SUPPLEMENTAL INSTRUCTIONS

March 2005 Call Report Materials

A sample set of the March 31, 2005, report form applicable to your bank is enclosed. Banks with domestic offices only must file the FFIEC 041 report form. Banks with domestic and foreign offices must file the FFIEC 031 report form.

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

Submission of Completed Reports

All banks should continue to submit their Call Reports electronically to the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS), using one of the two methods described in the agencies' cover letter for the March 31, 2005, report date. For assistance in submitting Call Reports to EDS, contact EDS toll free at (800) 255-1571.

Banks are required to maintain in their files a signed and attested record of the completed Call Report that has been submitted to EDS showing at least the title of each Call Report item and the reported amount. Either the cover page of the enclosed sample set of report forms, a photocopy of the cover page, or a copy of the cover page printed from Call Report software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the Call Report that is placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Fidelity Regulatory Solutions (previously The InterCept Group); Financial Architects US; FRS, an S1 Corporation Business; IDOM, Inc.; Information Technology, Inc.; and Jack Henry & Associates, Inc. (previously Sheshunoff Information Services) have been certified for electronic submission by EDS. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

Amending Previously Submitted Reports

Should your bank find that it needs to revise certain Call Report information in a previously submitted report, an amended Call Report data file may be electronically submitted to EDS. Otherwise, contact your Call Report analyst at the FDIC (for national and FDIC-supervised banks) or at your Federal Reserve District Bank (for state member banks) and arrange to provide the amended data by telephone, fax, or electronic mail.

FFIEC Instruction Books

Enclosed with this quarter's Call Report materials is an update to your Call Report instruction book. Please follow the filing instructions on the inside of the cover page of the update package. Copies of the Call Report instructions may be obtained from the FDIC's Data Collection and Analysis Section (telephone toll free at 800-688-FDIC) or from your Federal Reserve District Bank. The Call Report instructions are also available on both the FFIEC's and the FDIC's Web sites.
Other-Than-Temporary Impairment of Securities and EITF Issue No. 03-1

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

In March 2004, the FASB ratified the consensus reached by its Emerging Issues Task Force (EITF) on EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The EITF’s consensus applies to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost. The consensus was intended to provide additional guidance for determining whether investments in these securities have incurred an other-than-temporary impairment.

On September 30, 2004, the FASB delayed the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. This delay will last until additional impairment guidance is issued by the FASB. The FASB reportedly planned to begin reconsidering this issue in the first quarter of 2005. In the meantime, the delay in the effective date does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature, including FASB Statement No. 115, EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (Topic 5.M. in the Codification of Staff Accounting Bulletins).

AICPA Statement of Position 03-3 on Purchased Impaired Loans

In December 2003, the AICPA issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. In general, this Statement of Position applies to purchased impaired loans, i.e., loans that a bank has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. The Statement of Position applies to loans acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. Banks must follow Statement of Position 03-3 for Call Report purposes in accordance with its effective date based on their fiscal years. The Statement of Position does not apply to the loans that a bank has originated.

Under this Statement of Position, a purchased impaired loan is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). The Statement of Position limits the yield that may be accreted on the loan (the accretable yield) to the excess of the bank's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the bank's initial investment in the loan. The excess of contractually required cash flows over the cash flows expected to be collected on the loan, which is referred to as the
nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation
allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance
sheet. After acquisition, increases in the cash flows expected to be collected generally should be
recognized prospectively as an adjustment of the loan's yield over its remaining life. Decreases in cash
flows expected to be collected should be recognized as an impairment.

The Statement of Position prohibits a bank from "carrying over" or creating loan loss allowances in the
initial accounting for purchased 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 purchase business
combination.

In Schedule RC-C, part I, Loans and Leases, banks should report the carrying amount (before any loan
loss allowance) of a purchased impaired loan in the appropriate loan category (items 1 through 9).
Neither the accretable yield nor the nonaccretable difference associated with a purchased impaired loan
should be reported as unearned income in Schedule RC-C, part I, item 11.

On March 11, 2005, the agencies requested comment on the proposed addition of three items relating to
purchased impaired loans to the Call Report on June 30, 2005. The proposal also explains that, for those
purchased impaired loans that are not in nonaccrual status, banks should determine the delinquency
status of these loans in accordance with the contractual repayment terms of the loans. The proposal can

FASB Statement No. 149 and Loan Commitments That Must Be Accounted for as Derivatives

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging
Activities, provides guidance on the circumstances in which a loan commitment must be accounted for as
a derivative. Under Statement No. 149, loan commitments that relate to the origination of mortgage loans
that will be held for sale, including those commonly referred to as interest rate lock commitments, must be
accounted for as derivatives by the issuer of the commitment. Under a typical derivative loan
commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a
fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has
a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable
derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest
rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment. In
contrast, commitments to originate mortgage loans that will be held for investment purposes and
commitments to originate other types of loans are not considered derivatives. In addition, for
commitments to purchase or sell existing loans, the definition of a derivative in FASB Statement No. 133,
Accounting for Derivative Instruments and Hedging Activities, should be applied to these commitments to
determine whether they meet this definition and are subject to the provisions of Statement No. 133 (see

Because they are derivatives, derivative loan commitments should not be reported as unused
commitments in item 1 of Schedule RC-L, Derivatives and Off-Balance Sheet Items. Instead, derivative
loan commitments must be reported on the balance sheet (Schedule RC) at fair value. Consistent with
SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, in
recognizing commitments to originate mortgage loans that will be held for sale, a bank may not consider
the expected cash flows related to the associated servicing of the mortgage loan. Further, no other
internally developed intangible assets should be recorded as part of the loan commitment derivative.
This SEC Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

For Call Report purposes, derivative loan commitments should be reported with a bank's over-the-counter
written interest rate options in Schedule RC-L. The principal amount of the mortgage loans to be
originated under these derivative loan commitments must be reported in Schedule RC-L, item 12.d.(1),
column A, and in Schedule RC-L, item 14, column A. Banks must also report the fair value of their
derivative loan commitments in the appropriate subitem of Schedule RC-L, item 15.b. As with written
options, derivative loan commitments are outside the scope of the credit conversion process that applies
to derivatives under the agencies’ risk-based capital standards. However, if the fair value of any of these
derivative loan commitments after initial recognition is positive and therefore reported as an asset, this
positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-
balance sheet asset.

The unused portion of loan commitments that are not considered derivatives should continue to be
reported in Schedule RC-L, item 1. Unused commitments with an original maturity exceeding one year
are subject to the risk-based capital standards and must be reported in Schedule RC-R, item 53.

GNMA Mortgage Loan Optional Repurchase Program

Government National Mortgage Association (GNMA) mortgage-backed securities are backed by
residential mortgage loans that are insured or guaranteed by the Federal Housing Administration (FHA),
the Department of Veterans Affairs/Veterans Administration (VA), or the Farmers Home Administration
(FmHA). GNMA programs allow financial institutions to buy back individual delinquent mortgage loans
that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the
servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent
loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under FASB
Statement No. 140, this buy-back option is considered a conditional option until the delinquency criteria
are met, at which time the option becomes unconditional.

When the loans backing a GNMA security are initially securitized, Statement No. 140 permits the issuer
of the security to treat the transaction as a sale for accounting purposes because the conditional nature of
the buy-back option means that the issuer does not maintain effective control over the loans. The loans
are removed from the issuer's balance sheet. When individual loans later meet GNMA's specified
delinquency criteria and are eligible for repurchase, the issuer (provided the issuer is also the servicer) is
deemed to have regained effective control over these loans and, under Statement No. 140, the loans can
no longer be reported as sold. The delinquent GNMA loans must be brought back onto the issuer-
servicer’s books as assets and initially recorded at fair value, regardless of whether the issuer intends to
exercise the buy-back option. An offsetting liability also would be recorded. Whether or not these
rebooked delinquent loans are repurchased, the issuer-servicer should report them as loans on the Call
Report balance sheet (Schedule RC) and related schedules. These loans should be reported as held for
sale (Schedule RC, item 4.a) or held for investment (Schedule RC, item 4.b), based on facts and
circumstances, in accordance with generally accepted accounting principles. These loans should not be
reported as “Other assets” (Schedule RC, item 11). The offsetting liability should be reported as “Other
borrowed money” (Schedule RC, item 16).

For risk-based capital purposes, these rebooked loans should be risk-weighted in the same manner as all
other FHA, VA, and FmHA loans, i.e., at 20 percent to the extent of the conditional guarantee. For
leverage capital purposes, these rebooked loans should be included in the bank's average total assets.

In April 2004, the agencies requested comment on additional reporting issues relating to rebooked GNMA
loans. The agencies have been considering the comments received and expect to provide additional
guidance in this area in the near future. The proposal can be accessed at

FASB Interpretation No. 46 (Revised)

The FASB issued Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities, in
December 2003. Revised Interpretation No. 46 replaces Interpretation No. 46, which was issued in
January 2003. This interpretation explains how to identify a “variable interest entity” and how an
institution should assess its interests in a variable interest entity to decide whether to consolidate that
entity. Variable interest entities often are created for a single specified purpose, for example, to facilitate
securitization, leasing, hedging, research and development, and reinsurance. Most small banks are
unlikely to have any “variable interests” in variable interest entities.

In general, a variable interest entity is an entity in which either the controlling financial interests are not
voting interests or the equity investors do not bear the entity’s residual economic risks. A variable interest
is a contractual or ownership interest in an entity that changes when the fair value of the entity’s net
assets (exclusive of variable interests) changes. An organization that has a variable interest (or a
combination of variable interests) that will absorb a majority of a variable interest entity’s expected losses
if they occur, receive a majority of the entity’s expected residual returns if they occur, or both, is the “primary beneficiary” of the variable interest entity and must consolidate it.

For Call Report purposes, banks with variable interests in variable interest entities must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation’s effective date and transition provisions, a summary of which follows. Special provisions of the revised interpretation apply to organizations that have fully or partially applied Interpretation No. 46 prior to the issuance of the revision. Otherwise, application of the revised interpretation (or Interpretation No. 46) was required of banks that are public companies, or subsidiaries of public companies, that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities beginning December 31, 2003. Application of Interpretation No. 46 (Revised) by banks that are public companies (other than small business issuers), or subsidiaries of such public companies, for all other types of variable interest entities was required beginning March 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are neither public companies nor subsidiaries of public companies was required immediately for variable interest entities created after December 31, 2003, and for all other variable interest entities at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year banks).

The assets and liabilities of a consolidated variable interest entity should be reported on the Call Report balance sheet (Schedule RC) on a line-by-line basis according to the asset and liability categories shown on the balance sheet. This reporting treatment also carries over to the other schedules in both the Report of Condition and the Report of Income.

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

An asset-backed commercial paper (ABCP) program is usually carried out through a bankruptcy-remote, special-purpose entity, which generally is sponsored and administered by a bank to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program. Because these programs typically are sponsored by large banking organizations, the reporting and regulatory capital requirements applicable to these programs should have no impact on most small banks.

In July 2004, the banking agencies issued a final rule amending their risk-based capital standards to make permanent an existing interim risk-based capital treatment for assets in ABCP conduits that sponsoring banks are required to consolidate in accordance with Interpretation No. 46 (Revised). Under the final rule, sponsoring banks are permitted to exclude the consolidated ABCP program assets from their risk-weighted asset bases when they calculate their risk-based capital ratios. The final rule also requires banks to hold risk-based capital against eligible ABCP program liquidity facilities with an original maturity of one year or less that provide liquidity support to these programs by imposing a 10 percent credit conversion factor on such facilities effective September 30, 2004. Eligible liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. All liquidity facilities that provide liquidity support to ABCP will be treated as eligible liquidity facilities until September 30, 2005. Beginning September 30, 2005, however, ineligible liquidity facilities (both short-term and long-term) will be treated as direct credit substitutes or recourse obligations and will be subject to a 100 percent credit conversion factor. For all liquidity facilities, the resulting credit equivalent amount is risk weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable. Banks involved with ABCP programs should refer to the final rule for complete information on the risk-based capital treatment of these programs.

In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital). The final rule also does not alter the accounting rules for balance sheet consolidation under Interpretation No. 46 (Revised), nor does it affect the denominator of the Tier 1 leverage capital ratio calculation, which continues to be based primarily on on-balance sheet assets as reported under generally accepted accounting principles.
Under the agencies' final rule, bank sponsors of any consolidated ABCP programs should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule RC-R, Regulatory Capital. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the final rule, and risk weights them accordingly. However, unless this consolidation option has been chosen, sponsoring banks must continue to hold risk-based capital against all exposures arising in connection with these programs, whether or not the programs are consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule RC-R. Furthermore, banks that provide eligible liquidity facilities to ABCP programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R, item 53 (unless a sponsor has chosen the consolidation option). The full amount of the unused portion of an eligible liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an eligible liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. Finally, any minority interests in consolidated asset-backed commercial paper programs should not be included in Schedule RC-R, item 6, "Qualifying minority interests in consolidated subsidiaries."

Optional Tax Worksheet

For assistance in calculating year-to-date applicable income taxes in accordance with FASB Statement No. 109, Accounting for Income Taxes, an optional worksheet geared toward smaller banks is available upon request. For a copy of this worksheet, state member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Data Collection and Analysis Section in Washington, D.C., toll free at (800) 688-FDIC. The optional tax worksheet will also be available on the FDIC's Web site (www.fdic.gov/regulations/resources/call/index.html).

Call Report Software Vendors

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

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

- Fidelity Regulatory Solutions
  (previously The InterCept Group)
  27200 Agoura Road, Suite 100
  Calabasas Hills, California 91301
  Telephone: (800) 825-3772
  www.callreporter.com

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

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

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

- Information Technology, Inc.
  1345 Old Cheney Road
  Lincoln, Nebraska 68512
  Telephone: (402) 423-2682
  www.itiwnet.com

  Regulatory Filing Group
  (previously Sheshunoff Information Services)
  7600B North Capital of Texas Highway, Suite 320
  Austin, Texas 78731
  Telephone: (800) 688-9191
  filing.jackhenry.com