

# Banker Teleconference

## **Reporting Regulatory Capital Data in Call Report Schedule RC-R**

Federal Deposit Insurance Corporation – Federal Reserve Board –  
Office of the Comptroller of the Currency

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## Agenda Topics:

- Deferred Tax Assets
- High Volatility Commercial Real Estate Exposures
- Bank-Owned Life Insurance
- Derivatives
- Unused Commitments
- Capital Conservation Buffer
- Other Topics
- Questions and Answers
  - Questions may be submitted to [rac@fdic.gov](mailto:rac@fdic.gov) before and during the teleconference or by telephone during the Q&A portion of the teleconference

# Deferred Tax Assets

# Deferred Tax Assets

- Deferred tax assets (DTAs) are broken down into three categories
  - DTAs that arise from net operating loss (NOL) and tax credit carryforwards
    - A bank must deduct these DTAs from common equity tier 1 (CET 1) capital (section 22(a))
  - DTAs arising from temporary differences that the bank can realize through net operating loss carrybacks
    - These DTAs are subject to a 100% risk weight and are not subject to deduction (section 22(d))
  - Other DTAs are subject to threshold deductions (section 22(d))

# DTA Example

- Example 1 Assumptions
  - Year is 2015
  - Non-AA bank made AOCI opt-out election
  - \$5,000,000 CET 1 Capital
  - \$1,000,000 DTAs from Net Operating Loss Carryforwards
  - \$700,000 DTAs due to temporary differences **not** realizable through carrybacks
  - Bank has no servicing assets or significant investments in unconsolidated financial institutions

# DTA Example - Continued

- Treatment of \$1,000,000 DTAs from NOL Carryforwards
  - Report NOL carryforward DTAs on Schedule RC-R, Part I, items 8 and 24, according to transition table 4

**Table 4 – Deductions of DTAs that arise from net operating loss and tax credit carryforwards, net of any valuation allowances and net of DTLs; gain-on-sale in connection with a securitization exposure; defined benefit pension fund assets; changes in fair value of liabilities; and expected credit losses during the transition period**

Transition period	Column A: Percentage of the adjustment applied to common equity tier 1 capital	Column B: Percentage of the adjustment applied to additional tier 1 capital
Calendar year 2015	40	60
Calendar year 2016	60	40
Calendar year 2017	80	20
Calendar year 2018 and thereafter	100	0

# Reporting of NOL Carryforward DTAs

- In 2015, apply 40% adjustment
  - Report \$400,000 in Part I, item 8 ( $\$1,000,000 * 40\%$ )
  - Report \$600,000 in Part I, item 24 ( $\$1,000,000 * 60\%$ )
    - Also: Because Part I, item 23 = 0 (bank has no additional tier 1 capital items), report \$600,000 in Part I, item 17
  - Report \$1,000,000 ( $\$400,000 + \$600,000$ ) in Schedule RC-R, Part II, item 8, column B, to deduct it from balance sheet assets
  - CET 1 Capital of \$5 million (Part I, item 5) is from the initial assumptions

# Reporting of NOL Carryforward DTAs

	RCOA	Bil	Mil	Thou	
4. Common equity tier 1 minority interest includable in common equity tier 1 capital .....	P839				4.
5. Common equity tier 1 capital before adjustments and deductions (sum of items 1 through 4) .....	P840		5	000	5.
<b>Common Equity Tier 1 Capital: Adjustments and Deductions</b>					
6. LESS: Goodwill net of associated deferred tax liabilities (DTLs) .....	P841				6.
7. LESS: Intangible assets (other than goodwill and mortgage servicing assets (MSAs)), net of associated DTLs .....	P842				7.
8. LESS: Deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of DTLs .....	P843			400	8.
11. LESS: Non-significant investments in the capital of unconsolidated financial institutions in the form of common stock that exceed the 10 percent threshold for non-significant investments .....	P851				11.
12. Subtotal (item 5 minus items 6 through 11) .....	P852		4	600	12.
17. LESS: Deductions applied to common equity tier 1 capital due to insufficient amounts of additional tier 1 capital and tier 2 capital to cover deductions.....	P857			600	17.
18. Total adjustments and deductions for common equity tier 1 capital (sum of items 13 through 17) ...	P858			600	18.
19. <b>Common equity tier 1 capital</b> (item 12 minus item 18) .....	P859		4	000	19.
<b>Additional Tier 1 Capital</b>					
20. Additional tier 1 capital instruments plus related surplus .....	P860				20.
21. Non-qualifying capital instruments subject to phase-out from additional tier 1 capital.....	P861				21.
22. Tier 1 minority interest not included in common equity tier 1 capital .....	P862				22.
23. Additional tier 1 capital before deductions (sum of items 20, 21, and 22).....	P863				23.
24. LESS: Additional tier 1 capital deductions .....	P864			600	24.
25. <b>Additional tier 1 capital</b> (greater of item 23 minus item 24, or zero) .....	P865				25.
<b>Tier 1 Capital</b>					
26. <b>Tier 1 capital</b> (sum of items 19 and 25) .....	8274		4	000	26.

# Treatment of DTAs

(from temporary differences not realizable thru carrybacks)

- Treatment of \$700,000 DTAs due to temporary differences **not** realizable through carrybacks
  - This asset is subject to the 10 percent threshold deduction
  - Requires calculation of the 10% threshold, which was impacted by the reporting of the DTAs from NOL carryforwards
    - \$460,000 is the 10% threshold  $((\$5,000,000 - \$400,000) * 10\%)$
  - Amount of DTAs subject to 10% threshold limit needs to be adjusted by transition table 6
    - \$280,000 is the adjusted amount in 2015  $(\$700,000 * 40\%)$
  - Amount in excess of 10% threshold limit needs to be reported as a deduction in Part I, item 15, and Part II, item 8, column B
    - \$0 is reported in Part I, item 15, and Part II, item 8, column B, in 2015 as  $\$280,000 < \$460,000$
  - Difference between total DTAs due to temporary differences not realizable through carrybacks and amount reported as a deduction in Part I, item 15, is risk weighted at 100% (until 2018, when it would be risk weighted at 250%)
    - Report difference in Schedule RC-R, Part II, item 8, column I (100% RW) through 2017 (in column K, 250% RW, beginning in 2018)

**Table 6 – Transition provisions for items subject to the threshold deductions**

Transition period	Percentage of the deduction
Calendar year 2015	40
Calendar year 2016	60
Calendar year 2017	80
Calendar year 2018 and thereafter	100

# DTA Example - Continued

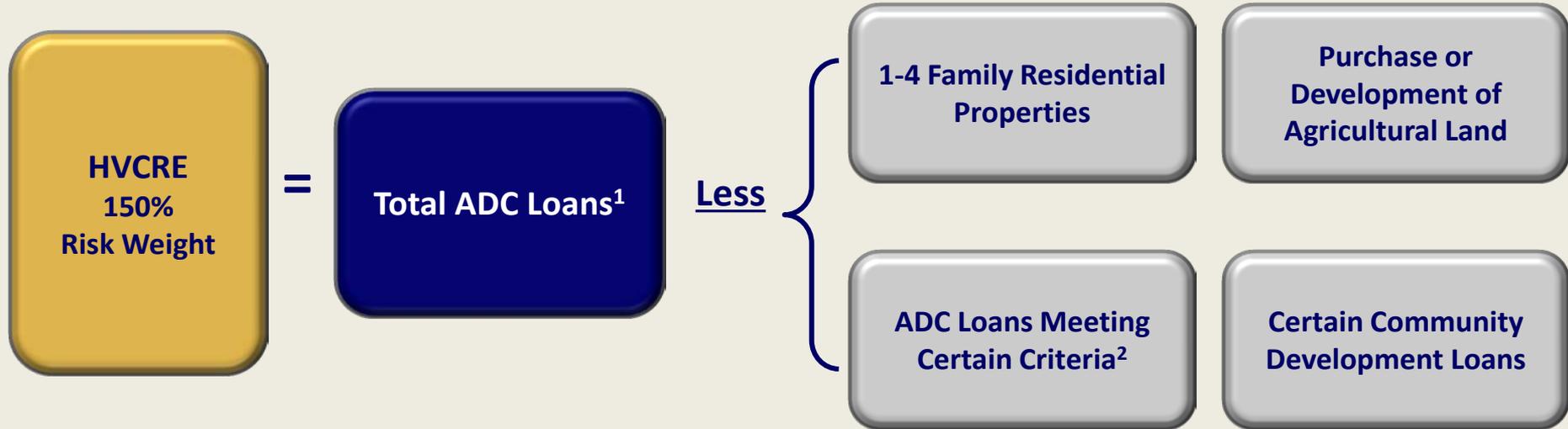
- Reporting in Schedule RC-R, Part II, of \$1,000,000 DTAs from NOL Carryforwards and \$700,000 DTAs due to temporary differences **not** realizable through carrybacks

## Part II—Continued

	(Column A) Totals From Schedule RC			(Column B) Adjustments to Totals Reported in Column A			(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)	(Column J)																	
	Allocation by Risk-Weight Category																														
	0%			2%			4%			10%			20%			50%			100%			150%									
Dollar Amounts in Thousands	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	
d. All other exposures ....																															5.d.
6. LESS: Allowance for loan and lease losses .....	RCON 3123			RCON 3123																											6.
	RCON D976			RCON S466			RCON D977						RCON D978			RCON D979			RCON D980			RCON S467									7.
7. Trading assets .....	RCON D981			RCON S469			RCON D982						RCON D983			RCON D984			RCON D985			RCON H185									8.
8. All other assets <sup>8</sup> .....						<b>1 000</b>																					<b>700</b>				
a. Separate account																															

# High Volatility Commercial Real Estate (HVCRE) Exposures

# High Volatility Commercial Real Estate (HVCRE) Exposure



<sup>1</sup>ADC loans mean all real estate acquisition, development, or construction loans.

<sup>2</sup>ADC loans meeting certain criteria are not HVCRE:

- LTV is at or below maximum supervisory LTV; **and**
- Borrower has contributed at least 15% of “as completed” appraised value in cash or unencumbered readily marketable assets; **and**
- Borrower contributed capital and internally generated funds are contractually required to remain throughout the project life
- The life of a project concludes only when the credit facility is converted to permanent financing or is sold or paid in full.

# Line Items from Schedule RC-C that May Contain HVCRE Loans

- On Schedule RC-R, Part II, HVCRE are reported in:
  - Item 4.b if the loans are held for sale
  - Item 5.b if the loans are held for investment
- HVCRE does not draw exclusively from a single line item from Schedule RC-C, Part I
- However, the vast majority of HVCRE is a subset of Schedule RC-C, Part I, item 1.a.(2): **Other construction loans and all land development and other land loans**

# Excerpt from Schedule RC-C, Part I

Dollar Amounts in Thousands	RCON
1. Loans secured by real estate:	
a. Construction, land development, and other land loans:	
(1) 1-4 family residential construction loans .....	
(2) Other construction loans and all land development and other land loans .....	
b. Secured by farmland (including farm residential and other improvements) .....	
c. Secured by 1-4 family residential properties:	
(1) Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit .....	
(2) Closed-end loans secured by 1-4 family residential properties:	
(a) Secured by first liens .....	
(b) Secured by junior liens .....	
d. Secured by multifamily (5 or more) residential properties .....	
e. Secured by nonfarm nonresidential properties:	
(1) Loans secured by owner-occupied nonfarm nonresidential properties .....	
(2) Loans secured by other nonfarm nonresidential properties .....	
2. Loans to depository institutions and acceptances of other banks .....	
a. To commercial banks in the U.S.:	
(1) To U.S. branches and agencies of foreign banks .....	B532
(2) To other commercial banks in the U.S. ....	B533
b. To other depository institutions in the U.S. ....	B534
c. To banks in foreign countries	
(1) To foreign branches of other U.S. banks .....	B536
(2) To other banks in foreign countries .....	B537
3. Loans to finance agricultural production and other loans to farmers .....	
4. Commercial and industrial loans .....	
a. To U.S. addressees (domicile) .....	1763
b. To non-U.S. addressees (domicile) .....	1764

# 15% Equity Criteria

- *Q: What may be included in the borrower's 15% equity contribution?*
  - Cash paid for the land may be included
  - Cash and readily marketable assets contributed to the project are included.
    - In terms of readily marketable assets, the agencies are looking for liquid types of assets. To the extent that an asset is merely pledged as collateral, it would not be considered to have been contributed to the project.
  - The appraised value of land is not recognized as an equity contribution
    - Soft costs that contribute to the completion and value of the project may count as development expenses for purposes of the HVCRE definition and the 15% equity contribution.

# 15% Equity – Question on Borrowing

- Q: *Can any part of the 15% equity requirement be borrowed?*
  - The published FAQ on this topic indicates the equity cannot be borrowed
  - For this purpose, *borrower* refers to the borrowing entity and any other obligors that signed the note.
  - The FAQ does not limit borrowing by individual investors in the project, where the borrowing does not depend on the project or encumber the project

# Appraisals for Land Loans

- Q: *What appraised value do you use for a land loan (i.e., with no development or construction planned)?*
  - An ADC loan, including loans for the purchase of raw land, must be treated as HVCRE, unless the loan meets the exemption criteria provided in the definition of HVCRE. The supervisory loan-to-value limit on loans secured by raw land is 65%. In this instance, the *as-is* market value should be used since the bank's loan only covers the purchase of the raw land.
    - The *as-is* value will not be used for construction or development loans

# Community Development Exception

- Loans for most, but not all, types of community development projects are exempt from treatment as HVCRE:
  - In general, loans that finance activities that promote affordable housing; community services for low- or moderate-income individuals; and activities that revitalize or stabilize low or moderate-income geographies, designated disaster areas, or distressed or underserved geographies are exempt from treatment as HVCRE
  - What is not automatically exempted is the category of loans that, pursuant to the Community Reinvestment Act (CRA), finance economic development activities by businesses and farms that meet the size eligibility standards of the Small Business Administration or have gross annual revenues of \$1 million or less. Loans of this type are not exempt from treatment as HVCRE unless they meet the criteria of one of the other exceptions.
- The agencies have also been asked whether the community development project has to be in the bank's CRA area. The answer is NO. The community development project may be anywhere in the United States or its territories.

# Farmland Exception to HVCRE

- The exception applies to the farmland itself and farm buildings.
- The land must be valued as farmland and not for other types of development.

# Schedule RC-R Permits Substitution of Financial Collateral and Guarantees that have Lower Risk Weights than 150%

	(Column A) Totals From Schedule RC			(Column B) Adjustments to Totals Reported in Column A			Allocation by Risk-Weight Category																										
	(Column C)			(Column D)			(Column E)			(Column F)			(Column G)			(Column H)			(Column I)			(Column J)											
	0%			2%			4%			10%			20%			50%			100%			150%											
Dollar Amounts in Thousands	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou			
4. Loans and leases held for sale (continued):																																	
d. All other exposures.....	RCON S431			RCON S432			RCON S433									RCON S434			RCON S435			RCON S436			RCON S437								
5. Loans and leases, net of unearned income:																																	
a. Residential mortgage exposures.....	RCON S439			RCON S440			RCON H178									RCON S441			RCON S442			RCON S443											
b. High volatility commercial real estate exposures.....	RCON S445			RCON S446			RCON H179									RCON H180			RCON H181			RCON H182			RCON S447								
c. Exposures past due 90 days or more or on nonaccrual <sup>7</sup> .....	RCON S449			RCON S450			RCON S451									RCON S452			RCON S453			RCON S454			RCON S455								
d. All other exposures....	RCON S457			RCON S458			RCON S459									RCON S460			RCON S461			RCON S462			RCON S463								

# Bank-Owned Life Insurance

# Regulatory Treatment of Insurance-Related Exposures

- According to the regulatory capital requirements, banks must risk weight the following:
  - General account insurance products: 100% RW
  - Investments in separate accounts, including bank-owned life insurance (BOLI) and hybrid products: one of the look-through equity exposure treatments
  - Stable value protection (SVP) bought: risk weight the portion of the investment in the separate account attributable to the SVP based on the provider of the SVP (100% when provider is an insurer or corporate; 20% when provider is a U.S. depository institution)
    - Risk weight the remaining portion of the investment using one of the look-through treatments

# Q: Where to Report General Account Products?

A: Call Report, Schedule RC-R, Part II, Item 8

Dollar Amounts in Thousands	(Column A) Totals From Schedule RC			(Column B) Adjustments to Totals Reported in Column A			(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)	(Column J)																		
	Allocation by Risk-Weight Category																															
	Bil	Mil	Tho	Bil	Mil	Tho	0%	2%	4%	10%	20%	50%	100%	150%																		
RCFD D981															RCFD S469			RCFD D982			RCFD D983			RCFD D984			RCFD D985			RCFD H185		
8. All other assets																																
a. Separate account bank-owned life insurance																																
b. Default fund contributions to central counterparties																																

**Solely general account insurance products**

# Q: Where to Report Separate Account Products?

A: Call Report, Schedule RC-R, Part II, Item 8.a

**Report the total carrying value of bank's investments in:**  
**- Separate account BOLI**  
**- Portions of separate accounts attributable to general account or SVP bought**

Dollar Amounts in Thousands	(Column K)			(Column L)			(Column M)			(Column N)			(Column O)			(Column P)			(Column Q)			(Column R)			(Column S)					
	Allocation by Risk-Weight Category																								Application of Other Risk-Weighting Approaches <sup>9</sup>					
	250%			300%			400%			600%			625%			937.5%			1250%			Exposure Amount			Risk-Weighted Asset Amount					
	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Tho	Bil	Mil	Th	Bil	Mil	Tho
8. All other assets a. Separate account bank-owned life insurance b. Default fund contributions to central counterparties	RCFD H293			RCFD H188			RCFD S470			RCFD S471												RCFD H294			RCFD H295					
																						RCFD H296			RCFD H297					
																						RCFD H298			RCFD H299					

**Report the total risk-weighted asset amount of bank's investments in the separate account items described above**

# FAQs Related to Insurance Product Reporting

- **In the cases of (1) hybrid separate account BOLI and (2) purchased stable value protection, does the entire exposure need to be risk-weighted using the equity exposure methodologies?**
  - Short answer: NO
    - The portion of a hybrid separate account BOLI exposure that is invested in the General Account should be risk-weighted at 100% (thus reflecting the direct exposure to the insurer)
    - Likewise, the portion of the separate account BOLI exposure covered by the stable value protection would need to be risk-weighted according to the provider of the SVP wrap (100% RW for insurer or corporate, 20% RW for a bank)
    - Any remaining portion of the exposure invested in the Separate Account should be risk-weighted using the equity exposure methodologies
    - All portions should be reflected in Columns R and S of RC-R, Part II, item 8.a

# FAQs Related to Insurance Product Reporting

- **Would hybrid separate account BOLI products that have features such as book value protections and minimum guaranteed crediting rates be excluded from the regulatory definition of “separate account” for risk weighting purposes?**
  - Short answer: NO
    - Why? Part (4) of the definition of “separate account” in section 2 of the regulatory capital rules allows for contractual provisions for fees, assessments, and conditions for a minimum guarantee for the account holder. However, no limitation on the maximum return to the policyholder is allowed.
    - Continue to report these BOLI products as:
      - “Hybrid account life insurance assets” in Schedule RC-F, item 5.c
      - “Separate account BOLI” in Schedule RC-R, item 8.a. The portion of the hybrid BOLI separate account invested in the General Account can be risk-weighted at 100% for reporting in column S.
    - Do not report as a corporate exposure (100% RW) elsewhere in Schedule RC-R.

# Derivatives

# Regulatory Treatment of Derivative Exposures

- The regulatory capital rules significantly changed the requirements for derivative exposures:
  - Includes distinct capital requirements for over-the-counter (OTC) and centrally cleared derivative contracts
  - Provides recognition of the risk mitigating effects of financial collateral and expanded eligible guarantors

# Q: Where are derivatives initially reported?

A: Call Report, Schedule RC-L, item 12

Dollar Amounts in Thousands	(Column A) Interest Rate Contracts				(Column B) Foreign Exchange Contracts				(Column C) Equity Derivative Contracts				(Column D) Commodity and Other Contracts				
	Tril	Bil	Mil	Thou	Tril	Bil	Mil	Thou	Tril	Bil	Mil	Thou	Tril	Bil	Mil	Thou	
<b>Derivatives Position Indicators</b>																	
12. Gross amounts (e.g., notional amounts) (for each column, sum of items 12.a through 12.e must equal sum of items 13 and 14):																	
a. Futures contracts .....	RCFD 8693				RCFD 8694				RCFD 8695				RCFD 8696				12.a.
b. Forward contracts .....	RCFD 8697				RCFD 8698				RCFD 8699				RCFD 8700				12.b.
c. Exchange-traded option contracts:																	
(1) Written options.....	RCFD 8701				RCFD 8702				RCFD 8703				RCFD 8704				12.c.(1)
(2) Purchased options .....	RCFD 8705				RCFD 8706				RCFD 8707				RCFD 8708				12.c.(2)
d. Over-the-counter option contracts:																	
(1) Written options.....	RCFD 8709				RCFD 8710				RCFD 8711				RCFD 8712				12.d.(1)
(2) Purchased options..	RCFD 8713				RCFD 8714				RCFD 8715				RCFD 8716				12.d.(2)
e. Swaps .....	RCFD 3450				RCFD 3826				RCFD 8719				RCFD 8720				12.e.

# Q: How are these notional amounts reported in Schedule RC-R?

A: Call Report, Schedule RC-R, Part II, Memoranda items 2 and 3

	With a remaining maturity of															
	(Column A) One year or less					(Column B) Over one year through five years					(Column C) Over five years					
	RCFD	Tril	Bil	Mil	Thou	RCFD	Tril	Bil	Mil	Thou	RCFD	Tril	Bil	Mil	Thou	
Dollar Amounts in Thousands																
2. Notional principal amounts of over-the-counter derivative contracts:																
a. Interest rate .....	\$582					\$583					\$584					M.2.a.
b. Foreign exchange rate and gold .....	\$585					\$586					\$587					M.2.b.
c. Credit (investment grade reference asset) .....	\$588					\$589					\$590					M.2.c.
d. Credit (non-investment grade reference asset) .....	\$591					\$592					\$593					M.2.d.
e. Equity .....	\$594					\$595					\$596					M.2.e.
f. Precious metals (except gold) .....	\$597					\$598					\$599					M.2.f.
g. Other .....	\$600					\$601					\$602					M.2.g.
3. Notional principal amounts of centrally cleared derivative contracts:																
a. Interest rate .....	\$603					\$604					\$605					M.3.a.
b. Foreign exchange rate and gold .....	\$606					\$607					\$608					M.3.b.
c. Credit (investment grade reference asset) .....	\$609					\$610					\$611					M.3.c.
d. Credit (non-investment grade reference asset) .....	\$612					\$613					\$614					M.3.d.
e. Equity .....	\$615					\$616					\$617					M.3.e.
f. Precious metals (except gold) .....	\$618					\$619					\$620					M.3.f.
g. Other .....	\$621					\$622					\$623					M.3.g.

# Q: How do I risk-weight derivatives?

Step 1: Positive fair value amounts from Call Report, Schedule RC-L, items 15.a.(1) and 15.b.(1) ...

15. Gross fair values of derivative contracts:					
a. Contracts held for trading:					
(1) Gross positive fair value.....	RCFD 8733	RCFD 8734	RCFD 8735	RCFD 8736	15.a.(1)
(2) Gross negative fair value.....	RCFD 8737	RCFD 8738	RCFD 8739	RCFD 8740	15.a.(2)
b. Contracts held for purposes other than trading:					
(1) Gross positive fair value.....	RCFD 8741	RCFD 8742	RCFD 8743	RCFD 8744	15.b.(1)
(2) Gross negative fair value.....	RCFD 8745	RCFD 8746	RCFD 8747	RCFD 8748	15.b.(2)

Step 2: ... are adjusted, summed, and reported in Call Report, Schedule RC-R, Part II, Memorandum item 1.

	Dollar Amounts in Thousands			
	RCFD	Bil	Mil	Thou
1. Current credit exposure across all derivative contracts covered by the regulatory capital rules .....	G642			
				M.1.



# FAQs Related to Derivative Reporting

- **Should all futures, forwards, swaps, and exchange-traded derivative contracts reported in Schedule RC-L, item 15, be reported in Schedule RC-R, item 21, “Centrally cleared derivatives”?**
  - Short answer: NO
    - Why? For purposes of risk weighting, all derivatives reported in item 21 must meet the definition of a “cleared transaction,” per section 2 of the regulatory capital rules.
    - The “cleared transaction” definition contains specific operational requirements for both the clearing member and the member client.
    - Any futures, forwards, swaps, and exchange-traded derivative contracts that do not meet the “cleared transaction” definition should be reported in Schedule RC-R, item 20, as an “Over-the-counter derivative” for purposes of risk weighting.

# FAQs Related to Derivative Reporting

- **Items 20, 21, and the Memoranda items in Schedule RC-R, Part II, state that only “derivative contracts subject to the regulatory capital rules” should be reported. Which derivatives are excluded from the rules?**
  - Generally, written option contracts that do not act as financial guarantees are not subject to the regulatory capital rules and thus do not need to be reported in Schedule RC-R. This treatment is unchanged.
    - Primary example is a derivative loan commitment, which refers to a lender’s commitment to originate a mortgage loan that will be held for resale, including “interest rate locks.”
  - The notional amount of written option contracts that are, in effect, financial guarantees should be included in Schedule RC-R, Part II, item 17, column A, as part of “All other off-balance sheet liabilities.”
  - However, forward loan sales commitments and loan purchase commitments that meet the definition of a derivative should be reported as forward contracts in both Schedules RC-L and RC-R.

# Unused Commitments

# Unused Commitments

- For regulatory capital purposes, “commitment” and “unconditionally cancelable” are defined in Section \_\_.2 of the regulatory capital rules
  - A commitment is “any legally binding arrangement that obligates an ... institution to extend credit or purchase assets”
  - Unconditionally cancelable means that an institution “may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law)”
- Unused commitments (that are not securitization exposures) are reported in Schedule RC-R, Part II
  - Item 18.a if the original maturity is one year or less
  - Item 18.c if the original maturity exceeds one year
  - Item 19 if unconditionally cancelable

# Unused Commitments

	(Column A) Face, Notional, or Other Amount			CCF <sup>15</sup>	(Column B) Credit Equivalent Amount <sup>20</sup>			(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)	(Column J)															
	Allocation by Risk-Weight Category																													
	0%				2%			4%			10%			20%			50%			100%			150%							
Dollar Amounts in Thousands	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou			
18. Unused commitments:																														
a. Original maturity of one year or less, excluding asset-backed commercial paper (ABCP) conduits.....	RCON S525			RCON S528			RCON S527									RCON S528			RCON S529			RCON S530			RCON S531			18.a.		
			0.2																											
b. Original maturity of one year or less to ABCP conduits.....																														
c. Original maturity exceeding one year.....	RCON G624			RCON G625			RCON G626									RCON G627			RCON G628			RCON G629			RCON S539			18.c.		
			0.5																											
19. Unconditionally cancelable commitments.....	RCON S540			RCON S541																								19.		
			0.0																											

Note: On the 9/30/2015 Call Report form, located on page RC-58 of the FFIEC 041 and page RC-56 of the FFIEC 031

# Unused Commitments

- Unused commitments also are reported in Schedule RC-L, items 1.a through 1.e
  - Unused commitments reported in Schedule RC-L may include certain commitments that are not legally binding and therefore should not be reported in Schedule RC-R
    - The legally binding determination necessary for including a commitment in Schedule RC-R should be based on a review of the terms and conditions of the commitment under applicable law
    - For example, Schedule RC-L includes “commitments to issue a commitment at some point in the future, where the bank has extended terms, the borrower has accepted the offered terms, and the extension and acceptance of the terms are in writing, regardless of whether they are legally binding ... even though the related loan agreement has not yet been signed and even if the commitment to issue a commitment is revocable”

# Unused Commitments

- Commitments structured as a syndication or a participation
  - In Schedule RC-L, unused commitments are reported gross, i.e., a bank must report the unused amount of commitments acquired from and conveyed or participated to others
    - Exception: A bank should exclude commitments conveyed or participated to others that the bank is not legally obligated to fund even if the party to whom the commitment has been conveyed or participated fails to perform in accordance with the terms of the commitment
  - In Schedule RC-R, where a bank provides a commitment structured as a syndication or participation, the bank is only required to calculate the exposure amount for its pro rata share of the commitment

# Capital Conservation Buffer

# Capital Conservation Buffer

- Beginning January 1, 2016, a banking organization must calculate a capital conservation buffer
  - Composed of common equity tier 1 capital
  - Buffer is in addition to the minimum risk-based capital requirements for:
    - CET 1 Ratio
    - Tier 1 Ratio
    - Total Capital Ratio
  - Buffer is phased in yearly until 2019 (Fully phased-in)
- Insufficient buffer subjects banks to limited capital distributions and discretionary bonus payments

# Capital Conservation Buffer

- The capital conservation buffer is equal to the lowest of the following ratios:
  - (i) Schedule RC-R, Part I, item 41 (CET 1 ratio), less 4.5%;
  - (ii) Schedule RC-R, Part I, item 42 (Tier 1 ratio), less 6.0%;
  - (iii) Schedule RC-R, Part I, item 43 (Total capital ratio), less 8.0%.
- Capital conservation buffer = 0.625% for 2016

# Part I, Items 40 through 43: Risk-Weighted Assets and Risk-Based Capital Ratios

## Total Risk-Weighted Assets

40. a. **Total risk-weighted assets** (from Schedule RC-R, Part II, item 62).....
- b. (Advanced approaches institutions that exit parallel run only): Total risk-weighted assets using advanced approaches rule (from FFIEC 101 Schedule A, item 60).....

A223			
RCOW			
A223			

## Risk-Based Capital Ratios

41. Common equity tier 1 capital ratio (Column A: item 19 divided by item 40.a) (Advanced approaches institutions that exit parallel run only: Column B: item 19 divided by item 40.b) .....
42. Tier 1 capital ratio (Column A: item 26 divided by item 40.a) (Advanced approaches institutions that exit parallel run only: Column B: item 26 divided by item 40.b) .....
43. Total capital ratio (Column A: item 35.a divided by item 40.a) (Advanced approaches institutions that exit parallel run only: Column B: item 35.b divided by item 40.b) .....

(Column A)		(Column B)	
RCOA	Percentage	RCOW	Percentage
P793	__._%	P793	__._%
7206	__._%	7206	__._%
7205	__._%	7205	__._%

# Capital Conservation Buffer Transition Schedule

Call Reference Item	Ratio	Year (as of January 1)				
		2015	2016	2017	2018	2019
	Minimum common equity tier 1 capital ratio	4.5%	<b>4.5%</b>	4.5%	4.5%	4.5%
→	Common equity tier 1 capital conservation buffer	N/A	<b>0.625%</b>	1.25%	1.875%	2.5%
41	Minimum common equity tier 1 capital ratio plus capital conservation buffer	4.5%	<b>5.125%</b>	5.75%	6.375%	7.0%
	Minimum tier 1 capital ratio	6.0%	<b>6.0%</b>	6.0%	6.0%	6.0%
42	Minimum tier 1 capital ratio plus capital conservation buffer	N/A	<b>6.625%</b>	7.25%	7.875%	8.5%
	Minimum total capital ratio	8.0%	<b>8.0%</b>	8.0%	8.0%	8.0%
43	Minimum total capital ratio plus conservation buffer	N/A	<b>8.625%</b>	9.25%	9.875%	10.5%

# Capital Conservation Buffer Payout Restrictions

Capital Conservation Buffer (CCB) 2016	Capital Conservation Buffer (CCB) Fully Phased-in (2019 and beyond)	Maximum Payout (as a percentage of eligible retained income)
CCB > 0.625 percent	CCB > 2.5 percent	No payout limitation applies
0.625 percent $\geq$ CCB > 0.469 percent	2.5 percent $\geq$ CCB > 1.875 percent	60 percent
0.469 percent $\geq$ CCB > 0.313 percent	1.875 percent $\geq$ CCB > 1.25 percent	40 percent
0.313 percent $\geq$ CCB > 0.156 percent	1.25 percent $\geq$ CCB > 0.625 percent	20 percent
0.156 $\geq$ CCB	0.625 $\geq$ CCB	0 percent

# Reporting the Capital Conservation Buffer

- Effective on the March 31, 2016, report date:
  - All institutions must complete Schedule RC-R, Part I, item 46.a
  - If the amount in item 46.a is less than or equal to the applicable minimum capital conservation buffer (0.625% in 2016), an institution must complete items 47 and 48

## Capital Buffer

46. Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments (effective January 1, 2016):

- a. Capital conservation buffer .....  
 b. (Advanced approaches institutions that exit parallel run only): Total applicable capital buffer .....

	Percentage
a.	---.---
b.	---.---

Effective January 1, 2016: Institutions must complete items 47 and 48 if the amount in item 46.a (or the lower of item 46.a or 46.b for an advanced approaches institution that has exited parallel run) is less than or equal to the applicable minimum capital conservation buffer:

47. Eligible retained income .....  
 48. Distributions and discretionary bonus payments during the quarter .....

	Bil	Mil	Thou
47.			
48.			

# Eligible Retained Income

- **Schedule RC-R, Part I, item 47, “Eligible retained income”**
  - Is the bank’s net income for the four calendar quarters preceding the current calendar quarter,
    - based on the bank’s quarterly regulatory reports
    - net of any distributions and associated tax effects not already reflected in net income.
  - For example, the amount to be reported in item 47 for the June 30 report date would be the net income attributable to the institution for the four calendar quarters ending on the preceding March 31

# Discretionary Bonus Payment Definition

- **Schedule RC-R, Part I, item 48, “Distributions and discretionary bonus payments during the quarter”**
  - Discretionary Bonus Payment - A payment made to an executive officer of a banking organization that meets the following conditions:
    - The bank retains discretion as to whether to make, and the amount of, the payment until the payment is awarded to the executive officer;
    - The amount paid is determined by the organization without prior promise to, or agreement with, the executive officer; and
    - The executive officer has no contractual right, whether express or implied, to the bonus payment.

The agencies note that if a banking organization prefunds a pool for bonuses payable under a contract, the bonus pool is not discretionary and, therefore, is not subject to the capital conservation buffer limitations.

- Executive officer means a person who holds the title or, without regard to title, salary, or compensation, performs the function of one or more of the following positions: President, chief executive officer, executive chairman, chief operating officer, chief financial officer, chief investment officer, chief legal officer, chief lending officer, chief risk officer, or head of a major business line, and other staff that the board of directors of the bank deems to have equivalent responsibility.

# Distribution Definition

- Distribution means:
  - A reduction of tier 1 capital through the repurchase of a tier 1 capital instrument or by other means, except when a bank, within the same quarter when the repurchase is announced, fully replaces a tier 1 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for:
    - (i) A common equity tier 1 capital instrument if the instrument being repurchased was part of the bank's common equity tier 1 capital, or
    - (ii) A common equity tier 1 or additional tier 1 capital instrument if the instrument being repurchased was part of the bank's tier 1 capital;
  - A reduction of tier 2 capital through the repurchase, or redemption prior to maturity, of a tier 2 capital instrument or by other means, except when a bank, within the same quarter when the repurchase or redemption is announced, fully replaces a tier 2 capital instrument it has repurchased by issuing another capital instrument that meets the eligibility criteria for a tier 1 or tier 2 capital instrument;
  - A dividend declaration or payment on any tier 1 capital instrument;
  - A dividend declaration or interest payment on any tier 2 capital instrument if the bank has full discretion to permanently or temporarily suspend such payments without triggering an event of default; or
  - Any similar transaction that the bank's supervisory authority determines to be in substance a distribution of capital.

# Other Topics

# Statutory Multifamily Mortgage

- Loans secured by multifamily residential properties are reported in Schedule RC-C, Part I, item 1.d
  - “Statutory multifamily mortgages” are a subset of these multifamily residential mortgages
- “Statutory multifamily mortgages” are
  - Defined in Section \_\_.2 of the regulatory capital rules
  - Eligible for a 50% risk weight
  - In Schedule RC-R, reported together with “residential mortgage exposures” in
    - Part II, item 4.a, if held for sale
    - Part II, item 5.a, if held for investment

# Statutory Multifamily Mortgage

- In general, a “statutory multifamily mortgage” is a loan secured by a first lien on a multifamily residential property that meets the following criteria:
  - Made in accordance with prudent underwriting standards
  - Amortization must occur over not more than 30 years
  - Minimum original maturity for repayment of principal must not be less than 7 years
  - Loan principal at origination does not exceed
    - 80% of the property value for a fixed rate loan
    - 75% of the property value for a variable rate loan
    - Property value is the lower of acquisition cost or appraised (or, if appropriate, evaluated) value

# Statutory Multifamily Mortgage

- Criteria (cont.)
  - Property's annual net operating income (before debt service on the loan) during its most recent fiscal year must not be less than
    - 120% of the loan's current annual debt service for a fixed rate loan
    - 115% of the loan's current annual debt service for a variable rate loan

For a cooperative or other not-for-profit housing project, property must generate sufficient cash flow to provide comparable protection

# Statutory Multifamily Mortgage

- Criteria (cont.)
  - All P&I payments must have been made on a timely basis in accordance with the loan terms for at least one year prior to applying a 50% risk weight
    - Where an existing owner is refinancing a loan on the property, all P&I payments on the loan being refinanced must have been made on a timely basis in accordance with the loan terms for at least one year prior to applying a 50% percent risk weight
  - The loan is not more than 90 days past due or on nonaccrual

# Statutory Multifamily Mortgage

- Interaction of “statutory multifamily mortgage” with the definition of “residential mortgage exposure”
  - A first or junior lien mortgage on a multifamily residential property with an original and outstanding amount of \$1 million or less is a “residential mortgage exposure”
    - Report all such multifamily mortgages in Schedule RC-R, Part II, item 4.a or item 5.b, as appropriate
    - Such a multifamily mortgage qualifies for a 50% risk weight if it meets the qualifying criteria in Section \_\_.32(g) of the regulatory capital rules:
      - Mortgage is a first lien
      - Property is owner-occupied or rented
      - Loan is prudently underwritten, including loan-to-value ratio
      - Loan is not 90 days or more past due or on nonaccrual
      - Loan is not restructured or modified

# Statutory Multifamily Mortgage

- Interaction (cont.)
  - If these qualifying criteria are not met, a multifamily mortgage loan with an original and outstanding amount of \$1 million or less is unlikely to meet the “statutory multifamily mortgage” definition and generally would receive a 100% risk weight
  - Multifamily residential mortgage loans with an original and outstanding amount greater than \$1 million would need to be evaluated to determine whether they meet the “statutory multifamily mortgage” definition
    - Report multifamily mortgages > \$1 million that meet this definition in column H – 50% risk weight of Schedule RC-R, Part II, item 4.a or item 5.b, as appropriate, unless a lower risk weight applies
    - Report multifamily mortgages > \$ 1 million not meeting this definition in Schedule RC-R, Part II, item 4.c or 4.d or item 5.c or 5.d, as appropriate

# On-Balance-Sheet Equity Exposures

- “Equity exposure” is defined in Section \_\_.2 of the regulatory capital rules. In general, it includes
  - (1) A security or instrument that represents a direct or an indirect ownership interest in, and is a residual claim on, the assets and income of a company, with certain exclusions, e.g., a securitization exposure
  - (2) A security or instrument mandatorily convertible into (1)
  - (3) An option or warrant exercisable for (1)
  - (4) Any other security or instrument the return on which is based on a security or instrument described in (1)Excludes equity derivative contracts

# On-Balance-Sheet Equity Exposures

- On the Call Report balance sheet (Schedule RC), asset categories that can include securities and other instruments that are “equity exposures,” are
  - Available-for-sale (AFS) securities (Schedule RC, item 2.b)
  - Trading assets (Schedule RC, item 5)
  - Investments in unconsolidated subsidiaries and associated companies (Schedule RC, item 8)
  - Direct and indirect investments in real estate ventures (Schedule RC, item 9)
  - Other assets (Schedule RC, item 11)

# On-Balance-Sheet Equity Exposures

- In Schedule RC-R, Part II, report the balance sheet carrying value of each on-balance-sheet “equity exposure” in column A of the item for the asset category corresponding to the category in which it is reported on Schedule RC
  - AFS equity exposures (Schedule RC-R, Part II, item 2.b)
  - Trading equity exposures (Schedule RC-R, Part II, item 7)
  - Equity exposures reported as investments in unconsolidated subsidiaries and associated companies, direct and indirect investments in real estate ventures, and other assets (Schedule RC-R, Part II, item 8, “All other assets”)

# Available-for-Sale Securitization Exposures

- All securitization exposures held as on-balance-sheet assets are
  - Excluded from the balance sheet asset categories reported in Part II, items 1 through 8, of Schedule RC-R
  - Reported in Part II, items 9.a through 9.d, as appropriate
- Securitization exposures included in available-for-sale (AFS) securities in item 2.b of the Call Report balance sheet (Schedule RC)
  - Are included in Schedule RC, item 2.b, at fair value
  - Exclude the fair value of AFS securitization exposures from Schedule RC-R, Part II, item 2.b, column A
  - Include the fair value of AFS securitization exposures in Schedule RC-R, Part II, item 9.b, column A

# Resources

- Regulatory Capital Rules (as of 1/1/2015)
  - [FDIC, 12 CFR Part 324](#)
  - [FRB, 12 CFR Part 217](#)
  - [OCC, 12 CFR Part 3](#)
- Call Report Forms and Instructions (as of 9/30/2015)
  - [FFIEC 041 Report Form](#)
  - [FFIEC 031 Report Form](#)
  - [Instructions \(FFIEC 031 and 041\)](#) (last update 6/30/2015)
- [Frequently Asked Questions on the Regulatory Capital Rule](#) (3/31/2015)
- [Interagency Community Bank Guide to the New Capital Rule](#) (2013)
- [Expanded Community Bank Guide to the New Capital Rule for FDIC-Supervised Banks](#) (2013)

Questions?