FFIEC 051

CALL REPORT

INSTRUCTION BOOK UPDATE

JUNE 2019

FILING INSTRUCTIONS

NOTE: This update for the instruction book for the FFIEC 051 Call Report 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 for a Bank with Domestic Offices Only and Total Assets Less than $1 Billion* (FFIEC 051) 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 051 Call Report.

Remove Pages	**Insert Pages**
Cover Page (undated)	Cover Page (6-19)
iii – iv (9-18)	iii – iv (6-19)
RC-C-9 – RC-C-12 (3-17, 6-18)	RC-C-9 – RC-C-10 (6-19)
RC-M-7 – RC-M-8 (3-18)	RC-M-7 – RC-M-8 (6-19)
A-13 – A-16a (3-18, 3-19)	A-13 – A-16a (6-19)
A-85 – A-86 (9-18)	A-85 – A-86 (6-19)

Instructions for Preparation of

Consolidated Reports of Condition and Income

for a Bank with Domestic Offices Only and

Total Assets Less than $1 Billion

FFIEC 051

Updated June 2019

GLOSSARY

GLOSSARY (cont.)

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 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 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).
1.e.(2)	**Loans secured by other nonfarm nonresidential properties.** Report 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.

Part I. (cont.)

Item No. **Caption and Instructions**

1.e.(2) (cont.) 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."

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;

(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.

Part I. (cont.)

Item No.	Caption and Instructions
2 (cont.)	(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").
	(6) Loans to brokers and dealers in securities, investment companies, and mutual funds (report in Schedule RC-C, Part I, item 9.b, "Other loans").
	(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 in Schedule RC-C, Part I, item 9.b, "Other loans").
	(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 9.b, "Other loans").
	(11) Loans to foreign governments and official institutions, including foreign central banks (report in Schedule RC-C, Part I, item 9.b, "Other loans"). 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.

Part I. (cont.)

Item No. Caption and Instructions

3 **Loans to finance agricultural production and other loans to farmers.** Report 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).

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.

Item No. **Caption and Instructions**

5 (cont.) Advances and other borrowings with a fixed rate that are puttable at the option of the bank should be reported according to their remaining maturity without regard to put dates if the bank has not exercised the put. If a put on an advance or other borrowing with a fixed rate has been exercised but the advance or other borrowing has not yet been repaid, the advance or other borrowing should be reported based on the amount of time remaining until the actual put date. Advances and other borrowings with a floating rate that are puttable should be reported on the basis of their next repricing date without regard to their next put date unless the put has actually been exercised. If a put on an advance or other borrowing with a floating rate has been exercised but the advance or other borrowing has not yet been repaid, the advance or other borrowing should be reported on the basis of its next repricing date or its actual put date, whichever is earlier.

Convertible advances should be reported based on the amount of time until the Federal Home Loan Bank can next opt to convert the rate on the borrowing to a floating rate or the contractual maturity date, whichever is earlier.

Other borrowings that are noninterest-bearing should be treated as fixed rate and reported according to the amount of time remaining until the final contractual maturity.

5.a **Federal Home Loan Bank advances.** Report in the appropriate subitem the specified information about outstanding advances obtained from a Federal Home Loan Bank. As defined in 12 CFR Section 900.2, an "advance" is "a loan from a [Federal Home Loan] Bank that is:

(1) Provided pursuant to a written agreement;
(2) Supported by a note or other written evidence of the borrower's obligation; and
(3) Fully secured by collateral in accordance with the [Federal Home Loan Bank] Act and part 950 of this chapter."

Exclude from advances borrowings from a Federal Home Loan Bank in the form of securities repurchase agreements (report in Schedule RC, item 14.b, "Securities sold under agreements to repurchase") and federal funds purchased (report in Schedule RC, item 14.a).

5.a.(1) **Advances with a remaining maturity or next repricing date of.** Report the amount of the bank's fixed rate advances from a Federal Home Loan Bank in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Report the amount of the bank's floating rate advances from a Federal Home Loan Bank in the appropriate subitems according to their next repricing dates.

5.a.(1)(a) **One year or less.** Report the amount of:

- fixed rate Federal Home Loan Bank advances with a remaining maturity of one year or less, and
- floating rate Federal Home Loan Bank advances with a next repricing date occurring in one year or less.

Include all overnight advances in this item.

Brokered Deposits (cont.):

A deposit listing service whose only function is to provide information on the availability and terms of accounts is not facilitating the placement of deposits and therefore is not a deposit broker per se. However, if a deposit broker uses a deposit listing service to identify an institution offering a high rate on deposits and then places its customers' funds at that institution, the deposits would be brokered deposits and the institution should report them as such in Schedule RC-E. The designation of these deposits as brokered deposits is based not on the broker's use of the listing service but on the placement of the deposits in the institution by the deposit broker.

Section 202 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act*, enacted on May 24, 2018, amends Section 29 of the Federal Deposit Insurance Act to except a capped amount of reciprocal deposits from treatment as, and from being reported as, brokered deposits for qualifying institutions. The FDIC has amended its regulations to conform to the treatment of reciprocal deposits set forth in Section 202. As defined in Section 337.6(e)(2)(v) of the FDIC's regulations, "reciprocal deposits" means "deposits received by an agent institution through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the agent institution in other network member banks." As defined in Section 327.8(q) of the FDIC's regulations, "brokered reciprocal deposits" are "reciprocal deposits as defined in Section 337.6(e)(2)(v) of the FDIC's regulations that are not excepted from an institution's brokered deposits pursuant to Section 337.6(e)" of the FDIC's regulations. Brokered reciprocal deposits should be reported as (1) brokered deposits and included in Schedule RC-E, Memorandum item 1.b, and, if applicable, Memorandum items 1.c and 1.d, and (2) brokered reciprocal deposits and included in Schedule RC-O, item 9 and, if applicable, item 9.a. An institution should report its total reciprocal deposits, including any reciprocal deposits that are reported as brokered deposits, in Schedule RC-E, Memorandum item 1.g. For further information on reciprocal deposits and brokered reciprocal deposits, see the instructions for Schedule RC-E, Memorandum items 1.b and 1.g, and the examples after the instructions for Schedule RC-E, Memorandum item 5.

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, 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."

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.

<u>Business Combinations (cont.):</u>

<u>Acquisition method</u> – 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 should be based on the best information available. During the measurement period,[1] 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.

[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.):

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.”

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.l, "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

Business Combinations (cont.):

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 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.

<u>Transactions between entities under common control</u> – 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

Business Combinations (cont.):
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."

Capital Contributions of Cash and Notes Receivable: An institution may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity – Overall (formerly EITF Issue No. 85-1, "Classifying Notes Received for Capital Stock") and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in an institution's financial statements and Consolidated Reports of Condition and Income when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the institution's reports for that quarter (in Schedule RI-A, item 5 or 11, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When an institution receives a note receivable rather than cash as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock issued or the contribution to paid-in capital should be reported in Schedule RC, item 23, 24, or 25, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule RC, item 26.c, "Other equity capital components." No net increase in equity capital should be reported in Schedule RI-A, Changes in Bank Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule RC, item 26.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an institution does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

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Purchased Credit-Impaired Loans and Debt Securities (cont.):

ASC Subtopic 310-30 does not prohibit an institution from placing a purchased credit-impaired loan accounted for individually, a pool of purchased credit-impaired loans with common risk characteristics, or a purchased credit-impaired debt security in nonaccrual status. Because a loan (including a loan aggregated with other loans with common risk characteristics) or debt security accounted for in accordance with ASC Subtopic 310-30 has evidence of deterioration of credit quality since origination, an acquiring institution must determine upon acquisition whether it is appropriate to recognize the accretable yield as income over the life of the loan, pool of loans, or debt security using the interest method. In order to apply the interest method, the institution must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on the loan, loan pool, or debt security. Thus, when the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the institution should place the purchased credit-impaired loan, pool, or debt security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) In addition, if a purchased credit-impaired loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. The amount of a purchased credit-impaired loan, pool of loans, or debt security in nonaccrual status should be reported in the appropriate items of Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, column C.

When accrual of income on a purchased credit-impaired loan accounted for individually or a purchased credit-impaired debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the individual asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amount of the loan or debt security as past due in the appropriate items of Schedule RC-N, column A or B. When accrual of income on a pool of purchased credit-impaired loans with common risk characteristics is appropriate, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan’s contractual repayment terms for purposes of reporting the amount of individual loans within the pool as past due in the appropriate items of Schedule RC-N, column A or B.

ASC Subtopic 310-30 prohibits an institution from "carrying over" or creating loan loss allowances in the initial accounting for purchased credit-impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a business combination. However, for a purchased credit-impaired loan accounted for individually (and not accounted for as a debt security), if upon subsequent evaluation it is probable based on current information and events that an institution will be unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition), the purchased credit-impaired loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”) or ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan”), as appropriate. For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, this impairment analysis should be performed subsequent to acquisition at the pool level as a whole and not at the individual loan level. An institution should include post-acquisition allowances on purchased credit-impaired loans and pools of purchased credit-impaired loans in the overall allowance for loan and lease losses it reports in Schedule RC, item 4.c, and Schedule RI-B, Part II, item 7.

In Schedule RC-C, Part I, Loans and Leases, an institution should report the amount of a purchased credit-impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased credit-impaired loan should be reported as unearned income in Schedule RC-C, Part I, item 11. In addition, an institution should report in

Purchased Credit-Impaired Loans and Debt Securities (cont.):
Schedule RC-C, Part I, Memorandum items 7.a and 7.b, in the June and December reports only the outstanding balance and amount, respectively, of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, Part I. An institution also should report the outstanding balance and amount of those held-for-investment purchased credit-impaired loans reported in Schedule RC-C, Part I, Memorandum items 7.a and 7.b, that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status as of the report date in Schedule RC-N, Memorandum items 9.a and 9.b, column A, B, or C, respectively, in the June and December reports only in accordance with the past due and nonaccrual guidance provided above in this Glossary entry.

For further information, refer to ASC Subtopic 310-30.

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.)