

FFIEC 031 AND FFIEC 041

CALL REPORT

INSTRUCTION BOOK UPDATE

JUNE 2019

FILING INSTRUCTIONS

NOTE: This update for the instruction book for the FFIEC 031 and FFIEC 041 Call Reports is designed for two-sided (duplex) printing. The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Consolidated Reports of Condition and Income* (FFIEC 031 and FFIEC 041) and should be removed and discarded. The pages listed in the column headed "Insert Pages" are included in this instruction book update and should be filed promptly in your instruction book for the FFIEC 031 and FFIEC 041 Call Reports.

Remove Pages

Cover Page (undated)
RC-C-2c – RC-C-10a (6-13, 3-17, 6-18, 3-19)
RC-M-7 – RC-M-8 (6-18)
A-11 – A-12b (3-18, 9-18)
A-69 – A-72 (3-17, 9-18)

Insert Pages

Cover Page (6-19)
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**Instructions for Preparation of
Consolidated Reports of Condition and Income**

FFIEC 031 and FFIEC 041

Updated June 2019

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Part I. (cont.)**Item No. Caption and Instructions**

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(cont.)

Exclude from loans secured by real estate:

- (1) Obligations (other than securities and leases) of states and political subdivisions in the U.S. that are secured by real estate (report in Schedule RC-C, part I, item 8).
- (2) All loans and sales contracts indirectly representing other real estate (report in Schedule RC, item 7, "Other real estate owned").
- (3) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign non-governmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the bank but are merely pledged as collateral (report in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," or item 9.a, "Loans to nondepository financial institutions," as appropriate).
- (4) Bonds issued by the Federal National Mortgage Association or by the Federal Home Loan Mortgage Corporation that are collateralized by residential mortgages (report in Schedule RC-B, item 2, "U.S. Government agency and sponsored agency obligations").
- (5) Pooled residential mortgages for which participation certificates have been issued or guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation (report in Schedule RC-B, item 4.a). However, if the reporting bank is the seller-servicer of the residential mortgages backing such securities and, as a result of a change in circumstances, it must rebook any of these mortgages because one or more of the conditions for sale accounting in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by FASB Statement No. 166, "Accounting for Transfers of Financial Assets"), are no longer met, the rebooked mortgages should be included in Schedule RC-C, part I, as loans secured by real estate.

1.a **Construction, land development, and other land loans.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) loans secured by real estate made to finance (a) land development (i.e., the process of improving land – laying sewers, water pipes, etc.) preparatory to erecting new structures or (b) the on-site construction of industrial, commercial, residential, or farm buildings. For purposes of this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures.

Also include in this item:

- (1) Loans secured by vacant land, except land known to be used or usable for agricultural purposes, such as crop and livestock production (which should be reported in Schedule RC-C, part I, item 1.b, below, as loans secured by farmland).
- (2) Loans secured by real estate the proceeds of which are to be used to acquire and improve developed and undeveloped property.

Part I. (cont.)**Item No. Caption and Instructions**

1.a (3) Loans made under Title I or Title X of the National Housing Act that conform to the
(cont.) definition of construction stated above and that are secured by real estate.

Loans written as combination construction-permanent loans secured by real estate should be reported in this item until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule RC-C, part I, item 1, appropriate to the real estate collateral. For purposes of these reports, a combination construction-permanent loan arises when the lender enters into a contractual agreement with the original borrower at the time the construction loan is originated to also provide the original borrower with permanent financing that amortizes principal after construction is completed and a certificate of occupancy is obtained (if applicable). This construction-permanent loan structure is intended to apply to situations where, at the time the construction loan is originated, the original borrower:

- Is expected to be the owner-occupant of the property upon completion of construction and receipt of a certificate of occupancy (if applicable), for example, where the financing is being provided to the original borrower for the construction and permanent financing of the borrower's residence or place of business, or
- Is not expected to be the owner-occupant of the property, but repayment of the permanent loan will be derived from rental income associated with the property being constructed after receipt of a certificate of occupancy (if applicable) rather than from the sale of the property being constructed.

All construction loans secured by real estate, other than combination construction-permanent loans as described above, should continue to be reported in this item after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting bank or is otherwise repaid, (2) the bank acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off. For purposes of these reports, a construction loan is deemed to be refinanced into a new permanent loan only if the bank originates:

- An amortizing permanent loan to a new borrower (unrelated to the original borrower) who has purchased the real property, or
- A prudently underwritten new amortizing permanent loan at market terms to the original borrower – including an appropriate interest rate, maturity, and loan-to-value ratio – that is no longer dependent on the sale of the property for repayment. The loan should have a clearly identified ongoing source of repayment sufficient to service the required principal and interest payments over a reasonable and customary period relative to the type of property securing the new loan. A new loan to the original borrower not meeting these criteria (including a new loan on interest-only terms or a new loan with a short-term balloon maturity that is inconsistent with the ongoing source of repayment criterion) should continue to be reported as a "Construction, land development, and other land loan" in the appropriate subitem of Schedule RC-C, part I, item 1.a.

Exclude loans to finance construction and land development that are not secured by real estate (report in other items of Schedule RC-C, part I, as appropriate).

Part I. (cont.)**Item No. Caption and Instructions**

- 1.a.(1) 1-4 family residential construction loans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding of 1-4 family residential construction loans, i.e., loans for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term “1-4 family residential properties” is defined in Schedule RC-C, part I, item 1.c, below. “1-4 family residential construction loans” include:
- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
 - Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
 - Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
 - Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
 - Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
 - Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.
 - Loans secured by apartment buildings undergoing conversion to condominiums, regardless of the extent of planned construction or renovation, where repayment will come from sales of individual condominium dwelling units, which are 1-4 family residential properties.
 - Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.
- 1.a.(2) Other construction loans and all land development and other land loans.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding of all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans. Include loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.
- 1.b Secured by farmland.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.
- Include loans secured by farmland that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by any party other than FmHA or SBA.

Part I. (cont.)**Item No. Caption and Instructions**

1.b Exclude loans for farm property construction and land development purposes (report in
(cont.) Schedule RC-C, part I, item 1.a).

1.c **Secured by 1-4 family residential properties.** Report in the appropriate subitem (on the
FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and
highly complex institutions – as defined for assessment purposes – with foreign offices, and
in column B for all other institutions with foreign offices) open-end and closed-end loans
secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or
other liens on:

- (1) Nonfarm property containing 1-to-4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- (2) Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- (3) Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.
- (4) Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1-to-4 family dwelling units are involved.

Reverse 1-4 family residential mortgages should be reported in the appropriate subitem based on whether they are closed-end or open-end mortgages. A reverse mortgage is an arrangement in which a homeowner borrows against the equity in his/her home and receives cash either in a lump sum or through periodic payments. However, unlike a traditional mortgage loan, no payment is required until the borrower no longer uses the home as his or her principal residence. Cash payments to the borrower after closing, if any, and accrued interest are added to the principal balance. These loans may have caps on their maximum principal balance or they may have clauses that permit the cap on the maximum principal balance to be increased under certain circumstances. Homeowners generally have one of the following options for receiving tax free loan proceeds from a reverse mortgage: (1) one lump sum payment; (2) a line of credit; (3) fixed monthly payments to homeowner either for a specified term or for as long as the homeowner lives in the home; or (4) a combination of the above.

Reverse mortgages that provide for a lump sum payment to the borrower at closing, with no ability for the borrower to receive additional funds under the mortgage at a later date, should be reported as closed-end loans in Schedule RC-C, part I, item 1.c.(2). Normally, closed-end reverse mortgages are first liens and would be reported in Schedule RC-C, part I, item 1.c.(2)(a). Reverse mortgages that are structured like home equity lines of credit in that they provide the borrower with additional funds after closing (either as fixed monthly payments, under a line of credit, or both) should be reported as open-end loans in Schedule RC-C, part I, item 1.c.(1). Open-end reverse mortgages also are normally first liens. Where there is a combination of both a lump sum payment to the borrower at closing and payments after the closing of the loan, the reverse mortgage should be reported as an open-end loan in Schedule RC-C, part I, item 1.c.(1).

Part I. (cont.)**Item No. Caption and Instructions**

- 1.c** Exclude loans for 1-to-4 family residential property construction and land development
(cont.) purposes (report in Schedule RC-C, part I, item 1.a.(1)). Also exclude loans secured by vacant lots in established single-family residential sections or in areas set aside primarily for 1-to-4 family homes (report in Schedule RC-C, part I, item 1.a.(2)).
- 1.c.(1)** **Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount outstanding under revolving, open-end lines of credit secured by 1-to-4 family residential properties. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card.
- 1.c.(2)** **Closed-end loans secured by 1-4 family residential properties.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by 1-to-4 family residential properties (i.e., closed-end first mortgages and junior liens).
- 1.c.(2)(a)** **Secured by first liens.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by first liens on 1-to-4 family residential properties.
- 1.c.(2)(b)** **Secured by junior liens.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of all closed-end loans secured by junior (i.e., other than first) liens on 1-to-4 family residential properties. Include loans secured by junior liens in this item even if the bank also holds a loan secured by a first lien on the same 1-to-4 family residential property and there are no intervening junior liens.
- 1.d** **Secured by multifamily (5 or more) residential properties.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) all other nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional) or other liens that are not reportable in Schedule RC-C, part I, item 1.c. Specifically, include loans on:
- (1) Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
 - (2) 5 or more unit housekeeping dwellings with commercial units combined where use is primarily residential.
 - (3) Cooperative-type apartment buildings containing 5 or more dwelling units.

Part I. (cont.)**Item No. Caption and Instructions**

1.d
(cont.) Exclude loans for multifamily residential property construction and land development purposes and loans secured by vacant lots in established multifamily residential sections or in areas set aside primarily for multifamily residential properties (report in Schedule RC-C, part I, item 1.a.(2)). Also exclude loans secured by nonfarm nonresidential properties (report in Schedule RC-C, part I, item 1.e).

1.e **Secured by nonfarm nonresidential properties.** Report in the appropriate subitem (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, "homes" for aged persons and orphans, golf courses, recreational facilities, and similar properties.

Exclude loans for nonfarm nonresidential property construction and land development purposes and loans secured by vacant lots in established nonfarm nonresidential sections or in areas set aside primarily for nonfarm nonresidential properties (report in Schedule RC-C, part I, item 1.a.(2)).

For purposes of reporting loans in Schedule RC-C, part I, items 1.e.(1) and 1.e.(2), below, the determination as to whether a nonfarm nonresidential property is considered "owner-occupied" should be made upon acquisition (origination or purchase) of the loan. Once a bank determines whether a loan should be reported as "owner-occupied" or not, this determination need not be reviewed thereafter.

1.e.(1) **Loans secured by owner-occupied nonfarm nonresidential properties.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of loans secured by owner-occupied nonfarm nonresidential properties.

"Loans secured by owner-occupied nonfarm nonresidential properties" are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. Thus, for loans secured by owner-occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Include loans secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor (in which case, the loan should be reported in Schedule RC-C, part I, item 1.e.(2), below). Also include loans secured by churches unless the property is owned by an investor who leases the property to the congregation (in which case, the loan should be reported in Schedule RC-C, part I, item 1.e.(2), below).

Part I. (cont.)**Item No. Caption and Instructions**

- 1.e.(2) Loans secured by other nonfarm nonresidential properties.** Report (on the FFIEC 041, in column B; on the FFIEC 031, in columns A and B for large institutions and highly complex institutions – as defined for assessment purposes – with foreign offices, and in column B for all other institutions with foreign offices) the amount of nonfarm nonresidential real estate loans that are not secured by owner-occupied nonfarm nonresidential properties.

“Loans secured by other nonfarm nonresidential properties” are those nonfarm nonresidential property loans where the primary source of repayment is derived from rental income associated with the property (i.e., loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Include loans secured by hotels, motels, dormitories, nursing homes, assisted-living facilities, mini-storage warehouse facilities, and similar properties in this item as loans secured by other nonfarm nonresidential properties.

In some instances, it may be appropriate to report loans secured by nursing homes or assisted-living facilities in Schedule RC-C, Part I, item 1.e.(1), “Loans secured by owner-occupied nonfarm nonresidential properties.” The owner-occupied determination for a loan secured by a nursing home or an assisted-living facility is based on whether 50 percent or more of the source of repayment for the loan comes from the cash flow from the ongoing operations and activities, such as medical or maintenance services, conducted by the party, or an affiliate of the party, who owns the property rather than from third party, nonaffiliated, rental income associated with the property or the proceeds from residents or patients exercising “buy-in” options or “purchase” options on particular units.

- 2 Loans to depository institutions and acceptances of other banks.** Report all loans (other than those that meet the definition of a “loan secured by real estate”), including overdrafts, to banks, other depository institutions, and other associations, companies, and financial intermediaries whose primary business is to accept deposits and to extend credit for business or for personal expenditure purposes and the bank’s holdings of all bankers acceptances accepted by other banks that are not held for trading. Acceptances accepted by other banks may be purchased in the open market or discounted by the reporting bank. For further information, see the Glossary entry for “bankers acceptances.”

On the FFIEC 041, all banks should report the total amount of these loans and acceptances in column B, and banks with \$300 million or more in total assets should also report in the appropriate subitems of column A a breakdown of these loans among three categories of depository institutions. On the FFIEC 031, all banks should report a breakdown of loans to depository institutions and acceptances of other banks among five categories of depository institutions for the fully consolidated bank in column A and a breakdown of these loans and acceptances among three categories of depository institutions for domestic offices in column B.

Depository institutions cover:

- (1) commercial banks in the U.S., including:
- (a) U.S. branches and agencies of foreign banks, U.S. branches and agencies of foreign official banking institutions, and investment companies that are chartered under Article XII of the New York State banking law and are majority-owned by one or more foreign banks; and
 - (b) all other commercial banks in the U.S., i.e., U.S. branches of U.S. banks;

Part I. (cont.)**Item No. Caption and Instructions**

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(cont.)
- (2) depository institutions in the U.S., other than commercial banks, including:
- (a) credit unions;
 - (b) mutual or stock savings banks;
 - (c) savings or building and loan associations;
 - (d) cooperative banks; and
 - (e) other similar depository institutions; and
- (3) banks in foreign countries, including:
- (a) foreign-domiciled branches of other U.S. banks; and
 - (b) foreign-domiciled branches of foreign banks.

See the Glossary entry for "banks, U.S. and foreign" and "depository institutions in the U.S." for further discussion of these terms.

Include as loans to depository institutions and acceptances of other banks:

- (1) Loans to depository institutions for the purpose of purchasing or carrying securities.
- (2) Loans to depository institutions for which the collateral is a mortgage instrument and not the underlying real property. Report loans to depository institutions where the collateral is the real estate itself, as evidenced by mortgages or similar liens, in Schedule RC-C, part I, item 1.
- (3) Purchases of mortgages and other loans under agreements to resell that do not involve the lending of immediately available funds or that mature in more than one business day, if acquired from depository institutions.
- (4) The reporting bank's own acceptances discounted and held in its portfolio when the account party is another depository institution.

Exclude from loans to depository institutions:

- (1) All transactions reportable in Schedule RC, item 3, "Federal funds sold and securities purchased under agreements to resell."
- (2) Loans that meet the definition of a "loan secured by real estate," even if extended to depository institutions (report in Schedule RC-C, part I, item 1).
- (3) Loans to holding companies of depository institutions (report in Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions").
- (4) Loans to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing (report in Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions").
- (5) Loans to finance companies and insurance companies (report in Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions").

Part I. (cont.)**Item No. Caption and Instructions**

- 2**
(cont.)
- (6) Loans to brokers and dealers in securities, investment companies, and mutual funds (report as loans for purchasing or carrying securities in Schedule RC-C, part I, item 9.b).
 - (7) Loans to Small Business Investment Companies (report in Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions").
 - (8) 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 Federal Reserve Regulation U) and loans to "plan lenders" (as defined in Federal Reserve Regulation G) (report as loans for purchasing or carrying securities in Schedule RC-C, part I, item 9.b).
 - (9) Loans to federally-sponsored lending agencies (report in Schedule RC-C, part I, item 9.a, "Loans to nondepository financial institutions"). Refer to the Glossary entry for "federally-sponsored lending agency" for the definition of this term.
 - (10) Dollar exchange acceptances created by foreign governments and official institutions (report in Schedule RC-C, part I, item 7, on the FFIEC 031; Schedule RC-C, part I, item 9.b, on the FFIEC 041).
 - (11) Loans to foreign governments and official institutions, including foreign central banks (report in Schedule RC-C, part I, item 7, on the FFIEC 031; Schedule RC-C, part I, item 9.b, on the FFIEC 041). See the Glossary entry for "foreign governments and official institutions" for the definition of this term.
 - (12) Acceptances accepted by the reporting bank, discounted, and held in its portfolio, when the account party is not another depository institution. Report such acceptances in other items of Schedule RC-C, part I, according to the account party.

NOTE: Items 2.a is not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

- 2.a To commercial banks in the U.S.** On the FFIEC 041, report all loans to and acceptances of other commercial banks in the U.S. On the FFIEC 031, report the total amount of all loans to and acceptances of other commercial banks in the U.S. held in domestic offices in column B, and a breakdown of these loans and acceptances for the fully consolidated bank between those to U.S. branches and agencies of foreign banks and those to other commercial banks in the U.S. in the appropriate subitems of column A.

Refer to the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for "banks, U.S. and foreign" for further discussion of the term "commercial banks in the U.S."

Exclude from Schedule RC-C, part I, item 2.a, loans to other domestic depository institutions such as savings banks, savings and loan associations, and credit unions (report in Schedule RC-C, part I, item 2.b, below).

Part I. (cont.)**Item No. Caption and Instructions**

NOTE: Items 2.a.(1) and 2.a.(2) are not applicable to banks filing the FFIEC 041 report forms.

2.a.(1) To U.S. branches and agencies of foreign banks. On the FFIEC 031, report in column A all loans to and acceptances of U.S. branches and agencies of foreign banks.

Exclude loans to U.S. offices of U.S.-chartered banks that are owned by foreign banks or by foreign official banking institutions (report in Schedule RC-C, part I, item 2.a.(2), below).

2.a.(2) To other commercial banks in the U.S. On the FFIEC 031, report in column A all loans to and acceptances of commercial banks in the U.S., other than U.S. branches and agencies of foreign banks.

NOTE: Item 2.b is not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

2.b To other depository institutions in the U.S. Report (on the FFIEC 041, in column A; on the FFIEC 031, in columns A and B, as appropriate) loans to and acceptances of depository institutions, other than commercial banks, domiciled in the U.S. Refer to the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for "depository institutions in the U.S." for further discussion of the term "depository institutions in the U.S."

Exclude loans to and acceptances of commercial banks in the U.S. (report in Schedule RC-C, part I, item 2.a, above).

NOTE: Item 2.c is not applicable to banks filing the FFIEC 041 report forms that have less than \$300 million in total assets.

2.c To banks in foreign countries. On the FFIEC 041, report all loans to and acceptances of banks and their branches domiciled outside the U.S. On the FFIEC 031, report the total amount of all loans to and acceptances of banks and their branches domiciled outside the U.S. held in domestic offices in column B and a breakdown of these loans and acceptances for the fully consolidated bank between those to foreign branches of other U.S. banks and those to other banks in foreign countries in the appropriate subitems of column A.

See the instruction to Schedule RC-C, part I, item 2, above, and to the Glossary entry for "banks, U.S. and foreign" for further discussion of the term "banks in foreign countries."

Exclude loans to U.S. branches and agencies of foreign banks (report in Schedule RC-C, part I, item 2.a, above).

NOTE: Items 2.c.(1) and 2.c.(2) are not applicable to banks filing the FFIEC 041 report forms.

2.c.(1) To foreign branches of other U.S. banks. On the FFIEC 031, report in column A all loans to and acceptances of foreign branches of other U.S. banks.

2.c.(2) To other banks in foreign countries. On the FFIEC 031, report in column A all loans to and acceptances of banks in foreign countries, other than foreign-domiciled branches of other U.S. banks.

Part I. (cont.)**Item No. Caption and Instructions**

- 3 Loans to finance agricultural production and other loans to farmers.** On the FFIEC 041, report in column B and, on the FFIEC 031, report in columns A and B, as appropriate, loans for the purpose of financing agricultural production. Include such loans whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured and whether made to farm and ranch owners and operators (including tenants) or to nonfarmers. All other loans to farmers, other than those excluded below, should also be reported in this item.

Include as loans to finance agricultural production and other loans to farmers:

- (1) Loans and advances made for the purpose of financing agricultural production, including the growing and storing of crops, the marketing or carrying of agricultural products by the growers thereof, and the breeding, raising, fattening, or marketing of livestock.
- (2) Loans and advances made for the purpose of financing fisheries and forestries, including loans to commercial fishermen.
- (3) Agricultural notes and other notes of farmers that the bank has discounted for, or purchased from, merchants and dealers, either with or without recourse to the seller.
- (4) Loans to farmers that are guaranteed by the Farmers Home Administration (FmHA) or by the Small Business Administration (SBA) and that are extended, serviced, and collected by a party other than the FmHA or SBA. Include SBA "Guaranteed Interest Certificates," which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan, provided the loan is for the financing of agricultural production or other lending to farmers. (Exclude SBA "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans. SBA "Guaranteed Loan Pool Certificates" should be reported as securities in Schedule RC-B, item 2, or, if held for trading, in Schedule RC, item 5.)
- (5) Loans and advances to farmers for purchases of farm machinery, equipment, and implements.
- (6) Loans and advances to farmers for all other purposes associated with the maintenance or operations of the farm, including purchases of private passenger automobiles and other retail consumer goods and provisions for the living expenses of farmers or ranchers and their families.

Loans to farmers for household, family, and other personal expenditures (including credit cards) that are not readily identifiable as being made to farmers need not be broken out of Schedule RC-C, part I, item 6, for inclusion in this item.

Exclude from loans to finance agricultural production and other loans to farmers:

- (1) Loans that meet the definition of a "loan secured by real estate" (report in Schedule RC-C, part I, item 1).
- (2) Loans to farmers for commercial and industrial purposes, e.g., when a farmer is operating a business enterprise as well as a farm (report in Schedule RC-C, part I, item 4).

Part I. (cont.)**Item No. Caption and Instructions**

3 (3) Loans to farmers for the purpose of purchasing or carrying securities (report in
(cont.) Schedule RC-C, part I, item 9.b).

(4) Loans to farmers secured by oil or mining production payments (report in
Schedule RC-C, part I, item 4).

4 **Commercial and industrial loans.** Report loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured, single-payment or installment. On the FFIEC 041, all banks should report the total of these loans in column B, and banks with \$300 million or more in total assets should also report in the appropriate subitems of column A a breakdown of these loans between those loans to U.S. and non-U.S. addressees. On the FFIEC 031, all banks should report a breakdown of these loans between those to U.S. and non-U.S. addressees for the fully consolidated bank in the appropriate subitems of column A and for domestic offices in the appropriate subitems of column B.

Commercial and industrial loans may take the form of direct or purchased loans. Include loans to individuals for commercial, industrial, and professional purposes but not for investment or personal expenditure purposes. Also include the reporting bank's own acceptances that it holds in its portfolio when the account party is a commercial or industrial enterprise. Exclude all commercial and industrial loans held for trading.

Include loans of the types listed below as commercial and industrial loans. These descriptions may overlap and are not all inclusive.

(1) Loans for commercial, industrial, and professional purposes to:

- (a) mining, oil- and gas-producing, and quarrying companies;
- (b) manufacturing companies of all kinds, including those which process agricultural commodities;
- (c) construction companies;
- (d) transportation and communications companies and public utilities;
- (e) wholesale and retail trade enterprises and other dealers in commodities;
- (f) cooperative associations including farmers' cooperatives;
- (g) service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
- (h) insurance agents; and
- (i) practitioners of law, medicine, and public accounting.

(2) Loans for the purpose of financing capital expenditures and current operations.

(3) Loans to business enterprises guaranteed by the Small Business Administration (SBA). Include SBA "Guaranteed Interest Certificates," which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan, provided the loan is for commercial and industrial purposes. (Exclude SBA "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans. SBA "Guaranteed Loan Pool Certificates" should be reported as securities in Schedule RC-B, item 2, or, if held for trading, in Schedule RC, item 5.)

Item No. Caption and Instructions

- 3.d Multifamily (5 or more) residential properties (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, multifamily residential properties.

For further information on the meaning of the term "multifamily residential properties," see the instruction to Schedule RC-C, part I, item 1.d. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, multifamily residential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by multifamily residential properties" in Schedule RC-C, part I, item 1.d, column B

- 3.e Nonfarm nonresidential properties (in domestic offices).** Report the net book value of all other real estate owned (in domestic offices) in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties.

For further information on the meaning of the term "nonfarm nonresidential properties," see the instruction to Schedule RC-C, part I, item 1.e. However, the amount to be reported in this item should include all other real estate owned in the form of, or for which the underlying real estate consists of, nonfarm nonresidential properties, not just real estate acquired through foreclosure on loans that were originally reported as "loans secured by nonfarm nonresidential properties" in Schedule RC-C, part I, item 1.e, column B.

FFIEC 041 FFIEC 031**Item No. Item No. Caption and Instructions**

- **3.f In foreign offices.** Report the net book value of all other real estate owned which is held in foreign offices of the reporting bank.

- 3.f 3.g Total.** On the FFIEC 041, report the sum of items 3.a through 3.e. On the FFIEC 031, report the sum of items 3.a through 3.f. This amount must equal Schedule RC, item 7, "Other real estate owned."

Item No. Caption and Instructions

NOTE: Item 4 is to be completed only by insured state banks that (1) have received FDIC approval in accordance with [Section 362.3\(a\)](#) of the FDIC's regulations to hold certain equity investments ("grandfathered equity securities"), and (2) have adopted FASB [Accounting Standards Update No. 2016-01](#) (ASU 2016-01), which includes provisions governing the accounting for investments in equity securities, including investment in mutual funds, and eliminates the concept of available-for-sale equity securities (see the Note preceding Schedule RC, item 2.c). Other institutions should leave item 4 blank.

- 4** **Cost of equity securities with readily determinable fair values not held for trading.**
Report the cost basis of all equity securities with readily determinable fair values not held for trading that are reported in Schedule RC, item 2.c, not just the cost basis of those equity securities that are treated as "grandfathered" for purposes of [Section 362.3\(a\) of the FDIC's regulations](#). The cost basis should reflect the effect of any write-downs of equity securities reported in Schedule RC, item 2.c, resulting from other-than-temporary impairments recognized by the institution before its adoption of ASC 2016-01.
- 5** **Other borrowed money.** Report in the appropriate subitem the specified information about Federal Home Loan Bank advances to and other borrowings by the consolidated bank.

A fixed interest rate is a rate that is specified at the origination of the advance or other borrowing, is fixed and invariable during the term of the advance or other borrowing, and is known to both the bank and the creditor. Also treated as a fixed interest rate is a predetermined interest rate, which is a rate that changes on a predetermined basis during the term of the advance or other borrowing, with the exact rate of interest over the life of the advance or other borrowing known with certainty to both the bank and the creditor when the advance or other borrowing is originated.

A floating rate is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities, or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact interest rate the advance or other borrowing carries at any subsequent time cannot be known at the time the advance or other borrowing is originated by the bank or subsequently renewed.

When the rate on an advance or other borrowing with a floating rate has reached a contractual floor or ceiling level, the advance or other borrowing is to be treated as "fixed rate" rather than as "floating rate" until the rate is again free to float.

Remaining maturity is amount of time remaining from the report date until the final contractual maturity of an advance or an other borrowing without regard to the advance's or the borrowing's repayment schedule, if any.

Next repricing date is (a) the date the interest rate on an advance or other borrowing with a floating rate can next change in accordance with the terms of the contract or (b) the contractual maturity date of the advance or other borrowing, whichever is earlier.

Advances and other borrowings with a fixed rate that are callable at the option of the Federal Home Loan Bank or other creditor should be reported according to their remaining maturity without regard to their next call date unless the advance or other borrowing has actually been called. When an advance or other borrowing with a fixed rate has been called, it should be reported based on the time remaining until the call date. Advances and other borrowings with a floating rate that are callable should be reported on the basis of their next repricing date without regard to their next call date unless the advance or other borrowing has actually been called. Advances and other borrowings with a floating rate that have been called should be reported on the basis of their next repricing date or their actual call date, whichever is earlier.

Brokered Deposits (cont.):

Fully insured brokered deposits are brokered deposits (including brokered deposits that represent retirement deposit accounts as defined in Schedule RC-O, Memorandum item 1) with balances of \$250,000 or less or with balances of more than \$250,000 that have been participated out by the deposit broker in shares of \$250,000 or less. As more fully described in the instructions for Schedule RC-E, (part I on the FFIEC 031), Memorandum item 1.c, fully insured brokered deposits also include (a) certain brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds \$250,000 and (b) certain brokered transaction accounts and money market deposit accounts denominated in amounts of \$0.01 and established and maintained by the deposit broker (or its agent) as agent, custodian, or other fiduciary for the broker's customers.

For additional information on brokered deposits, refer to the FDIC's "Identifying, Accepting and Reporting Brokered Deposits: Frequently Asked Questions" at <https://www.fdic.gov/news/news/financial/2016/fil16042b.pdf>.

Broker's Security Draft: A broker's security draft is a draft with securities or title to securities attached that is drawn to obtain payment for the securities. This draft is sent to a bank for collection with instructions to release the securities only on payment of the draft.

Business Combinations: The accounting and reporting standards for business combinations are set forth in ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"). ASC Topic 805 requires that all business combinations, which are defined as the acquisition of assets and assumption of liabilities that constitute a business, be accounted for using the acquisition method of accounting. The formation of a joint venture, the acquisition of a group of assets that do not constitute a business, and a transfer of net assets or exchange of equity interests between entities under common control are not considered business combinations and therefore are not accounted for using the acquisition method of accounting.

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"). The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. ASC Topic 805 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values and the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible as of that date. The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

At the acquisition date, an acquirer generally will not have obtained all of the information necessary to measure the fair values of the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree, and consideration transferred for the acquiree. Under ASC Topic 805, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer should report provisional amounts in its Consolidated Reports of Condition and Income for the items for which the accounting is incomplete. Provisional amounts

Business Combinations (cont.):

should be based on the best information available. During the measurement period, the acquirer is required to adjust the provisional amounts recognized at the acquisition date, with a corresponding adjustment to goodwill, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Topic 805 further requires an acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which adjustment amounts are determined. The acquirer also must recognize in the income statement for the same reporting period the effect on earnings, if any, resulting from the adjustments to the provisional amounts as if the accounting for the business combination had been completed as of the acquisition date. See ASC Topic 805 for additional guidance on the measurement period and adjustments to provisional amounts during this period.

ASC Topic 805 provides guidance for recognizing particular assets acquired and liabilities assumed in a business combination. Acquired assets may be tangible (such as securities or fixed assets) or intangible, as discussed in the following paragraph. An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before the business combination. However, a deferred tax liability or asset must be recognized for differences between the carrying values assigned in the business combination and the tax bases of the recognized assets acquired and liabilities assumed, in accordance with ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"). (For further information, see the Glossary entry for "income taxes.")

Under ASC Topic 805, an intangible asset must be recognized separately from goodwill if it arises from contractual or other legal rights, regardless of whether the rights are transferable or separable. Otherwise, an intangible asset must be recognized separately from goodwill only if it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. However, an institution that is a private company, as defined in U.S. GAAP, may elect the private company accounting alternative for the recognition of certain identifiable intangible assets acquired in a business combination provided by ASC Subtopic 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest, if it also has adopted the private company goodwill accounting alternative provided by ASC Subtopic 350-20, Intangibles–Goodwill and Other – Goodwill. Intangible assets that are recognized separately from goodwill must be reported in Schedule RC, item 10, "Intangible assets," and in Schedule RC-M, item 2.a or 2.c, as appropriate. Refer to the Glossary entry for "goodwill" for further information on the private company accounting alternative for identifiable intangible assets. See also the Glossary entries for "private company" and "public business entity."

In general, the amount recognized as goodwill in a business combination is the excess of the sum of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is reported in Schedule RC, item 10, and in Schedule RC-M, item 2.b. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be treated as goodwill. After initial recognition, goodwill must be accounted for in accordance with ASC Topic 350, Intangibles–Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets") and the Glossary entry for "goodwill."

¹ In general, the measurement period in a business combination is the period after the acquisition date during which the acquirer may adjust provisional amounts recognized for a business combination. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Business Combinations (cont.):

In contrast, if the total acquisition-date amount of the identifiable net assets acquired exceeds the consideration transferred plus the fair value of any noncontrolling interest in the acquiree (i.e., a bargain purchase), the acquirer shall reassess whether it has correctly identified all of the assets acquired and all the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If that excess remains after the review, the acquirer shall recognize that excess in earnings as a gain attributable to the acquirer on the acquisition date and report the amount in Schedule RI, item 5.I, "Other noninterest income."

Under the acquisition method, the historical equity capital balances of the acquired business are *not* to be carried forward to the acquirer's consolidated balance sheet. The operating results of the acquiree are to be included in the income and expenses of the acquirer only from the acquisition date. In addition, if the ownership interests in the acquiree were obtained in a series of purchase transactions, the equity interest in the acquiree previously held by the acquirer is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in the acquirer's earnings.

Pushdown accounting – Pushdown accounting is an acquiree's establishment of a new accounting basis in its separate financial statements when an acquirer obtains control of the acquired entity. On November 18, 2014, the FASB issued ASU No. 2014-17, "Pushdown Accounting," which amended ASC Subtopic 805-50, Business Combinations–Related Issues, and took effect upon issuance. Under ASU 2014-17, an acquiree (e.g., an acquired institution) that retains its separate corporate existence may apply pushdown accounting upon a change-in-control event. A change-in-control event occurs when an acquirer obtains a controlling financial interest, as defined by ASC Subtopic 810-10, Consolidation–Overall (formerly Accounting Research Bulletin No. 51, "Consolidated Financial Statements"), in the acquiree. A controlling financial interest typically requires ownership of more than 50 percent of the voting rights in an acquired entity.

An acquired institution that retains its separate corporate existence may, for purposes of its Call Report, elect pushdown accounting in accordance with ASU 2014-17 if the change-in-control event for the business combination occurred on or after October 1, 2014. Prior to the issuance of ASU 2014-17, pushdown accounting for business combinations, including those involving collaborative groups, was permitted for Call Report purposes when 80 percent or more voting control was obtained and required when voting control was 95 percent or more. An institution acquired in a business combination before October 1, 2014, that retained its separate legal existence should not change the pushdown treatment applied to the acquisition because of the issuance of ASU 2014-17. It should be noted that after a parent obtains a controlling financial interest in an entity through a business combination, any subsequent increase in the parent's ownership interest in the acquiree is not a change in control. However, if a parent's ownership becomes a noncontrolling interest and the parent later regains control of the acquiree, the latter transaction would be a change-in-control event at which a new pushdown election could be made in accordance with ASC Subtopic 805-50.

When an acquired institution that retains its separate corporate existence elects pushdown accounting, it must report in its Call Report the new basis of accounting established by the acquirer under which the acquired institution's identifiable assets, liabilities, and noncontrolling interests are restated to their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820. The assets acquired, including goodwill, and liabilities assumed, measured at their acquisition-date fair values, are reported in the Call Report balance sheet (Schedule RC) of the acquired institution and the consolidated financial statements of the institution's parent.

In addition, the pushdown adjusting entries must zero out the acquired institution's retained earnings account (Schedule RC, item 26.a). Therefore, the retained earnings of the acquired institution before the change-in-control event will not be available for the payment of dividends after the change-in-control event. When recording the pushdown adjusting entries, the acquired institution's common stock account should reflect the par value of its issued common shares. The acquired institution's surplus (additional paid-in capital) account should represent the difference between the restated

Business Combinations (cont.):

amount of the institution's net assets (i.e., its assets less its liabilities) and the sum of the par value of its issued common shares and the amount of any perpetual preferred stock outstanding. The effect of any bargain purchase gain recognized by the acquirer should be reflected in the acquisition-date measurement of the acquired institution's surplus (additional paid-in capital) account, not in the acquired institution's income statement (Schedule RI).

In the Call Report for the remainder of the year in which an acquired institution elects to apply pushdown accounting, the institution shall report the initial increase or decrease in its equity capital that results from the application of pushdown accounting in item 7, "Changes incident to business combinations, net," of Schedule RI-A, Changes in Bank Equity Capital. In addition, in the year an acquired institution elects pushdown accounting, its income statements (Schedule RI) for periods after its acquisition should only include amounts from the acquisition date through the end of the calendar year-to-date reporting period. No income or expense for the portion of the calendar year prior to the date of the change-in-control event should be included in these income statements. Also, when pushdown accounting is elected, the acquired institution should report the date of its acquisition in Schedule RI, Memoranda item 7, for each report date on or after the date of the change-in-control event through the end of the calendar year in which the acquisition took place.

The agencies note that the pushdown accounting election available under ASU 2014-17 can be used to produce a particular result in the Call Report that may not be reflective of the economic substance of the underlying business combination. Therefore, an institution's primary federal regulator reserves the right to require or prohibit the institution's use of pushdown accounting for Call Report purposes based on the regulator's evaluation of whether the election best reflects the facts and circumstances of the business combination.

Transactions between entities under common control – A transaction in which net assets or equity interests (e.g., voting shares) that constitute a business are transferred between entities under common control is not accounted for as a business combination. The method used to account for such transactions is similar to the pooling-of-interests method. In accordance with ASC Subtopic 805-50, when applying a method similar to the pooling-of-interests method to a transfer of net assets or an exchange of equity interests between entities under common control, the entity that receives the net assets or equity interests shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, for example, because pushdown accounting had not been applied, then the financial statements of the receiving entity shall reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. Consequently, and without regard to the pushdown accounting election made by the acquiree, if a parent transfers the acquiree to another entity under common control or merges the acquiree with another entity under common control, the receiving entity accounts for the acquiree using the parent's historical cost for the net assets or equity interests in the acquiree. The parent's historical cost includes the values of the acquiree's assets (including goodwill) and liabilities that were remeasured at fair value on the acquisition date of the business combination. If there has been a change in reporting entity as defined by ASC Subtopic 250-10, Accounting Changes and Error Corrections—Overall (formerly FASB Statement No. 154, "Accounting Changes and Error Corrections"), for the year in which a transaction between entities under common control occurs, income and expenses must be reported in Schedule RI, Income Statement, as though the entities had combined at the beginning of the year. The portion of the adjustment necessary to conform the accounting methods applicable to the current period must also be allocated to income and expense for the period.

Call Option: See "derivative contracts."

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 Consolidated Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles.

Renegotiated Troubled Debt: See "troubled debt restructurings."

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 ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), 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"), 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 ASC Topic 860.
- (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.

Repurchase/Resale Agreements (cont.):

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.b, "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 has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 14.a, "Federal funds purchased (in domestic offices)," if it is in a domestic office, and in Schedule RC-M, item 5.b, "Other borrowings," if it is in a foreign office.
 - (b) If the repurchase agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC-M, item 5.b.

In addition, the "selling" institution may need to record further entries depending on the terms of the agreement. If the "purchaser" has the right to sell or repledge noncash 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.b, "Securities purchased under agreements to resell."
- (2) Financial assets (other than securities) "purchased" under agreements to resell are reported as follows:
 - (a) If the resale agreement has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 3.a, "Federal funds sold (in domestic offices)," if it is in a domestic office, and in Schedule RC, item 4.b, "Loans and leases held for investment," if it is in a foreign office.
 - (b) If the resale agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC, item 4.b.

In addition, the "purchasing" institution may need to record further entries depending on the terms of the agreement. If the "purchasing" institution has the right to sell the noncash assets it has "purchased" and sells these assets, it should recognize the proceeds from the sale and report its obligation to return the assets in Schedule RC, item 20, "Other liabilities." If the "selling" institution defaults under the terms of the repurchase agreement and is no longer entitled to redeem the noncash assets, the "purchasing" bank should recognize these assets on its own balance sheet (e.g., securities should be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate) and initially measure them at fair value. However, if the "purchasing" bank has already sold the assets it has "purchased," it should derecognize its obligation to return the assets. Otherwise, the "purchasing" bank should not recognize the transferred financial assets (i.e., the financial assets "purchased" under the resale agreement) on its balance sheet.

Repurchase/Resale Agreements (cont.):

Repurchase/resale agreements reported as sales – If a repurchase agreement does not qualify as a secured borrowing under ASC Topic 860, 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 ASC Topic 860, 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."

Retail Sweep Arrangements: See "deposits."

Revenue from Contracts with Customers: ASC Topic 606, Revenue from Contracts with Customers, when it becomes effective as a result of [Accounting Standards Update \(ASU\) 2014-09](#),¹ provides guidance on how an entity should recognize revenue from these transactions. The core principle of Topic 606 is that an entity should recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer as part of the entity's ordinary activities. ASU 2014-09 also added Topic 610, Other Income, to the ASC. Topic 610 applies to income recognition that is not within the scope of Topic 606, other Topics (such as Topics 840 and 842 on leases, as applicable), or other revenue or income guidance. Topic 610 applies to an institution's sales of repossessed nonfinancial assets, such as other real estate owned (OREO). See the Glossary entry for "foreclosed assets" for guidance on the accounting and reporting for the sale of OREO and other repossessed nonfinancial assets.

ASC Topic 606 specifically excludes financial instruments and other contractual rights or obligations within the scope of Topic 310, Receivables; Topic 320, Investments – Debt Securities; Topic 321, Investments – Equity Securities; Topic 815, Derivatives and Hedging; Topic 860, Transfers and Servicing, and certain other ASC Topics. Therefore, many common revenue streams in the financial sector, such as interest income, fair value adjustments, gains and losses on sales of financial instruments, and loan origination fees, are not within the scope of ASC Topic 606. However, the provisions of ASC Topic 606 may affect the timing for the recognition of, and the presentation of, those revenue streams within the scope of this accounting standard, such as certain fees associated with credit card arrangements, underwriting fees and costs, and deposit-related fees.

To achieve the core principle described above when accounting for transactions within the scope of ASC Topic 606, an institution should apply the following steps as set forth in Topic 606:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the institution satisfies a performance obligation.

For further guidance on applying these steps, refer to ASC Topic 606.

¹ For institutions that are public business entities, as defined under U.S. GAAP, the new standard is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Early application of the new standard is permitted. See the Glossary entries for "public business entity" and "private company" for the definitions of these terms.

Savings Deposits: See "deposits."

Securities Activities: Institutions should categorize their investments in debt securities and certain equity securities (i.e., those equity securities with readily determinable fair values) as trading, available-for-sale, or held-to-maturity consistent with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as amended). Management should periodically reassess its security categorization decisions to ensure that they remain appropriate.

Securities that are intended to be held principally for the purpose of selling them in the near term should be classified as trading assets. Trading activity includes active and frequent buying and selling of securities for the purpose of generating profits on short-term fluctuations in price. Securities held for trading purposes must be reported at fair value, with unrealized gains and losses recognized in current earnings and regulatory capital. Institutions may also elect to report debt securities within the scope of ASC Topic 320 at fair value in accordance with ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"). Debt securities for which the fair value option is elected should be classified as trading assets with unrealized gains and losses recognized in current earnings and regulatory capital. In general, the fair value option may be elected for an individual debt security only when it is first recognized and the election is irrevocable.

Held-to-maturity securities are debt securities that an institution has the positive intent and ability to hold to maturity. Held-to-maturity securities are generally reported at amortized cost. Securities not categorized as trading or held-to-maturity must be reported as available-for-sale. An institution must report its available-for-sale securities at fair value on the balance sheet, but unrealized gains and losses are excluded from earnings and reported in a separate component of equity capital (i.e., in Schedule RC, item 26.b, "Accumulated other comprehensive income").

When the fair value of a security is less than its (amortized) cost basis, the security is impaired and the impairment is either temporary or other than temporary. Under ASC Topic 320, institutions must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. To make this determination, institutions should apply applicable accounting guidance including, but not limited to, ASC Topic 320, ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets (formerly EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," as amended), and [SEC Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Equity Securities \(Topic 5.M. in the Codification of Staff Accounting Bulletins\)](#).

Under ASC Topic 320, if an institution intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis.

In addition, under ASC Topic 320, if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if an institution does not intend to sell the security and it is not more likely than not that the institution will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

Other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that must be recognized in earnings should be included in Schedule RI, items 6.a and 6.b, respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net