



FIL-7-2006
January 27, 2006

BANK REPORTS

TO: CHIEF EXECUTIVE OFFICER (also of interest to Chief Financial Officer)

SUBJECT: Revisions to the Reports of Condition and Income (Call Report)

The Federal Financial Institutions Examination Council (FFIEC) has approved revisions to the reporting requirements for the Reports of Condition and Income (Call Report) that will be phased in over the next two years. The FFIEC is providing this advance notification to assist you in planning for these changes. The U.S. Office of Management and Budget must approve these changes before they become final.

On August 23, 2005, the federal banking agencies requested comment on proposed Call Report revisions that would take effect as of the March 31, 2006, report date (see FIL-86-2005, dated September 1, 2005). Many of the commenters advised the agencies that this proposed implementation date would not provide sufficient lead time to make the systems changes that would be necessary for banks to report many of the new or revised data items that were included in the proposal. After considering the comments received, the FFIEC has modified some of the proposed changes and will stagger the effective dates of the revisions. The burden-reducing revisions included in the proposal will be implemented March 31, 2006, as proposed. As outlined below, the revision of existing items and the addition of new items will be spread over the period from March 31, 2006, through March 31, 2008.

The FFIEC's proposal also included revisions to the officer and director signature requirements, which are set forth on the cover page of the Call Report. In response to concerns expressed by commenters about these revisions, the agencies are not proceeding with the proposal to require that the directors who sign the Call Report be members of the bank's audit committee. The existing language of the directors' attestation statement will not be substantively revised. In addition, the proposal to require that both the chief executive officer and the chief financial officer of the bank sign the report has been modified so that only the chief financial officer (or the individual performing an equivalent function) must sign. This officer's attestation statement would not assert that the chief financial officer is responsible for establishing and maintaining adequate internal control over financial reporting as had been proposed. However, consistent with longstanding agency policies, a general statement that the bank's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Call Report, would precede the attestations. The revised signature and attestation requirements will take effect September 30, 2006.

Under the time line adopted by the FFIEC for implementing the Call Report revisions, the changes that will take effect March 31, 2006, include eliminating for some or all banks existing items for estimated uninsured deposits, asset-backed securities held as investments, income from nontrading derivatives, and bankers acceptances; adding items for life insurance assets, types of credit derivatives, remaining maturities of credit derivatives, and certain foreclosed properties; and revising the reporting of income from international operations. As of September 30, 2006, items pertaining to Federal Home Loan Bank advances and other borrowings, nonaccrual assets, certain secured borrowings, residential mortgage banking activities, and certain amounts payable and receivable on credit derivatives will be added or revised. Effective March 31, 2007, revisions will be made to the reporting of lease financing receivables; income from annuity sales, investment banking, brokerage, and underwriting; and trading revenues by type of exposure. On that report date, new items will also be added for residential mortgage banking revenues and net gains (losses) on certain credit derivatives. Finally, beginning March 31, 2007, banks with \$300 million or more in assets and certain banks with less than \$300 million in assets will report two-way breakdowns of their real estate construction loans and their nonfarm nonresidential real estate loans in a number of Call Report schedules. All other banks with less than \$300 million in assets will begin to provide these loan breakdowns as of March 31, 2008.

To assist your bank in its preparation for these reporting changes, the attached document provides a more detailed explanation of these Call Report revisions and identifies the banks to which they apply. Draft copies of the FFIEC 031 and 041 report forms for March 31, 2006, are available on the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm). Drafts of the forms for September 30, 2006, and March 31, 2007, will be available in the near future.

In addition, please note that, for the March 31, 2006, report date only, banks may provide reasonable estimates for any new or revised item for which the requested information is not readily available. This same policy on the use of reasonable estimates will apply to the reporting of new or revised items when they are first implemented at subsequent report dates in 2006, 2007, and 2008.

Please forward this letter to the person responsible for preparing Call Reports at your bank. For further information or assistance, state member banks should contact their Federal Reserve District Bank. National banks and FDIC-supervised banks should telephone the FDIC's Data Collection and Analysis Section in Washington, D.C., by telephone at (800) 688-FDIC (3342), Monday through Friday between 8:00 a.m. and 5:00 p.m., Eastern Time, or by e-mail at insurance-research@fdic.gov.

Tamara J. Wiseman
Executive Secretary

Attachment

Distribution: Insured Commercial Banks and State-Chartered Savings Banks

REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORT)

Presented below is a discussion of the revisions to the Call Report that will take effect on a phased-in basis beginning March 31, 2006. Additional revisions will be implemented as of September 30, 2006, and March 31, 2007. For certain small banks, some of the final group of revisions will not take effect until March 31, 2008.

To assist you in understanding the reporting requirements as they will be revised as of March 31, 2006, samples of the first quarter 2006 Call Report forms – the FFIEC 041 for banks with domestic offices only and the FFIEC 031 for banks with foreign offices – are available on the Federal Financial Institutions Examination Council’s (FFIEC) Website (http://www.ffiec.gov/ffiec_report_forms.htm). Drafts of the forms for September 30, 2006, and March 31, 2007, will be available on this Website in the near future. On the sample forms, the captions for items that are new or revised are printed in bold type for ease of identification. Please note that the sample forms are marked “Draft” because the revisions are subject to approval by the U.S. Office of Management and Budget (OMB).¹ In addition, the agencies may make minor clarifications to the captions for the new or revised Call Report items.

Call Report Revisions to be Implemented March 31, 2006

Burden-Reducing Revisions

Uninsured Deposits – Banks with less than \$1 billion in total assets will no longer be required to complete Memorandum item 2, “Estimated amount of uninsured deposits,” in Schedule RC-O, “Other Data for Deposit Insurance and FICO Assessments.” Banks with \$1 billion or more in total assets will continue to report this estimate in Memorandum item 2. To determine whether a bank must complete Memorandum item 2 during 2006, the \$1 billion asset size test is based on the total assets reported on the bank’s Call Report balance sheet for June 30, 2005. Each year thereafter, this asset size test will be determined based on the total assets reported in the previous year’s June 30 Call Report. Once a bank surpasses the \$1 billion total asset threshold, it must continue to report its estimated uninsured deposits regardless of subsequent changes in its total assets. When estimating the uninsured portion of its deposits, a bank with \$1 billion or more in total assets should base its estimate on data that are readily available from the information systems and other records pertaining to its deposits that the bank has in place.

Asset-Backed Securities – Banks with domestic offices only and less than \$1 billion in total assets will no longer provide a six-way breakdown of their holdings of asset-backed securities (not held for trading purposes) in Schedule RC-B, “Securities,” items 5.a through 5.f. Instead, these banks would report only their total holdings of asset-backed securities in Schedule RC-B, item 5. Banks with foreign offices and other banks with \$1 billion or more in total assets will continue to report the existing breakdown of their asset-backed securities, but this information will be collected in new Memorandum items 5.a through 5.f of Schedule RC-B. The \$1 billion asset size test will be applied in the same manner as discussed above under Uninsured Deposits.

¹ The reporting treatment for foreclosed properties from “GNMA loans” and the related new Call Report item, which are discussed under the revisions to be implemented March 31, 2006, were approved by OMB in June 2005.

Income from Nontrading Derivatives – In Schedule RI, “Income Statement,” the agencies are eliminating Memorandum items 9.a through 9.c, which collect data on the “Impact on income of derivatives held for purposes other than trading.” These Memorandum items are currently reported by banks with foreign offices or with \$100 million or more in total assets.

Bankers Acceptances – The following items for reporting information on bankers acceptances will be eliminated:

- Schedule RC, “Balance Sheet”
 - Item 9, “Customers’ liability to this bank on acceptances outstanding”
 - Item 18, “Bank’s liability on acceptances executed and outstanding”
- Schedule RC-L, “Derivatives and Off-Balance Sheet Items,” item 5, “Participations in acceptances conveyed to others by the reporting bank”
- Schedule RC-H, “Selected Balance Sheet Items for Domestic Offices” (FFIEC 031 only)
 - Item 1, “Customers’ liability to this bank on acceptances outstanding”
 - Item 2, “Bank’s liability on acceptances executed and outstanding”

With the elimination of separate balance sheet items for acceptances on Schedule RC, banks should include any acceptance assets and acceptance liabilities in “Other assets” (Schedule RC, item 11) and “Other liabilities” (Schedule RC, item 20), respectively.

Revisions of Existing Items and New Items

Life Insurance Assets – At present, banks include their holdings of life insurance assets (e.g., the cash surrender value reported to the bank by the insurance carrier, less any applicable surrender charges not reflected by the carrier in this reported value) in Schedule RC-F, “Other Assets,” item 5, “All other assets.” If the carrying amount of a bank’s life insurance assets included in item 5 is greater than \$25,000 and exceeds 25 percent of its “All other assets,” the bank must disclose this carrying amount in Schedule RC-F, item 5.b. Schedule RC-F will be revised by adding a new item 5 in which all banks will report their holdings of life insurance assets. Existing item 5, “All other assets,” in Schedule RC-F will be renumbered as item 6.

For purposes of reporting “Life insurance assets” in new item 5 of Schedule RC-F, banks should include the cash surrender value of life insurance reported by the insurance carrier, less any applicable surrender charges not reflected by the carrier in this reported value, on all forms of permanent life insurance policies owned by the bank, its consolidated subsidiaries, and grantor (rabbi) trusts established by the bank or its consolidated subsidiaries, regardless of the purposes for acquiring the insurance and regardless of whether the insurance is a general account obligation of the insurer or a separate account obligation of the insurer. Permanent life insurance refers to whole and universal life insurance, including variable universal life insurance. Purposes for which insurance may be acquired include offsetting pre- and post-retirement costs for employee compensation and benefit plans, protecting against the loss of key persons, and providing retirement and death benefits to employees. Include as life insurance assets the bank’s interest in insurance policies under split-dollar life insurance arrangements with directors, officers, and employees under both the endorsement and collateral assignment methods.

Credit Derivatives by Type and Remaining Maturity – In item 7 of Schedule RC-L, “Derivatives and Off-Balance Sheet Items,” banks currently report the notional amounts of the credit derivatives on which they are the guarantor and on which they are the beneficiary as well as the gross positive and negative fair values of these credit derivatives. These existing items will be revised so that banks with credit derivatives will provide a breakdown of these notional amounts by type of credit derivative – credit default swaps, total return swaps, credit options, and other credit derivatives – in items 7.a.(1) through 7.a.(4) of Schedule RC-L, with those on which the bank is the guarantor reported in column A and those on which the bank is the beneficiary in column B. Banks will continue to separately report the gross positive and negative fair values of credit derivatives on which they are the guarantor and the beneficiary without a breakdown by type of credit derivative (items 7.b.(1) and 7.b.(2), columns A and B).

A credit default swap is a contract in which a guarantor (risk taker), for a fee, agrees to reimburse a beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the “reference entity.” If there is no credit default event (as defined by the derivative contract), then the guarantor makes no payments to the beneficiary and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.

A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection buyer receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The guarantor receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the beneficiary, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.

A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (guarantor) assumes the obligation to purchase or sell the reference asset at a specified “strike” spread level. The option purchaser (beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.

Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.

In addition, banks currently present a maturity distribution for six categories of derivative contracts that are subject to the risk-based capital standards in Schedule RC-R, “Regulatory Capital,” Memorandum item 2. A new category will be added for credit derivatives that are subject to these standards. The remaining maturities of these credit derivatives will be reported separately for those where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank’s internal credit rating system (Memorandum item 2.g.(1)) and those where the underlying reference asset is rated below investment grade (“subinvestment grade”) or, if not rated, is the equivalent of below investment grade under the bank’s internal credit rating system (Memorandum item 2.g.(2)).

Income from Foreign Offices – At present in the FFIEC 031 version of the Call Report, banks with foreign offices whose international operations account for more than 10 percent of total revenues, total assets, or net income must complete Schedule RI-D, “Income from International Operations.” Banks that complete this schedule are currently directed to report estimates of the amounts of their income and expense attributable to international operations. These estimates must eliminate intrabank accounts and should reflect all appropriate internal allocations of income and expense.

Existing Schedule RI-D will be revised to capture income from foreign offices (as that term is currently defined for Call Report purposes) in place of income from “international operations.” The schedule will be renamed “Income from Foreign Offices” and the threshold for completing revised Schedule RI-D will continue to be based on a 10 percent test, but the test would compare a bank’s foreign office revenues, assets, and net income to its consolidated total revenues, total assets, and net income. Total revenues (net interest income plus noninterest income) and net income will be determined from the preceding calendar year (2005 for purposes of reporting in Schedule RI-D beginning March 31, 2006) and total assets will be measured as of the preceding calendar year end (December 31, 2005 for purposes of reporting in Schedule RI-D beginning March 31, 2006).

The following categories of foreign office income and expense will be reported in revised Schedule RI-D:

- Total interest income
- Total interest expense
- Provision for loan and lease losses
- Trading revenue
- Investment banking, advisory, brokerage, and underwriting fees and commissions
- Net securitization income
- All other noninterest income
- Realized gains (losses) on held-to-maturity and available-for-sale securities
- Total noninterest expense
- Adjustments to pretax income in foreign offices for internal allocations to foreign offices to reflect the effect of equity capital on overall bank funding costs
- Applicable income taxes
- Extraordinary items and other adjustments, net of income taxes
- Internal allocations of income and expense applicable to foreign offices
- Eliminations arising from the consolidation of foreign offices with domestic offices

The amounts reported in the preceding income and expense categories (except the categories for adjustments to pretax income, internal allocations, and eliminations) are to be reported on a foreign office consolidated basis, i.e., before eliminating the effects of transactions with domestic offices, but after eliminating the effects of transactions between foreign offices. This is a change from the current Schedule RI-D approach under which amounts are reported net of all intrabank transactions.

A draft of the revised instructions for Schedule RI-D will be posted on the FFIEC's Website (http://www.ffiec.gov/ffiec_report_forms.htm) in the near future.

Standby Letters of Credit Issued by a Federal Home Loan Bank – Banks are currently required to report standby letters of credit issued by a Federal Home Loan Bank on their behalf in Schedule RC-L, item 9, “All other off-balance sheet liabilities,” when these letters of credit exceed 10 percent of the bank’s total equity capital. When these letters of credit exceed 25 percent of total equity capital, the amount must also be separately identified and disclosed in Schedule RC-L. To facilitate the reporting and identification of these standby letters of credit when the amount exceeds 25 percent of total equity capital, banks with this volume of standby letters of credit issued by a Federal Home Loan Bank will report them in Schedule RC-L, item 9.c., to which the agencies are adding an appropriate preprinted caption.

Foreclosed Properties from “GNMA Loans” – In June 2005, the agencies clarified the reporting treatment of mortgage loans backing Government National Mortgage Association (GNMA) securities that an institution that issues such securities has the option to repurchase when the loans meet certain delinquency criteria (“GNMA loans”). Banks were advised that all GNMA loans recognized as assets should be reported as past due in Call Report Schedule RC-N in accordance with their contractual repayment terms and a new item was added to this schedule at that time for disclosing the amount of these past due loans. Banks were also advised that, beginning with the March 31, 2006, report date, an institution that forecloses on real estate backing a delinquent GNMA loan should report the property as “Other real estate owned” on the Call Report balance sheet (Schedule RC, item 7). To enable institutions to separately disclose the amount of such foreclosed real estate, the agencies are adding a new subitem 3.b.(6), “Foreclosed properties from GNMA loans,” to Schedule RC-M, item 3.b, “All other real estate owned.”^{2, 3}

Scope of Securitizations to be Included in Schedule RC-S – In column G of Schedule RC-S, “Servicing, Securitization, and Asset Sale Activities,” banks report information on securitizations and on asset sales with recourse or other seller-provided credit enhancements involving loans (other than those covered in columns A through F of the schedule) and all leases. Although the scope of Schedule RC-S was intended to cover all of a bank’s securitizations and credit-enhanced asset sales, as currently structured column G does not capture transactions involving assets other than loans and leases. Therefore, the agencies are revising the scope of column G to encompass “All Other Loans, All Leases, and All Other Assets.” As a result, column G will begin to reflect securitization transactions involving such assets as securities.

Instructional Clarification

Servicing of Home Equity Lines - Banks report the outstanding principal balance of assets serviced for others in Memorandum item 2 of Schedule RC-S, “Servicing, Securitization, and Asset Sale Activities.” In Memorandum items 2.a and 2.b, the amounts of 1-4 family residential

² See footnote 1 regarding OMB approval of this revision.

³ On the FFIEC 031 report, existing subitem 3.b.(6) in Schedule RC-M for all other real estate owned in foreign offices will be renumbered as subitem 3.b.(7).

mortgages serviced with recourse and without recourse, respectively, are reported. Memorandum item 2.c covers all other financial assets serviced for others, but banks are required to report the amount of such servicing only if the servicing volume is more than \$10 million.

In response to questions about the reporting of servicing of home equity lines of credit in Memorandum item 2, the agencies will clarify the instructions by stating that servicing of home equity lines should be included in Memorandum item 2.c. Memorandum items 2.a and 2.b should include servicing of closed-end loans secured by first or junior liens on 1-4 family residential properties only.

Call Report Revisions to be Implemented September 30, 2006

Revisions of Existing Items and New Items

Federal Home Loan Bank Advances and Other Borrowings – Banks currently report separate breakdowns by remaining maturity of Federal Home Loan Bank (FHLB) advances and other borrowings in Schedule RC-M, items 5.a and 5.b., respectively. These breakdowns will be replaced by the reporting of maturity and repricing data similar to those that are reported for securities, loans and leases, and time deposits elsewhere in the Call Report. Banks will separately report their advances and their other borrowings based on the amount of time until the next repricing date (one year or less, over one year through three years, over three years through five years, and over five years) in items 5.a.(1)(a)-(d) and 5.b.(1)(a)-(d), respectively.⁴ Banks will also report the amounts of advances and other borrowings with a remaining maturity of one year or less in items 5.a.(2) and 5.b.(2), respectively.

In addition, banks will report the amount of structured FHLB advances included in their advances outstanding in item 5.a.(3) of Schedule RC-M. Structured advances are advances containing options. Structured advances include (1) callable advances, i.e., fixed rate advances that the FHLB has the option to call after a specified amount of time, (2) convertible advances, i.e., fixed rate advances that the FHLB has the option to convert to floating rate after a specified amount of time, and (3) puttable advances, i.e., fixed rate advances that the bank has the option to prepay without penalty on a specified date or dates. Any other advances that have caps, floors, or other embedded derivatives should also be reported as structured advances.

For purposes of reporting advances and other borrowings by next repricing date, banks should report fixed rate advances and other borrowings according to the amount of time remaining to their final contractual maturities. Banks should report floating rate advances and other borrowings according to their next repricing dates. Puttable FHLB advances should be reported according to their remaining maturity without regard to the next date on which they can be prepaid unless the bank has already notified the FHLB that it will prepay the puttable advance, in which case the advance should be reported on the basis of the time remaining until the put date. Similarly, callable FHLB advances should be reported according to their remaining maturity without regard to the next date on which they can be called unless the FHLB has already called the advance, in which case the advance should be reported on the basis of the time remaining

⁴ The sum of Schedule RC-M, items 5.a.(1)(a)-(d) and items 5.b.(1)(a)-(d), must equal Schedule RC, item 16, "Other borrowed money."

until the call date. Convertible FHLB advances should be reported based on the amount of time until the FHLB can next opt to convert the rate on the borrowing to a floating rate.

When reporting advances and other borrowings with a remaining maturity of one year or less, banks should include both fixed rate and floating rate instruments.

Nonaccrual Assets – Two new items will be added to Schedule RC-N, “Past Due and Nonaccrual Loans, Leases, and Other Assets,” pertaining to nonaccrual assets: Memorandum item 7, “Additions to nonaccrual assets during the quarter,” and Memorandum item 8, “Nonaccrual assets sold during the quarter.” Identical items are already collected from bank holding companies that file the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C).

In Memorandum item 7, report the gross amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status since the prior quarter-end. Include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule RC-N, column C, items 1 through 9. Also include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the gross amount of assets placed in nonaccrual status since the prior quarter-end that should be reported in Memorandum item 7 should not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, report the amount of the asset only once.

In Memorandum item 8, report the gross outstanding balance of all loans, leases, debt securities, and other assets held in nonaccrual status (i.e., reportable in Schedule RC-N, column C, items 1 through 9) that were sold during the current quarter. The amount to be reported is the outstanding balance of the asset at the time of the sale. Do not include any gains or losses from the sale. For purposes of this item, only include those nonaccrual asset sales that meet the criteria for a sale as set forth in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

Secured Borrowings – The agencies are adding two items to Schedule RC-M, “Memoranda,” in which banks will report the amount of their “Federal funds purchased” (as reported in Schedule RC, item 14.a), and their “Other borrowings” (as reported in Schedule RC-M, item 5.b) that are secured. Include in these items the amount of “Federal funds purchased” and “Other borrowings” for which the bank (or a consolidated subsidiary) has pledged securities, loans, or other assets as collateral for the borrowings. Transfers of financial assets accounted for as financing transactions because they do not satisfy the criteria for sale accounting under FASB Statement No. 140, mortgages payable on bank premises and other real estate owned, and obligations under capitalized leases should be included as “Secured other borrowings.”

Closed-End 1-4 Family Residential Mortgage Banking Activities – The agencies will add a new Schedule RC-P to the Call Report that will contain a series of items that are focused on closed-end 1-4 family residential mortgage banking activities. The schedule will include items

for the principal amount of retail originations during the quarter of mortgage loans for resale, wholesale originations and purchases during the quarter of mortgage loans for resale, and mortgage loans sold during the quarter. The schedule will also collect information on the carrying amount of mortgage loans held for sale at quarter-end. Data will be reported separately for first lien and junior lien mortgages.⁵

Schedule RC-P is to be completed by (1) all banks with \$1 billion or more in total assets⁶ and (2) banks with less than \$1 billion in total assets whose closed-end 1-4 family residential mortgage banking activities exceed a specified level. More specifically, if either closed-end (first lien and junior lien) 1-4 family residential mortgage loan originations and purchases for resale from all sources, loan sales, or quarter-end loans held for sale exceed \$10 million for two consecutive quarters, a bank with less than \$1 billion in total assets must complete Schedule RC-P beginning the second quarter and continue to complete the schedule through the end of the calendar year. For example, for a bank with less than \$1 billion in total assets, if the bank's closed-end 1-4 family residential mortgage loan originations and purchases for resale from all sources exceeded \$10 million during the quarter ended June 30, 2006, and the bank's sales of such loans exceeded \$10 million during the quarter ended September 30, 2006, the bank would be required to complete Schedule RC-P in its September 30 and December 31, 2006, Call Reports. The level of the bank's mortgage banking activities during the fourth quarter of 2006 and the first quarter of 2007 would determine whether it would need to complete Schedule RC-P each quarter during 2007 beginning March 31, 2007.

Retail originations of closed-end 1-4 family residential mortgage loans for resale include those mortgage loans for which the origination and underwriting process was handled exclusively by the bank or a consolidated subsidiary of the bank. Therefore, retail originations would exclude those closed-end 1-4 family residential mortgage loans for which the origination and underwriting process was handled in whole or in part by another party, such as a correspondent or mortgage broker, even if the loan was closed in the name of the bank or a consolidated subsidiary of the bank. Such loans would be treated as wholesale originations or purchases, as would acquisitions of closed-end 1-4 family residential mortgage loans that were closed in the name of a party other than the bank or a consolidated subsidiary of the bank. Closed-end 1-4 family residential mortgage loans originated or purchased for the reporting bank's own loan portfolio should be excluded from amounts reported as originations or purchases for resale in Schedule RC-P.

Closed-end 1-4 family residential mortgage loans sold during the quarter include those transfers of loans originated or purchased for resale from retail or wholesale sources that have been accounted for as sales in accordance with FASB Statement No. 140, i.e., those transfers where the loans are no longer included in the bank's consolidated total assets. Sales of closed-end

⁵ As will be discussed in the following section, an additional item on noninterest income earned during the quarter from these mortgage banking activities will be added to Schedule RC-P effective March 31, 2007.

⁶ The \$1 billion asset size test is generally based on the total assets reported on the Call Report balance sheet (Schedule RC, item 12) as of June 30 of the preceding year. Banks with \$1 billion or more in total assets as of June 30, 2005, must complete Schedule RC-P beginning September 30, 2006.

1-4 family residential mortgage loans directly from the bank's loan portfolio during the quarter should also be reported as loans sold.

Closed-end 1-4 family residential mortgage loans held for sale at quarter-end should be reported at the lower of cost or fair value consistent with their presentation in the Call Report balance sheet. Such loans would include any mortgage loans transferred at any time from the bank's loan portfolio to a held-for-sale account that have not been sold by quarter-end.

Amounts Payable and Receivable on Credit Derivatives – Banks with credit derivatives currently report the notional amount and fair value of these instruments in item 7 of Schedule RC-L, "Derivatives and Off-Balance Sheet Instruments." The agencies will add new items 7.c.(1) and (2) to Schedule RC-L to collect information on the maximum amounts that the reporting bank can collect or must pay on the credit derivatives it has entered into effective as of the September 30, 2006, report date.

Other Revisions

Officer and Director Signature Requirements – Statutory requirements specify that the Call Report must be signed by an authorized officer of the bank and attested to by not less than two directors (trustees) for state nonmember banks and three directors for national and state member banks. These statutes further require that, in signing the Call Report, the officer and directors address the correctness of the reported information. The statutes also recognize that banks are responsible for maintaining procedures to ensure the accuracy of this information.

Effective September 30, 2006, the agencies are revising the existing officer signature requirement so that the Call Report must be signed by the bank's chief financial officer (or the individual performing an equivalent function) rather than by any authorized officer of the bank. In signing the Reports of Condition and Income, the chief financial officer would attest that the reports have been prepared in conformance with the instructions and are true and correct to the best of the officer's knowledge and belief. The requirement for signatures by directors would not be changed (i.e., the directors signing the Call Report need not be members of the bank's audit committee).

The introductory paragraph preceding the statements concerning the preparation of the Call Report that must be signed by the chief financial officer and two or three directors will note that each bank's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Reports of Condition and Income. (This language concerning internal control would not appear within the statements to be signed by the chief financial officer and the directors.) Similar references to the responsibility of the board and senior management for the internal control system are contained in the agencies' March 2003 Interagency Policy Statement on the Internal Audit Function and Its Outsourcing. Internal control and its relationship to timely and accurate regulatory reports are also addressed in the Interagency Guidelines Establishing Standards for Safety and Soundness.

Call Report Revisions to be Implemented March 31, 2007 (and 2008)

Revisions of Existing Items and New Items

Construction, Land Development, and Other Land Loans – At present, banks report the total amount of their “Construction, land development, and other land loans” in the loan schedule (Schedule RC-C, part I, item 1.a) and they also disclose the amount of these loans that are past due 30 days or more or in nonaccrual status (Schedule RC-N, item 1.a) and that have been charged off and recovered (Schedule RI-B, part I, item 1.a). In each of these three schedules, the agencies are splitting the existing construction loan item into separate items for “1-4 family residential construction loans” and “Other construction loans and all land development and other land loans.” In addition, banks report their “Commitments to fund commercial real estate, construction, and land development loans secured by real estate” in the off-balance sheet items schedule (Schedule RC-L, item 1.c.(1)). This item will be similarly split into separate items for “1-4 family residential construction loan commitments” and “Commercial real estate, other construction loan, and land development loan commitments.”

These changes will take effect March 31, 2007, for (1) all banks with \$300 million or more in total assets as of December 31, 2005, or with foreign offices, and (2) banks without foreign offices and with less than \$300 million in total assets whose total construction, multifamily, and nonfarm nonresidential real estate loans (Schedule RC-C, sum of items 1.a, 1.d, and 1.e) is greater than 150 percent of total equity capital (Schedule RC, item 28) as of December 31, 2005. Banks with less than \$300 million in total assets that do not meet this percentage test will begin reporting the breakdown of their construction loans as of March 31, 2008.

“1-4 family residential construction loans” are those loans that are currently reported in Schedule RC-C, item 1.a, for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term “1-4 family residential properties” is defined in Schedule RC-C, item 1.c. “1-4 family residential construction loans” include:

- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
- Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
- Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
- Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
- Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
- Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.

- Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.

“1-4 family residential construction loans” exclude loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.

Loans Secured by Nonfarm Nonresidential Properties – Banks currently report the total amount of their loans “Secured by nonfarm nonresidential properties” in the loan schedule (Schedule RC-C, part I, item 1.e) along with the amounts of these loans that are past due 30 days or more or in nonaccrual status (Schedule RC-N, item 1.e) and the amounts that have been charged off and recovered (Schedule RI-B, part I, item 1.e). The agencies are adding breakdowns of the existing item for nonfarm nonresidential real estate loans in these three schedules into loans secured by owner-occupied nonfarm nonresidential properties and loans secured by other nonfarm nonresidential properties.

As with the changes for construction loans above, the changes for nonfarm nonresidential real estate loans will take effect March 31, 2007, for (1) all banks with \$300 million or more in total assets as of December 31, 2005, or with foreign offices, and (2) banks without foreign offices and with less than \$300 million in total assets whose total construction, multifamily, and nonfarm nonresidential real estate loans (Schedule RC-C, sum of items 1.a, 1.d, and 1.e) is greater than 150 percent of total equity capital (Schedule RC, item 28) as of December 31, 2005. Banks with less than \$300 million in total assets that do not meet this percentage test will begin reporting the breakdown of their nonfarm nonresidential real estate loans as of March 31, 2008.

“Loans secured by other nonfarm nonresidential properties” are those loans that are currently reported in Schedule RC-C, item 1.e, where the primary or a significant source of repayment is derived from rental income associated with the property (i.e., loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Thus, the primary or a significant source of repayment for “Loans secured by owner-occupied nonfarm nonresidential properties” is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property, rather than from third party, nonaffiliated, rental income or the proceeds of the sale, refinancing, or permanent financing of the property. The determination as to whether a property is considered “owner-occupied” should be made upon acquisition (origination or purchase) of the loan. However, for purposes of determining whether existing nonfarm nonresidential real estate loans should be reported as “owner-occupied” beginning March 31, 2007, or 2008, banks may consider the source of repayment either when the loan was acquired or based on the most recent available information. Once a bank determines whether a loan should be reported as “owner-occupied” or not, this determination need not be reviewed thereafter.

Retail and Commercial Leases – Banks with foreign offices or with \$300 million or more in total assets currently report a breakdown of their lease financing receivables between those from U.S. and non-U.S. addressees in the loan schedule (Schedule RC-C, part I, items 10.a and 10.b).

Addressee information on leases is also reported in the past due and nonaccrual schedule (Schedule RC-N, item 8 on the FFIEC 031 and Memorandum item 3.d on the FFIEC 041) and on the charge-offs and recoveries schedule (Schedule RI-B, part I, item 8 on the FFIEC 031 and Memorandum item 2.d on the FFIEC 041).⁷ The agencies are replacing the existing addressee breakdown of leases with a breakdown between retail (consumer) leases and commercial leases in these three Call Report schedules effective March 31, 2007. Retail (consumer) leases would be defined in a manner similar to consumer loans, i.e., as leases to individuals for household, family, and other personal expenditure purposes. Commercial leases would encompass all other lease financing receivables.

Income from Annuity Sales, Investment Banking, Advisory, Brokerage, and Underwriting – In the Call Report income statement (Schedule RI), banks currently report commissions and fees from sales of annuities (fixed, variable, and deferred) and related referral and management fees in one of three items: income from sales of annuities by a bank’s trust department (or a consolidated trust company subsidiary) that are executed in a fiduciary capacity is reported in “Income from fiduciary activities” (Schedule RI, item 5.a); income from sales of annuities to bank customers by a bank’s securities brokerage subsidiary is reported in “Investment banking, advisory, brokerage, and underwriting fees and commissions” (Schedule RI, item 5.d); and income from all other annuity sales is reported in “Income from other insurance activities” (Schedule RI, item 5.h.(2)). Existing item 5.d also collects the amount of noninterest income from a variety of other activities.

To better distinguish between banks’ noninterest income investment banking (dealer) activities and their sales (brokerage) activities, the agencies are revising the noninterest income section of the Call Report income statement effective March 31, 2007. A new item will be added for “Fees and commissions from annuity sales,” which will include income from sales of annuities and related referral and management fees (other than income from sales by a bank’s trust department or a consolidated trust company subsidiary executed in a fiduciary capacity, which will continue to be reported in Schedule RI, item 5.a). Existing item 5.d will be replaced by separate items “Fees and commissions from securities brokerage” and “Investment banking, advisory, and underwriting fees and commissions.” Securities brokerage income would include fees and commissions from sales of mutual funds and from purchases and sales of other securities and money market instruments for customers (including other banks) where the bank is acting as agent. Other than moving annuity-related income to the new item for such income, there would be no other changes to the existing item 5.h.(2), “Income from other insurance activities.” In connection with these changes, the items in the noninterest income section of the Call Report income statement (Schedule RI) would be renumbered.

Income from Closed-End 1-4 Family Residential Mortgage Banking Activities – As discussed above in the revisions to be implemented September 30, 2006, new Schedule RC-P will be completed by (1) all banks with \$1 billion or more in total assets and (2) banks with less than \$1 billion in total assets whose residential mortgage activities exceed a specified level. Effective March 31, 2007, another item will be added to Schedule RC-P in which those banks that must complete this schedule will report data on noninterest income generated from these mortgage

⁷ Banks with domestic offices only and less than \$300 million in total assets are not required to provide this breakdown in Schedules RC-C, RC-N, and RI-B.

banking activities. New item 5 of Schedule RC-P, “Noninterest income for the quarter from the sale, securitization, and servicing of closed-end 1-4 family residential mortgage loans,” will capture the portion of a bank’s “Net servicing fees,” “Net securitization income,” and “Net gains (losses) on sales of loans and leases” (current items 5.f, 5.g, and 5.i of Schedule RI) earned during the quarter that is attributable to closed-end 1-4 family residential mortgage loans.

Revenues from Credit Derivatives and Related Exposures – In Schedule RI, Memorandum item 8, banks that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year currently provide a four-way breakdown of trading revenue by type of risk exposure: interest rate, foreign exchange, equity, and commodity. Although banks also trade credit derivatives and credit cash instruments, there is no specific existing category in which to report the revenue from these trading activities. Accordingly, the agencies will add a new risk exposure category for credit-related exposures effective March 31, 2007. In this new Memorandum item 8.e, a bank should report its net gains (losses) from trading cash instruments and derivative contracts that it manages as credit exposures. The sum of Memorandum items 8.a through 8.e must equal the amount of trading revenue reported in the Call Report income statement in Schedule RI, item 5.c.

The agencies are also adding new Memorandum items 9.a and 9.b to Schedule RI, “Income Statement,” as of March 31, 2007, in which banks must report the net gains (losses) recognized in earnings on credit derivatives that economically hedge credit exposures held outside the trading account, regardless of whether the credit derivative is designated as and qualifies as a hedging instrument under generally accepted accounting principles. Credit exposures held outside the trading account include, for example, nontrading assets (such as available-for-sale securities and loans held for investment) and unused lines of credit. Banks will report such net gains (losses) on credit derivatives held for trading in Memorandum item 9.a and on credit derivatives held for purposes other than trading in Memorandum item 9.b. Thus, those net gains (losses) on credit derivatives reported in Schedule RI, Memorandum item 9.a, will also have been included in the amount reported in new Memorandum item 8.e of Schedule RI.