,  
Suite 300  
Charlotte, North Carolina 28217  
Telephone: (704) 501-5619  
[www.frsglobal.com](http://www.frsglobal.com)

IDOM, Inc.  
One Gateway Center, Third Floor  
Newark, New Jersey 07102  
Telephone: (973) 648-0900  
[www.idomusa.com](http://www.idomusa.com)

Information Technology, Inc.  
1345 Old Cheney Road  
Lincoln, Nebraska 68512  
Telephone: (402) 423-2682  
[www.itinw.net](http://www.itinw.net)

Jack Henry & Associates, Inc.  
Regulatory Filing Group  
7600B North Capital of Texas  
Highway, Suite 320  
Austin, Texas 78731

Telephone: (800) 688-9191  
filing.jackhenry.com