SUPPLEMENTAL INSTRUCTIONS

June 2005 Call Report Materials

A sample set of the June 30, 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 June 30, 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.
Tobacco Transition Payment Program

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

The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, the statute and the rules implementing the tobacco buyout program permit a private party, such as a bank, to make a lump-sum payment to the quota holder or producer in return for the right to receive one or more of the annual payments to be made by the CCC under the buyout program. More specifically, a quota holder or producer can obtain a lump-sum payment from a bank or other party by executing an "assignment" of tobacco buyout payments or a "successor-in-interest" contract. Under both of these financing arrangements, the consideration paid to the quota holder or producer must be greater than or equal to the present value of the transferred annual payments discounted at the prime rate plus two percentage points rounded to the nearest whole number. Assignment contracts and successor-in-interest contracts become effective only upon the approval of the CCC. The annual payments by the CCC will be made directly to the assignee or successor party.

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

Banks that enter into CCC-approved assignment contracts and successor-in-interest contracts and make lump-sum payments to tobacco quota holders or producers should report these financing arrangements as "Loans to finance agricultural production and other loans to farmers" in Schedule RC-C, part I, item 3. The discount reflected in these lump-sum payments should be recognized as interest income over the life of the contract using the interest method.

For risk-based capital purposes, assignment contracts should be risk weighted at 100 percent because of the potential exposure to payment reductions for any debt owed by the quota holder or producer to an agency of the United States as outlined above. Successor-in-interest contracts from quota holders are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at zero percent. In contrast, successor-in-interest contracts from producers are considered conditionally guaranteed and should be risk weighted at 20 percent.

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.

The FASB has indefinitely delayed the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. In the meantime, institutions should continue to apply relevant other-than-temporary impairment guidance 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. Banks must follow Statement of Position 03-3 for Call Report purposes. The Statement of Position does not apply to the loans that a bank has originated. For further information on this Statement of Position, please refer to the new Glossary entry for “Purchased Impaired Loans” and the revised Glossary entry for “Allowance for Loan and Lease Losses,” which are included in the update to the Call Report instruction book that is included in this quarter's Call Report materials.

The agencies have added three new items pertaining to purchased impaired loans to the Call Report this quarter. These new items are Schedule RC-C, part I, Loans and Leases, Memorandum items 7.a and 7.b, and Schedule RI-B, part II, Changes in Allowance for Loan and Lease Losses, Memorandum item 4. The instructions for these new items are included in the Call Report instruction book update for this quarter. In addition, for those purchased impaired loans that are not in nonaccrual status, banks should determine the delinquency status of these loans for purposes of Schedule RC-N in accordance with the contractual repayment terms of the loans.

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.

Commitments to Originate and Sell Mortgage Loans

On May 3, 2005, the agencies issued an Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. This advisory provides supplemental guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be held for resale and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts. The advisory can be accessed on each of the agencies' Web sites.

Commitments to originate mortgage loans that will be held for resale, which the advisory refers to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including both mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Institutions should also account for loan sales agreements that meet the definition of a derivative, which the advisory refers to as forward loan sales commitments, at fair value on the balance sheet.
The advisory also addresses the guidance that should be considered in determining the fair value of derivatives. In this regard, when quoted market prices are not available, which is typically the case for derivative loan commitments and forward loan sales commitments, estimates of fair value should be based on the best information available in the circumstances. A simplified example is included to provide general guidance on one approach that may be used to value commitments to originate mortgage loans that will be held for resale. In addition, the advisory states that the agencies expect all institutions, including those that are not required to file reports with the SEC, to follow the guidance in SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, in recognizing derivative loan commitments. The Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

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

Banks are expected to apply the guidance in the advisory when preparing their Call Reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for Call Report purposes. All other derivative loan commitments should be reported in the Call Report with a bank's over-the-counter written interest rate options in Schedule RC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule RC-L. The principal amount of the mortgage loans to be originated under these derivative loan commitments must be reported as the notional amount of the derivatives 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 these 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.

Banks should note that commitments to originate mortgage loans that will be held for investment purposes and commitments to originate other types of loans are not considered derivatives. 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 transferor of the loans to treat the transaction as a sale for accounting purposes because the conditional nature of the buy-back option means that the transferor (seller) does not maintain effective control over the loans. The loans are removed from the seller's balance sheet. When individual loans later meet
GNMA’s specified delinquency criteria and are eligible for repurchase, the seller (provided the seller 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 seller-servicer’s books as assets and initially recorded at fair value, regardless of whether the seller intends to exercise the buy-back option. An offsetting liability also would be recorded. Whether or not these rebooked delinquent loans are repurchased, the seller-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).

A seller-servicer must report all delinquent rebooked GNMA loans that have been repurchased or are eligible for repurchase as past due in Schedule RC-N in accordance with their contractual repayment terms. In addition, if a bank services GNMA loans, but was not the transferor of the loans that have been securitized, and purchases individual delinquent loans out of the GNMA securitization, the bank must report the purchased loans as past due in Schedule RC-N in accordance with their contractual repayment terms even though the bank was not required to record the delinquent GNMA loans as assets prior to purchasing the loans. Such delinquent GNMA loans should be reported in items 1.c and 10 and new item 10.b of Schedule RC-N. This reporting treatment for delinquent GNMA loans, including the new Schedule RC-N item, is discussed in the revised instructions for Schedule RC-N that are included in the Call Report instruction book update that is included in this quarter’s Call Report materials.

For risk-based capital purposes, rebooked GNMA 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 addition, the agencies have concluded that an institution that forecloses on real estate backing a delinquent GNMA loan should report the property as “other real estate owned” and not as an “other asset” on the Call Report balance sheet. However, because this is not currently the common reporting practice for these foreclosed properties, institutions should continue to report these properties in their Call Reports in accordance with their existing reporting policies for such properties through the December 31, 2005, report date. Thereafter, i.e., beginning with the March 31, 2006, report date, all institutions should report foreclosed real estate from GNMA loans as “other real estate owned” on the balance sheet. At that time, the agencies will add a new subitem to Schedule RC-M, item 3.b, “All other real estate owned,” to enable institutions to separately disclose the amount of such foreclosed real estate.

**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. Application of Interpretation No. 46 (Revised) by banks that are public companies, or subsidiaries of such public companies, was required for specified types of variable interest entities at various dates beginning December 31, 2003, through December 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**

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for March 31, 2005. These Supplemental Instructions can be accessed via the FFIEC’s Web site (www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200503.pdf).

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

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2003. These Supplemental Instructions can be accessed via the FFIEC’s Web site (www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf).

**Call Report Software Vendors**

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

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<th>Vendors</th>
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<td>DBI Financial Systems, Inc.</td>
<td>P.O. Box 14027, Bradenton, Florida 34280</td>
<td>(800) 774-3279</td>
<td><a href="http://www.e-dbi.com">www.e-dbi.com</a></td>
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<tr>
<td>Fidelity Regulatory Solutions</td>
<td>27200 Agoura Road, Suite 100, Calabasas Hills, California 91301</td>
<td>(800) 825-3772</td>
<td><a href="http://www.callreporter.com">www.callreporter.com</a></td>
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<tr>
<td>FRS, an S1 Corporation Business</td>
<td>2815 Coliseum Centre Drive, Suite 300, Charlotte, North Carolina 28217</td>
<td>(704) 501-5619</td>
<td><a href="http://www.frsglobal.com">www.frsglobal.com</a></td>
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<tr>
<td>IDOM, Inc.</td>
<td>One Gateway Center, Third Floor Newark, New Jersey 07102</td>
<td>(973) 648-0900</td>
<td><a href="http://www.idomusa.com">www.idomusa.com</a></td>
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<tr>
<td>Information Technology, Inc.</td>
<td>1345 Old Cheney Road, Lincoln, Nebraska 68512</td>
<td>(402) 423-2682</td>
<td><a href="http://www.itiwnet.com">www.itiwnet.com</a></td>
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<tr>
<td>Jack Henry &amp; Associates, Inc.</td>
<td>7600B North Capital of Texas Highway, Suite 320 Austin, Texas 78731</td>
<td>(800) 688-9191</td>
<td>filing.jackhenry.com</td>
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