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March 10, 2003

BANK REPORTS

TO: CHIEF EXECUTIVE OFFICER

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

The Federal Financial Institutions Examination Council (FFIEC) has approved a number of revisions to the Reports of Condition and Income (Call Report). The FFIEC is providing this advance notification to assist you in planning for these changes. The U.S. Office of Management and Budget (OMB) must approve these changes before they become final.

On November 8, 2002, the federal banking agencies issued proposed Call Report revisions for public comment (see FIL-126-2002, dated November 21, 2002). After considering the comments received, the FFIEC approved the changes in reporting requirements that are described in the attached document. Because these reporting changes are, in general, targeted toward the small percentage of banks engaging in certain specific activities, the changes should not require most banks to provide additional information to the agencies in their Call Reports. These changes will take effect as of the March 31, 2003, report date and are illustrated in the attached sample set of first quarter FFIEC 041 report forms. In that Call Report, banks may report a reasonable estimate for any new or revised item for which the requested information is not readily available. The Call Report revisions include:

- adding five items dealing with accrued fees and finance charges on retail credit card accounts, allowances for uncollectible accrued fees and finance charges, and charge-offs of such accrued amounts, which would be reported only by banks with a significant volume of credit card activity;
- splitting an item in the securitization schedule (Schedule RC-S) for seller-provided credit enhancements to the bank's securitization structures into separate items, one for on-balance sheet assets and another for other enhancements;
- separating the current income statement (Schedule RI) item for income from insurance activities into two items, one for insurance underwriting income and the other for income from other insurance activities, and clarifying certain instructions;
- adding a yes/no question asking whether any of the bank's Internet Web sites has transactional capability, i.e., allows the bank's customers to execute transactions on their accounts;

- extending to banks with less than \$100 million in assets the requirement to disclose the fair values of derivative contracts in Schedule RC-L – Derivatives and Off-Balance Sheet Items, because current accounting standards require derivatives to be reported on the balance sheet at fair value; and
- changing where banks report any allocated transfer risk reserves and related provisions on the balance sheet (Schedule RC) and income statement (Schedule RI).

An instructional clarification will describe certain circumstances when loans should be reported as held for sale or held for investment. Other instructional revisions address foreclosed real estate and accrued interest receivable related to credit card securitizations. The agencies also will begin to collect contact information for the persons who are in charge of each bank's anti-money laundering searches under Section 314(a) of the USA PATRIOT Act. This contact information will be used by the agencies and the Financial Crimes Enforcement Network (FinCEN) and will not be released to the public.

In addition, to improve the timeliness with which Call Report data become available to the public, the agencies will start posting the individual bank reports on the FDIC's Web site earlier than in the past. At present, all Call Reports are released to the public simultaneously approximately 60 days after the report date. This change may begin as early as the first quarter 2003 Call Reports. The first quarter in which this Internet posting process is implemented, individual bank reports for which the agencies' analyses have been completed will be posted beginning the fifth Friday after the report date, e.g., May 2, 2003, for the March 31, 2003, report or August 1, 2003, for the June 30, 2003, report. Additional bank reports whose analyses have been completed will be posted each Friday thereafter. In quarters subsequent to the first quarter in which the early release of individual bank Call Report data to the Internet has been implemented, this posting process will start on the fourth Friday after the report date. Based on the agencies' experience in processing and analyzing Call Reports, about 1,500 or more individual bank reports would be placed on the FDIC's Web site on the initial posting date. Should the agencies decide to make individual banks' reports publicly available at an earlier date, banks will be notified in advance of such a change.

The FFIEC is continuing to evaluate three other elements of the agencies' November 2002 proposal in light of the comments received. Banks will be advised of the outcome of these proposals.

- The first is a reduction from 45 to 30 days in the Call Report filing period for banks with more than one foreign office. Because this issue remains under study, the agencies are deferring the date when any change in the filing deadline would take place until after the proposed June 30, 2003, effective date. However, as long as the current 45-day filing period remains in effect, the FDIC would be authorized to contact some of the banks with more than one foreign office on or about each May 1 and November 1 if their March 31 and September 30 reports have not been received in order to obtain certain deposit data needed to estimate insured deposits.
- The second is the creation of a Call Report supplement that would be used on an infrequent basis to collect a limited amount of data from certain banks in the event of an immediate and critical need for specific information.

- The third involves the establishment of criteria that a bank's Call Report would have to meet in order for the agencies to accept the report. These data quality criteria would be part of a new business model for collecting and validating Call Reports, the implementation of which is planned for next year.

In a separate proposal published on July 12, 2002, the agencies requested comment on the addition of a new Call Report schedule that would collect data on subprime consumer lending programs beginning March 31, 2003 (see FIL-81-2002, dated July 26, 2002). As previously announced by the FFIEC on January 7, 2003, the FFIEC and the agencies have decided not to implement this proposed Call Report schedule.

In recent months, the Financial Accounting Standards Board has issued two accounting interpretations of relevance to banks:

- Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*; and
- Interpretation No. 46, *Consolidation of Variable Interest Entities*.

Interpretation No. 45 applies to financial and performance standby letters of credit and certain other guarantees. Interpretation No. 46 applies to entities that are often referred to as special purpose entities. Banks are expected to follow these two interpretations when preparing their Call Reports. Please refer to the attached document for additional information on these interpretations.

Please forward this letter to the person responsible for preparing Call Reports at your bank. Call Report preparers should note that the first quarter 2003 Call Report materials will be mailed after OMB completes its review of the reporting changes, which is expected on or after April 3, 2003. In the interim, the attached sample set of first quarter report forms may be used for reference.

For further information or assistance, state member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Reports Analysis and Quality Control Section in Washington, D.C., toll free at (800) 688-FDIC (3342) or at (202) 898-6607, Monday through Friday between 8:00 a.m. and 5:00 p.m., Eastern Time.

Joanne M. Giese  
Acting Executive Secretary

Attachments

Distribution: Insured Commercial Banks and FDIC-Supervised Savings Banks

**REVISIONS TO THE REPORTS OF CONDITION AND INCOME  
(CALL REPORT) FOR 2003**

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## **REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORT) FOR 2003**

The revisions to the Call Report that will take effect March 31, 2003, are discussed below. In their first quarter 2003 Call Reports, banks may report a reasonable estimate for any new or revised item for which the requested information is not readily available. A formal update to the Call Report instruction book that incorporates the new or revised instructions presented below will be distributed with the March 31, 2003, Call Report materials.

To assist you in understanding these revised reporting requirements, a sample set of the FFIEC 041 Call Report forms for March 31, 2003, is enclosed with the printed paper version of this document. Sample sets of both the FFIEC 031 and 041 report forms for March 31, 2003, are available on the FFIEC's Web site ([www.ffiec.gov](http://www.ffiec.gov)) and as attachments to the electronic version of the Financial Institution Letter (FIL) to which this document is attached on the FDIC's Web site ([www.fdic.gov/news/news/financial/2003/index.html](http://www.fdic.gov/news/news/financial/2003/index.html)).

### **Accrued Fees and Finance Charges on Credit Card Accounts**

NOTE: The credit card-related instructional clarifications discussed later in this section apply to all banks. However, the new credit card-related items discussed below are to be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million as of the report date. Outstanding credit card receivables are the sum of:
  - (a) Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031);
  - (b) Schedule RC-S, item 1, column C; and
  - (c) Schedule RC-S, item 6.a, column C.(Include comparable data on managed credit card receivables for any affiliated savings association.)  
OR
- (2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those banks that exceed 50% for the following two criteria:
  - (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
  - (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.

Many institutions engaged in credit card lending have adopted the practice of "purifying" charge-offs for financial reporting purposes. "Purification" refers to the practice of reversing uncollectible accrued fees and finance charges against earnings rather than accounting for them as charge-offs against the allowance for loan and lease losses. This practice obscures charge-off

ratios (i.e., charge-offs divided by loan balances) because the charged-off amount does not include the accrued fees and finance charges while the aggregate loan balance does include them.

Thus, the agencies are adding five items to three Call Report schedules to improve financial reporting transparency for losses on retail credit card accounts and permit Call Report users to calculate loss rates for retail credit card loan receivables that are comparable across credit card lending institutions. As a result, users of Call Report data will have more complete loss information relating to credit card fees and finance charges that are written off as uncollectible. The new items will also provide better information regarding the composition of and level of credit risk in retail credit card loan receivables that the institution manages both for its own account and in securitizations. In addition, the instructions for six credit card-related items will be clarified.

### New Items

The five new items, with their instructions, are as follows:

- (1) Schedule RI-B, part I, Memorandum item 3, “Uncollectible retail credit card fees and finance charges reversed against income (i.e., not included in charge-offs against the allowance for loan and lease losses).” Report the amount of fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a) that the bank reversed against either interest and fee income or a separate contra-asset account during the calendar year-to-date. Report the amount of fees and finance charges that have been reversed on a gross basis, i.e., do not reduce the amount of reversed fees and finance charges by recoveries of these reversed fees and finance charges. Exclude from this item credit card fees and finance charges reported as charge-offs against the allowance for loan and lease losses in Schedule RI-B, part I, item 5.a, column A.
- (2) Schedule RI-B, part II, Memorandum item 2, “Separate valuation allowance for uncollectible retail credit card fees and finance charges.” Report the amount of any valuation allowance or contra-asset account that the bank maintains separate from the allowance for loan and lease losses to account for uncollectible fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a). This Memorandum item is only applicable to those banks that maintain an allowance or contra-asset account separate from the allowance for loan and lease losses. Do not include in this item the amount of any valuation allowance established for impairment in retained interests in accrued interest receivable related to securitized credit cards.
- (3) Schedule RI-B, part II, Memorandum item 3, “Amount of allowance for loan and lease losses attributable to retail credit card fees and finance charges.” Report in this item the amount of the allowance for loan and lease losses that is attributable to outstanding fees and finance charges on credit cards (as defined for Schedule RC-C, part I, item 6.a). This amount is a component of the amount reported in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7. Do not include in this item the amount of any valuation allowance established for impairment in retained interests in accrued interest receivable related to securitized credit cards.

- (4) Schedule RC-C, part I, Memorandum item 6, “Outstanding credit card fees and finance charges.” Report the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule RC-C, part I, item 6.a (column A on the FFIEC 031; column B on the FFIEC 041).
- (5) Schedule RC-S, Memorandum item 4, “Outstanding credit card fees and finance charges.” Report the amount outstanding of credit card fees and finance charges that the bank has securitized and sold in connection with its securitization and sale of the credit card receivables reported in Schedule RC-S, item 1, column C.

#### Instructional Clarifications

The instructions for the following six Call Report items will be revised. The language being added to each of these instructions is shown in italics.

- (1) Schedule RI, item 1.a.(3)(a) on the FFIEC 041, item 1.a.(1)(d)(1) on the FFIEC 031, “Interest and fee income on credit cards.” Report all interest, fees, and similar charges levied against or associated with all extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards (in domestic offices) reportable in Schedule RC-C, part I, item 6.a, “Credit cards.” *Include in this item any reversals of uncollectible credit card fees and finance charges and any additions to a contra-asset account for uncollectible credit card fees and finance charges that the bank maintains and reports separately from its allowance for loan and lease losses.*

Exclude annual or other periodic fees paid by holders of credit cards issued by the bank (report in Schedule RI, item 5.1, “Other noninterest income”).

- (2) Schedule RC-S, item 1, “Outstanding principal balance of assets sold and securitized by the reporting bank with servicing retained or with recourse or other seller-provided credit enhancements.” Report in the appropriate column the principal balance outstanding as of the report date of loans and leases which the reporting bank has sold and securitized while:

- (1) retaining the right to service these assets or
- (2) when servicing has not been retained, retaining recourse or providing other seller-provided credit enhancements to the securitization structure.

*Include in column C the amount outstanding of any credit card fees and finance charges that the reporting bank has securitized and sold in connection with its securitization and sale of credit card receivable balances.*

NOTE: The final three paragraphs of the current instructions for this item would not be changed.

- (3) Schedule RC-S, item 5.a, “Charge-offs” on assets sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements (calendar year-to-date). Report in the appropriate column the amount of loans and leases that have been sold and securitized by the reporting bank in the securitization structures reported in Schedule RC-S, item 1, above that have been charged off or otherwise designated as losses by the trustees of the securitizations, or other designated parties, during the calendar year-to-date.

*Include in column C charge-offs or reversals of uncollectible credit card fees and finance charges that had been capitalized into the credit card receivable balances that have been securitized and sold.*

- (4) Schedule RC-S, item 5.b, “Recoveries” on assets sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements (calendar year-to-date). Report in the appropriate column the amount of recoveries of previously charged-off loans and leases in the securitization structures reported in Schedule RC-S, item 1, above during the calendar year-to-date.

*Include in column C recoveries of previously charged-off or reversed credit card fees and finance charges that had been capitalized into the credit card receivable balances that had been securitized and sold.*

- (5) Schedule RC-S, item 8.a, “Charge-offs” on loan amounts included in interests reported as securities in item 6.a (calendar year-to-date). Report in the appropriate column the amount of loans that had been underlying the seller’s interests reported in Schedule RC-S, item 6.a, above that have been charged off or otherwise designated as losses by the trustees of the securitizations, or other designated parties, during the calendar year-to-date.

*Include in column C the amount of credit card fees and finance charges written off as uncollectible that were attributable to the credit card receivables included in ownership interests reported as securities in item 6.a, column C.*

- (6) Schedule RC-S, item 8.b, “Recoveries” on loan amounts included in interests reported as securities in item 6.a (calendar year-to-date). Report in the appropriate column the amount of recoveries of previously charged-off loans that had been underlying the seller’s interests reported in Schedule RC-S, item 6.a, above during the calendar year-to-date.

*Include in column C recoveries of previously charged-off or reversed credit card fees and finance charges that had been capitalized into the credit card receivable balances that had been securitized and sold.*

### **Seller-Provided Credit Enhancements to the Bank’s Securitization Structures**

Banks currently report the maximum amount of credit exposure from seller-provided credit enhancements to securitization structures (other than credit-enhancing interest-only strips, which are reported separately) in Schedule RC-S, item 2.b. These credit enhancements include both

on-balance sheet assets (such as subordinated securities, spread accounts, and cash collateral accounts) and enhancements that are not assets (such as recourse liabilities and standby letters of credit).

To distinguish between these two types of enhancements, which have different cash flow characteristics and are treated differently for risk-based capital purposes, existing item 2.b will be split into two items that will be designated items 2.b and 2.c. This revision will enable the agencies to better understand the types of credit support that banks are providing to their securitizations, including which types are typically used for different types of securitized loans.

The instructions for these now separate Schedule RC-S items are as follows:

Schedule RC-S, item 2.b, “Subordinated securities and other residual interests.” Report in the appropriate column the carrying value of subordinated securities and other residual interests carried as on-balance sheet assets that the reporting bank has retained in connection with the securitization structures reported in Schedule RC-S, item 1, above. Exclude retained credit-enhancing interest-only strips, which are to be reported in Schedule RC-S, item 2.a, above.

Schedule RC-S, item 2.c, “Standby letters of credit and other enhancements.” Report in the appropriate column the unused portion of standby letters of credit and the maximum contractual amount of recourse or other credit exposure not in the form of an on-balance sheet asset that the reporting bank has provided or retained in connection with the securitization structures reported in Schedule RC-S, item 1, above.

### **Income from Insurance Activities**

In Schedule RI, item 5.h, “Insurance commissions and fees,” banks currently report their income from insurance and reinsurance underwriting, sales of insurance and annuities, insurance agency and brokerage operations, and management fees for insurance products. The risks arising from insurance and reinsurance underwriting are significantly different from those arising from other insurance activities. Given this distinction in risk, the agencies are splitting item 5.h into two items, which will be designated items 5.h.(1) and 5.h.(2), so that underwriting income can be separately identified. This will enable the agencies to more clearly identify institutions engaged in underwriting and to better monitor the results of these underwriting activities.

The instructions for these two Schedule RI items are as follows:

Schedule RI, item 5.h.(1), “Insurance and reinsurance underwriting income.” Report the amount of premiums earned by bank subsidiaries engaged in insurance underwriting or reinsurance activities. Include earned premiums from (a) life and health insurance and (b) property and casualty insurance, whether (direct) underwritten business or ceded or assumed (reinsured) business.

Also include the bank’s proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged in

insurance underwriting or reinsurance activities. Equity method investees include unconsolidated subsidiaries; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence.

Exclude income from insurance product sales and referrals (see the instructions for Schedule RI, item 5.h.(2), below, for information on reporting such income).

Schedule RI, item 5.h.(2), "Income from other insurance activities." Report income from insurance product sales and referrals, including:

- (1) Service charges, commissions, and fees earned from sales of credit, life, health, property, casualty, and title insurance products as well as annuities (fixed, variable, and deferred).
- (2) Fees earned from customer referrals for insurance products and annuities to insurance companies and insurance agencies external to the consolidated bank.

Also include management fees earned from separate accounts, deferred annuities, and universal life products.

However, exclude commissions and fees from sales of annuities by the bank's trust department (or by a consolidated trust company subsidiary) that are executed in a fiduciary capacity (report in Schedule RI, item 5.a, "Income from fiduciary activities"). Also exclude commissions and fees that the bank earns from the sale of annuities to bank customers by the bank's securities brokerage subsidiary (report in Schedule RI, item 5.d, "Investment banking, advisory, brokerage, and underwriting fees and commissions").

Also include the bank's proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged in insurance and annuity sales. Equity method investees include unconsolidated subsidiaries; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence.

#### Other Insurance-Related Instructional Clarifications

In the instruction to Schedule RC-F, item 5, "All other assets," (1) reinsurance recoverables from reinsurers external to the consolidated bank and (2) "separate account assets" of the reporting bank's insurance subsidiaries will be added to the list of assets to be included in this item. In addition, examples of prepaid expenses, which are reported in item 5, that arise from insurance activities include ceding fees and acquisition fees paid to insurance carriers external to the consolidated bank.

In the instruction to Schedule RC-G, item 4, "All other liabilities," unearned insurance premiums, claim reserves and claims adjustment expense reserves, policyholder benefits, contractholder funds, and "separate account liabilities" of the reporting bank's insurance subsidiaries will be added to the list of liabilities to be included in this item.

The instruction to Schedule RC-B, Memorandum item 1, “Pledged securities,” will be revised to include the following additional example of such securities: Securities owned by consolidated insurance company subsidiaries and held in custodial trusts (that are reported as held-to-maturity securities or available-for-sale securities in Schedule RC-B) that are pledged to insurance companies external to the consolidated bank.

### **Transactional Capability of Bank Web Sites**

An increasing number of banks’ Internet Web sites allow customers to execute transactions on their accounts at the bank. These transactional Web sites present greater security risks to a bank than sites that provide only information to customers and the public. For examination planning and risk scoping purposes and to monitor industry trends in this area, the agencies are adding a yes/no question to Schedule RC-M – Memoranda, asking about this transactional capability. In connection with the addition of this new item to Schedule RC-M, the location on the Call Report form where banks disclose their primary Internet Web address will be changed from the cover page of the report form to Schedule RC-M.

The instructions for these two Schedule RC-M items are as follows:

Schedule RC-M, item 8, “Primary Internet Web site address of the bank (home page).” If the bank has an Internet Web site or home page, report in this item the primary Web address for this site. If the bank does not have its own Web site or home page, but information on or functions of the bank can be accessed through an affiliate’s Web address, that affiliate’s primary Web address should be reported. A bank that maintains more than one Web site should provide the Web address that best represents the institution. Web site addresses should not exceed 75 characters in length. Do not provide an e-mail address in the space for the Web address.

A bank’s primary Internet Web address is the public Internet site address (also known as the Uniform Resource Locator or URL) that the bank’s customers or potential customers enter into Internet browser software in order to find the first page of the bank’s Web site. Examples of Web site addresses are www.bank.com, www.isp.com/bank/, and bank.isp.com. When entering a Web address in this item, the Web address should not be prefaced with http:// because this is already included on the form. Because Web addresses reported in this item are publicly available, each bank should ensure that it accurately reports its Web address, if any.

If a bank has no Web site or home page of its own and the bank cannot be accessed through an affiliate’s Web address, this item should be left blank.

Schedule RC-M, item 9, “Do any of the bank’s Internet Web sites have transactional capability, i.e., allow the bank’s customers to execute transactions on their accounts through the Web site?” Indicate whether any of the reporting bank’s Internet Web sites have transactional capability. Place an “X” in the box marked “Yes” if the bank or a bank affiliate has any Internet Web sites that allow the bank’s customers to execute transactions on their accounts through the Web site. Otherwise, place an “X” in the box marked “No.”

The Internet Web address of the Web site (or sites) with transactional capability does not have to be the address of the bank's primary Internet Web site that is reported in Schedule RC-M, item 8, above.

### **Disclosure of the Fair Value of Derivative Contracts**

Schedule RC-L, item 15, collects data on the fair value of derivatives, with gross positive and negative fair values reported separately by type of exposure for contracts held for trading (items 15.a.(1) and (2)) and for those held for purposes other than trading (items 15.b.(1) and (2)). At present, banks with domestic offices only and less than \$100 million in assets are exempt from this disclosure requirement. Because all banks that have derivatives regularly determine their fair value for balance sheet purposes as required by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), banks with less than \$100 million in assets have the information necessary to disclose the fair value of their derivatives in Schedule RC-L. Accordingly, the agencies are eliminating this disclosure exemption. The fair value data on derivatives will complement the data that banks with less than \$100 million in assets currently report on the notional amount of their derivative contracts. No changes are being made to the instructions for Schedule RC-L, item 15, "Gross fair values of derivative contracts," and its subitems.

### **Allocated Transfer Risk Reserves**

The manner in which banks currently present any "Allocated transfer risk reserve" (ATRR) and any related "Provision for allocated transfer risk" in the Call Report differs from the typical presentation of these amounts in financial statements prepared in accordance with generally accepted accounting principles. In the Call Report, banks now deduct any ATRR applicable to a loan from that loan, thereby reporting the loan net of this reserve in the loan schedule (Schedule RC-C). The aggregate amount of the ATRR itself (which may include ATRRs applicable to assets other than loans and leases) is disclosed in Schedule RC-R, item 61. Provisions for allocated transfer risk are included in "Other noninterest expense" on the Call Report income statement (Schedule RI, item 7.d).

To eliminate the presentation differences between the Call Report and other financial statements, ATRRs related to loans and leases will be included on the Call Report balance sheet in Schedule RC, item 4.c, "Allowance for loan and lease losses," as well as in Schedule RI-B, part II, item 7, Allowance "Balance at end of current period," and in Schedule RC-R, item 40. This means that ATRRs related to loans will no longer be deducted directly from the individual loans in the Call Report loan schedule, which also will affect the reporting of these loans in the regulatory capital schedule (Schedule RC-R, item 39). Consistent with the disclosure requirements of the International Lending Supervision Act, a new Memorandum item 1 will be added to Schedule RI-B, part II, to disclose the amount of any allocated transfer risk reserve related to loans and leases included in the allowance for loan and lease losses. Provisions for allocated transfer risk related to loans and leases will be reported in Schedule RI, item 4, "Provision for loan and lease losses," and carried over to Schedule RI-B, part II, item 5. In

making these changes, banks with loan and lease charge-offs and recoveries through the allocated transfer risk reserve will need to begin to include them with the charge-offs and recoveries reported in Schedule RI-B, part I.

Revised instructions for the balance sheet and income statement items affected by this change and for new Schedule RI-B, part II, Memorandum item 1, and the General Instructions sections of Schedule RI-B are presented below. Conforming changes will be made to the instructions for Schedules RC-C and RC-R.

Schedule RC, item 4, “Loans and lease financing receivables.” Report in the appropriate subitem loans and leases held for sale and loans and leases that the reporting bank has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e., held for investment. The sum of Schedule RC, items 4.a and 4.b, must equal Schedule RC-C, part I, item 12 (column A on the FFIEC 031).

Schedule RC, item 4.c, “Less: Allowance for loan and lease losses.” Report the allowance for loan and lease losses as determined in accordance with the instructions in the Glossary entry for “allowance for loan and lease losses.” Also include in this item any allocated transfer risk reserve related to loans and leases that the reporting bank is required to establish and maintain as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Subpart D of Federal Reserve Regulation K, Part 347 of the FDIC’s Rules and Regulations, and Part 20 of the Comptroller of the Currency’s Regulations), and in any guidelines, letters, or instructions issued by the agencies. This item must equal Report of Income Schedule RI-B, part II, item 7, “Balance end of current period.”

Schedule RI, item 4, “Provision for loan and lease losses.” Report the amount needed to make the allowance for loan and lease losses, as reported in Schedule RC, item 4.c, adequate to absorb estimated credit losses, based upon management’s evaluation of the loans and leases that the reporting bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. Also include in this item any provision for allocated transfer risk related to loans and leases. The amount reported in this item must equal Schedule RI-B, part II, item 4, “Provision for loan and lease losses.” Enclose negative amounts in parentheses.

Exclude any provision for credit losses on off-balance sheet credit exposures, which should be reported in Schedule RI, item 7.d, “Other noninterest expense.”

The amount reported in this item may differ from the bad debt expense deduction taken for federal income tax purposes.

Refer to the Glossary entries for “allowance for loan and lease losses” and “loan impairment” for additional information.

Schedule RI-B -- Charge-offs and Recoveries on Loans and Leases and Changes in Allowance for Loan and Lease Losses

NOTE: The introductory paragraph that precedes the instructions to part I will be deleted.

Part I. Charge-offs and Recoveries on Loans and Leases

General Instructions

NOTE: A new second paragraph will be added to the General Instructions as follows: For those banks required to establish and maintain an allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, include in column A loans and leases charged off against the allocated transfer risk reserve during the current calendar year-to-date. Include in column B amounts recovered through the allocated transfer risk reserve during the calendar year-to-date on loans and leases previously charged off against this reserve.

Part II. Changes in Allowance for Loan and Lease Losses

General Instructions

Report the reconciliation of the allowance for loan and lease losses on a calendar year-to-date basis. For those banks required to establish and maintain an allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, the reconciliation should include the activity in the allocated transfer risk reserve during the calendar year-to-date that relates to loans and leases. For reporting during 2003, the balance of any allocated transfer risk reserve reported in the Reports of Condition and Income for December 31, 2002, that relates to loans and leases should be included in Schedule RI-B, part II, item 1, "Balance most recently reported for the December 31, 2002, Reports of Condition and Income."

NOTE: The rest of the current General Instructions for Part II would not be changed.

Schedule RI-B, part II, Memorandum item 1, "Allocated transfer risk reserve included in Schedule RI-B, part II, item 7, above." Report the amount of any allocated transfer risk reserve related to loans and leases that the reporting bank is required to establish and maintain that the bank has included in the end-of-period balance of the allowance for loan and lease losses reported in Schedule RI-B, part II, item 7, above, and in Schedule RC, item 4.c.

**Reporting Certain Loans as Held for Sale or Held for Investment**

Because of questions concerning the categorization of certain loans for Call Report purposes, the agencies are revising the General Instructions for Part I of the loan schedule (Schedule RC-C) to identify two situations in which loans should be reported as held for sale or held for investment, based on facts and circumstances. The first two paragraphs of the General Instructions, as revised and with the language describing these two situations shown in italics, are as follows:

## General Instructions for Part I

Loans and lease financing receivables are extensions of credit resulting from either direct negotiation between the bank and its customers or the purchase of such assets from others. See the Glossary entries for “loan” and for “lease accounting” for further information.

Report all loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e., loans and leases held for investment, in Schedule RC-C, part I. Also report in Schedule RC-C, part I, all loans and leases held for sale as part of the consolidated bank’s mortgage banking activities or activities of a similar nature involving other types of loans. *When a loan is acquired (through origination or purchase) with the intent or expectation that it may or will be sold at some indefinite date in the future, the loan should be reported as held for sale or held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles and related supervisory guidance. In addition, a loan acquired and held for securitization purposes should be reported as a loan held for sale.* Loans held for sale shall be reported at the lower of cost or fair value as of the report date. The amount by which cost exceeds fair value, if any, shall be accounted for as a valuation allowance. For further information, see FASB Statement No. 65, “Accounting for Certain Mortgage Banking Activities,” and the March 26, 2001, Interagency Guidance on Certain Loans Held for Sale.

## **Number and Amount of Deposit Accounts**

Schedule RC-O, Memorandum item 1, collects information on the number and amount of deposit accounts of (a) \$100,000 or less and (b) more than \$100,000. The captions for these memorandum items explicitly refer to \$100,000, which is the current deposit insurance limit. However, the dollar amount cited in these captions, which is the basis for reporting the deposit information in this Memorandum item, is a function of the deposit insurance limit in effect on the quarter-end report date. To ensure that banks and users of the Call Report understand that this dollar amount will change automatically if and when the deposit insurance limit changes, the caption for Memorandum item 1 will be footnoted accordingly. In addition, the instructions for Memorandum item 1 will be revised as follows:

Schedule RC-O, Memorandum item 1, “Total deposits (in domestic offices) of the bank (and in insured branches in Puerto Rico and U.S. territories and possessions.” Memorandum items 1.a.(1), 1.b.(1), and 1.b.(2) are to be completed each quarter. Memorandum item 1.a.(2) is to be completed for the June report only. The dollar amounts used as the basis for reporting the number and amount of deposit accounts in these four Memorandum items reflect the deposit insurance limits in effect on the report date.

NOTE: The second and third paragraphs of the current instructions for Memorandum item 1 would not be changed.

## **Foreclosed Real Estate**

In November 2002, the American Institute of Certified Public Accountants disclosed that it was rescinding its Statement of Position (SOP) No. 92-3, *Accounting for Foreclosed Assets*, because of the issuance by the Financial Accounting Standards Board of Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). Under SOP 92-3, it is rebuttably presumed that foreclosed assets are held for sale. After foreclosure, the SOP states that foreclosed assets held for sale should be carried at the lower of cost or fair value less estimated costs to sell, with any deficiency recognized as a valuation allowance, and this determination is made on an individual asset basis. These provisions of SOP 92-3 are not present in FAS 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in section 37(a) of the Federal Deposit Insurance Act (12 U.S.C. 1831n(a)). Accordingly, the agencies are retaining these provisions of SOP 92-3 in the instructions for Schedule RC-M, item 3.b, "All other real estate owned," and in the Glossary entry for "Foreclosed Assets." Banks will be expected to continue to follow these provisions that were previously contained in SOP 92-3 when accounting for foreclosed real estate.

## **Accrued Interest Receivable Related to Credit Card Securitizations**

On December 4, 2002, the agencies issued an Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations to clarify the appropriate accounting for this asset by banks that securitize credit card receivables. Guidance from this advisory is being incorporated into the Call Report instructions through the addition of a new Glossary entry. The discussion of impairment in this Glossary entry, which differs from the advisory, reflects the results of further consultations between the agencies and the FASB staff since the issuance of the advisory.

Retained interests in accrued interest receivable related to securitized credit cards should be included in "Other assets" on the Call Report balance sheet (if these interests are reported separately from related interest-only strips receivable). The carrying value of this asset should be reported in Schedule RC-F, item 5, "All other assets," and in Schedule RC-S, item 2.b, column C. If the carrying amount of these retained interests is greater than \$25,000 and exceeds 25 percent of the total amount reported in Schedule RC-F, item 5, the amount of this asset should be disclosed using the preprinted caption in item 5.e of this schedule.

The Glossary entry for "Accrued Interest Receivable Related to Credit Card Securitizations" is as follows:

In a typical credit card securitization, an institution transfers a pool of receivables and the right to receive the future collections of principal (credit card purchases and cash advances), finance charges, and fees on the receivables to a trust. If a securitization transaction qualifies as a sale under FASB Statement No. 140, the selling institution removes the receivables that were sold from its reported assets and continues to carry any retained interests in the transferred receivables on its balance sheet. The "accrued interest receivable" (AIR) asset typically consists of the

seller's retained interest in the investor's portion of (1) the accrued fees and finance charges that have been billed to customer accounts, but have not yet been collected ("billed but uncollected"), and (2) the right to finance charges that have been accrued on cardholder accounts, but have not yet been billed ("accrued but unbilled").

While the selling institution retains a right to the excess cash flows generated from the fees and finance charges collected on the transferred receivables, the institution generally subordinates its right to these cash flows to the investors in the securitization. If and when cash payments on the accrued fees and finance charges are collected, they flow through the trust, where they are available to satisfy more senior obligations before any excess amount is remitted to the seller. Only after trust expenses (such as servicing fees, investor certificate interest, and investor principal charge-offs) have been paid will the trustee distribute any excess fee and finance charge cash flow back to the seller. Since investors are paid from these cash collections before the selling institution receives the amount of AIR that is due, the seller may or may not realize the full amount of its AIR asset.

Accounting at Inception of the Securitization Transaction -- Generally, if a securitization transaction meets the criteria for sale treatment and the AIR is subordinated either because the asset has been isolated from the transferor<sup>1</sup> or because of the operation of the cash flow distribution (or "waterfall") through the securitization trust, the total AIR asset (both the "billed and uncollected" and "accrued and unbilled") should be considered one of the components of the sale transaction. Thus, when accounting for a credit card securitization, an institution should allocate the previous carrying amount of the AIR (net of any related allowance for uncollectible amounts) and the other transferred assets between the assets that are sold and the retained interests, based on their relative fair values at the date of transfer. As a result, after a securitization, the allocated carrying amount of the AIR asset will typically be lower than its face amount.

Subsequent Accounting -- After securitization, the AIR asset should be accounted for at its allocated cost basis (as discussed above). In addition, an institution should treat the AIR asset as a retained (subordinated) beneficial interest. Accordingly, it should be reported as an "All other asset" in Schedule RC-F, item 5, and in Schedule RC-S, item 2.b., column C (if reported as a stand-alone asset) and not as a loan receivable.

Although the AIR asset is a retained beneficial interest in transferred assets, it is not required to be subsequently measured like an investment in debt securities classified as available for sale or trading under FASB Statements Nos. 115 and 140 because the AIR asset cannot be contractually prepaid or settled in such a way that the holder would not recover substantially all of its recorded investment. Rather, institutions should follow existing applicable accounting standards, including FASB Statement No. 5, *Accounting for Contingencies*, in subsequent accounting for the AIR asset. Statement No. 5 addresses the accounting for various loss contingencies, including the collectibility of receivables.

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<sup>1</sup> See paragraph 9(a) of FASB Statement No. 140.

For further guidance, banks should refer to the Interagency Advisory on the Accounting Treatment of Accrued Interest Receivable Related to Credit Card Securitizations dated December 4, 2002. See also the Glossary entry for “Transfers of Financial Assets.”

### **USA PATRIOT Act Section 314(a) Contact Information**

In order to carry out the provisions of section 314(a) of the USA PATRIOT Act of 2001, “Cooperative efforts to deter money laundering,” the agencies will begin to collect contact information for the persons who are in charge of each bank’s section 314(a) anti-money laundering searches and who could be contacted by federal law enforcement officers for additional information related to anti-terrorist financing and anti-money laundering. Each bank will identify a primary contact. If available, a secondary contact also will be identified. This USA PATRIOT Act contact information is for the confidential use of the agencies and the Financial Crimes Enforcement Network (FinCEN) and will not be released to the public.

In the Call Report forms, the USA PATRIOT Act contact information will appear on a new page located after the Table of Contents and before Schedule RI – Income Statement. The emergency contact information, which the agencies began to collect in September 2002, will also be included on this new page.

### **FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others***

In November 2002, the FASB issued Interpretation No. 45. This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Among the types of guarantee contracts to which the provisions of Interpretation No. 45 apply are:

- financial standby letters of credit, which are irrevocable undertakings, typically by a financial institution, to guarantee payment of a specified financial obligation, and
- performance standby letters of credit, which are irrevocable undertakings by a guarantor to make payments in the event a specified third party fails to perform under a nonfinancial contractual obligation.

Commercial letters of credit and other loan commitments, as well as subordinated interests in securitizations, are not considered guarantees under Interpretation No. 45 and, therefore, are not subject to the interpretation. Banks should refer to Interpretation No. 45 for further information on the types of guarantee contracts to which the interpretation’s initial recognition and measurement provisions do and do not apply.

For financial and performance standby letters of credit and other types of guarantees subject to the interpretation, when a bank issues the guarantee, it must recognize on its balance sheet a liability for that guarantee. In general, the initial measurement of the liability is the fair value of the guarantee at its inception. When a bank issues a guarantee in a standalone arm’s length

transaction with a party outside the consolidated bank, which would typically be the case for a standby letter of credit, the liability recognized at the inception of the guarantee should be the premium or fee received or receivable by the guarantor.<sup>1</sup> However, if the bank issues a guarantee for no consideration on a standalone basis, the liability recognized at inception should be an estimate of the guarantee's fair value.

The Interpretation does not prescribe a specific account for the guarantor's offsetting entry when it recognizes the liability at the inception of a guarantee because that offsetting entry depends on the circumstances. If a bank issued a standby letter of credit or other guarantee in a standalone transaction for a premium or fee, the offsetting entry would reflect the consideration the bank received, such as cash, a receivable, or a reduction of a deposit liability. In contrast, if the bank received no consideration for issuing the guarantee, the offsetting entry would be to expense.

The Interpretation does not describe in detail how a bank's liability for its obligations under its guarantees would be measured subsequent to initial recognition. However, the accounting for fees received for issuing standby letters of credit has been, and should continue to be, governed by FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Under Statement No. 91, such fees are termed "commitment fees."

For Call Report purposes, banks should apply the initial recognition and measurement provisions of Interpretation No. 45 only on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the bank's fiscal year-end. A bank's previous accounting for guarantees issued prior to January 1, 2003, should not be revised.

For further information, banks should refer to Interpretation No. 45.

### **FASB Interpretation No. 46, *Consolidation of Variable Interest Entities***

The FASB issued Interpretation No. 46 in January 2003. This interpretation explains how to identify a "variable interest entity" (previously referred to as a "special purpose 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. The agencies believe that 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 value of

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<sup>1</sup> However, in the unusual circumstance where, at the inception of a guarantee, it is probable that a loss has been incurred and its amount can be reasonably estimated, the liability to be initially recognized for that guarantee should be the greater of the premium or fee received or receivable by the guarantor or the estimated loss from the loss contingency that must be accrued under FASB Statement No. 5, *Accounting for Contingencies*.

the entity's net assets 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 created after January 31, 2003, must apply the provisions of Interpretation No. 46 to those entities immediately. A bank that is a public company, or a subsidiary of a public company, and has a variable interest in a variable interest entity created before February 1, 2003, must apply the provisions of Interpretation No. 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. A bank that is neither a public company nor a subsidiary of a public company, but has a variable interest in a variable interest entity created before February 15, 2003, must apply the provisions of Interpretation No. 46 to that entity no later than the end of the first annual reporting period beginning after June 15, 2003.

For further information, banks should refer to Interpretation No. 46.