SUPPLEMENTAL INSTRUCTIONS

September 2006 Call Report Forms

The agencies have discontinued the regular quarterly mailing of sample Call Report forms, but they currently plan to send sample forms to banks only in quarters when there are a significant number of revisions to the forms. Because several Call Report revisions take effect this quarter, including the introduction of a new report schedule, a sample set of the September 30, 2006, report form applicable to your bank is enclosed. Sample Call Report forms for this quarter also are available on both the FFIEC’s Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the FDIC’s Web site (http://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

Each bank’s Call Report data must be submitted to the FFIEC’s Central Data Repository (CDR), an Internet-based system for data collection (https://cdr.ffiec.gov/cdr/) using one of the two methods described in the banking agencies’ cover letter for the September 30, 2006, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (301) 495-7864, or by e-mail at CDR.Help@ffiec.gov.

Banks are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the enclosed sample report forms, but the hard-copy record should show at least the caption of each Call Report item and the reported amount. Either the cover page of the enclosed sample 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 hard-copy record of the Call Report data file that must be placed in the bank’s files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Fidelity Regulatory Solutions; Financial Architects US; FRS, an S1 Corporation Business; IDOM, Inc.; Information Technology, Inc.; and Jack Henry & Associates, Inc., meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. The addresses and telephone numbers of these vendors are listed at the end of these Supplemental Instructions.

Guidance for Reporting on Retirement Deposit Accounts and Certain Brokered Deposits

Certain deposit-related reporting revisions were made to the Call Report effective June 30, 2006, in response to the increase in the deposit insurance limit for certain retirement plan deposit accounts from $100,000 to $250,000 (see FIL-44-2006, dated May 10, 2006). These revisions affected the reporting of the number and amount of deposit accounts (Schedule RC-O, Memorandum item 1), fully insured brokered deposits (Schedule RC-E, Memorandum item 1.c), and, for banks with $1 billion or more in total assets, the estimated amount of uninsured deposits (Schedule RC-O, Memorandum item 2). Banks should apply the following transition guidance for purposes of reporting in these revised Memorandum items in their September 30 and December 31, 2006, Call Reports.

Banks have long identified deposits held in Individual Retirement Accounts (IRAs) and Keogh Plan accounts in order to report the total amount of these deposits in Schedule RC-E, Memorandum item 1.a. All deposits held in IRAs and those deposits held in Keogh Plan accounts that are “self-directed” are eligible for the $250,000 insurance coverage. For IRAs, banks may provide reasonable estimates for the information to be reported in the revised Schedule RC-O and Schedule RC-E Memorandum items in their September 30, 2006, Call Reports. For Keogh Plan accounts, banks may provide reasonable estimates of the portion of these accounts eligible for the $250,000 insurance coverage in the revised Schedule RC-O and Schedule RC-E Memorandum items in their September 30, 2006, Call Reports. If a bank’s existing deposit records and systems for Keogh Plan accounts...
provide insufficient information to allow the bank to make a reasonable estimate, the bank may treat all deposits held in Keogh Plan accounts as eligible for the $250,000 insurance coverage in its September 30, 2006, Call Report (even though some of these accounts may not be "self-directed" and, therefore, would not be eligible for the increased coverage).

Banks should also determine whether they have other retirement deposit accounts eligible for the $250,000 insurance coverage (i.e., accounts other than IRAs and Keogh Plan accounts). Banks may provide reasonable estimates for the information to be reported in the revised Schedule RC-O and Schedule RC-E Memorandum items in their September 30, 2006, Call Reports. If a bank’s existing deposit records and systems for these other retirement deposit accounts provide insufficient information to allow the bank to make a reasonable estimate, the bank may treat all of these deposit accounts as eligible for the $100,000 insurance coverage in its September 30, 2006, Call Report.

For the December 31, 2006, Call Report, banks would be expected to have made appropriate systems changes to enable them to report reasonably accurate data on all types of retirement deposit accounts eligible for the $250,000 insurance coverage. Therefore, banks would no longer be permitted to elect to treat all Keogh Plan accounts as eligible for the $250,000 insurance coverage and all other retirement deposit accounts as eligible for the $100,000 insurance coverage in the revised Schedule RC-O and Schedule RC-E Memorandum items in their December 31, 2006, Call Report. Thereafter, banks’ deposit records and systems should enable them to report information on all retirement deposit accounts in these Call Report items in accordance with the applicable instructions.

In addition, questions have been raised concerning the reporting of brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit in the revised Schedule RC-O and Schedule RC-E Memorandum items. For these so-called “retail brokered deposits,” multiple purchases by individual depositors from an individual bank normally do not exceed the applicable deposit insurance limit (either $100,000 or $250,000), but under current deposit insurance rules the deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the bank issuing the deposits. For purposes of reporting in the Call Report, these brokered certificates of deposit in $1,000 amounts are rebuttably presumed to be fully insured brokered deposits and should be reported in Schedule RC-E, Memorandum item 1.c.(1), “Issued in denominations of less than $100,000.” These deposits should also be included in Schedule RC-E, Memorandum item 2.b, “Total time deposits of less than $100,000.” For purposes of Schedule RC-O, Memorandum item 1, the instructions state that multiple accounts of the same depositor should not be aggregated. Therefore, in the absence of information on account ownership capacity for retail brokered certificates of deposit in $1,000 amounts, which are rebuttably presumed to be fully insured, banks issuing these brokered deposits should include them in Schedule RC-O, Memorandum item 1, as “Deposit accounts of $100,000 or less.”

Amending Previously Submitted Reports

Should your bank find that it needs to revise Call Report data in its report for quarters beginning September 30, 2005, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' cover letter for the September 30, 2006, report date. Should your bank need to amend its Call Report data for June 30, 2005, or an earlier date, please contact your Call Report analyst at the FDIC (for national banks and FDIC-supervised banks) or your Federal Reserve District Bank (for state member banks) for instructions on how to submit amendments to prior period data. Corrections to prior period data are no longer accepted by Electronic Data Systems Corporation (EDS), the agencies’ pre-CDR electronic collection agent.

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. These Call Report instructions are expected to be available on both the FFIEC’s Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the FDIC's Web site (http://www.fdic.gov/regulations/resources/call/index.html) by September 30. Copies of the Call Report instructions may also 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.
FASB Statement No. 156 on Servicing

FASB Statement No. 156, *Accounting for Servicing of Financial Assets* (FAS 156), issued in March 2006, requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It then permits an entity to choose to subsequently measure each class of servicing assets and liabilities at fair value with changes in fair value recognized in earnings. If fair value is not elected, each class of servicing is subsequently accounted for using the amortization method that applied to all servicing assets and liabilities prior to the issuance of FAS 156. An entity identifies its classes of servicing assets and liabilities based on the availability of market inputs for estimating their fair value, its method for managing the risks of its servicing assets and liabilities, or both. An entity’s election of the fair value option for a class of servicing is irreversible. The election can be made for an individual class of servicing assets and liabilities upon adoption of FAS 156 or at the beginning of any subsequent fiscal year.

Banks must adopt FAS 156 for Call Report purposes as of the beginning of their first fiscal year that begins after September 15, 2006. Earlier adoption of FAS 156 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year must adopt FAS 156 as of January 1, 2007, unless it elected earlier adoption and applied FAS 156 in its originally filed March 31, 2006, Call Report.

When reporting the carrying amount of mortgage servicing assets in Schedule RC-M, item 2.a, and nonmortgage servicing assets in Schedule RC-M, item 2.b, banks should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for at fair value. The fair value of all recognized mortgage servicing assets should be reported in Schedule RC-M, item 2.a.(1), regardless of the measurement method applied to these assets. The servicing asset carrying amounts reported in Schedule RC-M, items 2.a and 2.b, even if these amounts include fair values, should be used when determining the lesser of 90 percent of the fair value of these assets and 100 percent of their carrying amount for regulatory capital calculation purposes in Schedule RC-R. Changes in the fair value of any class of servicing assets to which the fair value option is applied should be included in earnings in Schedule RI, item 5.f, “Net servicing fees.”

FASB Statement No. 155 on Hybrid Financial Instruments

FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155), issued in February 2006, requires bifurcation of certain derivatives embedded in interests in securitized financial assets and permits fair value measurement (i.e., a fair value option) for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation under paragraphs 12 and 13 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Bifurcation is required when the economic characteristics and risks of the embedded derivative are not clearly and closely related economically to the economic characteristics and risks of the host contract and certain other conditions are met. Under the fair value option in FAS 155, a bank may irrevocably elect to initially and subsequently measure an eligible hybrid financial instrument in its entirety at fair value, with changes in fair value recognized in earnings, rather than bifurcating the instrument and accounting for the embedded derivative separately from the host contract. The election can be made on an instrument-by-instrument basis, but must be supported by appropriate documentation. In addition, FAS 155 clarifies which interest-only and principal-only strips are not subject to FAS 133. For further information on embedded derivatives and FAS 133, refer to the Glossary entry for “Derivative Contracts” in the Call Report instructions.

For Call Report purposes, FAS 155 must be applied to all financial instruments acquired, issued, or subject to a remeasurement event (as defined in the standard) occurring after the beginning of a bank’s first fiscal year that begins after September 15, 2006. The fair value option may also be applied upon adoption of FAS 155 to a bank’s existing hybrid financial instruments that had been bifurcated prior to adoption. Earlier adoption of FAS 155 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year must adopt FAS 155 as of January 1, 2007, unless it elected earlier adoption and applied FAS 155 in its originally filed March 31, 2006, Call Report.

Following a bank’s adoption of FAS 155, hybrid financial instruments to which the fair value option has been applied should not be reclassified as trading assets or trading liabilities for Call Report purposes solely due to the election of this option. Such hybrid financial instruments should continue to be reported in the asset or liability
category appropriate to the instrument. If a hybrid financial instrument to which the fair value option has been applied is an available-for-sale security, it should be included in available-for-sale securities on the Call Report balance sheet (Schedule RC, item 2.b); the security’s fair value should be reported in both columns C and D of Schedule RC-B, Securities; and the changes in the security’s fair value should be recognized in earnings. If a hybrid financial instrument to which the fair value option has been applied is a deposit liability (e.g., a time deposit), the difference between the amount actually due to the depositor and the fair value of the deposit should be reported as an unamortized premium or discount, as appropriate, in item 7.a or 7.b of Schedule RC-O. Changes in the fair value of hybrid financial instruments to which the fair value option is applied should be aggregated and reported consistently in the Call Report income statement either in “Other noninterest income” (Schedule RI, item 5.l) or “Other noninterest expense” (Schedule RI, item 7.d).

The agencies are considering the regulatory capital implications of FAS 155 and, more broadly, of the use of a fair value option. Except as discussed below, changes in the fair value of hybrid instruments that are recognized in earnings should be reflected in Tier 1 capital, pending further guidance from the agencies. In the interim, for a hybrid financial instrument to which the fair value option is applied that is an asset, the embedded derivative should not be bifurcated from the host contract for risk-based capital purposes in Schedule RC-R. For a hybrid financial instrument for which the embedded derivative is bifurcated, a bank should treat the host contract and the embedded derivative separately for risk-based capital purposes. For a hybrid financial instrument to which the fair value option is applied that is a liability, a bank should exclude the portion of the change in the fair value of the instrument that is attributable to a change in the bank’s own creditworthiness from Tier 1 capital. For regulatory capital purposes, this excluded portion of the change in fair value is, in essence, an adjustment to the bank’s reported retained earnings and should be taken into account in determining the Tier 1 capital subtotal (reported in Schedule RC-R, item 8) that is used to determine the regulatory capital limits on such items as servicing assets, deferred tax assets, and credit-enhancing interest-only strips. However, as an interim measure until the agencies revise Schedule RC-R, the excluded portion of the change in fair value should be reported in item 10 of the schedule.

Reporting Securities Borrowing and Lending Transactions on the Balance Sheet

Banks are permitted to offset assets and liabilities in the Call Report balance sheet (Schedule RC) when a “right of setoff” exists. FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, defines “right of setoff” and specifies what conditions must be met to have that right. FASB Interpretation No. 41 modifies Interpretation No. 39 to permit offsetting in the balance sheet of payables and receivables that represent repurchase agreements and reverse repurchase agreements when the agreements meet specified conditions. According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore, for Call Report purposes, banks should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 are met.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

FASB Statement No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. Banks must adopt FAS 123(R) for Call Report purposes in accordance with the standard's effective date and transition provisions. Public companies other than small business issuers, including banks that are subsidiaries of such public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after June 15, 2005. All other companies, including small business issuers and banks that are not subsidiaries of public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after December 15, 2005. Thus, all banks with a calendar year fiscal year must implement FAS 123(R) as of January 1, 2006.

Under FAS 123(R), the "compensation cost for an award of share-based employee compensation classified as equity shall be recognized over the requisite service period," which is typically the same as the vesting period, "with a corresponding credit to equity (generally, paid-in capital)." The recording of the compensation cost also gives rise to deferred tax consequences, i.e., a deferred tax asset, that must be recognized (and evaluated for realizability). For Call Report purposes, the compensation expense should be included in Schedule RI, item 7.a., "Salaries and employee benefits," with the corresponding credit included in Schedule RC, item 25, "Surplus." In Schedule RI-A, Changes in Equity Capital, this credit should be included in item 5, "Sale, conversion, acquisition,
or retirement of capital stock, net.” This reporting treatment applies regardless of whether the shares awarded to the employee are shares of bank stock or shares of the bank’s parent holding company.

Privatization of the Student Loan Marketing Association

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. For Call Report purposes, banks should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule RC-B, item 2.b. SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule RC-D, item 2. Banks should refer to the guidance in their primary federal regulator’s risk-based capital standards on the treatment of collateralized claims to determine the appropriate risk weight for these SLMA debt securities.

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Banks should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule RC-B, item 6.a. SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule RC-D, item 5. Banks should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule RC-B, item 5, unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule RC-B, item 7, unless held for trading purposes. SLM Corporation debt securities, common stock, and preferred stock should be risk-weighted 100 percent. Its asset-backed securities should be risk-weighted in accordance with the ratings-based approach described on page RC-R-16 of the Call Report instructions.

Agency Prepayment-Linked Notes

In 2004, the Federal National Mortgage Association and the Federal Home Loan Banks began to issue a type of fixed rate debt securities known as prepayment-linked or index amortizing notes. Principal and interest on the notes are paid monthly, with the principal payments indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security. However, the notes are not collateralized by the mortgages or mortgage-backed security and they have stated final maturity dates that are generally 5 to 12 years from the date of issuance. Because these securities are direct unsecured obligations of the issuing government-sponsored agency, banks should report their holdings of these prepayment-linked notes in Schedule RC-B, item 2.b, if they are not held for trading purposes. In addition, these securities are considered structured notes because of their repayment characteristics and, if not held for trading purposes, must also be reported in Schedule RC-B, Memorandum item 4. For risk-based capital purposes, these agency prepayment-linked notes are a claim on a U.S. government-sponsored agency and should be assigned a 20 percent risk weight.

Tobacco Transition Payment Program

The Fair and Equitable Tobacco Reform Act, commonly referred to as the "Tobacco Buyout," 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) makes annual payments to eligible tobacco quota holders (i.e., landowners) and tobacco producers (i.e., farmers) from 2005 through 2014. The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, 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.

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 both quota holders and producers are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at 100 percent.
weighted at zero percent. For further information on the tobacco buyout program, please refer to the guidance on this subject in the Call Report Supplemental Instructions for March 31, 2006, which can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf).

**Commitments to Originate and Sell Mortgage Loans**

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for March 31, 2006, and June 30, 2005. These Supplemental Instructions can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf and http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf, respectively).

**FASB Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities**

Banks should continue to follow the guidance provided on this subject in the Call Report Supplemental Instructions for June 30, 2005. These Supplemental Instructions can be accessed via the FFIEC’s Web site (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.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 (http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf).

**Call Report Software Vendors**

For information on available Call Report preparation software products, 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**  
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

**Jack Henry & Associates, Inc.**  
Regulatory Filing Group  
7600B North Capital of Texas Highway, Suite 320  
Austin, Texas 78731  
Telephone: (800) 688-9191  
filing.jackhenry.com