TFR Questions and Answers

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[TOP]

Q&A No. 001
SUBJECT: Other-Than-Temporary Impairment of Securities
LINE(S): SO441
DATE: Revised April 22, 2009

Question: How is an other-than-temporary impairment of a security reported on the TFR?
Answer: An other-than-temporary impairment of a security directly reduces the recorded investment of the security on Schedule SC and should be expensed on SO441 (Other-Than-Temporary Impairment charges on Debt and Equity Securities).
[TOP]

Q&A No. 002
SUBJECT: Traveler's Express and Outstanding Drafts
LINE(S): SC110/710 DI620
DATE: Revised July 5, 2006

Question: An institution uses Traveler's Express for their check clearing. Every time they need to have a check cut, the institution wires the money to Traveler's Express, which then cuts the check for the institution. Until the check clears, Traveler's has use of the money; however, the institution also is paid a nominal rate on the float.
The institution argues that since they have wired money to Traveler's, they have paid for the check and it does not fit the definition of a zero-balance account. Use the example of paying your mortgage with a personal check versus a cashier's check. A personal check creates a liability until the check clears. A cashier's check does not, since you have "bought" the check with money from your account.
Do the outstanding checks at Traveler's have to be included in the deposit insurance assessment base and reported as deposits on SC710 or DI620?
Answer: No. The only amount that should be reported as a deposit in SC710 would be any funds not yet remitted to Traveler's. For example, if the association wired the funds the following business day, the amount of the liability at the close of business would be reported as a deposit. However, in this case, the institution wires the funds the same day the checks are cut and therefore, has no liability on their books. Some institutions have this same arrangement with other money-order servicers such as American Express.
It is not reported on DI620 because the money-order servicer uses a commercial bank to clear the checks and, thus, the deposit is in the commercial bank's deposit insurance assessment base.
[TOP]

Q&A No. 003
SUBJECT: Risk Weighting Industrial Bonds
LINE(S): CCR506
DATE: Revised July 5, 2006

Question: How are industrial revenue bonds risk-weighted on Schedule CCR?
Answer: Industrial revenue bonds are risk-weighted in the 100% risk-weight category because it is the obligation of the private company issuing them to pay the amounts due on the bonds, and the investors need to look to the private company's ability to honor the obligation. This is illustrated by the fact that the municipality will not take over the obligation to pay off the bonds if the private company goes bankrupt.
[TOP]

Q&A No. 004
SUBJECT: Federal Funds Sold
LINE(S): SC125 SI385
DATE: Revised July 5, 2006

Question: An institution considers their Fed Funds (SC125) as available-for-sale. They classify these funds as available-for-sale and account for them accordingly. Is this correct?
Answer: No. Federal Funds Sold are funds that are immediately available and invested for only one business day. Typically they are treated as cash equivalents and as such are not classified as available-for-sale or trading.
[TOP]

Q&A No. 005
SUBJECT: Commitments to Originate Consumer Loans
LINE(S): CC310
DATE: May 23, 1997

Question: If an institution has approved a consumer loan, but a commitment letter has not been issued, is this a commitment? An institution has an electronic application tracking process through which loans are approved or denied. No commitment letter is sent to the applicants upon approval, although some branch managers may call to notify the applicants that the loan was approved. The borrowers can receive their funds within a few days; however, in some cases, it may be weeks before the customer comes into the office to pick up his check.
Answer: Yes, an approved loan is a commitment. The borrower does not have to be notified. If the association intends to make the loan, they must report it as a commitment for cash flow purposes, regardless of when the loan will be closed or the funds disbursed.

[TOP]

Q&A No. 007
SUBJECT: Deferred Taxes for Unrealized Gains and Losses
LINE(S): CCR280
DATE: Revised December 1, 2006

Question: Should the amount on CCR280 (for unrealized gains and losses on certain available-for-sale securities) be reported gross or net of income taxes?
Answer: Generally, the amount on CCR280 should be reported before any income tax effect. The amount reported on CCR280 is directly related to the amount reported on CCR180.
The amount reported on CCR180 is an adjustment to equity capital to compute regulatory capital. It is an amount that is included in equity capital on SC860 and is net of any associated current or deferred income taxes.
The amount reported on CCR280 is an adjustment to total assets to compute adjusted total assets for regulatory capital purposes. Generally, this amount should be reported before any income tax effect. However, as explained below, if the income tax effect results in a change to assets (either current or deferred tax assets), the amount on CCR280 should be reported after the effect of income taxes. The current or deferred taxes from SFAS 115 adjustments are netted with all other current or deferred taxes of the institution to determine whether the result is a liability or asset. The CCR280 calculation can change from quarter to quarter depending on whether deferred taxes result in an asset or in a liability.
Example 1
Unrealized gains on CCR280 are reported after the effect of income taxes, only where the associated current or deferred tax liability is a component of a net tax asset.
Assume:
Mortgage pool securities on SC210 increased by unrealized gains on available-for-sale securities of $100.
An associated deferred tax liability of $40, included as a component of a net deferred tax liability on SC790.
Unrealized gains, net of income taxes, on available-for-sale securities of $60, reported as a positive amount on SC860.
Report:
-$60 on CCR180 (the net amount included in SC860)
-$100 on CCR280 (the only amount included in assets)
Example 2
Unrealized losses on CCR280 are reported after the effect of income taxes, only where the associated current or deferred tax asset is a component of a net tax asset.
Assume:
U.S. Government securities on SC130 reduced by unrealized losses on available-for-sale securities of $100.

An associated deferred tax asset of $40, is included as a component of a net deferred tax asset, reported in other assets on SC690.
Unrealized losses, net of income taxes, on available-for-sale securities of $60 are reported as a negative amount on SC860.
Report:
$60 on CCR180 (the net amount included in SC860)
$60 on CCR280 (the deferred tax asset of $40 included in SC690 netted against the loss of $100 in SC130)

[TOP]

Q&A No. 009
SUBJECT: Number of Full-time equivalent employees
LINE(S): SI370
DATE: July 1, 1997

Question: An institution either leases its employees or uses employees who work for its holding company. The S&L itself has no employees. The president works for the holding company. What should they put on SI370 (Number of Full-time Equivalent Employees)?
Answer: SI370 should include all employees leased from affiliates and all long-term contractual employees, who work primarily for the association. That is, an association should not include short-term contract employees such as those from a temporary employment agency, but should include employees leased from affiliates and contractual employees such as loan officers employed on a commission or fee basis. Additionally, contractual agreements with brokers or agents who provide the same service to others should not be included. A zero in SI370 is normally not acceptable.

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Q&A No. 011
SUBJECT: Loan Classification
LINE(S): SC26/31
DATE: Revised July 5, 2006

Question 1: If an institution has commercial loans where the underwriting focuses primarily on the creditworthiness rather than the collateral, but the loan is fully secured by real estate, can they classify these loans as nonmortgage since OTS Regulation 560 focuses on the underwriting rather than the collateral?
Answer 1: If the loans are fully secured by real estate, they may elect to classify them as either mortgage or nonmortgage loans.
Question 2: Can the institution take a nonmortgage commercial loan, and break it out into a second loan for the real estate collateralized portion?
Answer 2: Yes, provided there are two separate loans and the real estate loan is

fully secured by the real estate collateral.
Question 3: What constitutes "fully secured," if a loan-to-facilitate may exceed an 80% loan-to-value, but still qualify as mortgage?
Answer 3: A loan is fully secured when the fair value of the collateral minus costs to sell is no less than the carrying amount of the loan. However, it would be desirable to have collateral in excess of fair value minus costs to sell.
Question 4: Must SC300, Secured Commercial loans, reflect only fully secured loans?
Answer 4: Yes, fully secured at origination. It should not include loans secured by collateral taken as an "abundance of caution" where the amount of the collateral is minimal in relation to the size of the loan.
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Q&A No. 012
SUBJECT: Secured Personal Line of Credit
LINE(S): SC330/328
DATE: Revised July 5, 2006

Question: An institution has approved an open-ended personal line of credit of approximately $2.8 million. It's secured by collateral consisting of approximately 25% in automobiles, 15% in loans on deposits, 15% in various real estate, with the balance in various other collateral. Approximately 5% is unsecured. Where should this be reported on the TFR?
Answer: The disbursed amount should be reported on SC328, which was redefined in the March 1997 TFR instructions as "Credit Cards and Related Plans." The instructions say to report the disbursed portion of open-end consumer credit, including both secured and unsecured credit. The undisbursed portion should be reported as a commitment on CC423/CC425 (Unused Lines of Credit).
[TOP]

Q&A No. 013
SUBJECT: ESOP Loan
LINE(S): SC760
DATE: May 23, 1997

Question: A thrift holding company established an ESOP for the employees of a thrift and borrowed funds from a third party to fund the plan. The financial institution, not the holding company, pays the interest expense of $21,000 quarterly on this debt. Is the thrift required to reflect the debt obligation associated with the ESOP on the TFR, line SC760, Other Borrowings, or SC890, Other Components of Capital?
Answer: In some cases, yes. However, because not enough information is provided and because of the complexity of this issue, it should be referred to the Regional Accountant for resolution.
[TOP]

Q&A No. 014
SUBJECT: Consumer Loans
LINE(S): SC310-330
DATE: Revised December 1, 2006

Question: In reporting consumer loans in Schedule SC, is the collateral or the stated use of the loan proceeds the key to proper reporting?
Answer: The loan should be categorized based on the collateral as long as the collateral fully secures the loan. However, if the collateral is only taken as an abundance of caution, then the purpose would be the key.
For example: A lender made a revolving line of credit to finance college expenses for the borrower's child with a second lien on the borrower's home as collateral. If the loan would otherwise qualify under the lenders' home improvement loan program, it could be considered a 1-4 open-end mortgage loan. However, if the institution wanted to report it as an education loan, OTS would not object. On the other hand, if there was insufficient equity in the home to cover the loan (the lender took a security interest in the loan as an abundance of caution), then the loan should be reported as an education loan.
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Q&A No. 015
SUBJECT: Deposits: Medical Savings Plans
LINE(S): SC710, DI610, DI200
DI120, DI130
CMR
DATE: Revised December 1, 2006

An institution has started to offer a medical savings plan account. The account offers a pre-tax savings plan to provide for qualified medical expenses. The individual customer deposits money for the medical savings plan up to their maximum allowable amount.
Question 1: Should these medical savings plan accounts be reported as passbook accounts?
Answer 1: In Schedule CMR these accounts should be reported as fixed-maturity deposits, because they do not have the characteristics of a passbook account. The original maturity would typically be 12 to 36 months because they are 12-month accounts with an additional 3-month grace period for filing claims. The remaining maturity would be based on the number of months until the end of the year plus three months for the grace period.
In Schedule DI, these generally could be reported as demand deposits if they are noninterest bearing and meet the other requirements of demand deposits.
They should not be reported with IRA/Keogh Accounts on DI200.
Question 2: If a customer has an unrelated $98,000 CD and a $9,000 MSA, would the full $9,000 Medical Savings Account be insured?

Answer 2: No, only the aggregated amount up to $100,000 would be insured. Medical Savings Accounts must be aggregated with other savings accounts in determining deposit insurance.
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Q&A No. 016
SUBJECT: Hierarchy of Risk-weighting
LINE(S): CCR450/480/506
DATE: Revised July 5, 2006

Question 1: Can 1-4 FHA/VA conditionally guaranteed, insured mortgage loans, that are nonperforming be reported with performing loans in the 20% risk-weight category, since they will eventually recover?
Answer 1: Yes, include the FHA/VA conditionally guaranteed part in 20% risk-weight despite being nonperforming. Only the guaranteed portion should be risk-weighted at 20% with the remainder in 100% risk-weight.
Question 2: Would the nonaccrual status of loans take precedence for 100% risk-weight classification, even if the loans were more than fully secured by cash, where no risk would actually exist?
Answer 2: These loans would be risk-weighted at 20% if collateralized by cash held in a segregated deposit account by the reporting savings association.
Question 3: Would a construction loan that is FHA/VA secured, but that does not meet the test for a "qualifying residential construction loan" qualify for less than 100% risk-weighting?
Answer 3: Yes, the portion of assets conditionally guaranteed by U.S. government agencies (e.g., VA/FHA) is risk-weighted at 20%. Reminder: only the guaranteed portion should be risk-weighted at 20%, with the remainder risk-weighted at 100%.
[TOP]

Q&A No. 017
SUBJECT: Extensions of Credit to Officers
LINE(S): SI590/595
DATE: December 1, 1997

Question: Should the credit provided for employees before they become officers be included as extensions of credit on lines SI590/595, in the quarter that they actually become officers?
Answer: Yes, extensions of credit should be included in SI590/595 even though they were made before the employee became an officer. Even if the loan is beyond what is permitted by Regulation O, it may remain on the books. However, if the extension of credit is modified or renewed in any way it must conform to the regulation, since the individual is now an insider. In essence, the extension of credit is reported, but grandfathered, under current terms. The one exception would be a situation where the extension of credit was made immediately before the

appointment to circumvent the regulations.
[TOP]

Q&A No. 018
SUBJECT: Construction Participations
LINE(S): SC240, CC105
DATE: December 1, 1997

An institution has made a construction loan for a hotel and they are participating out a portion of it. The institution has disbursed $700,000 to date, of which $300,000 was contributed by the other participants. This leaves a total of $300,000 as LIP.
Question 1: How is this accounted for? Does the institution show only their share of the disbursed amount in Schedule SC? If so, how is CF completed?
Answer 1: All participants should report their proportionate share of the construction loan on SC240. The increase in SC240 should be reported on CF210.
Question 2: How is the LIP reported in Schedule CC? All, or only the reporting institution's part? Will the participated amount be shown as loans serviced for others by the lead lender?
Answer 2: If the participants are all liable on the construction loan, they should all report their commitment on CC105. If only the lead lender is liable on the construction loan, only the lead lender would report LIP on CC105.
In either case the lead lender, as the servicer, should report the portion of the outstanding balance of the loan that is owned by the other participants on SI390.
[TOP]

Q&A No. 019
SUBJECT: Annual Listing of Service Corporations (Schedule CSS)
LINE(S): CSS110:150
DATE: December 1, 1997

Question 1: What is required on CSS120 through 160 to reflect the "total assets of the entity?"
Answer 1: Data should be reported for a subsidiary on a stand-alone basis, i.e., unconsolidated. It is not intended that extraordinary efforts be made to obtain the financial data requested in CSS. An institution's best efforts, within reason, should be made to present accurate data; however, reasonable assumptions and estimates will be accepted.
Question 2: If all of the subsidiaries of the thrift parent are sequentially listed, column-by-column, using the various business codes, then, should each individual subsidiary be applying the equity method as they report balances on CSS120:160?
Answer 2: In reporting assets they should include the investment in lower tier subsidiary on the equity method; however, net income should be stated for the subsidiary being reported on only. All subsidiaries of all tiers should be listed.
Question 3: If a subsidiary has a fiscal year-end of June 30th, what should be

reported on line CSS150: Net Income for the calendar year?
Answer 3: Net income should be reported for the calendar year. Exceptions can be made where data for the period from the fiscal year end to the end of the calendar year are not available. However, this should be rare.
[TOP]

Q&A No. 020
SUBJECT: Calculation of Past Due
LINE: Schedule PD
DATE: December 1, 1997

Question 1: Are escrows included in the calculation of cycles past due?
Answer 1: Escrows are included in the calculation of cycles past due if they are contractually required and legal.
Question 2: How are partial payments treated? For example: If a borrower is paying $25 per month on a loan with payments due of $100 per month, at the end of two months would the loan be two cycles past due and, therefore, reported on Schedule PD, or would it be one cycle past due and not reported on Schedule PD?
Answer 2: After the second payment, the loan is 15 days past due, and is, therefore, less than one cycle (30 days) past due. After the third payment, the loan is 37.5 days past due and is, therefore, more than one cycle (30 days) past due. Note the computations below:

After Payment	**No. 2**	No. 3	
Full payment amount (b)	100	100	
Partial payment made	(25)	(25)	
Partial payment not made	75	75	
Number of months	x 2	x 3	
Total balance due	150	225	
Amount not "past due"	(100)	(100)	*
Balance "past due" (a)	50	125	
Past due factor (a ÷ b)	0.50	1.25	
Days in cycle	x 30	x 30	
Days past due	15.0	37.5	

"Past due" Category	< 30	30-90

* It is assumed that partial payments are applied first to the oldest components of the balance. Accordingly, the unpaid portion of the current month is not yet "past due."
[TOP]

Q&A No. 021
SUBJECT: Risk-weighting Receivables from Brokers
LINE: CCR
DATE: December 1, 1997

Question: When an association sells a security, it books a receivable in Other Assets during the period between the trade date and the settlement date. Are such receivables risk weighted at 100%? For instance, if the receivable is created through the sale of a government security, that receivable would be risk-weighted higher than the original security, even though settlement has not taken place. Is this correct?
Answer: Receivables are risk-weighted according to the debtor. For example, if it is a claim on a domestic depository institution, it is risk-weighted at 20%; if it is conditionally guaranteed by the United States, it is also risk-weighted at 20%. If it is due from a broker/purchaser and unsecured, it is risk-weighted at 100%, but may be risk-weighted at a lower risk-weight if the claim is collateralized by lower risk-weighted assets as explained below.
This receivable is risk-weighted differently than the original security because the institution has a different asset than it did previously. The association no longer has the U.S. Government's unconditional guarantee. Therefore, the receivable must be risk-weighted at a higher level. However, if the reporting association can legally enforce its claim, including taking legal possession of the collateral free and clear of enforceable claims of others and the securities under sale qualify for 0% or 20% risk-weighting, the amount due from the broker/purchaser is risk-weighted at 20% and reported on CCR430 if the collateral is a mortgage security, or CCR450 if the collateral is another U.S. Government security.
[TOP]

Q&A No. 022
SUBJECT: Partial Use of an Office Building
LINE(S): SC45/55
CCR370/506
DATE: Revised July 5, 2006

Question: An institution owns property that it intends to develop into an office building. The plans for the building are for a twelve-story building, two floors of which will be occupied by retail businesses and ten will contain offices. The

institution intends to occupy five floors of the building. Because the institution will only partially occupy the building, can they still include it as "office premises" on SC55 and risk-weight it at 100%, or must it be considered real estate held for investment reported on SC45, which they must deduct from capital on CCR370? Should it be prorated?
Answer: The entire building may be included as "office premises," risk-weighted at 100%, as long as 25% or more of the building is used by the institution or is intended for future use.
[TOP]

Q&A No. 023
SUBJECT: FHLB Dividends
LINE(S): SO181
DATE: Revised June 8, 2005

Question: Must institutions report FHLB dividends in Other Noninterest Income?/P>
Answer: FHLB dividends, either cash or stock, should be reported in SO181. FHLB dividends, together with certain other income items reported in SO185, fall under the general income category - Dividend Income on Equity Investments Not Subject to FASB Statement No. 115.
[TOP]

Q&A No. 024
SUBJECT: Loans Secured by Stock
LINE(S): SC330
DATE: December 1, 1997

Question: A loan is secured by stock (traded on the New York Stock Exchange) and is made to an individual for the purpose of buying more stock. Where should this be reported on Schedule SC?
Answer: This loan should be reported on SC330 (Other Closed-end Consumer Loans, Including Leases).
If the thrift has $200,000 or more in credit secured directly, or indirectly, by margin stock extended in the last quarter, it must register with the Federal Reserve Bank in its district and follow the requirements of Regulation G. Regulation G requires the use of certain FRB forms for reporting such transactions and also limits covered loans to 50% of the value of the stock at the time of purchase. See OTS Thrift Activities Handbook Section 562, Margin Securities (Regulation G).
[TOP]

Q&A No. 025
SUBJECT: Other Asset and Liability Codes
LINE(S): SC689/SC796

DATE: Revised December 1, 2006

Question: How should the detail lines under Other Assets and Other Liabilities be reported? Should the institutions code all items in the other category, sum them by code and report the three largest, or report the three largest without summation. This could, of course, result in the same code being used for two or even all three of the detail lines.
Answer: The accounts should be aggregated by code, so that a code only appears once. Once they have been aggregated, the three largest items should be reported. Code 99 is the only code that may appear more than once.
[TOP]

Q&A No. 026
SUBJECT: Classification of Mobile Home Loans as Mortgages
LINE(S): SC326
DATE: December 1, 1997

Question: An institution is building up a portfolio of mobile home loans. Some are straightforward consumer loans. Others, however are loans on the land as well as on the mobile home. The mobile homes are put on concrete pads. Should these loans be reported as mortgage loans?
Answer: Mortgage loans secured by both a developed lot and a mobile home on a fixed site (where the wheels are detached and the home is permanently anchored to a foundation or pad) should be classified and risk-weighted as 1-4 family mortgage loans.
If, however, the mobile home is not fixed to the site, the loan could be classified as either a nonmortgage, mobile home loan, or a mortgage on a developed building lot, based on the relative values of each piece of collateral relative to the loan. For example, if the mobile home was valued at $20,000 and the land at $10,000, the loan generally would be classified as a nonmortgage, mobile home loan. If the numbers were reversed, the loan would generally be classified as a lot loan (mortgage). If the ratio was 50/50, then the institution could classify the loan either way. The percentages are not that critical, so we should let the institution classify the loans as they want, as long as their classifications are reasonable. Of course, the institution could make two separate loans, one on the mobile home, and one on the developed lot.
[TOP]

Q&A No. 27
SUBJECT: Direct Credit Substitute
LINE(S): CC465
DATE: March 10, 1998 (Revised January 21, 2000)

Question: What is the definition of "Direct Credit Substitute" to be reported on CC465?

Answer: A definition of direct credit substitute may be found in the OTS Regulations at 12 CFR 567.1 (f). That definition is subsumed by a more comprehensive definition contained in an interagency proposal on Recourse and Direct Credit Substitutes as follows:
""Direct credit substitute means an arrangement in which a savings association assumes, in form or in substance, any risk of credit loss directly or indirectly associated with a third-party asset or other financial claim, that exceeds the association's pro rata share of the asset or claim. If a savings association has no claim on an asset, then the assumption of any risk of credit loss is a direct credit substitute. Direct credit substitutes include, but are not limited to:
1. Financial guarantee-type standby letters of credit that support financial claims on the account party;
2. Guarantees, surety arrangements, and irrevocable guarantee-type instruments backing financial claims;
3. Loans or lines of credit that provide credit enhancement for the financial obligations of an account party;
4. Purchased loan servicing assets if the servicer is responsible for credit losses associated with the loans being serviced, or if the servicer makes or assumes certain representations and warranties on the loans other than standard representation and warranties as defined in this section; and
5. Purchased subordinated interests or purchased residual interests in financial assets sold (including both security and nonsecurity forms) that absorb more than their pro rata share of losses from the underlying assets.
[TOP]

Q&A No. 28
SUBJECT: Qualified Thrift Lender (QTL) Test
LINE(S): SI581-583
DATE: March 10, 1998

Question: Now that the liquidity regulation has been amended to permit the inclusion of most mortgage-backed securities, should securities that are eligible as liquidity be deducted from total assets to determine "portfolio assets" on the QTL worksheet?
Answer: Any liquid mortgage-backed securities that are reported on line 12 of the QTL worksheet may not also be included on line 4, "regulatory liquidity." Double counting is not permitted.
[TOP]

Q&A No. 29(Revised)
SUBJECT: Reconciling Total Assets (SC60) to Assets to Riskweight (CCR64)

LINE(S): CCR64
DATE: March 1, 2004

Question: How can we reconcile total assets reported on Schedule SC to assets to risk-weight on Schedule CCR?
Answer: As follows:

<u>**Reconciliation of Total Assets to Assets to Risk-Weight**</u>	<u>**Schedule CCR Reference**</u>
Total assets (SC60)	CCR205
Deduct: Assets of "nonincludable" subsidiaries	CCR260
Goodwill and certain other intangible assets	CCR265
Disallowed servicing assets, disallowed deferred tax assets, disallowed residual interests, and other disallowed assets	CCR270
Other	CCR275
Add: Accumulated losses (gains) on certain available-for-sale securities and cash flow hedges	CCR280
Qualifying intangible assets	CCR285
Other	CCR290
Equals: Adjusted total assets	CCR25
Deduct: Equity investments and other assets required to be deducted	CCR370
Deduction for low-level recourse and residual interests	CCR375
Add: Unrealized gains on available-for-sale equity securities	[A]
Allowance for loan and lease losses (ALLL)	[B]

Assets risk-weighted at 200% under ratings-based approach	[C]
Off-balance-sheet assets required to be risk-weighted	[D]
Equals: Assets to risk-weight	CCR64

[A] Include here any pretax unrealized gains net of losses included in assets on SC60, where
any portion, up to 45 percent, of those gains are reported on CCR302.
[B] Include here the ALLL reported on SC283 and SC357, combined, and, therefore, reflected
in SC60. However, this amount is not necessarily the same amount reported on CCR350.
[C] Include here the amount of assets included in SC60 that are also reported on CCR501
after being multiplied by a factor of 2.
[D] Include here off-balance-sheet assets to risk-weight not included in SC60.
[TOP]

Q&A No. 30
SUBJECT: Limited Partnership (Pass-through Investment)
LINE(S): SC540/SO488 Code 06
DATE: Revised July 5, 2006

Question: An association has an investment in a limited partnership that had been reported on SC140 prior to the change in definition of this line. The limited partnership is designated as pass-through per OTS regulations. The institution is assuming that they should now be reported on SC540, is this correct, and should the income generated be reported on SO488? If the income is reported on SO488 what code should be used?
Answer: The instructions for SC140 state that equity investments that are not subject to SFAS No. 115, including pass-through investments, should be reported on SC540. The instructions for SC540 state that investments in pass-through investments accounted for by either the equity or cost method (i.e., not marked to fair value pursuant to SFAS 115) should be reported on SC540. The key here is whether or not the equity investment is included in the scope of SFAS 115. If it is, it is reported on SC140; if it is not, it is reported on SC540. It appears from the above description that this partnership is accounted for using the equity method and is not included in the scope of SFAS 115 and, therefore, should be reported on SC540.
We prefer that income from all investments reported on SC540 accounted for using the equity method be reported on SO488 using a 06 code in SO495 or 497.

[TOP]

Q&A No. 31
SUBJECT: Commitment Fee on a Letter of Credit
LINE(S): SC330
DATE: March 10, 1998

Question: An institution has a deferred commitment fee on a letter of credit. Once the loan is funded (or the letter of credit is drawn on) the unamortized yield adjustment will be netted against the loan, and reported on line SC330. Where should this be reported on the TFR prior to the loan disbursement?
Answer: It should be reported on line SC796, Other Liabilities and Deferred Income, because it is a liability. To be reported as a contra-asset, it must be identified with a specific asset. In this case there is no asset until the letter of credit is drawn down.
[TOP]

Q&A No. 32
SUBJECT: Credit Balances in Mortgage Loans
LINE(S): SC26
DATE: Revised July 5, 2006

Question: An institution has a few mortgage loans for which the borrowers have overpaid; these loans now carry credit balances. Overpaid credit cards are reclassified as deposits; is this also the case with overpaid mortgages?
Answer: Yes. Payments in excess of principal, accrued interest, and all other fees should be reclassified as deposits.
[TOP]

Q&A No. 33
SUBJECT: Purchased Receivables
LINE(S): SC & CMR
DATE: March 10, 1998

Question: Where should account receivables purchased at a discount be reported on Schedules SC and CMR?
Answer: Account receivables purchased at a discount (factored receivables), should generally be reported as unsecured commercial loans and in most cases may qualify as small business loans for QTL purposes. If the debtors are consumers and the association has fully underwritten each of the receivables and they meet the institution's underwriting requirements, they may be reported as consumer loans.

[TOP]

Q&A No. 035
SUBJECT: Troubled Debt Restructuring
LINE(S): VA940, VA942
DATE: Revised July 5, 2006

Question: An old internal Q&A for Troubled Debt Restructured (TDR) stated that "If there is a **full settlement** there would **not** be a TDR, but if there is **a loss** it **would** be a TDR."
Does this rule still hold true for line VA942, TDR included in the statement of condition, if the restructure is as REO?
Items # 3 & 4 in the new instructions for TDR say to include:
3. Foreclosed assets as TDR.
4. TDR even if no losses were recorded this quarter.

Answer: If there has been no loss on the original loan (i.e., the loan and all interest payments have been or will be recovered), the transaction normally would not be considered TDR. This applies to both loan restructuring and REO. With REO, the fair value of the property less the costs to sell must equal or exceed the full payments that would have been received under the loan.
The statement about including TDR even if no losses were recorded this quarter means that if a transaction is TDR but the loss was taken as a charge off or SVA in a prior period, it should still be reported as TDR. The circumstance that no loss is taken during the accounting period in which restructuring takes place does not avoid TDR reporting when full recovery of the original terms of the loan is not effected.
The definition of TDR in the TFR is intended to be the same as the GAAP definition of TDR.
[TOP]

Q&A No. 036
SUBJECT: Minority Interest
LINE(S): SC800
DATE: Revised December 1, 2006

Question 1: How is minority interest reported if an institution owns 90% of a subsidiary and what is the offset of this transaction?
Answer 1: When an institution owns a controlling interest (typically defined as more than 50% ownership) in another company, they must consolidate 100% of the assets and liabilities of that company. However, they report in the equity section only their own equity. The amount of assets less liabilities owned by others is called "minority interest" and is reported on SC800 in order to balance. Likewise, 100% of the income and expense of the subsidiary is consolidated on a line-by-line basis, and the minority share of net income is deducted on SO488 or SO580, as

applicable.

Question 2: An association is owned by a holding company that also owns 10% of a subsidiary of the association. In other words there are three tiers: the savings and loan holding company, the savings association, and the subsidiary. The holding company owns the savings association and 10% of the subsidiary. The savings association owns 90% of the subsidiary. In the TFR of the savings association, how much of the subsidiary is consolidated? If 100% of the subsidiary is consolidated, how is the 10% owned by the holding company reported?

Answer 2: One hundred percent of the subsidiary is consolidated. When looking at the savings association's report, the 10% owned by the holding company is reported as minority interest in Schedule SC on SC800 and in Schedule SO on SO488 or SO580, as applicable. The principle of minority interest applies when the minority interest is held by an unconsolidated affiliate or by an unrelated third party.

[TOP]

Q&A No. 037
SUBJECT: Deductions for Assets of Consolidated Nonincludable Subsidiaries
LINE(S): CCR260
DATE: Revised July 5, 2006

Question: Should line CCR260 (Total Assets of Non-includable Subs) be reduced by the amount of intercompany eliminations that are done during consolidation? Line CCR260 is a deduction from Total Assets on CCR205. CCR205 has already been reduced by checking accounts that the sub has with the parent through the equity method of consolidation.

It seems that without the reduction of line CCR260 for the intercompany accounts that they would be reducing assets twice for the cash items. This overstated deduction would result in an understatement of assets and an understatement of capital reserves required.

Answer: The deduction for adjusted total assets related to consolidated nonincludable subsidiaries on line CCR260 should reduce total assets by the amount of assets of the subsidiary included in consolidated assets. This amount will equal the subsidiary's total assets less those assets eliminated in consolidation. We have found the easiest way to understand this is to use T-accounts and work through examples. In every example that we used, the amount reported on CCR260 equaled the difference in total assets between the stand-alone parent thrift and the consolidated entity, plus the thrift's investment account and loans and advances to the subsidiary.

Example 1:

Assume a 100%-owned, consolidated nonincludable subsidiary, with total assets of $100, total liabilities of $80, and capital of $20.

Also assume total assets of the subsidiary include insured deposits of $10 with the thrift parent. In consolidation, the insured deposits of $10 that are included in the subsidiary's total assets, and also in the thrift parent's total liabilities, are eliminated from consolidated total assets and from consolidated total liabilities. Consolidated total assets, net of the elimination entry, include $90 ($100 - $10) of the subsidiary's total assets; therefore, the amount reported on CCR260 is $90. The deduction on CCR105 for "investments in and advances to" is $20.

Example 2:

Assume a 90%-owned, consolidated nonincludable subsidiary, with total assets of $100 and total liabilities of $80.

Also assume total assets of the parent thrift include a loan to the subsidiary of $10.

In consolidation, the loan of $10 that is included in the thrift's total assets, and also in the subsidiary's total liabilities, is eliminated from consolidated total assets and from consolidated total liabilities. Consolidated total assets, after the elimination entry, include $100 of the subsidiary's assets.

The deduction on CCR260 is $100. The deduction on CCR105 is $28, which is calculated as follows: $18 ($20 equity of subsidiary times 90% ownership interest) plus $10 (loan to subsidiary).

Example 3:

Assume a 100%-owned subsidiary is nonincludable because its stated purpose is an impermissible activity. It has not yet begun operations, but has cash of $100 which has been deposited in the parent savings association; additionally, the subsidiary has no liabilities. In consolidation, the $100 of assets of the subsidiary has been eliminated against the deposit on the parent's books. Therefore, the amount of deduction on CCR260 is zero. However, because the investment in the subsidiary is $100, the amount reported on CCR105 is $100.

[TOP]

Q&A No. 038
SUBJECT: Multifamily and Nonresidential Mortgage Loans
LINE(S): CMR261
DATE: June 19, 1998

Question: Are multifamily and nonresidential ARMs, with rate changes greater than 60 months reported as balloon loans? My understanding is that any adjustable mortgage with a next rate change greater than 60 months would be considered a balloon, until such time that the rate change period falls below 5 years. Is this correct, or does this rule only apply to single family dwellings?

Answer: The short answer to your question is that the 60 month rule used in classifying single family ARMs as balloons does not apply to multifamily and nonresidential mortgages. The latter are classified as balloons if the remaining maturity is a least ten years shorter than the remaining time to full amortization. With multifamily and nonresidential loans, the first thing to determine is if the loan is fully amortizing or is a balloon. Balloon mortgages have a remaining time to full amortization that is a least 10 years longer than their remaining maturity; all others are considered to be fully amortizing. Once it is established whether the loan is fully amortizing or a balloon, the next step is to categorize it as fixed or

adjustable rate. If the interest accrual rate on the loan is ever scheduled to be reset (based on an index whose future level is presently unknown), the loan is considered adjustable rate. That is true regardless of when the coupon is scheduled to reset.
[TOP]

Q&A No. 039
SUBJECT: Over-extended Home Equity Loans
LINE(S): SC251:255
DATE: Revised July 5, 2006

Question: An association has home equity loans where disbursements have been made on the loans over the contractual limit. These loans were made about ten years ago and, although at the time they were made, the limit of the loans was 80% of the value of the properties, the values of the properties have decreased. Because these loans have been drawn down in excess of the contractual limit, some of them are no longer fully secured. How must these loans be reported on the TFR? If they are in excess of the contractual limit, but still fully secured is the reporting different?
Answer: Home equity loans that are fully secured at origination (i.e., no greater than the value of the security property) should be reported as 1-4 family open-end or closed end residential loans provided the institution has perfected a mortgage. If the collateral value is not fully documented with either an appraisal or evaluation, the loan should be reported on SC316. The categorization is made when the loan is originated or acquired. We would be hesitant to make the institution re-categorize the loan because of declining property value, unless the contract states that the line is to be renewed on a regular basis and/or a reappraisal or evaluation is to be obtained.
[TOP]

Q&A No. 40
SUBJECT: Risk weighting high LTV loans
LINE(S): CCR460
CCR505
DATE: September 11, 1998 (Revised August 2, 1999)

Question: An institution has a new loan product whereby they make a conventional 80% loan to a borrower with excellent credit, and then issue a 2nd deed of trust to cover the 20% down payment. The 2nd deed of trust is recorded as a separate loan. If the loans are analyzed individually, the first mortgage loan would be reported in the 50% category, since the LTV is 80% or less, and the 2nd would be classified in the 100% category, since it is based on creditworthiness. However, if you look at the loans on a combined basis, they have exceeded the 80% LTV requirement, which would mean that both loans should be reported in the 100% category.

What is the proper risk-weighting for these loan types?
Revised Answer: The federal banking agencies revised the risk-based capital regulation in a rulemaking that took effect on April 1, 1999. The revised rule requires institutions to combine certain junior liens with the first lien. Because the institution holds the first and second liens and no other party holds an intervening lien, the loans will be viewed as a single extension of credit secured by a first lien on the underlying property for the purpose of determining the LTV ratio, as well as for risk weighting. The combined loan amount must be assigned to the 100% risk category, because the combined loans have exceeded the 80% LTV limit.
The combined loans would also be aggregated with other high LTV loans reported to the board of directors in accordance with the Interagency Guidelines attached to 12 CFR 560.100-101. The guidelines also state that the institution's aggregate investment in such loans should not exceed 100% of capital.
[TOP]

Q&A No. 41
SUBJECT: Escrows as Demand Deposits
LINE(S): DI610
DATE: Revised July 5, 2006

Question: Examiners and management at an institution are having a definitional problem with escrows as demand deposits. These are P&I and T&I escrows established for their mortgage customers and placed in deposit accounts from which payments are made on the borrowers' behalf.
Escrows are included on DI610 if they meet the definition of a demand deposit. But there are three criteria in the instructions for DI610 in order for the deposit to be considered demand deposits. The third criteria states, "From which the depositor is authorized to make..." In the case of loan escrows, who is the depositor, the borrower or the institution?
The borrower is not authorized to make withdrawals or transfers; if the depositor is the borrower, then these escrows are not demand deposits according to the instructions.
The institution is authorized to make withdrawals on behalf of the borrower. If the institution is the depositor, then are these accounts demand deposits?
Answer: In this example, the reporting institution maintains and services escrow accounts for its mortgage customers. In this case, the depositor of the escrow accounts is the borrower; the institution is merely holding the funds for remittance to a third party. Therefore, we look to the borrower to determine whether or not the escrow funds represent demand deposits or time and savings deposits.
Escrows that meet the definition of demand deposits are to be reported on DI610. However, the funds in question **do not meet the definition of a demand deposit** because the depositor – the borrower – is not authorized to make any transfers from the account. Therefore, these amounts must be reported on SC783 as Escrows but they should **not** be reported on DI610 as demand deposits.
[TOP]

Q&A No. 43
SUBJECT: Cash Flow treatment of Mortgage loans converted to MBS
LINE(S): CF143:330
DATE: Revised July 5, 2006

Question: An institution is originating mortgage loans, securitizing them, then selling the transformed MBS to another institution.
On schedule CF, they are reporting a mortgage origination on CF230 and a MBS sale on CF160.
Based on the instructions for Mortgage Pools, should the sale be reported on CF310 in the loan category, and the purchase reflected on CF140:150, in the MBS category in addition to CF160 and CF230, to reflect the full cycle of the transaction? Or is it OK for to reflect an origination as a loan, and a sale as a security?
Answer: In order to track and reconcile these transactions, they have to be reported on four lines, CF230 for the origination, CF310 and CF140:150 for the securitization, and CF160 for the sale of the security.
[TOP]

Q&A No. 44
SUBJECT: Table Funding (Originating Mortgages Available-for-Sale)
LINE(S): Schedules CF, CC, SI and SO
DATE: September 11 , 1998

An association originates mortgages loans and then immediately sells the loans, using a table-funding arrangement with its investors. While the association is the initial lender of record on the note and mortgage, it signs an assignment at the borrower's loan closing and the association's funds are never invested in these loans. It is unclear whether the association would have an obligation to originate the loans, if for any reason its investors failed to honor their commitment.
Question 1: Should these loans appear on Schedule CF of the TFR as originations, and of course sales, or should this production not appear at all on CF?
Answer 1: All loans made in the name of the reporting savings association or its subsidiaries should be reported as commitments and as loans disbursed even if these loans are funded by and immediately transferred to a third party. Loans for which the underwriting is done by the reporting savings association but which are made in the name of a third party should not be reported.
However, prior to loan closing, if the association has a clean legal opinion that they would not be obligated if for any reason the investors failed to honor their commitment, the loan commitment does not have to be reported on Schedule CC.
Question 2: Should this production be includable in the thrift's QTL calculation? Our compliance examiners have already determined that this production does not count for the bank towards meeting its CRA responsibilities. Instead, it counts for the investor.

Answer 2: As long as the mortgage loans are "residential," they should be included on line 20 (loans originated and sold) of the association's QTL worksheet. HOLA Section 10(m)(4)(C)(iii)(I) provides that "50 percent of the dollar amount of the residential mortgage loans originated by...(a) savings association and sold within 90 days of origination" are includable in QTL calculations, subject to the 20% of assets cap.
Question 3: On which lines of Schedule SO should the revenues relating to these loans be reported? Say for example that a $100,000 loan is originated with a 1% origination fee, no discount points to the borrower, and is sold to the investor at par with a 150 b.p. servicing release premium (SRP). Further assume that the bank has 75 b.p. of identifiable direct expenses associated with the loan. I believe that the full 100 b.p. origination fee should be reported on SO420 Other Fees and Charges. In turn, I believe the 150 b.p. SRP should be reported on SO430 as a gain on sale of assets held for sale. Since the sale occurred immediately, I believe the 75 b.p. points of identifiable expenses gets reported on the appropriate categories within SO51 Noninterest Expense. Do you agree with this reporting, or do I have part or all of this wrong?
Answer 3: Yes, this reporting is acceptable. The identifiable expenses may also be deducted from the origination fee if the association has its records set up to accommodate it.
[TOP]

Q&A No. 45
SUBJECT: Check Processing and Computer Center Co-ops
LINE(S): Schedule CSS
DATE: December 10, 1998

Question: An institution owns small percentages (
<5%) of both a check processing center and a computer center. Many other financial institutions are also stockholders. Should these two organizations be reported on Schedule CSS? >Answer: The answer to the question depends on what authority the thrift relies on to make the investment. If the thrift relies on its service corporation investment powers to make such investments, the entity must be included in Schedule CSS regardless of the ownership level. Alternatively, if a thrift relies on pass-through investment (§560.32) or its de minimis investment authority (§560.36) or some other thrift powers for such investments, then the entities are not considered subordinate organizations and, therefore, should not be listed on Schedule CSS.
[TOP]

Q&A No. 46
SUBJECT: Definition of Real Estate Loans (TB72)
LINE(S): SC251:256, SC316, SC330
DATE: Revised July 5, 2006

Question: An institution is confused by the difference between the definition of real estate loans in OTS Thrift Bulletin No. 72 (TB-72) and the definition of mortgage loans in the TFR. The nonmortgage loan category in the TFR Instruction Manual includes loans based primarily on the credit worthiness of the borrower. However, the last paragraph on page 4 of TB-72, under the section titled "Abundance of Caution," states, a loan based on the creditworthiness of the borrower with an additional lien on the borrower's real estate (as an extra measure of protection), would be subject to real estate lending standards. This would seem to also require loans covered by TB-72 to be reported as mortgage loans. Are these loans to be reported as mortgage loans in Schedule SC?
Answer: The TFR classification of loans does not follow the real estate lending standards rule or TB-72. Therefore, a 1-4 family secured loan that does not fully qualify as a mortgage loan because the lender decided not to get an appraisal or because it is not fully secured by the real estate (i.e., has a loan-to-value ratio in excess of 100%) is classified on the TFR on SC310 through SC348. But this loan would still be subject to the real estate lending standards rule if it is secured by real estate as defined in 560.100-101.
All loans secured by, or financing the construction or improvement of, real estate are subject to the real estate lending standards rule (12 CFR 560.100-101). That means, the institution must establish prudent written lending standards that consider the interagency guidelines (attached to 560.101) and the supervisory loan-to-value (LTV) limits. If the institution makes loans with LTVs in excess of the supervisory limits, it should report them to their board of directors at least quarterly and limit such loans to 100% of capital for owner occupied 1-4 family mortgages and, within that limit, 30% of capital for all other high LTV loans.
[TOP]

Q&A No. 47
SUBJECT: Trust Preferred Securities
LINE(S): SC 185
DATE: December 10, 1998

Question: Where are Trust Preferred Securities reported on Schedule SC? OTS's TB-73 discusses these investment securities, and from reading it and the TFR instructions, I think they would be reported in SC185. The institution is currently reporting them on SC140. They have approximately $30 million of TPSs. The bulletin is clear that they are 100% risk weighted on CCR.
Answer: The following is quoted from TB 73:
Investment authority and limits for TPSs. At this time, OTS believes that TPSs that otherwise meet the requirements of corporate debt securities set forth at 12 CFR 560.40 are permissible investments for federal savings associations.
Since the only TPSs that savings associations can invest in must meet the requirement of corporate debt securities, they should be reported on SC185, Other Investment Securities.
[TOP]

Q&A No. 48
SUBJECT: Rabbi Trusts
LINE(S): SO510
SO580
DATE: December 10, 1998

Question: An institution has accounts set up for a trust that its employees participate in. It is termed a "rabbi trust." Rabbi trusts are deferred compensation arrangements where amounts earned by employees are invested and placed in a trust. The institution is merely a conduit between the brokerage and the employee, with the employees solely responsible for contributions. The trust is reported by the institution in Other Assets. The directors and employees can buy or sell stock which the institution must mark-to-market, as a trading asset. The deferred compensation obligation is reported in Other Liabilities.
The question is: where would the income and expense related to the trust be classified in Schedule SO? SO510 refers to pensions "paid directly by the reporting association", and, therefore, the institution felt that SO510 is not appropriate.
Answer: Rabbi trusts are discussed in EITF Consensus No. 97-14. There are four scenarios for deferred compensation arrangements covered by this Consensus. This question relates to the type described in the Consensus as Plan D. In this scenario assets and liabilities of a rabbi trust are consolidated with the employer's financial statements because in the case of liquidation, the secured creditors would have rights to the trust assets. Assets held by the rabbi trust should be accounted for in accordance with GAAP for the particular asset (i.e., securities are accounted for under SFAS No. 115). The deferred compensation obligation should be classified as a liability and adjusted with corresponding charges (or credits) to expense (income) to reflect changes in the fair value of amounts owed to employees. The EITF consensus states that the income and expense as well as the asset and the liability should be reported separately. We would like to have all of these accounts reported in their appropriate "Other" categories on the TFR. Therefore, the expense should be reported on SO580 (Code 99).
[TOP]

Q&A No. 49
SUBJECT: Conversion Factors For LIP
LINE(S): CCR460
DATE: December 10, 1998

Question 1: Page 163 of the TFR Instruction Manual provides that LIP will be converted at the 0% conversion factor if - "(1.) LIP that contractually must be disbursed or expire in one year or less".
It appears that in the absence of a contractual obligation to disburse funds within a one-year period, the remaining term of a loan would generally determine whether it meets criteria #1, that the LIP contractually must be disbursed or expire in one year or less. For example, an 18-month construction loan which was originated 8

months ago, thus having a remaining term of 10 months, would satisfy this criteria because in less than 12 months it will be fully disbursed and if not, it would have to be repaid or renewed. In contrast, the same loan with a remaining term of 13 months would not meet the criteria, since the draws might not all be made until after one year had passed. Is this consistent with the intent of this provision?
Answer 1: According to the regulation, if the original maturity of a commitment is one year or less the conversion factor is zero. Generally, when the original maturity of the commitment exceeds one year, the conversion factor is zero only if (1) the institution has a contractual right to separately underwrite each disbursement and the institution does so, or (2) the institution has a contractual right to re-evaluate the lending relationship at least annually and the institution does so. Additional circumstances, but very limited circumstances in which a zero percent conversion credit factor apply are set out in 567.6(a)(2)(iv).
Question 2: If LIP will not be completely disbursed within one year, is the institution required to convert the entire balance at 50% or only that portion that is to be disbursed after one year? For example, assume a $10 million loan with an 18-month term. There are 14 months remaining and $2 million has been disbursed, leaving a $8 million LIP balance. According to the funding schedule, $7 million of the $8 million currently in LIP will be disbursed within 12 months. Would the institution have to convert the full $8 million LIP balance using the 50% factor because the entire amount will not be disbursed within one year, or would it have to convert only $1 million, the amount which will remain undisbursed after one year?
Answer 2: The regulation does not contemplate splitting a single loan into a component which matures within one year and a component which matures later than one year. Instead, the maturity date of the loan is determinative.
[TOP]

Q&A No. 51
SUBJECT: Specific Reserves on Servicing Assets
LINE(S): VA118
DATE: December 10, 1998

Question: An institution would like to know if it is appropriate to set up specific reserves on servicing assets at the time the asset is established.
On their books they debit "Gain or Loss on Sale" and directly credit the servicing asset. Conversely, on the TFR, Schedule SO, the Gain on Sale is grossed up, and SO570, Provision for Loss, is debited and a specific reserve on the servicing asset is credited. Hence, net Income is reported on the TFR in accordance with GAAP, but the provision for loss is not.
Is this correct?
Answer: No. Under GAAP it is not appropriate to set up a specific reserve at the time an asset is established; and, therefore, this would not be appropriate reporting on the TFR.
[TOP]

Q&A No. 52
SUBJECT: Hypothecated Deposits - Down Payments on Construction Loans
LINE(S): SC230
SC710
DATE: December 10, 1998

Question: Assume an institution closes a construction loan for $80,000. The borrower makes a $20,000 down payment to the institution, for which the institution credits LIP for $20,000. This transaction results in a negative $20,000 loan balance.
Is a down payment advanced by the borrower on a construction loan before any of the funds are disbursed, considered a "hypothecated deposit"? If so, should the hypothecated deposit be netted against the loan, or be classified on the other side of the balance sheet, as a deposit or escrow? If it is not a hypothecated deposit, where should the down payment be classified on the balance sheet?
Answer: Yes, this appears to be a hypothecated deposit. Since there is no loan balance to offset, it must be reported as a deposit.
[TOP]

Q&A No. 53
SUBJECT: Unsolicited Brokered Deposits
LINE(S): DI100
DATE: Revised July 5, 2006
Question: An institution has unsolicited deposits from brokers, for which they do not pay a fee. Must these be reported as brokered deposits on DI100?
Answer: Yes. The deposits in question are brokered if the deposits meet the definitions of brokered deposit at 12 CFR 337.6(a)(2) (2) and the broker meets the definition of deposit broker at 12 CFR 337.6(a)(5). These cites are attached to this Q&A.
The fact that the deposits were not actually solicited by the institution has no bearing on whether the deposits should be classified as brokered deposits. It is a factual determination to classify brokered deposits, and it is the responsibility of each insured depository institution to accurately classify brokered deposits.
FDIC Interpretive Letter 92-73 specifically addresses this issue: "The key here is not whether the bank has solicited the funds, but whether the bank knows or has reason to know that the funds are being placed by a broker. If so, then the bank will be subject to any applicable restrictions on acceptance of brokered deposits based on its capital category. . . Mere knowledge on the part of your institution that it is accepting funds from a broker is sufficient to require that [Bank] be subject to the appropriate restrictions on brokered deposits for adequately capitalized banks.. . . In most instances, we would anticipate that banks, in the normal course of business, will be able to determine when funds are being placed by a broker."
[TOP]

Q&A No. 54
SUBJECT: CMR Filing Exemption
LINE(S): Schedule CMR
DATE: March 1, 1999

Question: I have completed and transmitted our December TFR. Our capital ratio has just exceeded 12% and our assets continue to be under $300 million. Do we have to file Schedule CMR for December?
Answer: Yes. As stated in the TFR General Instructions, an institution must meet the exemption requirements (assets under $300 million and risk-based capital ratio over 12%) for two consecutive quarters to be exempt from filing CMR. The regional director also has the authority to exempt an institution from filing CMR. See the TFR General Instructions for more information.
[TOP]

Q&A No. 55
SUBJECT: Grandfathered Qualifying Multifamily Mortgage Loans
LINE(S): CCR465
DATE: March 1, 1999

Question: Does the grandfathering right transfer to the purchaser of multifamily mortgage loans? An institution is going to purchase a large amount of these loans, and they would like to risk weight them at 50% rather than at 100 %.
Answer: The loans may be risk-weighted at 50% by the purchaser if, on March 18, 1994, the loans qualified under the definition of a "qualifying multi-family mortgage loan" as set forth in 12 C.F.R. 567.1 and (as per the instructions at page 159 of the TFR Instruction Manual) the loans met and continue to meet the qualifying criteria before, upon, and after purchase.
[TOP]

Q&A No. 56
SUBJECT: Valuation of Foreclosed Assets
LINE(S): SC40
DATE: March 1, 1999

Question: At acquisition, the initial carrying amount of foreclosed assets should be established at "fair value less cost to sell". How should the estimated future selling costs be treated - as a reduction in the recorded investment, or as a specific valuation allowance?
Answer: We believe that the authoritative literature (SFAS No. 15 as amended, and SFAS No. 121) requires that, at acquisition: (1) the recorded investment of foreclosed assets be established at "fair value less cost to sell", and therefore (2) no specific valuation allowance be established for the selling costs. In other words, the selling costs are to be treated as a reduction in the initial recorded investment

of the foreclosed assets.
For example, assume a foreclosed asset with an estimated fair value of $90 is received in full satisfaction of a delinquent loan (with a recorded investment of $100). Also assume that estimated future selling costs related to the foreclosed asset are $7, so that "fair value less cost to sell" is $83. Under the approach we believe to be consistent with the authoritative literature, at acquisition the initial carrying amount would be established at $83, composed of a recorded investment of $83, with no specific valuation allowance. Further assume that, subsequent to acquisition, the estimated fair value increases by $5, to $95. This would not result in an increase in carrying amount; that is, the carrying amount would continue to be $83, composed of the recorded investment of $83, with no specific valuation allowance.
We recognize that some institutions treat the initial estimate of selling costs as a specific valuation allowance. However, we believe that approach is inconsistent with the authoritative literature. But, because the amount of selling costs generally is not substantial in relation to the fair value, the effect is not expected to be material.
Authoritative Literature
The following is paragraph 28, in its entirety, of SFAS No. 15, as amended by paragraph 24 of SFAS No. 121.
A creditor that receives from a debtor in full satisfaction of a receivable either (i) receivables from third parties, real estate, or other assets, or (ii) shares of stock or other evidence of an equity interest in the debtor, or both, shall account for those assets (including an equity interest) at their fair value at the time of restructuring (see paragraph 13 for how to measure fair value). A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraphs 15-17 of FASB Statement No. 121. The excess of (i) the recorded investment in the receivable satisfied over (ii) the fair value of assets received (less cost to sell, if required above) is a loss to be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period.
[TOP]

Q&A No. 57
SUBJECT: QTL - Reorganized Entity
LINE(S): SI581, SI582, SI583
DATE: March 1, 1999

Question: An institution reorganized on 9/30/98 and because of the circumstances, was given a new OTS docket number. The new institution reported only one day of information on the TFR, and, therefore, reported its QTL as zero. Do you think it would be more meaningful to have this TFR amended to report the QTL of the former institution?
Answer: Yes. The HOLA does not provide for any exceptions due to an institution's

"reorganization." Thus, for QTL purposes the OTS must treat the institution as the same institution before and after its reorganization, despite its different docket numbers.
For the OTS to monitor the institution's QTL compliance, the institution should have reported its ATIPs for July 31, 1998, August 31, 1998, and September 30, 1998, in its September 30, 1998 Thrift Financial Report. The July 31 and August 31 percentages should have been for the institution as it existed under the old docket number, and the September 30 percentage for the new docket number.
[TOP]

Q&A No. 59
SUBJECT: Securities Reclassified from Available-for-Sale
LINE(S): SC860, SC865, CCR180, CCR280
DATE: Revised July 5, 2006

Question: An institution reclassified as held-to-maturity securities previously classified as available-for-sale. The unrealized gain reported on SC860 is being amortized over the remaining maturity of the securities. Since the securities are no longer available-for-sale, is the remaining unrealized gain included on CCR180 and CCR280?
Answer: As long as the institution continues to have unrealized gains or losses included in capital (on SC860), the unrealized gains (losses) must be deducted from (added to) regulatory capital on CCR180 and the amount included in assets must be deducted from assets on CCR280.
[TOP]

Q&A No. 60
SUBJECT: Mutual Funds
LINE(S): SI387
DATE: March 1, 1999

Question: An institution has two mutual funds: one is a U.S. government fund and the other is a mortgage-backed ARM fund. The institution holds these investments to maturity; however, they were instructed by their auditors to adjust these mutual funds to fair value on the TFR. These assets are not being held for sale, but because the unrealized gains and losses, net of taxes, are reported on SC860 and the mutual funds are not reported as available-for-sale on SI387, an edit failure results. Is this OK?
Answer: No. Mutual funds are equity securities and as such are by definition available-for-sale in accordance with SFAS No. 115. Mutual funds should be reported on SC140 (Equity Securities) and on SI385 (Available-for-Sale Securities). The institution must adjust the mutual funds to fair value through an adjustment to SC860.
[TOP]

Q&A No. 61
SUBJECT: Risk-Weighting of Unrealized Gains
LINE(S): CCR302 and CCR506
DATE: Revised July 5, 2006

Question: If an Institution adds back to Tier 2 capital 45% of the unrealized gain of available-for-sale equity securities on CCR302, what portion of the unrealized gains is included in risk-weighted assets?
An institution owns Freddie Mac stock on which there is an unrealized gain that is included on CCR302. Because they risk-weight Freddie Mac stock at 100% on CCR506, they would like to know if they should add back the unrealized gain when risk-weighting the stock. And if so, how much of the unrealized gain should be added back?
Answer: For those available-for-sale equity securities where up to 45% of the unrealized gains, net of unrealized losses, before income taxes, are included in Tier 2 capital (on CCR302), 100% of those unrealized gains should be included in assets to risk-weight on CCR506. In other words, if a portion of the unrealized gain, net of unrealized loss, is included in Tier 2 capital on CCR302, then the fair value, not just the historical cost, of the equity security should be risk-weighted. This applies to all equity securities that are permissible for both savings associations and national banks, including Freddie Mac stock, Fannie Mae stock, and mutual funds investing in permissible equity investments.
[TOP]

Q&A No. 62
SUBJECT: SMALL BUSINESS LOANS SECURED BY RESIDENTIAL REAL ESTATE
Line: SC300
Schedule SB
Date: June 16, 1999
Question: Are loans secured by the borrower's residence to finance small businesses considered small business loans?
Answer: Loans that meet the definition of mortgage loans, for purposes of reporting in Schedule SC, may be classified as mortgage loans or may be classified as nonmortgage loans according to the purpose of the loan, at the option of the reporting institution. However, once classified, these loans should not be repeatedly switched between classifications. Loans secured by a residence may be included in Schedule SB as small business loans only if they are reported on the TFR as nonmortgage, commercial loans on SC300.
Loans that do not meet the definition of mortgage loans either because they are not fully secured by real estate or because the security property is not supported by an appraisal or qualifying evaluation, must be classified as nonmortgage loans according to the purpose of the loan.
[TOP]

Q&A No. 63
SUBJECT: RISK-WEIGHTING FHA-INSURED SECOND MORTGAGES
Line: CCR460
Date: June 16, 1999
Question: In the revised instructions for March 1999, CCR460 now says to combine first and second mortgage loans in determining the LTV for risk weighting purposes, when both the first and second liens are held by the institution and there are no intervening liens. How does this apply to second mortgages that are 90% insured by the FHA under their "Title One Home Improvement" program.
Answer: The portion of the home improvement loan that is guaranteed by the FHA may be risk-weighted at 20%. It is not necessary to combine the guaranteed portion of a home improvement loan with any other mortgage to the same borrower.
[TOP]

Q&A No. 64
SUBJECT: AUTOMOBILE FINANCING THROUGH DEALERS
Lines: SC710
SC690
Date: June 16, 1999
Question: An institution contracts with auto dealers to originate auto loans for the institution. The dealers run a credit report on the customer purchasing a car and the dealers issue checks to themselves, drawn on the institution, for the loan. Basically, the institution is advancing funds to the dealer, upon the verification of the credit report of the customer. Since it takes a few days for the loan application drawn up by the dealer to reach the bank, the check payable to the dealer might clear the bank before the loan is put on-line. Once the loan is on-line, the debit on the internal checking account is funded.
If at report date this account has a debit balance, should the debit in deposit accounts (SC710) be reclassified as an accounts receivable?
Answer: The instructions for SC710, under "Do Not Include", Item 8, read as follows:
8. Deductions for customers' overdrafts in NOW and demand accounts unless the right of set-off under a valid cash management arrangement exists for accounts of the same legal entity; report as loans on SC303 (Commercial Loans: Unsecured) or SC345 (Consumer Loans: Open-End: Unsecured);
Therefore, unless a right of set-off against other deposit accounts of the same auto dealership exists and until the consumer loan is approved and established in the records of the savings association, the debit balance should be reported as an unsecured commercial loan on SC303.

[TOP]

Q&A No. 66

SUBJECT: PLEDGED SECURITIES IN QTL
Lines: SI581 - SI583
Date: June 16,1999
Question: Does a mortgage-backed security that qualifies as a Qualified Thrift Investment (QTI) for QTL remain a QTI if it is pledged against borrowings? The TFR instructions state that pledged securities are not eligible for inclusion in regulatory liquidity, but the instructions for QTL do not address this question.
Answer: Yes. Qualified thrift investments are QTIs whether pledged or not.
[TOP]

Q&A No. 67
SUBJECT: UNDISBURSED BALANCE (LIP) OF LAND DEVELOPMENT LOANS
Lines: CC115
CC105
SC265
Date: June 16,1999
Question: The instructions for CC115, Undisbursed balance of loans closed, Other Mortgage Loans, state "Report the undisbursed balance of permanent mortgage loans of the types reported on SC250 through SC265." An institution has land loans on SC265 for the acquisition and development of land. Funds are advanced over a nine-month period, for developing the land by clearing trees and installing sewer lines, based on the completion status of the project much like a construction loan. On schedule SC, Land is categorized as a Permanent Mortgage. Should the LIP on land development loans be included on CC105 (Mortgage Construction Loans) or CC115 (Other Mortgage Loans)?
Answer: The LIP on land development loans should be reported on CC115, Undisbursed Balance of Other Mortgage Loans.

[TOP]

Q&A No. 69
SUBJECT: ASSISTED LIVING FACILITIES
Line: SC256, SC260, CCR465, CCR506
Date: Revised July 5, 2006
Question: An institution is planning to make a loan for a senior assisted living facility, and wants to know how this will affect their capital. How should this type of facility be reported on SC, which would determine its risk-weight category on CCR? The instructions for SC256 (Mortgages on 5 or More Dwelling Units) say to include retirement homes, while SC260 (Mortgages on Nonresidential Property) includes nursing and convalescent homes. A senior assisted living facility seems to be a hybrid of these two entities.
Answer: The key to the classification of assisted living facilities on Schedule SC is whether the facility's primary function is residential. If the facility's primary use is

for permanent residents with separate living quarters, and the revenue received is primarily for residential purposes, the mortgage is properly reported on SC256 as a mortgage secured by multifamily residential property. A change was made to the instructions for March 1999 which deleted assisted living from the definition of nonresidential mortgage loans because certain assisted living complexes have permanent residents with their own apartments and common areas including a dining hall. By definition, these facilities provide "assistance" in the form of healthcare and related services not normally an integral part of unassisted multifamily residential living. If the primary function of an assisted living facility is to house people on a temporary basis and/or the bulk of the revenue received is derived from nonresidential health care activities, similar to a nursing or convalescent home, the loan should be classified as a mortgage on nonresidential property and reported on SC260.
For capital purposes, in order to be properly placed in the 50% risk weight, a multifamily loan must meet the definition of "qualifying multifamily mortgage loan" at 12 CFR 567.1. If so, it can be included on CCR465, in the 50% risk-weight category (see instructions to CCR465), otherwise it would be reported in the 100% category on CCR506. Among the many elements and provisos within that definition, there is a requirement that the loan must be secured by a first lien on multifamily residential properties consisting of five or more dwelling units. The analysis above should be followed in making that determination.

[TOP]

Q&A No. 70
SUBJECT: PREFERRED DEPOSITS
Line: DI220
Date: Revised July 5, 2006
Question: An institution has collateralized deposits from the local school district. They are not required by state law to secure the uninsured portion of these deposits, but they have done so anyway as a safety measure. Are these reported on DI220 as preferred deposits, or are they included only if the state requires that they be secured?
Answer: Deposits are reported as preferred deposits only if collateralization is required by state law. Therefore, the deposits described above should not be reported as preferred deposits.

[TOP]

Q&A No. 71
SUBJECT: SET-OFF OF NEGATIVE CASH ACCOUNT
Line: SC110
Date: Revised July 5, 2006
Question: If a cash account with a bank is in a net credit balance at year end and we have federal funds sold to the same bank also at year end, how should the

credit balance be reported. Should it be setoff with the fed funds or shown as a deposit liability or as a borrowing? There are no other accounts between the thrift and the bank.
Answer: The deposit overdraft and Fed Funds sold can only be offset if there is a right of set-off under a legally enforceable cash management arrangement for accounts of the same legal entity. (See FASB Interpretation No. 39, paragraph 5). If the accounts meet all the requirements of set-off, the remaining Fed Funds amount should be reported on SC125. If they cannot be offset, the entire Fed Funds Sold should be reported on SC2125and the credit balance should be reported on SC760 (Other Borrowings).

[TOP]

Q&A No. 72
SUBJECT: LOANS SECURED BY DUPLEXES
Line: SC251:256
Date: Revised July 5, 2006
Question: An institution has one borrower who owns six duplexes, with one loan for all six duplexes. Based on property type this would be classified as a 1-4. However, since there is only one loan on more than four units would it be considered multifamily?
Answer: If there is one mortgage on several duplexes totaling 5 or more units, it is classified as multifamily (5 or more). If there were individual mortgages on each property, they would be classified as single family; that is, each loan could have different terms and each could be foreclosed on or sold separately.

[TOP]

Q&A No. 73
SUBJECT: LTV CALCULATION WHEN THE FIRST LIEN IS FHA-INSURED AND THE SECOND LIEN IS CONVENTIONAL
Line: CCR460
Date: September 15, 1999
Question: Q&A No. 63 discussed the LTV calculation when the first lien is conventional and the second lien is FHA-insured, but how is a mortgage loan risk-weighted when the 1st mortgage lien is an FHA loan and a second lien is a conventional loan?
Answer: The 1st mortgage loan is risk-weighted at 20% because it is FHA-insured. However, when determining the risk-weight of the junior lien, the first must be combined with all junior liens. If the combined LTV ratio does not exceed 80% and the second mortgage meets the definition of a qualifying mortgage loan, it may be risk-weighted at 50%. The second mortgage is risk-weighted at 100% when the combined LTV ratio exceeds 80%, the loan is more than 90 days past due, or the loan is not prudently underwritten.

[TOP]

Q&A No. 74
SUBJECT: RISK WEIGHTING RESIDUAL OF A LOAN PARTICIPATION
Line: CCR460
Date: September 15, 1999
Question: An institution is considering selling a 90% participation in a loan and retaining the remaining 10% principal balance. The participation agreement would give the purchaser a senior position to that of the selling institution. However, the total LTV is still only 70%, it is still a first mortgage loan, and it qualifies in all other ways as a 50% risk-weighted asset.
Given the above circumstances, would the asset still qualify and be risk-weighted at 50%?
Answer: No. The 10% retained by the institution must be risk-weighted at 100% because it is subordinate to the sold participation.

[TOP]

Q&A No. 75
SUBJECT: DEPOSIT PREMIUM ASSESSMENT BASE
Line: SC710
Date: Revised September 14, 2006
From time to time we get questions on the computation of the assessment base for TFR filers. The computation is as follows:

Demand Deposits:

DI610	Noninterest-bearing Demand Deposits
+DI620	Outstanding Checks Drawn against FHLB and FRB
+DI640	Demand Deposits of Consolidated Subsidiaries
+DI720	Assets Netted against Deposit Liabilities
=	Gross Demand Deposits
Less	DI710 Adjustments for Reciprocal Demand Balances
=	Adjusted Demand Deposits (1)

Time and Savings Deposits:

SC710	Total Deposits
+SC712	Escrows
+SC763	Accrued Interest Payable - Deposits
+DI650	Time and Savings Deposits of Consolidated Subsidiaries
+DI730	Assets Netted against Deposit Liabilities
Less:	DI610 Non-interest-bearing Demand Depots
=	Gross Time and Savings Deposits
Less:	DI700 Depository Institution Investment Contracts & Foreign Deposits
=	Adjusted Time and Savings Deposits (2)

Total Assessment Base:

Adjusted Demand Deposits ((1) above) less Float Deduction of 16 2/3% (as calculated on the QPI)

+	Adjusted Time and Savings Deposits ((2) above) less Float Deduction of 1% (as calculated on the QPI)

=	**Total Assessment Base**

[TOP]

Q&A No. 76
SUBJECT: RESERVE FOR UNCOLLECTABLE INTEREST
Line: Schedules SC and VA
Date: September 15, 1999

Question: For tracking purposes, an institution prefers to utilize a reserve for uncollected interest instead of placing severely delinquent loans in nonaccrual status. On which line should the reserve for uncollected interest be reported on TFR Schedule SC? Should the reserve for uncollected interest be treated as a specific valuation allowance in completing TFR Schedule VA?
Answer: Interest income cannot be reported on Schedule SO and interest receivable cannot be reported on Schedule SC that is not collectable at the time of accrual. The institution may continue to accrue for tracking purposes, but not for reporting purposes. Therefore, the reserve for uncollected interest must be deducted from the accrued interest on the TFR; it is not a specific valuation allowance or a charge-off, but rather a direct offset.

[TOP]

Q&A No. 77
SUBJECT: LOANS COLLATERALIZED BY ACCOUNT RECEIVABLES
Line: PD10 through PD30
Date: September 15, 1999
Question: An institution has revolving commercial loans (no maturity) collateralized by account receivables. The amount of the loan is governed by the size of the collateral. The receivables used for collateral can fluctuate daily. If the debtor of the account receivable becomes past due on the monthly payment, the interest and principal amount is automatically capitalized to the loan. The commercial borrower can borrow additional funds to finance the past due amounts, limited by the maximum loan amount specified in the loan agreement with the institution. Should these loans be reported on PD, and would they be considered TDR?
Answer: No. The loan would be reported on PD only if the commercial borrower were delinquent. As long as the commercial borrower is meeting the terms of its loan with the institution, the loan is not delinquent. This loan would only be TDR if the loan between the institution and the commercial borrower were TDR. The TDR status of the underlying collateral does not cause the loan with the institution to be TDR.

[TOP]

Q&A No. 78
SUBJECT: FLOATING RATE CMO VALUATION
Line: CMR351, CMR352, CMR359, CMR361, CMR367, CMR368
Date: September 15, 1999
Question: When valuing floating-rate CMOs using Bloomberg, is the pricing on the FMED screens acceptable for self-reporting on Schedule CMR?
Answer: No, the FMED screens help you to determine if derivative mortgage securities are "high-risk." However, this screen does not give accurate prices on floating-rate CMOs, since the prices do not properly take account of the caps and

floors embedded in these instruments. As an alternative, Bloomberg's FSPM or FSPD screens should be used to price these securities, since they explicitly account for the caps/floors.
The pricing methodology of either of the latter screens is consistent with OTS requirements for Schedule CMR. However, the FSPM screen uses Bloomberg median prepayment assumptions. The FSPD screen allows the user to customize prepayment assumptions.
For more complete information, see CEO Letter Number 55, April 30, 1996, Subject: CMO Floaters, and attachments, which is available on OTS' website at http://www.ots.treas.gov/docs/r.cfm?25055.pdf.

[TOP]

Q&A No. 79
SUBJECT: COMPLEX SECURITIES
Line: CMR485
Date: September 15, 1999 (Revised May 16, 2001)
Question: The CMR Instructions now classify Federal Home Loan Bank (FHLB) callable securities as "complex securities," and they are now reported on CMR485 rather than CMR473. Can a small institution use rate shock valuations provided by the FHLB for these securities?
Answer: Yes, the institution can use valuations provided by FHLBs. For other types of securities, the institution would have to get a valuation from a source other than the issuer or the dealer from whom the security was purchased.
NOTE: Effective with the March 2001 report, CMR485 was deleted. You must report market value estimates of complex securities in the CMR section Supplemental Reporting of Market Value Estimates.

[TOP]

Q&A No. 80
SUBJECT: SERVICING ESCROWS
Line: SC783, CMR777, CMR779, CMR786
Date: September 15, 1999
Question: An institution currently has $24 million of P&I and T&I escrows on loans serviced for others. The institution deposits the escrows in accounts at the Federal Home Loan Bank. Because the Federal Home Loan Bank is a depository institution, should the $24 million be reported on SC783 or SC796? If the answer is SC796, how should the amount be reported on CMR? Should they be reported as escrows on loans serviced for others, or should they be reported as Miscellaneous I liabilities?
Answer: Servicing escrows are held in safekeeping for others and as such must be included in Escrows, on SC783. For deposit insurance purposes, escrows are considered a subset of deposits; that is, they are insured as deposits and are included in the deposit premium assessment base. It is irrelevant what the

institution does with the funds once they are deposited with them. The issue is the relationship between the institution and the depositors of the escrows.
Servicing escrows should be reported on CMR as follows:

CMR777:	Tax and insurance escrows on single-family mortgages serviced for others;
CMR779:	Tax and insurance escrows on all other loans serviced for others;
CMR786:	Principal and interest escrows on all loans serviced for others (single-family, multi-family, consumer loans, etc.)

[TOP]

Q&A No. 81
SUBJECT: Bank-Owned Life Insurance (BOLI)
Line: SC690
Date: December 1, 1999
Question: Question: Can bank-owned life insurance be reported in "Other Investments" so that the income can be included in our net interest margin?
Answer: It is only permissible for a savings association to hold BOLI if it is incidental to banking. That is, if it is useful in connection with the conduct of a saving association's business. This would include insurance for key-persons, on borrowers, purchased in connection with employee compensation and benefit plans, or the cash value of life insurance taken as security for a loan. As such, it is more appropriately reported as an "other asset" rather than an investment. Income from BOLI should be reported as noninterest income.
[TOP]

Q&A No. 83
SUBJECT: Aggregate Amount of all Extensions of Credit
Line: SI590
Date: December 1, 1999
Question: An institution has made loans to executive officers and has sold portions of the loans. Should the loans be reported net of the portion sold or gross?
Answer: If the institution holds no recourse on the loans, they should be reported net of the portion sold.
[TOP]

Q&A No. 84
SUBJECT: Participated Lines of Credit
Line: CC410 CC420
Date: December 1, 1999

Question: An institution is the issuer of credit card loans. Approximately 20% of that is participated out to a bank. The thrift settles daily with the bank on any changes in loans simultaneously with their credit card processor. In other words, when the bank's loans increase, the thrift initially funds that increase but immediately obtains funding from the bank as their participating share.
The question is how to report the unfunded lines of credit on those accounts for which the thrift is the issuer but the participating bank is the owner. Should the thrift report the unfunded lines on just the accounts they own, or do they report on the entire portfolio as the issuer?
Answer: As long as the thrift has a firm, noncancelable contract with the bank for all of the unfunded lines, they should report only their share of the unfunded lines. If they have a contract with the bank covering only the funded lines or if the bank can cancel at any time, then they should report the entire unfunded lines.
[TOP]

Q&A No. 85
SUBJECT: Complex Securities
Line: CMR485 CMR962:968
Date: December 1, 1999
Question: An institution has several securities from the FHLB with call options that were reported as structured securities and rate-shocked on the June TFR. However, some of these securities were callable once, have passed their call date as of September 30, and are no longer callable. Should these continue to be reported as structured securities, or can they be considered simple securities now that the call option has lapsed?
Answer: Once the call option has expired and they are no longer callable, they should be considered simple securities for Schedule CMR purposes.
[TOP]

Q&A No. 86
SUBJECT: Loan-To-Value (LTV)
Line: CCR
Date: March 15, 2000
Question: When reporting loans on Schedule CCR, if the loan meets all the criteria for 50% risk-weighting except the LTV, but we have a firm commitment to sell, must the loan be risk-weighted at 100% or are there any exceptions?
Answer: If the LTV exceeds 80%, the loan must be risk-weighted at 100%. There are no exceptions for loans with a firm commitment to sell.
[TOP]

Q&A No. 87
SUBJECT: Accrued Interest Payable on Deposits Included in Liquidity
Line: SI500
Date: March 15, 2000

Question: Can accrued interest payable on deposits that has not been credited to the depositor's account be included in the liquidity base for calculation of the liquidity ratio? It is reported on SC763, Accrued Interest Payable - Deposits.
Answer: Yes. It is helpful for thrifts to add accrued interest to the denominator as it lowers their liquidity ratio. Because the regulation specifies that associations should add accrued interest to the numerator, we consider it appropriate that the denominator be treated the same way. This would apply to deposits and borrowings.
[TOP]

Q&A No. 88
SUBJECT: Commitments on CMR
Line: CMR-OBS
Date: March 15, 2000
Question: According to the CMR instructions, a commitment is considered firm when there is a rate lock at the time of approval. If an institution sets the rate at "LIBOR + 3" at approval, is that a rate lock and therefore a firm commitment? On one hand, it would seem so, but the actual numerical rate won't be set until the loan is closed. But if it is a firm commitment, what do they use for the rate in column #4 when reporting the off-balance-sheet item?
Answer: In the current CMR we don't consider this to be a reportable rate lock because the interest rate is free to change prior to the loan's closing. You should consider the commitment firm only if the rate is locked at a specified numerical level (e.g., 7.5%).
[TOP]

Q&A No. 89
SUBJECT: Calculation of LTV Ratios for Single-Family Residential Mortgages
Line: CCR4460 and CCR 505
Date: March 15, 2000
Question: LTV ratios must be considered in determining whether or not single-family residential mortgage loans qualify for 50 % risk weighting on Schedule CCR. If an existing property is purchased at a price lower than the appraised value, which value should be used in the calculation of the LTV ratio? This distinction in the definition of "value" can be material for institutions that routinely grant loans in which purchase prices are significantly below the appraised values.
Answer: The value used in the LTV ratio for risk-weighting purposes should be the lesser of the purchase price or the appraised value.
[TOP]

Q&A No. 90
SUBJECT: Floating Rate Balloon Note
Line: CMR

Date: March 15, 2000
Question: An institution has a first mortgage 1-4 family real estate loan that floats daily with Wall Street prime - not a true ARM - and is also a balloon note. Where is this reported on CMR?
Answer: The mortgage should be reported in the current market index, "6 Month or Less" column. Because it's not indexed to Treasury, LIBOR, or COFI, the instructions on page 183 for reporting its margin apply. The WARM is based on the time until the balloon payment is due. The time until the next payment reset is based on how often the payment changes. (Even though the interest accrual rate changes daily, I assume the payment changes less frequently, say monthly.)
[TOP]

Q&A No. 91
SUBJECT: Available-For-Sale Loans
Line: CMR
Date: March 15, 2000
Question: Can loans held for sale be reported in the 30 day repricing category in the appropriate CMR bucket? That is, can the "next reset" be said to be at the end of the next month since they are supposed to be priced to market each month until the sale date?
Answer: No, assets must be reported according to their actual contractual characteristics, including interest rate reset date, not according to when the institution plans to sell it. While assets available for sale are reported on the balance sheet at fair value, on Schedule CMR we collect the amount of outstanding principal and need the actual contractual terms to estimate the market value of those assets in several different interest rate environments.

[TOP]

Q&A No. 93
SUBJECT: Farm Loans
Line: SC250, SC260
Date: March 15, 2000
Question: The general instructions for real estate loans discuss the issue of the collateral having more than one use. When the collateral has a residence with more value than the remaining acreage, is this a farm loan or a residential loan in spite of any farming activity? Is there any "size" of acreage that would automatically make the loan a farm loan?
Answer: There are no hard and fast rules on the definition of farm land. However, if the value of the home equals or exceeds the value of the remaining acreage, the loan may be classified as residential. There is no size of acreage that would automatically make the loan a farm loan.
[TOP]

Q&A No. 94
SUBJECT: Callable CDS
Line: CMR
Date: March 15, 2000

Question: A thrift offers a callable certificate of deposit product. The customer may hold the CD at a fixed rate for 5 years but the thrift may call the CD at anytime after 1 year. How is this reported on the CMR in terms of original and remaining maturity (CMR Section Fixed Rate Fixed Maturity Deposits)?

Answer: The preferred way to report this CD is to report the maturity as 5 years and report the value of the call option in the Reporting of Market Value Estimates, in CMR942 through CMR948. However if you do not have the value of the call option, you can report the CD as fixed rate, fixed maturity with the call date as the maturity. Please note that providing the OTS with the market value estimate of the call option will result in more accurate results from the interest rate risk model.

[TOP]

Q&A No. 95
SUBJECT: Dollar Roll Clearing Account
Line: Schedule SC
Date: March 15, 2000

Question: An institution finances the purchase of MBSs with reverse repos. Each month that the dollar roll is not settled, they either remit or receive the difference between the buy and new sell prices. This amount is recorded in a "Dollar Roll Clearing Account." Where is the clearing account reported on the TFR?

Answer: The clearing account is a due to/from broker account and should be reported in Other Assets or Other Liabilities, as appropriate.

[TOP]

Q&A No. 96
SUBJECT: LTV-Deferred Loan Fees
Line: Schedule CCR
Date: March 15, 2000

Question: When reporting loans on schedule CCR, if the loan meets all the criteria for 50% risk-weighting except the LTV, but the deferred fees (e.g. "points") would reduce the LTV from 81% to 79%, would this loan qualify for 50% or 100% risk-weighting?

Answer: In this case, the loan would be risk-weighted at 50%. Loans may be risk-weighted at recorded investment, which is the principal balance adjusted for certain amounts, including deferred loan fees, premiums, and discounts.

[TOP]

Q&A No. 97
SUBJECT: Leasing Activities
Line: SC306, SC330, and SC690

Date: June 5, 2000
Question: The Home Owners' Loan Act (HOLA) and OTS regulation 12 C.F.R. 560.41 authorize thrifts to engage in two types of leasing activities: finance leasing and general leasing. Does the institution's elected HOLA investment authority for a lease determine the classification for reporting purposes? For example, could a general lease for HOLA investment authority purposes be one that must be accounted for in the Thrift Financial Report (TFR) as a direct financing lease?
Answer: Regardless of which HOLA investment authority the institution elects, it must report leases in the TFR in accordance with generally accepted accounting principles (GAAP). Under SFAS No. 13, "Accounting for Leases," a savings association as a lessor will generally account for a lease as either an operating lease or direct financing lease (sometimes referred to as a capital lease), depending on the lease terms. For an operating lease, the institution should report the property leased to others on TFR line SC690, "Other Assets", using code 10. In contrast, for a direct financing lease, the institution should not report the property leased to others as an asset. Rather, the institution should report the lease receivable as an asset, because the accounting for a direct financing lease is similar to that for a loan. Specifically, for a direct financing lease, the institution should report the lease receivable on either TFR line SC306, "Commercial Loans: Direct Financing Leases", or TFR line SC330, "Closed-end, Consumer Loans: Other, Including Leases". The institution's elected HOLA investment authority for a lease will not necessarily determine the classification for reporting purposes. For example, a general lease for HOLA investment authority purposes could be a lease that must be accounted for under GAAP as a direct financing lease.
[TOP]

Q&A No. 98
SUBJECT: Auto Leases
Line: SC330
Date: June 5, 2000
Question: An institution is planning to start an auto lease program. It appears that these leases will be reported as direct financing leases on SC330 - Other Consumer Loans, Including Leases. What happens if a lessee returns an auto either at the maturity of the lease or prior to term after paying off the lease contract? It is not repossessed, but returned. Should it be reported in Other Assets, SC690, or Other Repossessed Assets, SC430?
Answer: If the terms of the lease are met, the auto should be reported in Other Assets, SC690, as Code 10. However, if the institution assumes physical possession of an auto because the terms of the lease are not met, the auto should be reported as Other Repossessed Assets on SC430.
[TOP]

Q&A No. 99
SUBJECT: Closed-End Home Equity Loans
Line: SC316

Date: June 5, 2000
Question: An institution has a closed-end home equity loan. The car for which the loan proceeds were used also collateralizes the loan. Is this loan categorized on the TFR by purpose as an automobile loan or as a home equity loan?
Answer: If the auto substantially secures the loan, and the lien on the home is taken merely as an "abundance of caution," the loan should be reported as an auto loan on SC323.
[TOP]

Q&A No. 100
SUBJECT: Uninsured Deposits
Line: DI210
Date: Revised July 5, 2006
Question: An institution has CDs over $100,000 that are structured as follows:
1. Public funds secured by stand-by letters of credit issued by FHLB;
2. Public and private funds Insured by private deposit guaranty bonds; or
3. CDs used for loan collateral, which if the bank were closed, would be netted against the loans and would not create a claim against the FDIC.
Are any of these reported as "uninsured deposits" on DI210?
Answer: Yes, all three of these should be reported on DI210. While it is correct that there may be some special treatment of these deposits in the event of the institution's failure, the amounts of these deposits in excess of $100,000 are uninsured under the deposit insurance laws and regulations.
[TOP]

Q&A No. 101
SUBJECT: QTL for Trust-Only Charters
Line: SI581, 582, 583
Date: June 5, 2000
Question: Are institutions with trust-only charters required to calculate QTL?
Answer: Yes. All OTS chartered savings associations must comply with QTL regulations unless they have a specific statutory exemption.
[TOP]

Q&A No. 102
SUBJECT: Fee Income on Individual Security Sales
Line: SI860
Date: June 5, 2000
Question: An institution maintains a financial services office that sells mutual funds to customers as well as individual equity securities. The financial services office receives a commission on every securities transaction. Should this income be included on line SI860 (Fee Income from the Sale and Servicing of Mutual Funds and Annuities), even though the sale is of an individual stock rather than a mutual fund or annuity as the instructions refer? Evidently, several stock transactions have

occurred, but obtaining a query of the individual commissions from the customers is burdensome.
Answer: No, do not include commissions on sales of individual equity securities. Only fee income from mutual fund and annuity sales and servicing should be reported on SI860.
[TOP]

Q&A No. 103
SUBJECT: Mutual Fund Referrals
Line: Schedule FS, SI805:860
Date: Revised July 5, 2006
An institution has a financial services department as a subsidiary. This department receives fees for setting up stock and equity mutual fund accounts for walk-in customers. The assets are entrusted to a third party corporation. The consolidated subsidiary of the institution receives a 20% commission for the referral. The customer makes the investment decision, while the financial services department acts as a conduit. They do not file an ARTA report with the FDIC.
Question 1: Should accounts such as that described above be reported as trust assets on Schedule FS?
Answer 1: The type of activity described does not appear to be an activity requiring trust powers; therefore, it would not be included on the TFR or the ARTA.
Question 2: Should these accounts be reported with mutual fund and annuity sales on SI810:860 even though the association is merely a conduit for the third party?
Answer 2: Yes. The amount of sales should be reported on SI810:860. In addition they should report the amount of income (referral fee) on SI860.
[TOP]

Q&A No. 104
SUBJECT: Qualifying Multifamily Mortgage Loans
Line: CCR465
Date: June 5, 2000
Question: The CCR instructions for qualifying multifamily mortgage loans require three criteria to be met for grandfathered loans (from March 18, 1994 forward) to qualify for 50% risk-weighting. Assume that the LTV ratio is satisfied but that the occupancy rate has fallen below the minimum 80% requirement since 3-18-94. Can the institution include these loans in the 50% risk-weight category if the average annual occupancy rate has increased over time to exceed 80% for the past year?
Answer: Yes. If a multifamily property does not qualify for 50% risk weight one year, it can still qualify in future years. It does not have to continuously qualify.
[TOP]

Q&A No. 105
SUBJECT: Callable Bond Past Call Date

Line: CMR485
Date: June 5, 2000
Question: An institution has a bond that was callable that they reported on CMR485. The call date passed without the bond being called. Should it be moved out of the structured securities line and reported as if it were now a fixed-maturity bond?
Answer: Yes, if the security is no longer callable, it should be moved out of CMR485.
[TOP]

Q&A No. 106
SUBJECT: Face Value of Liabilities with Options, Edit R960
Line: CMR950
Date: June 5, 2000
Question: The CMR instructions state: "reporting of market value estimates is optional for liabilities such as callable bonds". The instructions also state: "If the reporting savings association chooses to report its estimates of the market value of options on liabilities, it should also report, in CMR950, the principal value of the liabilities in which those options are embedded. Otherwise, leave CMR950 blank." If the institution does decide to rate shock their FHLB callable bonds, is it mandatory that CMR950 be completed for the principal value of the underlying liabilities? If so, must CMR945 always be less than 40% of the base case value on CMR950, as indicated in the TFR edits?
Answer: Yes, CMR950 should be completed if anything is reported in CMR942 through CMR948. There might be cases where CMR945 exceeds 40% of CMR950, but it would be unusual for the value of the embedded option to reach that large a size. The most likely reason for an edit to be triggered for a callable bond is that the institution may be reporting the estimated market value of the bond in CMR942-948, rather than the value just of the embedded call option.
[TOP]

Q&A No. 107
SUBJECT: Convertible FHLB Advances
Line: CMR942:948
Date: June 5, 2000
Question: How should a ten-year convertible advance from the Federal Home Loan Bank be reported on CMR where a call option exists? The FHLB may call the bonds on any quarterly payment date. If the market interest rates should rise by over 25 basis points from the current levels, the bonds would probably be called. Q&A No. 94 refers to callable CD's, but would convertible advances be treated in a similar manner?
Answer: To report callable FHLB advances follow the instructions for Schedule CMR on page 216.
Callable borrowings: Callable borrowings are fixed-rate, fixed maturity borrowings that can be called by the issuer at certain dates before the borrowings'

maturity date. Report the remaining maturity of callable borrowings using **either** Option 1 or Option 2, below.
Option 1: Report the remaining maturity of the borrowings based on their stated maturity, and report in CMR942 through CMR948 the market value of the call option in the seven interest rate scenarios.
Option 2: Report the remaining maturity of the borrowings based on their next call date.
In addition refer to the guidance in Thrift Bulletin 13a-1 concerning market value estimates for structured advances.
[TOP]

Q&A No. 108
SUBJECT: Balloon Loans
Line: CMR
Date: June 5, 2000
Question: The loan review of an institution discloses that they originate single-family balloon loans; however, these loans are reported on section CMR as adjustable mortgage loans. I am not positive if these should be reported as balloon loans or adjustable mortgage loans on CMR.
An example of one of these loans is as follows:
$72,000 Loan - 7.75% fixed for a one-year term, with a 20-year amortization.
The note calls for the entire indebtedness to be paid in full in one year. After each year the loan extends for another year at the institution's current loan rate. The note also states that if the borrower makes any prepayments within the first 5 years of the loan a prepayment penalty will apply. My understanding is that management is not charging customers a prepayment penalty if they pay off the loan at the renewal period each year. However, if they prepay during midyear, in the first 5 years, then a prepayment penalty will be charged.
At each yearly renewal, the loan is given the then-current loan rate for new loans. The managing officer states that they have always renewed these loans each year; however, they reserve the right to refuse to renew a loan.
Where should these loans be reported?
Answer: The loan described here is referred to in the Schedule CMR instructions as a "call loan" (page 179, item 4 near the bottom of the page). A call loan is categorized as fixed or adjustable rate based on the frequency with which it may be called. If it is subject to call (and thus potential coupon reset) at least every 5 years, it is reported as an ARM (see item 3 under "Include" on page 181); otherwise as a fixed rate mortgage.
[TOP]

Q&A No. 109
SUBJECT: Defered Tax Credits
Line: SC50, SC690/SC790
Date: September 11, 2000
Question: An institution receives tax credits for investing in a joint venture

partnership with limited liability. The participating parties comprise other financial institutions that are investing in the California Affordable Housing Fund. Tax credits are received as a benefit for participating in this fund. Where should this investment be reported on the TFR? Where should the deferred tax credits be reported?

Answer: The investment should be reported on SC50, Equity Investments Not Subject to SFAS No. 115. The deferred tax credits should be reported as a deferred tax asset component of the institution's deferred taxes.

[TOP]

Q&A No. 110
SUBJECT: FHLB Non-Interest-Earning Deposits
Line: SC162
Date: September 11, 2000

Question: An institution is reporting FHLB non-interest-earning accounts on line SC162 (Interest-earning Deposits in FHLBs) and on CMR461 (Cash, Non-interest-earning Demand Deposits, Overnight Fed Funds, Overnight Repos). These deposits are used to compensate for money needed to pay for wires, ACH drafts, sweep transfer funds, swap pools, regular deposits from branches, lock box fees, direct deposit transfers and in-clearing check processing. If any money remains after clearing items are paid, then the extra funds are transferred to an interest-earning account. The institution is classifying the non-interest-earning account on line SC162, because it is a deposit with the Federal Home Loan Bank.

Typically, items reported on SC162 should also be reported on line CMR476, with interest-earning deposits. However, because the time deposits are non-interest-earning, the institution is reporting them on line CMR461. Should line SC162 include non-interest-earning FHLB deposits even though the title of the TFR line is "Interest-earning Deposits in FHLBs"?

Answer: It is acceptable to report this account on SC162; although, if the account is material, it should be reviewed by an examiner. The reporting in CMR with cash items on CMR461 is also appropriate.

[TOP]

Q&A No. 113
SUBJECT: QTL - Loan Pools
Line: SI581, 582, 583
Date: September 11, 2000

Question: Are investments in pools of loans or securities backed by or representing an interest in education loans or small business loans eligible to be included as qualified thrift investments?

Answer: Yes. Since education loans and small business loans count without limit, investments in pools of loans or securities backed by such loans also count without limit.

[TOP]

Q&A No. 115
SUBJECT: Exchange Rate Contracts
Line: CMR Off-Balance Sheet Positions
Date: September 11, 2000
Question: If an institution is involved in exchange rate contracts, what contract code should be used to report these off-balance sheet items on CMR?
Answer: Exchange rate contracts are not reported on Schedule CMR because they are not interest rate sensitive.
[TOP]

Q&A No. 116
SUBJECT: Risk-Weighting Accrued Interest
Line: CCR
Date: December 19, 2000
Question: How should we risk-weight accrued interest? Should we include it with the asset or risk-weight it at 100%?
Answer: You may risk-weight accrued interest with the asset against which it was accrued. However, if you cannot easily break out your accrued interest by asset type, you may risk-weight it at 100%.
[TOP]

Q&A No. 117
SUBJECT: Overdrafts in Cash Accounts
Line: CMR675
Date: December 19, 2000
Question: Where should we report an overdraft in the thrift's cash account (negative cash balances) on Schedule CMR?
Answer: In Schedule CMR you should report negative cash balances on CMR675. If this is the only amount for which you report a WAC on CMR678, you should report a WAC of one basis point (0.01%). Likewise, if this is the only amount for which you report a WARM on CMR711, you should report a WARM of one month.
[TOP]

Q&A No. 118
SUBJECT: Money Market Mutual Funds
Line: SC140
CMR461
Date: December 19, 2000
Question: Where should we report Money Market Mutual Funds owned by the savings association in Schedule SC and CMR?
Answer: Report money market mutual funds as follows:
Schedule SC on SC140 (Equity Securities Subject to SFAS No. 115)
Schedule CMR on CMR461 (Cash, Non-interest-earning Demand Deposits,

Overnight Fed Funds, Overnight Repurchase Agreements) - see the instructions for CMR464.
Because you do not report money market mutual funds on CMR464, you do not report them on CMR582 (Equity Security & Non-mortgage-related Mutual Funds).
[TOP]

Q&A No. 119
SUBJECT: Risk Weighting Interest-Rate Contracts
Line: CCR
Date: December 19, 2000
Question: Per CCR instructions, under Credit Equivalent Amount of Interest-Rate and Exchange-Rate Contracts, we require an association to risk weight the replacement cost of interest-rate contracts. Does this pertain to interest-rate contracts entered into, but not yet effective?
Answer: Yes. If they are entered into, they are off-balance-sheet items, and therefore are a part of the savings institution's risk-weighted assets. You should follow the instructions for off-balance-sheet assets 12 CFR 567.6(a)(2)(v). You may also look at the instructions for the conversion of off-balance-sheet assets in Schedule CCR in the Thrift Financial Report Instruction Manual.
[TOP]

Q&A No. 120
SUBJECT: Qualifying Multifamily Loans - Assumption
Line: CCR465
Date: December 19, 2000
Question 1: If a different borrower assumes a "grandfathered" qualifying multifamily mortgage loan, can the institution continue to risk-weight the loan at 50 percent? ("Grandfathered" is an informal term that refers to a multifamily mortgage loan that met the definition of Qualifying Multifamily Mortgage on March 18, 1994, and continues to meet those requirements. March 18, 1994 was the effective date of a change in the definition for Qualifying Multifamily Mortgage.)
Answer 1: Yes, provided that: (a) OTS examiners do not take exception to the underwriting or the assumption transaction, and (b) there is no adverse information about the new borrower or the security property. If the savings institution advances new funds at the time of the assumption, OTS will generally view the assumption as a new loan for this purpose, in which case it will not receive the capital treatment of a grandfathered loan. There may be some exceptions for an immaterial amount of new funds.
Question 2: If a multifamily loan qualifies for a 50 percent risk-weight under the current rule and a different borrower assumes the loan, can the institution continue to risk-weight the loan at 50 percent using the loan and property history prior to assumption, as long as it continues to meet the qualifying criteria?
Answer 2: Yes, provided that, (a) OTS examiners do not take exception to the underwriting or assumption transaction, and (b) that there is no adverse information about the new borrower or the security property.

[TOP]

Q&A No. 121
SUBJECT: Write-Down of Beneficial Interessts Pursuant to EITF Issue No. 99-20
Line: Schedule SO
Date: March 27, 2001
Question: As a result of applying the consensus in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," we will recognize an other-than-temporary impairment of our beneficial interests in securitized financial assets. We will report this impairment by writing down the beneficial interests to fair value, with a corresponding charge to earnings. Where on Schedule SO should we report this charge?
Answer: If, prior to the impairment charge, you treated the beneficial interests as interest-bearing assets, then you should include the charge to earnings on line SO321, Net Provision for Losses on Interest-Bearing Assets. You treated an asset as interest bearing if you included the related income on line SO11, Total Interest Income. On the other hand, if you treated the beneficial interests as non-interest-bearing assets, then you should include the charge to earnings on line SO570, Net Provision for Losses on Noninterest-Bearing Assets. You treated an asset as noninterest bearing if you included the related income in line SO40, Total Noninterest Income.
[TOP]

Q&A No. 122
SUBJECT: SFAS No. 115 Adjustments in Cash Flow Amounts
Line: CF148 and CF158
Date: Revised July 5, 2006
Question: When calculating the cash repayment of principal on CF148 and CF158 should we include adjustments we make to the balances for the mortgage pool securities for unrealized gain and losses?
Answer: Yes. We determined that most institutions are including SFAS No. 115 adjustments with the cash repayments on CH148 and CF 158 and have amended the instructions for March 2001 to reflect actual practice. We will change the caption of CF148 and CF 158 on the March 2002 form.
[TOP]

Q&A No. 123
SUBJECT: Interpretation of Q&A No. 72 - Single-Family Construction Loans
Line: SC230, SC235
Date: March 27, 2001
Question: We are having an interpretation problem with Q&A No. 72. In our construction loans we have 20 houses in the same subdivision on one mortgage

issuing partial releases as each home is sold and closed. The purpose of the loan is clear, as well as, use of its proceeds - funds are used to build free-standing, single-family detached houses that are for sale to the general public. Should we classify these as multi-family or as single-family construction loans?
Answer: Q&A No. 72 applies to permanent mortgage loans. It was not intended to apply to construction loans. The instructions for SC230, Construction Loans on 1-4 Dwelling Units, respond to your question. Item number 1 under Include states: "Construction loans to developers secured by tracts of land on which single-family houses, including town houses, are being constructed." A master loan to a builder to build single-family homes should be classified on the TFR as a single-family construction loan.
[TOP]

Q&A No. 124
SUBJECT: Combining Junior and Senior Loans for LTV Delinquency Reporting
Line: LD210 through LD260
Date: June 13, 2001
Question: Schedule LD instructions state:
"In determining the LTV ratio, you must combine all loans secured by the same property regardless of whether you classify the loan as a mortgage or consumer loan in Schedule SC. If you hold a junior lien, you must include all liens senior to your lien in the LTV calculation, even if you do not hold all the senior liens."
Must we combine a junior loan that is delinquent with a senior loan that is current in reporting the amount of delinquent high LTV on Schedule LD?
Answer: No. You report only the loan that is delinquent in the past due and nonaccrual section. However, you must report the combined loans in the high LTV balances if combined they meet the criteria for high LTV loans.
[TOP]

Q&A No. 125
SUBJECT: Partial PMI
Line: Schedule LD
Date: June 13, 2001
Question: Certain insurances and government guarantees do not cover the entire recorded investment. Is it correct that **any** level of insurance on loans originated at greater than 90% LTV will exempt them from being reported on this schedule?
Answer: No. For loans insured by PMI, the loan does not have to be reported provided the insurance will cover first loss down through 90% LTV. For example, if a loan is originated for 95,000 on a 100,000 property and it is covered by 75% PMI, the PMI will cover the loss down to $71,250 (75% of 95,000). This brings the uninsured loan down to 71% LTV, a level less than 90%, and the loan does not have to be reported. However, if the loan is covered by other insurance where the lender takes the first loss, then the entire loan balance must be reported. An example of this is when the insurer covers 75% of the loss of a high LTV loan and

the lender must cover the first 25% of the loss. In this situation the entire loan balance must be reported as high LTV.
[TOP]

Q&A No. 126
SUBJECT: Original vs. Current LTV Calculation
Line: Schedule LD
Date: June 13, 2001
Question: Should we report all outstanding recorded investments in loans that had been originated at LTVs in excess of 90% regardless of their current calculated LTV?
Answer: No, report only loans where the current balance is equal to or greater than 90% LTV based on the appraisal or evaluation at origination. A more recent appraisal or evaluation may be used if available and if it meets your institution's own appraisal standards and the appraisal standards of OTS regulations.
[TOP]

Q&A No. 127
SUBJECT: High LTV Loan Participations
Line: Schedule LD
Date: June 13, 2001
Question: If a high LTV loan is participated out and the institution retains a portion of the loan, would the sale and the remaining participation be reported as high LTV?
Answer: Yes, the portion retained by the institution would be reported on Schedule LD and the sold participation would be reported as a sale in the quarter in which it was sold.
[TOP]

Q&A No. 128
SUBJECT: LTV - Decrease in Property Value
Line: Schedule LD
Date: June 13, 2001 (Revised November 6, 2001)
Question: If an institution is aware of a decrease in the value of property securing a loan, even though the bank has not changed the terms of the loan or received a new appraisal, should they change the appraisal value in the system and report the loan as a high LTV loan?
Answer: No. LTV is typically calculated at origination, based on the total loan commitment divided by the value of the collateral. If the LTV increases to in excess of 90% **solely due to a decline in the value of the collateral**, you do **not** have to report the loan on Schedule LD as a high LTV loan.
However, where either (1) the LTV exceeds 90% at origination, or (2) subsequent to origination the loan exceeds 90% LTV because you advance additional funds or you release part of the collateral, then you must report the loan on Schedule LD as

a high LTV loan.
[TOP]

Q&A No. 129
SUBJECT: LTV - Additional Collateral
Line: Schedule LD
Date: June 13, 2001
Question: If a loan does not have PMI or Government guarantee, but has other collateral pledged (such as a certificate of deposit), would it be reported on Schedule LD?
Answer: If the institution or another institution issues a CD to the borrower and you have a validated hypothecation agreement, the CD amount may be reported as additional collateral. Other acceptable collateral is defined in the real estate lending regulations as:
"any collateral in which the lender has a perfected security interest, that has a quantifiable value, and is accepted by the lender in accordance with safe and sound lending practices. Other acceptable collateral should be appropriately discounted by the lender consistent with the lender's usual practices for making loans secured by such collateral. Other acceptable collateral includes, among other items, unconditional irrevocable standby letters of credit for the benefit of the lender."
After appropriate discounting, the other acceptable collateral may be used in the calculation of loan-to-value.
[TOP]

Q&A No. 130
SUBJECT: Disbursements of Lines of Credit
Line: Schedule LD
Date: June 13, 2001
Question: If a revolving home equity line of credit was underwritten with an LTV greater than 90%, should we report every draw over the entire life of the loan in the origination section?
Answer: Yes, report each disbursement, the same as you report them in Schedule CF.
[TOP]

Q&A No. 131
SUBJECT: High LTV Past Due Loans
Line: LD210 - LD260
Date: June 13, 2001
Question: In reporting Past Due and Non-Accrual Balances where multiple extensions of credit have been made on the same property, should we report the entire recorded investment or only the loan that is overdue?
Answer: You report only the loans that are past due.

[TOP]

Q&A No. 132
SUBJECT: High LTV Charge-offs and Sales
Line: LD310 - LD320
Date: June 13, 2001
Question: Should charge-offs and sales be reported if the loan has an LTV greater than or equal to 90% at the time of charge-off, at the beginning of the quarter, or does the LTV calculation revert back to point of origination?
Answer: Charge-offs and sales should be reported on Schedule LD if the loan was reported on schedule LD either in the prior or current quarter.
[TOP]

Q&A No. 134
SUBJECT: Loans on Mixed Use Property or on Two Properties
Line: SC250, SC260
Date: June 13, 2001
Question 1: We have loans secured by both the commercial and residential real estate of a borrower. The residential real estate is a single-family house. Do I report this loan on the TFR, as a non-residential or residential loan?
Answer 1: You should report loans secured by property with more than one use or secured by several properties with different uses, such as residential and commercial, in the data field that describes the property type comprising the largest percentage of the value of the properties securing the loan. If you make a loan secured by commercial property, but take a second on the borrower's home as additional collateral on the loan, the loan should be reported as a nonresidential property loan.
Loans secured by single-family housing with incidental commercial use should be classified as a 1-4 family mortgage loan. However, a house used almost exclusively for commercial purposes in a neighborhood of single-family homes should be classified as a nonresidential real estate loan. For example, a structure originally built as a single-family house that is used as a doctor's office but also has an apartment leased out for living quarters would be classified as nonresidential if the commercial use generates a higher proportion of income than the residential apartment.
Question 2: Would the risk-weighting for capital calculations be the same?
Answer 2: In general, yes. Such loans should be risk weighted based on the classification of the loan in Schedule SC. However, residential loans are 100% risk weight unless they meet either the definition of Qualifying Mortgage Loan or Qualifying Multifamily Mortgage Loan in 12 CFR section 567.1.
[TOP]

Q&A No. 135
SUBJECT: Nonconstruction Bridge Loans

Line: Schedules SC, LD, CCR, and CMR
Date: June 13, 2001
Question: An institution is making nonconstruction "bridge" loans where they provide financing between the purchase of a new home and the sale of the old home. The customer pays interest-only (no principal) until the sale of the old home is closed, at which time the bridge loan is paid off. Where should these bridge loans be reported?
Answer: Typically these loans are secured by a junior lien on one of the residences. If this is the case, the loan should be reported with second mortgages. In Schedule SC these would be reported on SC250, and in Schedule CMR, these would be reported on CMR311 or CMR312. During the time that the bridge loan is outstanding, it must be combined with all other liens on the same property to determine high LTV for reporting on Schedule LD and in determining risk weight for Schedule CCR of the bridge loan and all other liens on the same property held by the institution.
[TOP]

Q&A No. 136
SUBJECT: "Best Effort" Commitments to Sell Loans
Line: CC330
Date: June 13, 2001
Question: Should CC330, Commitments To Sell Loans, include loan sales that are "best effort" commitments? None of the loans that we sell are mandatory commitments. The loans are identified in our system, but if the loan sale is not consummated, there is no exposure for our institution. The TFR Instruction Manual reads, "Report outstanding commitments to sell whole mortgage and nonmortgage loans and participating interests."
Answer: You should report as commitments the amount of loans that you expect to sell pursuant to a "best effort" commitment. This expectation may be based on your past performance and on knowledge of your current portfolio and your existing commitments to originate and purchase loans.
[TOP]

Q&A No. 137
SUBJECT: Combined Loan to Value with New Appraisal
Line: CCR460
Date: June 13, 2001
Question: How would an institution report the combined carrying value when there is a disparity in the appraisal amount on the two loans being combined? For example, a first lien was written for $100,000 five years ago on a property appraised at 150,000. Its outstanding balance is now $90,000. A second lien is written for $50,000, when the new appraisal amount is $200,000.
The combined carrying value is now 140,000, which is less than 80% of the value at the origination of the junior lien, but exceeds 80% of the value at origination of the first lien.

Answer: In general, you should use the more current appraisal in this type of situation. However, the appraisal must meet your institution's own appraisal standards and the appraisal standards of OTS regulations. Appraisals are subject to review by OTS examiners. Note that in order to combine liens for risk weighting purposes, there must be no intervening lien. If there is an intervening lien, you must risk weight the two loans separately.
[TOP]

Q&A No. 138
SUBJECT: Pass-through Securities Backed by Home Equity Loans
Lines: SC185, SC210, SC215
Date: September 10, 2001
Question: On Schedule SC where should we report pass-through securities backed by mortgages that are home equity loans? Some of the home equity loans may not have an appraisal or evaluation, but all are secured by a lien on residential real estate. Prior to securitization, most of these loans would have been classified as nonmortgage, home equity loans.
Answer: Because the loans are evidenced by a lien on the underlying real estate and the securities are pass-through securities, the securities should be reported with pass-through mortgage securities on SC210 or SC215.
[TOP]

Q&A No. 140
SUBJECT: SFAS No. 142 - Amortization of Goodwill
Line: SO560
Date: September 10, 2001 REVISED September 20, 2001
Question: Is it correct that, upon adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", in 2002, we will no longer amortize goodwill?
Answer: Yes, however, not all unidentifiable intangible assets are goodwill for purposes of SFAS No. 142. Most importantly, the unidentifiable intangible asset established pursuant to SFAS No. 72, "Accounting for Certain Acquisitions of Banking and Thrift Institutions", although commonly referred to as goodwill, is not goodwill. Therefore, this asset must continue to be amortized after adoption of SFAS No. 142 in 2002, in accordance with the specialized amortization requirements of SFAS No. 72. (The exact adoption date of SFAS No. 142 in 2002 will depend on your fiscal year-end.) This amortization should be included in line SO560, "Amortization of goodwill". This is significant because all the unidentifiable intangible assets created in most branch acquisitions are SFAS No. 72 unidentifiable intangible assets, and therefore are not goodwill.
Pursuant to paragraph 8 of SFAS No. 142, that Statement does not change the accounting prescribed in SFAS No. 72. Paragraph B19 of SFAS 142 reads:
"The Board decided that this Statement should not change the accounting for an unidentifiable intangible asset recognized in an acquisition of a bank or thrift institution that is prescribed in SFAS No. 72, "Accounting for Certain Acquisitions of Banking and Thrift Institutions". The Board noted that SFAS No. 72 does not refer

to the unidentifiable intangible asset as goodwill, and concluded that it would not be appropriate to account for that intangible asset as if it were goodwill without a full reconsideration of the issues associated with that industry, which is beyond the issues addressed in this Statement."

SFAS No. 72 applies to the purchase method acquisition of a depository institution, including branches of a depository institution, where the fair value of the liabilities assumed exceed the fair value of the tangible and identifiable intangible assets acquired. Under SFAS No. 72, that excess constitutes an unidentifiable intangible asset. However, that asset is not referred to in the Statement as goodwill. SFAS No. 72 goes on to specify an amortization method for the unidentifiable intangible asset.

[TOP]

Q&A No. 141
SUBJECT: Definition of Nonaccrual Status
Lines: Schedule PD
Date: September 10, 2001

Question: Should delinquent loans that management establishes a reserve for uncollected interest be reported as "nonaccrual" on Schedule PD? Is there some technical difference that would not require these loans to be reported as nonaccrual since management uses a reserve instead of placing the loan on nonaccrual on their loan system?

Answer: If interest on a loan is accrued and in the same reporting period the interest is reversed on the income statement by establishment of a reserve, the loan is in nonaccrual status. If a portion of the interest remains on the income statement after establishment of the reserve, then the institution could consider the loan still in accrual status. It does not matter whether they no longer accrue or if they accrue and reverse the accrual; either way they are not reporting income from the loan. If they are not reporting income from the loan, the loan is in nonaccrual status.

[TOP]

Q&A No. 142 Revised
SUBJECT: High LTV Loans *Originated* for Sale
Lines: Schedule LD
Date: September 10, 2001 (Revised October 25, 2001)

Question: The TB72a, "Interagency Guidance on High Loan-to-value Residential Real Estate Lending" states that loans that are to be sold promptly (defined as 90 days from origination), without recourse, to a financially responsible third party may be excluded from supervisory LTV limits. Do these loans need to be reported on Schedule LD if they equal or exceed 90% LTV?

Answer: Thrift Bulletin 72a states:

"As set forth in the Interagency High LTV Statement, the Agencies will generally determine that when a lender sells a newly originated loan within 90 days, it has demonstrated its intent to sell the loan 'promptly' after origination. Conversely,

when a lender holds a loan for more than 90 days, an institution has not demonstrated the intent to sell 'promptly.'"
"The Guidelines state that loans that are to be sold promptly after origination, without recourse, to a financially responsible third party may be excluded from supervisory LTV limits."
Therefore, if these loans have been originated for sale without recourse within 90 days of origination and you have a history of selling loans within 90 days of origination, you are not required to include these loans in Schedule LD. However, any uninsured, high LTV loans originated for sale that are more than 90 days old on the TFR reporting date, must be reported on Schedule LD.
[TOP]

Q&A No. 143
SUBJECT: High LTV Purchases
Lines: LD410, LD420
Date: September 10, 2001
Question: For Purchases (LD 410 and 420) the instructions read: "Report the cost of all high LTV loans...purchased from other entities." What is included in the definition of "cost"?
Also, are purchases reported one time only, not cumulatively, or the total value of purchased loans or pools carried by an institution?
Answer: The cost is the institution's cost to acquire the loans. This would include adjustments for the discount, premium, etc. Purchases are reported for the quarter only; they are not cumulative.
[TOP]

Q&A No. 144
SUBJECT: High LTV Sales
Lines: LD450, LD460
Date: September 10, 2001
Question: When reporting loan data where the loans have been sold, does this mean sold servicing released, sold on the secondary market, or both?
Answer: Sold means any type of sale or other disbursement (other than a charge-off) that removes the loan from the balance sheet, even if servicing or a residual is retained.
[TOP]

Q&A No. 145
SUBJECT: Small Business Loans Secured by Personal Residence
Lines: Schedule LD
Date: September 10, 2001
Question: We have commercial loans that have 1-4 family residential properties as collateral. They have no other collateral. The loans are for small businesses collateralized with their home. Should these loans be considered mortgages for

purposes of Schedule LD?
Answer: In schedule SC they may be reported either as single-family mortgages or as secured commercial loans on SC300. However, because 1-4 dwelling units secure these loans, they must be reported on Schedule LD if the LTV of all loans secured by the property equals 90% or more.
[TOP]

Q&A No. 146
SUBJECT: Liquidity in QTL
Lines: SI581, 582 and 583
Date: September 10, 2001
Question: Line 4 of the QTL worksheet is for Regulatory Liquidity. Since OTS rescinded the regulation for regulatory liquidity, should we disregard this line in the QTL calculation?
Answer: OTS is in the process of revising the QTL worksheet. Line 4 will be recaptioned: Liquidity (cash and marketable securities). The calculation of line 4 is based on the lesser of the thrift's liquid assets or 20% of total assets. We define liquid assets as cash plus marketable securities excluding mortgage-backed securities included on line 12 of the worksheet.
[TOP]

Q&A No. 147
SUBJECT: CCR - Reporting GNMA Mutual Funds
Lines: CCR302, CCR405, CCR450
Date: September 10, 2001
Question: A bank holds $16 million in a mutual fund that is secured by 80% GNMA securities and 20% Treasuries. The investment is available for sale, with a SFAS No. 115 unrealized gain of $300 thousand reported on CCR302. The mutual funds are risk weighted on line CCR40, 0% risk weighting, along with other GNMA securities held. Is this reporting correct?
Answer: Mutual funds, regardless of the portfolio of the fund, may be included with equity securities in determining the amount of the unrealized gain to report in supplemental capital on CCR302. However, mutual funds may not be risk weighted at less than 20%, including those invested in GNMA and Treasury securities. The mutual fund should be reported on CCR450 in 20% risk weight.
[TOP]

Q&A No. 148
SUBJECT: Combined Loan to Value with New Appraisal
Line: CCR460
Date: September 10, 2001
Question: How would an institution report the combined carrying value when there is a disparity in the appraisal amount on the two loans being combined? For example, a first lien was written for $100,000 five years ago on a property

appraised at 150,000. Its outstanding balance is now $90,000. A second lien is written for $50,000 and the new appraisal amount is $200,000.
The combined carrying value is now 140,000, which is less than 80% of the value at the origination of the junior lien, but exceeds 80% of the value at origination of the first lien.
Answer: In general, you should use the more current appraisal in this type of situation. However, the appraisal must meet your institution's own appraisal standards and the appraisal standards of OTS regulations. Appraisals are subject to review by OTS examiners.
[TOP]

Q&A No. 149
SUBJECT: Matured CDs in CMR
Line: CMR771
Date: September 10, 2001
Question: Where should we report CDs that have matured, but have not yet been rolled over in Schedule CMR? They earn no interest.
Answer: You should report them temporarily with demand deposits on CMR771.
[TOP]

Q&A No. 150
SUBJECT: Recalculation of LTV
Line: Schedule LD
Date: December 3, 2001 (Revised May 29, 2003)
Question 1: Are we required to continuously recalculate the LTV based upon current loan balance so that one quarter a loan may be 100 or greater and the next it is 90-99% LTV depending upon the balance at the end of the quarter, or does it stay in one category for life until paid off?
Answer 1: You are not required to recalculate LTV unless the loan is negatively amortizing. However, it may be to your advantage to recalculate when you project the loan might no longer be a high LTV loan. You may move the loan to a lower category as the balance of the loan decreases. If you do not wish to go through the expense of recalculating the LTV, you may continue to report it as a high LTV loan.
Question 2: If we hold a second mortgage where another institution holds the first lien, the LTV calculation only includes the original first mortgage balance at time the second was taken. Do we need get updates from the other institution on what the balance of the first mortgage is each quarter-end for our LTV calculation?
Answer 2: Generally no, you are not required to get the balance of the first mortgage each quarter. You need the balance of the senior mortgage held by another institution only if you wish to recalculate LTV. For example, if the LTV at origination is 98%, it may take some time before the loan falls below 90% with normal amortization. Therefore, you may want to update the balance of the senior lien for LTV calculation only when you project the combined LTV will be below 90%. You are not required to recalculate LTV quarterly unless either the senior or junior liens permit negative amortization and you have reason to believe one of these

loans is negatively amortizing and could potentially put the LTV above 90 percent.
[TOP]

Q&A No. 151
SUBJECT: Construction Loans
Line: Schedule LD
Date: December 3, 2001
Question: Should we include construction loans on 1-4 dwelling unit properties in Schedule LD?
Answer: Yes. You should include all loans, both permanent and construction, secured by 1-4 family residential properties in Schedule LD if they meet the requirements for reporting.
[TOP]

Q&A No. 152
SUBJECT: Construction Loans - Insured or Government Guarantee
Line: Schedule LD
Date: December 3, 2001
Question: Please further define "insured" and "government guarantee" as they relate to FHA/VA underwritten, closed construction loans that are under construction at the reporting date. These loans have not converted to permanent loans. They will not be submitted for final insurance from FHA or VA until rolled over to a permanent loan.
The same scenario applies to conventional construction loans, where as the loan has been underwritten and approved for PMI. The final insurance certificate is effective when the loan rolls over to a permanent end loan.
Answer: Yes. If the loans are not FHA/VA insured and do not have PMI at the date of the report because they have not yet met insurance standards (such as completion of construction and conversion to a permanent loan) and their LTV is 90% or more, they must be included in Schedule LD. They should be included in the balances outstanding, and if originated, purchased, and/or sold during the quarter, they must be reported on the corresponding activity lines. See also Q&A No. 153 for qualifying loans pending FHA/VA insurance.
[TOP]

Q&A No. 153
SUBJECT: FHA/VA Insurance Pending
Line: Schedule LD
Date: December 3, 2001
Question: We originate permanent FHA/VA loans that exceed 90% LTV. However, at the date of the TFR although all papers have been filed, we may not have received the insurance certificate. Should we include these on Schedule LD?
Answer: If the institution has a history of obtaining FHA/VA approval and fully expects to obtain it for the pending loans, the loans do not have to be included in

Schedule LD. See also Q&A No. 152.
[TOP]

Q&A No. 154
SUBJECT: Private Mortgage Guarantee
Line: Schedule LD
Date: December 3, 2001
Question: We have several loans where we have a private party guarantee the portion of the loan exceeding 80%. Do these loans have to be reported on Schedule LD?
Answer: Yes, if the loans have an LTV of 90% or more, they are still high LTV loans, and must be reported on schedule LD.
We only accept guarantees from federal government agencies and only certain PMI policies from established PMI insurance companies. Generally, we will recognize only those insurance companies whose PMI insurance is accepted by Fannie Mae or Freddie Mac.
[TOP]

Q&A No. 155
SUBJECT: Commercial Loans Secured by Deposits
Line: SC300, SC310
Date: December 3, 2001
Question: We have a commercial loan that is secured by a certificate of deposit. Should we report the loan on the TFR as a secured commercial loan on SC300 or elsewhere?
Answer: For the purposes of compliance with HOLA, you can designate the loan as either a secured commercial loan or a loan on deposits, to the extent that it is fully secured by the deposit and you have a lien or a pledge on the deposit securing the loan. Any amount that is unsecured must be designated as an unsecured commercial loan.
For purposes of the TFR, you may report the loan as either a loan on deposit or a commercial loan, but do not split up the loan. If the loan is fully secured by the deposit, you may report it on SC310, Loans on Deposits, or on SC300, Secured Commercial Loans. Otherwise it should be reported on SC303, Unsecured Commercial Loans.
If you want to be able to include this loan in Schedule SB, Small Business Loans, you must report it as a commercial loan on either SC300 or SC303.
[TOP]

Q&A No. 156
SUBJECT: Small Business Loan Limit for QTL
Line: SI581, 582 and 583
Date: March 20, 2002
Question: According to an OTS release from Thursday, December 20, 2001 on the

Internet at http://www.ots.treas.gov/docs/r.cfm?77187.html, OTS has raised the dollar limit in the definition of small business loans under (HOLA) from $1 million to $2 million. For purposes of reporting the Qualified Thrift Lender Test on TFR Schedule SI lines SI581 through SI583, should we now consider "Small Business Loans" as commercial loans that are $2 million or less?
Answer: Yes, for QTL purposes, small business loans are now $2 million or less. However, the definition of small business loans in Schedule SB will remain unchanged from previous periods.
[TOP]

Q&A No. 157
SUBJECT: Purchases Subordinated Securities
Line: Schedules SC, CC, and CCR
Date: March 20, 2002
Question: We recently purchased a $200 subordinated "second loss" mortgage-backed security. Our security is part of a $1,000 security structure, along with a $700 senior security and a $100 "first loss" position, both which are owned by unaffiliated third parties. With respect to risk-based capital, the $200 subordinated security is rated "BB" under the specific criteria of the ratings-based approach in 12 CFR part 567. The security qualifies for the ratings-based approach pursuant to 12 CFR Part 567.6, and the 200% risk-weight applies. How do we report amounts related to the security on the TFR?
Answer: An instrument such as this provides credit enhancement to other instruments, and is subject to specialized regulatory capital treatment. Therefore, in addition to reporting on Schedule SC, you should report amounts related to this instrument on Schedules CC, SI, and CCR, as follows.
Schedule SC
You should report the $200 subordinated security on line SC150, "Mortgage Derivative Securities".
Schedule CC
You should report the $200 subordinated security on line CC465, "Amount of Direct Credit Substitutes on Assets in CC455". In addition, you should report $900 ($200 + $700) on line CC455, "Total Principal Amount of Off-Balance-Sheet Assets Covered by Recourse Obligations or Direct Credit Substitutes".
Schedule SI
You should report the $200 subordinated security on line SI404.
Schedule CCR
You should report $400 ($200 x 2) for the $200 subordinated security on line CCR505, "100% Risk-Weight: All Other Assets", to reflect a risk-weighting of 200%.
[TOP]

Q&A No. 158
SUBJECT: Residual Interests
Line: Schedules SC, CC, SI and CCR

Date: March 20, 2002

Question: We own a $100 nonsecuritized residual interest in the form of a credit-enhancing interest-only strip, as defined in 12 CFR Part 567.1. We recently acquired the residual interest in connection with the origination and securitization of a $1,000 pool of mortgage loans. All of the other beneficial interests in the securitized loans were sold to investors. In addition, we service the $1,000 in loans for the investors. Our Tier 1 capital, prior to any adjustment for this instrument, is $300. As a result, the $100 credit-enhancing interest-only strip exceeds 25% of Tier 1 capital of $75 ($300 x 25%). So, for Tier 1 leverage (core) capital, pursuant to 12 CFR Part 567.12, we must deduct $25 ($100 - $75). In addition, for risk-based capital, pursuant to 12 CFR Part 567.6, we must deduct or otherwise adjust for the remaining $75 ($100 - $25). How do we report amounts related to the residual interest in the TFR?

Answer: An instrument such as this provides credit enhancement to other instruments, is related to an obligation to service loans for others, and is subject to specialized regulatory capital treatment. Therefore, in addition to reporting the residual on your balance sheet on Schedule SC, you should report this instrument on Schedules CC, SI, and CCR, as follows:

Schedule SC, Statement of Condition

You should report the $100 interest-only strip on line SC655, "Interest-Only Strip Receivables and Certain Other Instruments".

Schedule CC, Commitments and Contingencies

You should report the $100 interest-only strip on line CC468, "Amount of Recourse Obligations on Assets in CC455". In addition, you should report $1,000 on line CC455, "Total Principal Amount of Off-Balance-Sheet Assets Covered by Recourse Obligations or Direct Credit Substitutes".

Schedule SI, Supplemental Information

You should report $1,000 on line SI390, "Loans Serviced for Others". (Note: The full $1,000 security is reported as loans serviced for others. See Item 2 in the instructions for SI390.) Also, you should report the $100 interest-only strip on line SI402, "Residual Interests in the Form of Interest-Only Strips".

Schedule CCR, Consolidated Capital Requirement

For Tier 1 leverage (core) capital purposes, you should report $25 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR133, "Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets". The $25 reported here represents a deduction for Tier 1 capital. Also, you should report $25 of the interest-only strip on line CCR170, "Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets". The $25 reported here represents a deduction for adjusted total assets (the denominator in the Tier 1 leverage (core) ratio).

In addition, for risk-based capital purposes, you may elect one of the following methods:

a. Under the "simplified" method, you should report $75 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR375, "Deduction for Low-Level Recourse and Residual Interests". Under this method, CCR64, "Assets to Risk Weight," will not include any amount related to this residual interest. The $75

reported on CCR375 represents a deduction for Tier 1 risk-based and total risk-based capital (the numerators in the risk-based capital ratios), in addition to the $25 deduction reflected on line CCR133.
b. If you elect the "super risk-weight" method, you should report $75 (net of any corresponding deferred tax liability) of the interest-only strip on line CCR605, "Amount of Low-Level Recourse and Residual Interests Before Risk-Weighting". On line CCR62, "Risk-Weighted Assets for Low-Level Recourse and Residual Interests", the electronic filing software will compute $938 ($75 x 12.5). The $938 reported here represents an adjustment for risk-weighted assets (the denominator in the risk-based capital ratios), in addition to the $25 deduction reflected on line CCR133.
[TOP]

Q&A No. 159
SUBJECT: Loans Held For Sale
Line: Schedules SC
Date: March 20, 2002
Question: We recently decided to sell certain mortgage loans 1) that were not originated or otherwise acquired with the intent to sell, and 2) where the fair value has declined below the recorded investment, due to a decline in credit quality. At the time of transfer into the held-for-sale (HFS) account, we reduced the carrying amount of the loans to fair value. Consistent with the March 2001 "Interagency Guidance on Certain Loans Held for Sale" (TR-240), we reflected this reduction as a write-down of the recorded investment, with a corresponding reduction in the allowance for loan and lease losses (ALLL). Accordingly, line SC283, Allowance for Loan and Lease Losses on Mortgage Loans, does not include any amount related to these HFS loans. However, this treatment appears to be inconsistent with the guidance in the December 2001 AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others". Paragraph 8.c. of SOP 01-6 appears to prohibit a write-down prior to the transfer to the HFS account. Is the required treatment for TFR purposes consistent with generally accepted accounting principles (GAAP)?
Answer: Yes. We believe that the required treatment for TFR purposes spelled out clearly in TR-240 is consistent with GAAP. However, we acknowledge that the language in paragraph 8.c. of SOP 01-6 could be interpreted to prohibit the treatment required by TR-240 referred to above. Paragraph 8.c. of the SOP reads: "At the time of the transfer [of the loans] into the held-for-sale classification, any amount by which cost exceeds fair value should be accounted for as a valuation allowance." It is unfortunate that the words "valuation allowance" were used in the statement quoted above from the SOP, rather than the words "reduction in carrying amount". Most GAAP authoritative pronouncements regarding credit loss allowances on loans do not address the timing of write-downs or charge-offs. Unfortunately, the SOP appears to do just that. However, as a result of our discussions with certain AICPA representatives, we understand the following: 1) the statement quoted above from the SOP was not intended to prohibit or prescribe write-downs of the recorded investment (resulting in a new cost basis), prior to the

transfer into the held-for-sale classification; and 2) this clarification will be included in the AICPA's revised industry accounting and auditing guide that applies to savings associations (and various other forms of financial institutions). Accordingly, follow the guidance in TR-240.
[TOP]

Q&A No. 160
SUBJECT: Servicing Escrows
Line: SC783
Date: March 20, 2002
Question: We have demand deposit accounts for tax and insurance escrows and principal and interest custodial accounts that we hold for loans that are serviced by our parent holding company. Should these be reported as deposits or as escrows?
Answer: Because it is your holding company and not the institution itself that has the escrow agreement with the owners of the loans, these accounts should be reported on your balance sheet as deposits. Escrows reported on SC783 should be accounts where the institution is a party to the escrow agreement.
[TOP]

Q&A No. 161
SUBJECT: Qualifying Multifamily Residential Mortgage Loans - Maturity Requirement
Line: CCR465
Date: March 20, 2002
Question: CCR465, 50% Risk Weight of Qualifying Multifamily Residential Mortgage Loans, requires that loans meet all seven of the criteria listed in our TFR instruction manual. Criteria #2 is "Original minimum maturity for repayment of principal on the loan is not less than seven years." Would a loan with a 5 year balloon loan and a 20 year period to full amortization qualify?
Answer: This multifamily residential mortgage loan would not meet the criteria to qualify for 50% risk weighting. The criteria track a federal statute and are very specific as to minimum term.
[TOP]

Q&A No. 162
SUBJECT: Qualifying Multifamily Residential Mortgage Loans - Payment History
Line: CCR465
Date: March 20, 2002
Question: Re: 12 CFR 567.1, Qualifying multifamily mortgage loan.(1)(iii) "When considering the loan for placement in a lower risk-weight category, all principal and interest payments have been made on a timely basis in accordance with its terms for the preceding year;. . ."
We would appreciate your guidance in regard to whether or not loans that have

been on the books less than twelve months, and paid timely, also qualify for the 50% risk-weight.
Answer: We generally look for one year of history because this is in keeping with the statute.
[TOP]

Q&A No. 163
SUBJECT: Investments in Nonoperating Entities
Line: Schedule CMR
Date: March 20, 2002
Question: We recently made an investment in an SBIC (small business investment company). We report it with other investments on Schedule SC, line SC185. How should I report it on CMR? If it is considered a security, then I have to provide a rate and a WAM. However, the SBIC was just created and has not made any loans. We will share on a pro-rata basis in the gains/losses, once the SBIC is up and running. But at this time a yield is indeterminable.
Answer: You may report the SBIC as an other asset (CMR543 - Misc I) until the SBIC is up and going.
[TOP]

Q&A No. 164
SUBJECT: Qualifying Single Family Residential Mortgage Loans
Line(S): CCR460
Date: June 10, 2002
Question: On 5/10/02, a final rule was published in the Federal Register that removed the 80% LTV limit for Qualifying Mortgage Loans. The new definition of Qualifying Mortgage Loans in 12 CFR part 567.1 lists several criteria, including prudent underwriting, relating to the LTV ratio (See the Interagency Real Estate Lending Guidelines at 12 CFR 560.101.)
Would loans with LTV ratios over 90% still qualify for 50% risk weight as long as they conform to the underwriting standards found in the Interagency Guidelines for Real Estate Lending?
Answer: The Real Estate Lending Guidelines urge savings associations as well as other types of banking organizations, to require appropriate credit enhancement if a mortgage exceeds 90% LTV. See 12 CFR 560.101, and the footnote in the section on supervisory loan-to-value limits. While not prescribed by regulation, these guidelines constitute a supervisory presumption of safety and soundness. To overcome that presumption a bank or thrift must demonstrate to the examiners' satisfaction that a loan over 90% LTV is both prudently underwritten, and that it qualifies for the 50% risk weight in spite of the absence of private mortgage insurance or other appropriate credit enhancement. Such a loan would not typically qualify for the 50% risk weight.
[TOP]

Q&A No. 165
SUBJECT: Recourse Rule - 120-Day Exception
Lines(S): Schedule CCR
Date: Revised December 1, 2006
Question: How does the November 2001 Recourse Capital Rule apply to 1-4 family loan sales? And what is the 120-day exception?
Answer: In general, Recourse involves selling assets where:
· You agree to buy the assets back if there is a problem
· You sell the assets with credit-enhancing representations and warranties that reduce credit risk for the purchaser while retaining credit risk for the seller
· You retain servicing and you have an agreement to absorb or otherwise be responsible for losses on the assets you service (with the exception of Servicer Cash Advances as defined)
· You retain a subordinate interest in the assets you have sold
In a simple example where you have sold 1-4 family loans with recourse, you would have to multiply the full amount of the assets you have sold by a 100% conversion factor, effectively bringing them back on your balance sheet for risk-based capital purposes. (See 567.6 for complete detail.)
The 120-day exception allows a contract period during which qualifying single-family mortgage loans may be returned to the seller, without the selling institution having to treat the loan sale as a recourse sale. The return period stipulated in the contract must not exceed 120 days. A sale that allows a return period of 180 days is a recourse sale immediately from the first day. Therefore if you wish to take advantage of the exception, it is important that your contract return periods **do not exceed 120 days.** The 120-day exception applies only to 1-4 family loans originated within one year prior to the sale. The loans must meet the criteria for 50% risk weight according to the definition of "qualifying mortgage loan."
Refer to the definition of Recourse in 12 CFR 567.1 for a more detailed description. In section 567.1 you will also find the definitions of "credit-enhancing representations and warranties," "qualifying mortgage loan", and "servicer cash advance." Note that recourse which qualifies for exclusion on CCR (due to the 120 day exemption rule) must still be reported on CC455 and CC468. Please see Q&A 191.

[TOP]

Q&A No. 166
SUBJECT: Commercial Loans Secured By GNMA Securities
Line: SC300, CCR450, CMR325
Date: June 10, 2002
Question : *We have a commercial loan that is 105% secured by GNMA securities. When I read the TFR instructions my interpretation is this loan should be reported on SC300 Secured Commercial Loans. On Schedule CCR I am interpreting that this loan should be reported on CCR405, Securities Backed by Full Faith and Credit of US Government, since the collateral is GNMA securities. On CMR I will record it on CMR325.*

Answer 1: SC: Yes, you are correct, the loan should be reported on SC300, Secured Commercial Loans, as long as the loan is fully secured.
Answer 2: CCR: The capital regulations include in the **20%** risk weight category, "That portion of assets collateralized by the current market value of securities issued or guaranteed by the United States government or its agencies...". You should report an asset fully collateralized by GNMAs on **CCR 450**, "Other 20% Risk Weight Assets". This treatment only applies to assets issued or guaranteed by the United States government or its agencies and does not apply if the collateral is FNMA or FHLMC securities.
We recommend that you monitor the value of the collateral and require the borrower to provide additional collateral should the value of the securities fall or the loan balance increase. To the extent the loan is not **fully** collateralized by the by the securities, the remainder of the asset would not be 20% risk weighted. It would be risk weighted as an unsecured commercial loan at 100% on CCR505.
Answer 3: CMR: You are correct. This loan should be reported on CMR325 or CMR326, depending on whether it is fixed-rate or adjustable-rate.
[TOP]

Q&A No. 167
SUBJECT: Loan Classification
LINE(S): Schedule SC
DATE: June 10, 2002

Question: *We have both consumer and business loans that are secured by real estate with both a first and second lien. We do not have information available concerning the use of the proceeds of the loan and we do not always get an appraisal (particularly for consumer loans). We look at a recent tax assessment to value the property and to determine the loanable amount. The loan-to-value would be no greater than 80%. Should we classify these loans as mortgage loans?*
Answer: It depends on the size of the loan. If the loan is $250,000 or more, a tax assessment generally would not be sufficient. If the loan is under $250,000, you may use an evaluation pursuant to TB 55a, in which the property's value is determined by market information, including property tax assessments. However, someone in your institution needs to make a determination of the assessment, determine the condition of the property and whether it accurately reflects market value, and then sign and date the evaluation report. You may want to review TB55a, Interagency Appraisal and Evaluation Guidelines, at http://www.ots.treas.gov/docs/84042.pdf and it might be advisable for you to contact your OTS examiner to assist you in determining the classification of your loans.
[TOP]

Q&A No. 168
SUBJECT: Adjustments To Loan Documentation Subsequent To Origination
LINE(S): Schedule LD

DATE: June 10, 2002

Question: *On Schedule LD, if subsequent to origination, but before the reporting date, a correction or amendment is posted to a loan, should we report the loan net of this adjustment, such as PMI added to the loan or a correction of appraisal or purchase price that was entered incorrectly?*
Answer: Yes, you should include corrections and amendments such as the ones you have listed when calculating LTV and report only loans without PMI or government guarantee where the current balance of the loan is equal to or greater than 90% LTV. See also Q&A No. 126.
[TOP]

Q&A No. 169
SUBJECT: QTL Test - Mortgages Originated And Sold
LINE(S): SI581, SI582, SI583
DATE: June 10, 2002

Question: *Please clarify QTL line 20 - 50% of Residential Mortgage loans originated and sold within 90 days. Regarding "originated and sold," must the term "originated" be narrowly interpreted, or can it also include loans purchased?*
Answer: The QTL worksheet instructions for that line item read:
"Enter 50% of loans on domestic residential housing that the association originated and sold within 90 days of origination, provided that the association sold these mortgage loans during the quarter for which this calculation is being made."
Loan originations could include loans purchased as long as the purchasing institution's name appears on the mortgage documents. That is, where the residential mortgage loans are originated by another entity in the name of the reporting institution and then purchased or transferred to the reporting institution they may be considered originated by the reporting institution.
[TOP]

Q&A No. 170
SUBJECT: Credit Life Insurance On Consumer Loans
LINE(S): CMR513
DATE: June 10, 2002

Question: *We have consumer loans on which we sell credit life insurance up front; this insurance is added to the principal balance and amortized over the life of the loan. Are we supposed to report these loans NET of this unearned insurance on CMR? If not, where is the unearned insurance amount reported?*
Answer: You should report these loans net of the unearned insurance on Schedule SC, but on Schedule CMR, you should report the unamortized amount of the insurance on CMR513.
[TOP]

Q&A No. 171
SUBJECT: Definition Of Outstanding Balance
LINE(S): Schedule CMR
DATE: June 10, 2002

Question 1: *Does "Outstanding Balance" in CMR (pg 1602) mean the same thing as "Recorded Balance" in SC (pg. 208)? Schedule SC has 11 items by which the principal balance must be adjusted for, but CMR instructions just say "outstanding balance". Should balances on SC and CMR be calculated in the same manner?*
Answer 1: "Outstanding Balance" for Schedule CMR is defined on page 1602 as: "the principal balance, net of LIP and before any yield adjustments or deductions for valuation allowances." In most cases, outstanding balance as reported in Schedule CMR is face value less charge-offs." Therefore "outstanding balance" in CMR is not the same as "recorded balance" in SC because outstanding balances in CMR are not adjusted for yield adjustments or specific valuation allowances. In Schedule CMR yield adjustments are reported on CMR504 and CMR513, and specific and general valuation allowances are reported on CMR507 and CMR516.
Question 2: *Does an "outstanding balance" for CMR include late charges that have not yet been paid and finance charges (interest) that have been billed but not paid? For that matter, should the "outstanding balance" include any fees that are outstanding or should these unpaid fees be netted from the principal balance for CMR purposes? Also in the case of Mortgage Loans that capitalize interest, should this capitalized interest be netted from the principal balance on SC or CMR?*
Answer 2: The outstanding balance reported in CMR should include late charges and interest only if they are capitalized to the loan. That is, if the loan contract permits late charges and unpaid interest to accrue to principal and permits the accrual of interest after the addition of these charges, then they become part of the principal balance that would be reported as outstanding balance. However, in most cases late charges, unpaid interest, and other fees do not become part of the principal balance unless the loan is restructured. Late charges, accrued interest, and other fees that are not part of the principal balance are reported on CMR502 and CMR512. In Schedule SC you can report accrued interest and other fees either with the loan balance or separately on SC272, Accrued Interest Receivable. Only interest for which collection is probable should be accrued.
[TOP]

Q&A No. 172
SUBJECT: Construction Mezzanine (Bridge) Loans
LINE(S): Schedules CMR And SC
DATE: June 10, 2002

Question: *Can you please advise as to whether SC250 is the correct place to put the following loans and also let me know where they should go on CMR?*
Here are the details of the loans:
The builder sells the model homes to an investor with whom we have a loan. The

loans are on single-family model homes in developments throughout our lending area. The loans are fully secured by the model home and its contents. The loans have maturities between 6 and 18 months, with an extension provision. They are interest-only, fixed-rate loans.
Answer: If the loans require a new loan contract once the houses are sold to individuals, these loans are mezzanine construction loans and should be reported as construction loans on SC230 and in CMR.
If there are separate loans for each residence and if the loans automatically roll over to permanent loans after the units are sold to individuals, they could be reported as permanent mortgages on 1-4 dwelling units on SC250. In CMR they should be reported as fixed-rate, single-family balloon mortgages until they transfer to the individual and begin amortization.
[TOP]

Q&A No. 173
SUBJECT: New Accounts-Name Change
LINE(S): Schedule CMR
DATE: June 10, 2002

Question 1: *If an account is held in a joint tenancy and one of the joint owners passes away, we remove the decedent from the account without any modification to the rate, type, term, balance, or maturity date of the account. Does this constitute a new account?*
Answer 1: Yes, it would be considered a new account.
Question 2: *Would an ownership change to the individual (beneficiary) who may have assumed the funds as a result of an owner's death be a new account?*
Answer 2: Yes, as would an ownership change mandated by a divorce or lawsuit.
Question 3: *In determining whether there was a matured CD during the quarter that rolled over into a new CD, do we need to look for matches for all owners on both the new and matured CD's?*
Answer 3: Yes you need to look at all owners. If the ownership is not exactly the same, the certificate would be considered new.
[TOP]

Q&A No. 174
SUBJECT: New Accounts-Acquisitions
LINE(S): Schedule CMR
DATE: June 10, 2002

Question: *Are deposits acquired via Bank acquisitions reported as new deposits?*
Answer: Yes, deposits acquired as part of an acquisition are considered new deposits.
[TOP]

Q&A No. 175
SUBJECT: New Accounts-Maturity
LINE(S): Schedule CMR
DATE: June 10, 2002

Question 1: *Does the term "Original Maturity" refer to the original maturity of the opening of the account, or most recent maturity date from most recent term. For example: Mary Smith opened her first CD with the Bank on January 23, 1985 for a one-year term. At it's maturity, her account was rolled over and continued to be rolled over each year for the same term. Her most recent maturity date was January 23, 2002. Which maturity date is considered the 'original maturity date' for CMR calculation purposes*
Answer 1: The original maturity is the maturity of the most recent (current) account, January 23, 2002.
Question 2: *Many customers have multiple certificates and in some cases they could come due simultaneously. Which one do you use to compare to any new CD's opened during that quarter?*
Answer 2: We prefer that you use the maturing CD with the longest term, thus you would be reporting the fewest new accounts.
Question 3: *In the case of a nonrenewable CD, is a rollover of the funds to another CD automatically "new" or do we still look at the term of the maturing CD compared to that of the new CD?*
Answer 3: You should look at the term of the maturing CD compared to the new CD, regardless of whether the CD was renewable or nonrenewable.
Question 4: *If a customer has a 6-month CD that matures and is rolled over for the same term (6 months) during the quarter and this same customer comes in and opens a new 3-month CD during the quarter, would we report nothing as "New", because there was no change in the maturity bucket for this customer.*
Answer 4: Yes, you are correct; the example you gave would not be a new account.
Question 5: *If a customer opened a 3-month CD during the quarter and rolled over another CD from a 24-month term to a 6-month term during the same quarter, would there be no "new" account, because both terms now fall under the 0-12 month category and one of the accounts is not new? Or would the 6-month CD be considered new this quarter, because the renewed CD had an original term of 24 months? Or would both CDs be new because one is actually new, and the other changed from 13-36 months to less than 13 months (a change in maturity bucket).*
Answer 5: In a rollover, any change in maturity bucket would be considered a new account, if the account holder did not previously hold a CD of that maturity bucket. Therefore, both of these accounts would be "new" accounts.
[TOP]

Q&A No. 176
SUBJECT: Definitions Of Withdrawals
LINE(S): Schedule CMR

DATE: June 10, 2002

Question 1: *Is the criterion for "withdrawals" those where the CD holders were actually penalized during the quarter or is it all withdrawals on CDs (including the ones with waived penalties) during the quarter?*
Answer 1: The criterion is withdrawals during the quarter where contract stated that the customer would incur a penalty and the customer withdrew prematurely knowing (or should have known) that they would incur a penalty.
Question 2: *Assume a customer has a $10,000 5-year CD. The CD is scheduled to mature on December 31, 2006. On January 1, 2003, the customer withdraws $2,000.00. The bank imposes an early withdrawal penalty but allows the remaining $8,000 balance to continue to maturity. What should be reported on CMR 604, 618, 633, & 642 for the March 2003 quarter - $2,000 or $10,000?*
Answer 2: $2,000
Question 3: *Same as Question 2 above except that the bank imposes an early withdrawal penalty and closes the CD. What should be reported on CMR 604, 618, 633, & 642 for the March 2003 quarter?*
Answer 3: $10,000
[TOP]

Q&A No. 177
SUBJECT: Checking Account Sweeps
LINE(S): SC730
DATE: September 5, 2002

Question: *We offer a sweep account for commercial checking accounts. The entire amount of the account is swept into a repo with a higher rate at night. The customer is informed that the entire amount is not insured. Should this amount be reported on SC730?*
Answer: If the sweep occurs before close of business, the customer's funds that are removed from the deposit account are not insured and should be reported on SC730. If the sweep occurs after close of business, all of the customer's funds remain in deposits.
[TOP]

Q&A No. 178
SUBJECT: Suspected Terrorists Deposits
LINE(S): SC710, Deposits
DATE: September 5, 2002

Question: *Do financial institutions continue to report deposits that belong to a suspected terrorist and have been seized by the financial institution on SC710?*
Answer: As long as there is no reason to believe that the institution itself will ultimately be the owner of the funds, they would continue to report the deposits on SC710 of the TFR.

[TOP]

Q&A No. 179
SUBJECT: Loans Past Maturity
LINE(S): Schedule PD
DATE: September 5, 2002

Question: *We have a portfolio of construction loans that require interest-only payments due monthly with the principal due at maturity. Some of these loans are past their maturity date. The borrowers have continued to pay the contractual monthly interest payments. Should these loans be excluded from Schedule PD?*
Answer: If management has restructured or extended a loan - formally or informally, then the loan would not be past due. An informal extension (not the same as a restructuring) is when the bank has agreed to accept interest payments until the property is rented or sold. The extension should be for a limited and reasonable length of time and the bank should get the extension in writing. From the borrower's perspective, if he is doing what the bank has told him, the loan is not in default and does not have to be reported in Schedule PD.
[TOP]

Q&A No. 180
SUBJECT: LTV Calculation - Credit Life Insurance
LINE(S): Schedule LD
DATE: September 5, 2002

Question: *When calculating high loan-to-value on a junior lien that has credit life or accident insurance, should I include the premium of the policy in the loan principal amount?*
Answer: Yes. The life insurance is part of the recorded investment in the loan and should be included in calculating LTV.
[TOP]

Q&A No. 181
SUBJECT: Loan Commitments
LINE(S): Schedule CC
DATE: September 5, 2002

Question: *We have some confusion regarding whether the balance reported as commitments should contain the total loan commitments made to customers as of the reporting date, or if the balance should be reduced by an estimated "fall out" percentage of the loan commitments.*
For example, if we have $20 million in outstanding loan commitments and we project a fall out balance of $5 million, should we report the total $20 million, or should we report $15 million on line CC280?

Answer: You should report the entire $20 million on CC280 because that is your commitment. The $15 million is a projection.
[TOP]

Q&A No. 182
SUBJECT: Retirement Accounts
LINE(S): SI210, IRA/Keogh Accounts
DATE: September 5, 2002

Question: *Should SEP and SIM accounts should be included in Line SI210, IRA & KEOGH Deposits?*
Answer: Yes, you should include SEP and SIM accounts in SI210. The only retirement accounts we would not want included are 401K accounts and similar plans.
[TOP]

Q&A No. 184
SUBJECT: Trust Preferred Securities
LINE(S): HC520 and HC530
DATE: September 5, 2002

Question: *Are Trust Preferred Securities that are reported as Liabilities on HC 300 also included on lines HC520 and HC530 as debt?*
Answer: Yes. Trust Preferred Securities, along with other "mezzanine" type securities such as convertible debt securities and redeemable preferred stock should be included as debt on HC520 or HC530, as appropriate. The dividends on these instruments should also be included on HC560, Interest Expense for the Quarter.
[TOP]

Q&A No. 185
SUBJECT: Intangibles
LINE(S): HC510
DATE: September 5, 2002

Question: *I am looking for clarification regarding Schedule HC line 510. The instructions state to include intangible assets and includes as items #6 and #7 computer software costs and loan servicing contracts. The instructions further state that these examples of intangible assets are taken from FASB Statement No. 141. I am unable to find a reference to them in FASB Statement No. 141. Could you please supply a reference?*
Answer: You can find the reference in FASB Statement No. 141, Appendix A, paragraph number A14, "Examples of Intangible Assets that Meet the Criteria for Recognition [as Intangible Assets] Apart from Goodwill." Item d.(8) is "Servicing

contracts such as mortgage servicing contracts" and item e.(2) is "Computer software and mask works." Paragraph A23 further defines contract-based intangible assets, and paragraph A26 defines computer software and mask works.
[TOP]

Q&A No. 187
SUBJECT: Offsetting Commitments to Sell and Purchase Securities
LINE(S): Schedule CCR
DATE: September 5, 2002

Question: *May firm commitments to sell and to purchase mortgage-backed securities be offset prior to on-balance-sheet conversion?*
Answer: There is no specific provision in our capital rule allowing for offset of sales and purchases in this circumstance. It would have to be reviewed on a case-by-case basis by your OTS examiner. However, as with bilateral netting of contracts, the commitments on both sides would have to be with the same counter party, probably with some type of netting contract in place, with the same type of security on both sides of the transaction, and the transaction differing only in amount where one side could be subtracted from the other.
[TOP]

Q&A No. 188
SUBJECT: CMO Risk Weighting
LINE(S): Schedule CCR
DATE: September 5, 2002

Question: *If a private CMO as well as a Fannie Mae or Freddie Mac CMO were AAA rated, would it qualify for 20% risk weighting? Are there any circumstances (other than stripped CMOs and MBS's with recourse) whereby a AAA CMO would not qualify for 20% risk weighting?*
Answer: For a private-issue CMO to receive 20% risk weight, it must meet the criteria for 20% risk weight under the ratings-based approach in 12 CFR 567.6(b)(3). Refer to the rule for the specific criteria. In general, the criteria will depend upon whether the CMO is a traded CMO or a nontraded CMO.
· A **traded** CMO must have a long-term rating by a nationally recognized statistical rating organization (NRSRO) in the highest or second highest investment grade. If rated by two or more NRSROs, you must use the lower rating; and no NRSRO may have rated the CMO worse than one grade below investment grade.
· A **nontraded** CMO must be rated by more than one NRSRO, and the lower rating must be used. Again, it must be in the highest or second highest investment grade. No NRSRO may have rated the CMO worse than one grade below investment grade.

Refer to the rule for additional criteria.
A Fannie Mae or Freddie Mac CMO would typically be 20% risk weight. There are some exceptions. For example, Fannie and Freddie POs and IOs that are not credit

enhancing are risk weighted at 100%. If a Fannie or Freddie CMO were found to, in substance, have IO or PO characteristics, even though not a pure IO or PO, you could also use the 100% risk weight category.
Furthermore, whether a GSE-issued CMO, or a private-issued CMO, OTS reserves the right to look to the substance of the security, and require an appropriate amount of capital for the risk, regardless of how the risk is characterized by others.

[TOP]

Q&A No. 189
SUBJECT: Derivative Instruments and Hedges
LINE(S): Schedules SC and SO
DATE: December 10, 2002

The following information was included in the December 2000 Financial Reporting Bulletin. We repeat it here to answer many questions we have received concerning reporting derivatives in the TFR.

Schedule SC, Statement of Condition

· You must report all **derivative instruments** as defined in SFAS No. 133 either as assets or liabilities at fair value, and include them in line SC690, "Other Assets", or line SC796, "Other Liabilities and Deferred Income." Where derivative instruments represent one of the three largest items comprising the total other assets or other liabilities, report them as code 20.
· For a **fair value hedge**, reflect the effective portion of the accumulated fair value gain or loss on the hedged assets or liabilities as an adjustment to the carrying amount of the hedged assets or liabilities. Most interest-rate sensitive assets and liabilities are "eligible" for a qualifying fair value hedge, including loans, securities, servicing assets, deposits, FHLB advances, and other borrowings.
· For a **cash flow hedge**, the effective portion of the accumulated fair value gain or loss on the derivative instruments is considered "accumulated other comprehensive income (loss)", which is reported on SC890, "Other components of equity capital".

Schedule SO, Statement of Operations

Report all changes in the fair value of derivative instruments not reflected in the second and third items above, including the ineffective portion of the fair value gain or loss related to fair value and cash flow hedges, as either income or expense. OTS has not taken a position as to where on the income statement such amounts should be reported; that is, as interest income or expense, or noninterest income or expense. Report such amounts on the TFR in a manner consistent with that reflected in the institution's audited financial statements.
[TOP]

Q&A No. 191
SUBJECT: Loans Sold with Recourse - 120 Day Limited Recourse
LINE(S): CC455, CC468

DATE: December 10, 2002

Question: *When we report our loans sold with recourse balance on Schedule CC, should it be adjusted by loans that meet the 120-day exception rule? On Schedule CCR, we can deduct loans that meet the 120-day exception from our loans sold with recourse total.*

Answer: No, you cannot reduce loans sold with recourse reported on CC455 by loans for which recourse is limited to 120 days. You should report all recourse in effect as of the end of the quarter in Schedule CC including recourse that is for a limited period. The definition of recourse on Schedule CC does not follow the capital rules. If an institution has recourse liability at the date of the report, they should report the amount of recourse in CC468 and the total amount of the principal on CC455, regardless of how long the recourse lasts.

[TOP]

Q&A No. 194
SUBJECT: LTV - Other Credit Enhancement
LINE(S): CCR460
DATE: December 10, 2002

Question: *In the TFR instruction manual for 50% risk weight, for CCR460, it states "report the carrying value...if such loans meet all of the following criteria". Our question concerns 3b: "The extension of credit is insured to at least a 90 percent LTV by private mortgage insurance, or there is other appropriate credit enhancement to bring the effective LTV down to 90 percent or less." Could you please clarify the meaning of "other appropriate credit enhancement" and if possible include some examples?*

Answer: The answer to this question may be found in the preamble to the new regulation that raised from 80% to 90% the LTV to get the lower risk weight of 50%. That preamble was published in the Federal Register on May 10, 2002. In pertinent part it says appropriate credit enhancements include PMI and "readily marketable collateral." That term is defined in a footnote as "insured deposits, financial instruments, and bullion in which the lender has a perfected security interest...salable under ordinary circumstances with reasonable promptness at a fair market value...appropriate(ly) discounted".

First key point: None of this is new. It is only reiterated now because we raised the LTV, but it has existed in the Real Estate Lending Guidelines for years (12 CFR 560.101).

Second key point: The overwhelming credit enhancement of choice, because of its acceptance and ease of use, will still be traditional PMI. Any other of these more esoteric credit enhancements will need to pass supervisory muster.

[TOP]

Q&A No. 195

SUBJECT: Best Effort Commitment
LINE(S): CMR Optional Commitments
DATE: December 10, 2002

Question: *Do our best effort commitments, which are commitments to sell the loan at a fixed rate, fixed price, if and only if the loan closes, meet the definition of an optional commitment to sell loans? And thus, should they be included in Schedule CMR, Optional Commitments to Purchase or Sell MBS?*
Answer: Yes, the best effort commitments should be reported as optional commitments. The time for expiry (maturity) should be based on the expected time for closing based on your best guess, and the reported notional amount should be based on your best guess as to the percentage of commitments that normally close.
[TOP]

Q&A No. 196
SUBJECT: Commercial Line of Credit Secured by Real Estate
LINE(S): SC260, SC300
DATE: March 14, 2003

Question: *We have a new product, which is a business revolving line of credit fully secured by nonresidential real estate. The line of credit is underwritten as a mortgage loan meeting the requirements of a fully secured mortgage loan. Should we report this loan on SC260, Nonresidential Mortgage Loan? Or can we elect either SC260 or SC300, Secured Commercial Loan.*
Answer: If you have underwritten the loan as a mortgage; that is with an appraisal or evaluation and the LTV when combined with any more senior liens the line of credit can never exceed 100% LTV, you should report it as a nonresidential mortgage loan on SC260. Otherwise the loan should be reported on SC300.
[TOP]

Q&A No. 197
SUBJECT: Renovation Loans
LINE(S): SC254, SC255

DATE: Revised June 12, 2007

Question: *Should the following loan be classified as a permanent loan or a construction loan? Facts: Approved a loan of $500 thousand. Of this balance, $150 thousand will be held back and disbursed at a scheduled time. The purpose of the holdback is to make substantial improvements to the property. The payment terms of the loan are interest-only for 24 months, after which time, the entire loan balance is due.*

Based on our review of the TFR Instruction Manual, Schedule SC, SC 230, loans to be reported as construction loans include:
Combination construction-permanent loans on 1-4 dwelling units until construction is completed or principal amortization payments begin, whichever comes first.
Our interpretation of this guidance is that renovation/rehabilitation does not constitute construction. Is this correct?
Answer: You are correct. Because this is an occupied, existing building, you should classify the loan as a permanent, single-family mortgage, reported on SC254 or SC255, depending upon whether the loan is a first lien or a junior lien. However, if the estimated cost of repairs exceeded the purchase price, we would have to reevaluate our answer on a case-by-case basis.

[TOP]

Q&A No. 198
SUBJECT: Charge-Offs on Credit-Card Receivables
LINE(S): VA145, VA155, Va580
DATE: March 14, 2003

Question: *During the most recent quarter, we wrote off $1,000 in uncollectable credit card receivables. This amount consisted of $700 in principal and $300 of capitalized finance charges and fees. Therefore, consistent with our accounting policy, 1) the $700 write-off of principal is reported on VA580, Charge-offs of Credit Cards, and 2) interest income on line SO170 has been reduced by $300. Is this correct?*
Answer: You must report the full charge-off on credit-card receivables of $1,000 on VA580. However, to permit the reconciliation of valuation allowances to balance, you should report $300 on line VA145, Adjustments, because the $300 reduced interest income and did not reduce valuation allowances. As a result, the net reduction of valuation allowances included in the reconciliation will be $700 ($1,000 - $300).
[TOP]

Q&A No. 199
SUBJECT: Acquired Troubled Debt Restructured
LINE(S): VA941-VA955
DATE: March 14, 2003

Question: *Our institution acquired another institution through a merger. One of the loans acquired from them was a performing TDR loan. At the time of the acquisition, the loan had been performing for more than one year. Therefore, we considered this loan as a performing loan at the time of acquisition, not as a TDR. Is this correct?*
Answer: You do not have to report acquired TDR loans as new TDR, since you did

not restructure them. However, you should report it in VA941 unless it was restructured at a rate equal to or exceeding the market rate at the time of restructuring and after the first year the borrower is in compliance with the terms of the restructured contract.
[TOP]

Q&A No. 200
SUBJECT: QTL - Life Insurance
LINE(S): SI581-SI583
DATE: March 14, 2003

Question: *Is the cash surrender value of life insurance policies on senior management includable for QTL purposes.*
Answer: No. The cash surrender value on life insurance policies on senior management of an institution is not includable for QTL purposes.
[TOP]

Q&A No. 201
SUBJECT: Insider Loans - Loans to Spouses
LINE(S): SI590
DATE: March 14, 2003

Question: *TFR instructions indicate that a related interest is defined by Regulation O as either:*
1. A company, other than an insured depository institution or a foreign bank, that is controlled by an executive officer, director, or a principal shareholder.
2. A political or campaign committee that is controlled by or the funds or services of which will benefit an executive officer, director, or principal shareholder.
That definition does not include relatives of an executive officer, director, or principal shareholder. Therefore, presumably loans to executive officers' spouses do not need to be included with Insider Loans on the TFR. Is this a correct interpretation or is it addressed elsewhere?
Answer: Although spouses of executive officers are not 'related interests' under Reg O, loans to spouses may be subject to Regulation O under the 'tangible economic benefit' rule (12 CFR 215.3(f)). This rule states: "an extension of credit is considered to be made to an insider to the extent that the proceeds are transferred to the insider or are used for the tangible economic benefit of the insider." There is guidance to when such a loan to a spouse would not be covered by 215.3(f):
1. The spouse is creditworthy;
2. The proceeds of the loan are not transferred, or used for the direct benefit of, the executive officer; and
3. The loan is repaid from the separate income of the spouse.
This guidance is found in a Staff Opinion of the Federal Reserve dated May 23, 1980. Under the Federal Reserve Regulatory Service (FRRS), it can be found as citation FRRS 3-1081.1

[TOP]

Q&A No. 202
SUBJECT: CMR - Rounding Remaining Maturities
LINE(S): CMR
DATE: March 14, 2003

Question: *When calculating the remaining maturity for the fixed-rate, fixed-maturity deposits section, should the remaining maturities, shown below, be categorized as 4 to 12 months or 13 to 36 months?*
Remaining maturity of 12 months 5 days??
Remaining maturity of 12 months 15 days??
Remaining maturity of 12 months 16 days??
Remaining maturity of 12 months 25 days?
Currently, if the remaining maturity is 12 months 15 days, we put it in the 13 to 36 month bucket. If the remaining maturity is 12 months 14 days, we put it in the 4 to 12 month bucket.
Answer: You are correct. Months should be rounded based on a 30-day month. Round down with fourteen days or less and round up with fifteen or more days.
[TOP]

Q&A No. 203
SUBJECT: CMR - Definition of Early Withdrawal
LINE(S): Schedule CMR
DATE: March 14, 2003

Question: *If we have a $10,000.00 fixed-rate, fixed-maturity CD subject to a penalty for early withdrawal that is automatically renewable and matured on 2-10-03 but was not redeemed until 2-15-03, would the $10,000.00 be reported in one of fields CMR604, CMR618, CMR633 or CMR642? There was a 10 day grace period.*
Answer: You do **not** have to report this CD as an early withdrawal, because it was withdrawn during the grace period and, therefore, would not be subject to a penalty
[TOP]

Q&A No. 204
SUBJECT: CMR - Mortgage Pipeline
LINE(S): Schedule CMR - Financial Derivatives and Off-Balance-Sheet Derivatives
DATE: March 14, 2003

Question: *We have an agreement with a third party for the origination of mortgage loans. At year-end, we will have a pipeline of approved borrowers of $50 million in approved loans. These loans are not on our balance sheet as of year-end.*

As soon as a loan funds, we have an agreement with the third party to sell the loan to them in two weeks at par. Therefore, we have <u>no interest rate exposure</u> in the transaction as the funding price and subsequent loan sale price are identical (par). The third party is exposed to interest rate changes between the origination commitment date through to the loan resale date. We earn a fee for each loan that funds. This fee is not impacted in any way by changing interest rates.
Must we report firm commitments to originate mortgages and a commitment to sell the same mortgages?
Answer: No you do not have to report the commitments to originate and commitments to sell the same mortgages, provided you never have any interest rate risk exposure associated with those loans.
[TOP]

Q&A No. 205
SUBJECT: Mortgages with Additional Collateral
LINE(S): SC260
DATE: June 6, 2003

Question: *How would you report (on schedule SC) a loan secured by a nonresidential (doctor's office) property, when the LTV is 105% with real estate only and a securities account is taken as additional collateral?*
The instructions for the category say to only report loans fully secured by real estate in the mortgage category. The loan is supported by an appraisal.
Answer: We consider a 105% LTV mortgage loan with sufficient additional collateral to bring it to a 100% LTV to be "fully secured." Therefore, you may report the entire loan as a mortgage loan.
[TOP]

Q&A No. 206
SUBJECT: Foreclosed Property During Redemption Period
LINE(S): SC415
DATE: June 6, 2003

Question: *After the court has issued a foreclosure judgment, the borrower has a certain time period in which they can reinstate the loan and pay it off. During this redemption period, the borrower can live in the property.*
Is the property is considered a "repossessed asset" for TFR reporting at the point in time when (1) the foreclosure judgment is made (even though the borrower can still redeem the loan), (2) after the sheriff's sale (even though in some states the redemption period continues), or (3) after the redemption period has expired and the bank has marketable title.
Answer: You may consider the transfer from loan to repossessed property to occur at the time the judgment is made.
At the time the judgment is made, the bank has control of the property. The

borrower's interest in the property is contingent on their reinstating the loan. An exception would be made if it appears likely that the borrower will reinstate the loan. However, if that were the case, the bank would probably not have foreclosed on it.
[TOP]

Q&A No. 207
SUBJECT: Retail Repurchase Agreements
LINE(S): SC710
DATE: June 6, 2003

Question: *I would like to get your input on the classification of retail repurchase agreements on Schedule SC. The OTS examiners are currently reviewing our TFR. Based on Q&A no. 177, they indicate that the repos should be reported on SC710, Deposits, if the sweep occurs after close of business, or reported on SC730 if the sweep occurs before close of business. In our situation, it appears that the sweep occurs after close of business and therefore, should be reported in deposits on SC710.*
However, the sweep account agreements clearly state that the funds are ***not FDIC insured****. Where should the retail repurchase agreements be reported? If they were included in SC710, the repos would be included in our FDIC assessment base.*
Answer: The instructions for Schedule SC710 state that SC710 must include ALL deposits (as further described in the instructions). The matter of insurance coverage is a separate issue that does not impact whether or not deposits are subject to assessment or included in your assessment base. Insurance coverage is not necessarily dependent upon an "agreement" with the customer; insurance coverage is determined by the Federal Deposit Insurance Act. Therefore, the sweep account retail repurchase agreements that you described should be reported on SC710, Deposits.
[TOP]

Q&A No. 208
SUBJECT: Mortgage Loan Commitments
LINE(S): CC280 - CC300
DATE: June 6, 2003

Question: *We hold mortgage loans in our pipeline for which we have a legally binding rate lock commitment, but the underlying loans have not yet been approved (i.e., they are in the process of being underwritten). We were required to report these commitments as outstanding commitments in a recent SEC filing because of the legally binding rate lock commitment. Should these commitments be reported on Schedule CC of the TFR as an outstanding commitment?*
Answer: Generally you would not need to report these commitments in CC280 through CC300 because the loans have not been approved.
[TOP]

Q&A No. 209
SUBJECT: Brokered Deposits
LINE(S): SI100-110
DATE: June 6, 2003 (Revised June 30, 2003)

Question: *Are deposits from the following two sources considered brokered deposits?*
Source 1: The deposit broker initiates the transaction between the bank and the customer; however, the actual transfer of the cash is direct from the customer to the bank. Are these Brokered Deposits?
Source 2. A Consolidated sub of the Bank is a Deposit Broker. This sub originated deposits for the Bank. Fee are paid to the Sub but eliminated through Consolidation. Are these Brokered Deposits?
Answer: Source 1 is a brokered deposit under 12 CFR 337.6. A deposit broker can facilitate the deposits; it doesn't matter if the customer transfers the cash directly to the thrift rather than the broker.
Source 2 is not as clear-cut. Under the statute, an "employee" of the insured depository institution is **not** a "deposit broker" (12 U.S.C. 1831f(g)(2)(B)). But an "employee" does not qualify unless he is "employed exclusively by the insured depository institution" (12 U.S.C. 1831f(g)(4)). Therefore, if the individual is an employee of **both** the subsidiary and the thrift, then he is not an "exclusive" employee of the thrift, and any deposits procured by him are brokered deposits. In addition, if an individual procuring deposits were an employee of the holding company or an affiliate, then the deposits would also be brokered deposits. For deposits not to be considered brokered deposits, an individual acting as a deposit broker must be exclusively employed by the thrift. Consolidation (for accounting purposes) of a subsidiary that employs an individual acting as a deposit broker typically does not make such an employee an "exclusive" employee of the thrift
[TOP]

Q&A No. 210
SUBJECT: QTL - Lot Loans
LINE(S): SI581-583
DATE: June 6, 2003

Question: *Is a loan that is used to develop and improve land (Lot Loans) includable as a mortgage loan for QTL purposes if the loan will, at a later time, be converted to a mortgage loan when an additional loan is provided to build a dwelling on the land for which the original lot loan was given.*
Answer: The Thrift Activities Handbook Section 270, Qualified Thrift Lender Status, states on page 270.3 that:
"Associations may include ADC loans in QTI without limit provided the association is reasonably certain the property will become domestic residential housing. Moreover, to count as QTI, an ADC loan must meet **at least one** of the following

criteria:
· The loan is for property zoned exclusively for residential use.
· The loan is for property zoned to permit residential use and there are restrictions in the deed to the property that limit its use to primarily residential dwellings.
· The borrower will construct dwelling immediately on nearly all the residentially zoned property."
[TOP]

Q&A No. 211
SUBJECT: QTL - Marketable Equity Securities
LINE(S): SI581-583
DATE: June 6, 2003

Question: *Are there any restrictions for counting marketable securities as liquid assets?*
Answer: You may consider any marketable security as a liquid asset for QTL purposes. A security is marketable if it may be sold with reasonable promptness at a price that corresponds reasonably to its fair value.
[TOP]

Q&A No. 213
SUBJECT: Federal Farm Credit Bank Bonds (FFCB)
LINE(S): Schedule CCR
DATE: June 6, 2003

Question: *We recently purchased Federal Farm Credit Bank Bonds (FFCB). Should we risk weight these bonds at 100%?*
Answer: You may risk weight Federal Farm Credit Bank Bonds at 20% because the Federal Farm Credit Bank is a government-sponsored enterprise.
[TOP]

Q&A No. 214
SUBJECT: Callable Multifamily and Nonresidential Mortgage Loans
LINE(S): CMR281
DATE: June 6, 2003

Question: *The CMR instructions are clear for Single-Family first mortgage loans that are callable. They should be included in CMR096-CMR120 (Balloon Mortgages and MBS). How should multifamily and nonresidential mortgage loans that are callable be handled? Should they be reported on CMR 281 (Balloon Mortgage)?*
Answer: Yes, we concur that callable multifamily and nonresidential mortgage loans should be reported as balloon loans on CMR281.
[TOP]

Q&A No. 216
SUBJECT: Intangible Pension Asset
LINE(S): SC660
DATE: September 4, 2003

Question: *Per FASB 87, "Employer's Accounting for Pensions," we have recognized on our balance sheet an intangible asset and accumulated other comprensive income.*
Should we report the intangible asset on SC 660, "Goodwill and Other Intangible Assets?"
Answer: Yes, you should report this intangible asset on SC660.
[TOP]

Q&A No. 217
SUBJECT: 90% LTV
LINE(S): Schedules LD and CCR
DATE: September 4, 2003

Question: *Why does LD require the reporting of loans 90% and above and CCR460 require 100% risk weighting of mortgages on single-family dwellings with an LTV higher than 90%? If LTV equals 90%, then the institution must classify the loan on LD. However, the same loan would escape 100% risk-weight on CCR. CCR provides a capital treatment differing from the treatment on schedule LD.*
Answer: Any difference between the treatment in LD and CCR in almost all cases should be immaterial. The requirements are comparable except for an LTV of exactly 90%, which may occur at origination, but would be exactly at 90% LTV only until the first payment is received, and then, unless it negatively amortizes, it will be lower than 90%. Consequently, the instructions for Schedule CCR were recently re-written to include loans in the beneficial 50% risk weight up to and including 90%.
[TOP]

Q&A No. 218
SUBJECT: Lines of Credit on Nonresidential Property
LINE(S): CC300/CC420
DATE: September 4, 2003

Question: *Should we report all unused line of credits on CC420," Commercial Lines" regardless of where the funded loan is reported on Schedule SC? We have a commitment to fund a revolving line of credit on a mortgage loan on nonresidential property, reported on line SC260. During the quarter we disbursed amounts to the borrower, which I will report on line CF260, Mortgage Loans Disbursed: Nonresidential. Should I report the remaining commitment to fund the revolving line of credit on line CC420?*
Answer: You are correct to report the disbursements on CF260; however, you

should report the unused line on CC300, Mortgage commitments on All Other Real Estate. CC420 contains lines of credit on commercial loans that are not secured by real estate.
[TOP]

Q&A No. 219
SUBJECT: Sub S Corp Dividends
LINE(S): SI630
DATE: September 4, 2003

Question: *I have a Subchapter S corporation that reports it's distributions to stockholders on SI670 Other Adjustments to Equity. Their rationale is that the IRS defines these distributions as "distributions" rather than "dividends". Therefore, they do not believe the distributions fit the definition of cash dividends to be reported on line SI 630.*
Answer: For regulatory reporting purposes distributions from a Sub S Corporation are considered dividends and should be reported on SI630.
[TOP]

Q&A No. 220
SUBJECT: Reducing Low Level Recourse By Contingent Liability
LINE(S): CCR375
DATE: September 4, 2003

Question: *We sell loans to FannieMae under an arrangement whereby we retain limited recourse of 4%. At the time of sale, based on our historical loss experience, we record a liability of 0.35% for this off balance sheet credit exposure. For purposes of the regulatory capital deduction for low-level recourse on line CCR375, may we reduce the limited recourse of 4% by the recorded liability of 0.35%?*
Answer: Yes, assuming no other relevant facts. Note that capital before the deduction for low level recourse has already been reduced for the recorded liability.

[TOP]

Q&A No. 221
SUBJECT: CD Maturity on a Nonbusiness Day
LINE(S): CMR
DATE: September 4, 2003

Question: *The last calendar day of a quarter falls on a Saturday or Sunday, and the last business day is Friday. Would an 18 month fixed-rate, fixed-maturity CD that is automatically renewable and matures on the last day of the quarter, be reported in the 13 to 36 Original Maturity In Months column and on the line for Balances Maturing in 13 to 36 months rather than the line for Balances Maturing in*

3 Months or Less?
Answer: You should treat the CD as if it rolled over on Friday, the last business day of the quarter, and automatically renewed. Therefore, it would have an 18-month maturity.
[TOP]

Q&A No. 222
SUBJECT: Construction/Permanent Loans
LINE(S): CMR
DATE: September 4, 2003

Question: *Could you please tell me if I am reporting the following loan correctly on schedule CMR? Assume the following loan:*
A construction/permanent loan on a multi-family residential building having a commitment of $1,000,000. The loan has a 1 year construction period and then rolls to a 30 year permanent loan. The loan has a known fixed rate for the first three years and then will become a variable rate loan thereafter. The loan has a prepayment penalty if paid off within the fixed rate period. At quarter end, $600,000 has been disbursed and $400,000 remains in LIP.
Reported on CMR as:
$600,000 is reported on line CMR 262 (MFR - fully amortizing - adjustable rate loan)
$400,000 is reported on CMR 802 (Off B/S - firm commitment to originate ARM loan).
Answer: The suggested reporting is incorrect. Instead, this construction/permanent multifamily loan should be reported on CMR as follows:
(1) The disbursed part ($600,000) should be reported as fixed-rate Construction Loan in CMR292 with WARM of 12 months,
(2) The undisbursed part ($400,000) should be reported as Construction LIP in OBS part of CMR using code 9502 with WAM less than one year since construction phase is partially completed, and
(3) The permanent commitment should be reported as a firm commitment to originate a $1,000,000 mortgage using contract code 2216 in OBS part.
[TOP]

Q&A No. 223
SUBJECT: Zero Coupon State/Municipal Bonds
LINE(S): Schedule CMR
DATE: September 4, 2003

Question: *Are zero coupon state/municipal bonds that do not feature a call option reported in schedule CMR on lines 479-481 with the other municipal bonds or are they reported lines 470-472 under zero coupon securities?*
Answer: You should report them as zero coupon securities.
[TOP]

Q&A No. 224
SUBJECT: INTERCOMPANY RECEIVABLES/PAYABLES
LINE(S): Schedule SC
DATE: December 5, 2003

Question: *We have placements to other entities within our holding company corporate structure. We have reported these intercompany borrowings in SC760 as Other Borrowings. This quarter our intercompany account is a receivable. Should we report this receivable as a negative amount in Other Borrowings or reclassify it to Other Assets? that do not feature a call option reported in schedule CMR on lines 479-481 with the other municipal bonds or are they reported lines 470-472 under zero coupon securities?*
Answer: If the account is a non-interest-bearing receivable from the holding company or affiliates, it should be reported in Other Assets (SC690) using code 13. Non-interest-bearing payables to the holding company or affiliates are reported in Other Liabilities (SC796) using code 17.
However, interest-bearing receivables should be reported in Commercial Loans (SC303) and interest-bearing payables should be reported in Other Borrowings (SC760).
[TOP]

Q&A No. 225
SUBJECT: COMPUTER SOFTWARE
LINE(S): SC660 and SO560, Goodwill and Other Intangibles
DATE: December 5, 2003

Question: *We have purchased computer software that is included with fixed assets and is included in our depreciation schedule. Should we report the purchased computer software on line SC55, "Office Premises and Equipment, or on line SC660, "Goodwill and Other Intangible Assets"? Also, where should we report its depreciation or amortization?*
Answer: Pursuant to FASB Statement No. 141, computer software is a technology-based intangible asset. Accordingly, you should report computer software on line SC660. In addition, you should report the amortization of computer software on line SO560, "Goodwill and Other Intangibles Expense".
[TOP]

Q&A No. 227
SUBJECT: Including Subsidiary in Schedule FS
LINE(S): Schedule FS
DATE: December 5, 2003

Question: *We have a majority-owned subsidiary of our Bank that provides*

investment advisory services (for a fee) for customers. The subsidiary does not have trust powers or custody of the assets. They strictly provided investment advice. In Schedule FS, do we need to report the fiduciary assets of this investment advisory subsidiary or do we just report the fiduciary assets related to the segment of our Trust Department that has trust powers and custody of the assets.
Answer: You should include the fiduciary related assets and the fiduciary related fee income of the subsidiary that renders investment advice for a fee in Schedule FS. Schedule FS is completed on a consolidated basis. Therefore, fiduciary or related services of a GAAP consolidated subsidiary should be reported.
[TOP]

Q&A No. 228
SUBJECT: Farm Services Agency (FSA) Guaranteed Loan
LINE(S): Schedule CCR
DATE: December 5, 2003

Question: *A thrift purchases a participation interest in the guaranteed portion of a Farm Services Agency (FSA) guaranteed loan. What is the proper risk weighting?*
Answer: The Farm Services Agency is a federal agency under the United States Department of Agriculture. Since it provides conditional guarantees on various types of agricultural related loans, the 20% risk weighting is appropriate. However, this 20% is dependent on the thrift owning a participation interest in only the guaranteed portion of an FSA loan.
The FSA is authorized to provide loan guarantees of up to 95% of the principal amount of various agricultural related loans. However, the FSA encourages a secondary market in the guaranteed portions of such loans, noting "The existence of the secondary market makes guaranteed loans more liquid. By reselling the guaranteed portion, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees." As long as the thrift purchases only an interest in the guaranteed portion of such loans, the 20% risk weighting is appropriate. However, if the thrift purchases whole loans, only the guaranteed portion of the loans would qualify for the 20% risk weighting.
[TOP]

Q&A No. 229
SUBJECT: Arms At Their Floor
LINE(S): Schedule CMR
DATE: December 5, 2003

Question: *Our home equity loans are tied to prime rate, but have a floor of 6%. These loans are at their floor rate (6%), and have been for sometime. The instructions tell us to report ARMs with coupons that are currently at their lifetime caps, as fixed rate mortgages. Does the same hold true for ARMs at their floor?*
Answer: Yes, they should be reported as fixed rate, 2nd mortgage loans, if the loans will remain at their 6% floor even after a 200 basis point upward shock.

Should rates rise considerably in the future, the loans should once again be reported as ARMs.
[TOP]

Q&A No. 230
SUBJECT: TFR Posting Schedule on FDIC Web Site
LINE(S):N/A
DATE: March 1, 2004

Question: What is the estimated turnaround time between the date of submission of the TFR and when it is posted on the FDIC website?
Answer: The first TFRs are posted on the FDIC web site the Friday following the tenth day after the due date (40th days after the report date). TFRs must pass all OTS Preliminary Edits prior to posting. The data is updated every week, and new TFRs passing all preliminary edits are added. TFRs for the prior quarter are updated twice in the quarter, approximately 125 and 150 days after its report date. A final TFR is last updated approximately 150 days after its report date.
[TOP]

Q&A No. 231
SUBJECT: Sallie Mae Pass-Through Securities
LINE(S):SC182
DATE: March 1, 2004

Question: We have two types of Sallie Mae investments. One type is a Sallie Mae corporate bond, which, as a nonmortgage debt instrument, clearly would be reported on SC130, U.S. Government, Agency, and Sponsored Enterprise Securities. The other type is a Sallie Mae pass-through security, collateralized by the underlying student loans. Since this second type is not actually a debt instrument, would we report the investment on SC182, Securities Backed by Nonmortgage Loans?
Answer: Yes. Report Sallie Mae pass-through securities on SC182, Securities Backed by Nonmortgage Loans. In Schedule CMR Sallie Mae pass- through securities should be reported as nonmortgage loans and in Supplemental Reporting using code 182, Education Loans.
[TOP]

Q&A No. 232
SUBJECT: Flexible Spending Accounts
LINE(S):SC712
DATE: March 1, 2004

Question: Our bank is offering a flexible spending account (FSA) in the Medical portion of its benefits plan. These funds will be held in a general ledger account. As

the administrator disburses funds for the FSA reimbursements, we will transfer amounts to cover them to the internal checking account that is being utilized by the administrator. Prior to transfer to the checking account, we hold the funds withheld from the employee, which will eventually be paid to the administrator. Where should we report these on the TFR?
Answer: The funds withheld from employees for flexible spending accounts should be reported with other employee withholdings in Escrows on SC712.
[TOP]

Q&A No. 233
SUBJECT: FHLB Advance Prepayment Penalties
LINE(S):SC720, SO230, and SO580
DATE: March 1, 2004

Question: How should we report prepayment penalties on FHLB advances? Should we always report these penalties as an expense? Are there any circumstances under which we should capitalize the penalties and amortize them as a yield adjustment
Answer: Generally, prepayment penalties will be expensed as part of the cost of extinguishing the original FHLB advance. This is true even when there is an exchange of one advance for another if the new terms are substantially different from those of the original advance. In some limited circumstances, the penalty may be deferred and amortized if the modification of terms is relatively minor, although this is less common. In the reporting of FHLB advance prepayment penalties, an institution must follow GAAP, including EITF Issue No. 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments. Under this consensus, the accounting treatment for prepayment penalties in the situation where a new advance replaces an existing advance depends on whether the change is considered a:

1. Prepayment of a FHLB Advance (Exchange of Debt):
· **Description**: A more substantive change that is viewed for accounting purposes as the extinguishment of the existing debt and the creation of new debt.
· **Accounting**: The penalty is immediately expensed as a cost of the extinguishment of the original FHLB advance.
· **TFR Reporting**: The penalty should be taken as an immediate charge to SO580, Other Noninterest Expense.
-or-
2. Modification of an existing FHLB Advance:
· **Description**:A minor modification to the existing debt
· **Accounting**: The penalty is deferred and treated as a yield adjustment to be recognized over the remaining life of the modified advance.
· **TFR Reporting**:
o Schedule SC - The unamortized deferred penalty is netted against the par amount of the advance and reported in SC720, Borrowings: Advances from FHLBank.

o Schedule SO - The penalty should be amortized using the level yield method over the remaining term of the replacement advance by periodic charges to SO230, Interest Expense: Advances from FHLBank.
A new advance is considered substantially different from the original advance if the present value of the cash flows under the terms of the new advance is at least **10 percent** different from the present value of the remaining cash flows under the terms of the original advance. The discount rate to be used to calculate the present value of the cash flows for both the new and original advance is the effective interest rate, for accounting purposes, of the original advance. EITF 96-19 gives additional guidance to be used in the present value calculations for purposes of applying the 10 percent test.
Thus, if the difference in the present value of the new and original advance is 10 percent or more, the transaction is viewed as the extinguishment of the original advance with the prepayment penalty included in determining the loss on extinguishment (i.e., immediate charge). If the difference in present values is less than 10 percent, the penalty is amortized as an adjustment of interest expense over the remaining term of the replacement or modified advance.
The above Q&A summarizes the accounting for FHLB prepayment penalties. We recommend you fully review the GAAP literature (including EITF 96-19) and consult with your external auditors. Your OTS Regional Accountant may also be contacted for additional assistance.**The above Q&A summarizes the accounting for FHLB prepayment penalties. We recommend you fully review the GAAP literature (including EITF 96-19) and consult with your external auditors. Your OTS Regional Accountant may also be contacted for additional assistance.**
[TOP]

Q&A No. 234
SUBJECT: Internet Deposit Listings-Brokered Deposits
LINE(S):DI100
DATE: March 1, 2004

Question: A company operates a website at which our institution posts interest rates on CDs. In order to post our rates, we must pay a subscription fee. Are deposits obtained through this web site brokered deposits?
Answer: A paid posting on an Internet website is equivalent to a paid advertisement in a newspaper. Whether the Internet company should be classified as a deposit broker depends upon (1) whether the company provides assistance to the depositor in placing the deposit or communicating with the depository institution; or (2) whether the company charges a fee based upon the number or volume of deposits placed at the depository institution.
A listing service is **not** a deposit broker if the following requirements are satisfied:
1. The person or entity providing the listing service is compensated solely by means of subscription fees (i.e., the fees paid by subscribers as payment for their opportunity to see the rates gathered by the listing service) and/or listing fees (i.e., the fees paid by depository institutions as payment for their opportunity to list or

post their rates). Further, the listing service does not require a depository institution to pay for other services offered by the listing service or its affiliates as a condition precedent to being listed.
2. The fees paid by depository institutions are flat fees; they are not calculated on the basis of the number or dollar amount of deposits accepted by the depository institution as a result of the listing or posting of the depository institution's rates.
3. In exchange for these fees, the listing service performs no service except the gathering and transmission of information concerning the availability of deposits. This information may include an insured depository institution's name, address (including e-mail address), telephone number and interest rates. Except for providing this information, the listing service does not serve as a liaison between depositors and depository institutions. For example, the listing service does not pass information about a depositor (or potential depositor) to a depository institution.
4. The listing service is not involved in placing deposits or confirming the placement of deposits. Any funds to be invested in deposit accounts are remitted directly by the depositor to the insured depository institution and not, directly or indirectly, by or through the listing service.
[TOP]

Q&A No. 235
SUBJECT: Liabilities for Credit Losses for Off-Balance-Sheet Exposures
LINE(S):Schedule CCR
DATE: March 1, 2004

Question: On Schedule SC, we report a liability of $70,000 (on line SC796) for credit losses associated with off-balance-sheet exposures. It is comprised of $50,000 associated with letters of credit and $20,000 associated with sales of loans with recourse. May some of the $70,000 potentially be included in Tier 2 capital, as part of the allowance for loan and lease losses (ALLL) reported on CCR350?
Answer: Yes. For Tier 2 capital purposes, you may potentially report ALLL on CCR350 up to $50,000 - the amount associated with letters of credit. You may not include any portion of the liability related to transfers of loans or other assets reported as sales with recourse. In addition, the amount you ultimately report on CCR350 is limited to 1.25% of gross risk-weighted assets.
[TOP]

Q&A No. 236
SUBJECT: Excess Alll
LINE(S):Schedule CCR
DATE: March 1, 2004

Question: On Schedule SC, our allowance for loan and lease losses (ALLL) of $150,000 is comprised of $100,000 associated with mortgage and nonmortgage loans on SC283 and SC357 and $50,000 associated with letters of credit on SC796.

However we include only $90,000 of the total ALLL in Tier 2 capital on SC350, as this amount represents 1.25% of our risk-weighted assets reported on CCR75. Therefore may we reduce our risk-weighted assets by $60,000 ($150,000 less $90,000) by reporting this amount as excess ALLL on CCR530?
Answer: No. You may report excess ALLL on CCR530 of only $10,000 ($100,000 less $90,000). Excess ALLL may include only those amounts appropriately reported as contra-assets on SC283 and SC357. Therefore, CCR530 may not include an amount reported as a liability on SC796. You have excess ALLL to report on CCR530 only if the amounts on SC283 and SC357, combined, exceed the amount reported on CCR350.
In addition to the facts you provided, assume the following: Tier 1 capital of $800,000 and subtotal risk-weighted assets of $7,200,000. The table below shows the relevant computations.
First, you compute includable ALLL of $90,000 ($7,200,000 times 1.25%). Second, you compute total risk-based capital of $890,000 ($800,000 plus $90,000). Third, you compute excess ALLL of $10,000 ($100,000 less $90,000). Note that includable ALLL of $90,000 is less than the $100,000 of ALLL associated with loans; that is, the ALLL reported as contra-assets. Fourth, you compute risk-weighted assets total of $7,190,000 ($7,200,000 less $10,000).

	Dollars in Thousands		
Tier 1 capital		$ 800	
Risk-weighted assets, subtotal	$ 7,200		$ 7,200
ALLL, percent limit	1.25%		
ALLL, includable	90	90	
ALLL, excess	10		(10)
ALLL, in assets	100		
ALLL, in liabilities	50		
ALLL, total	$150		
Total risk-based capital		$ 890	

Risk-weighted assets, total			$ 7,190	

[TOP]

Q&A No. 237
SUBJECT: Boli Investment Limitation, Definition of Total Capital
LINE(S):CCR39, SC615, and SC625
DATE: March 1, 2004

Question: OTS Regulatory Bulletin 32-26 states that savings associations may not invest more than 25 percent of their total capital in bank-owned life insurance (BOLI). Is total capital the same as Total Risk-based Capital?
Answer: Yes. Total capital is the same as Total Risk-based Capital. Use the amount that you report on Schedule CCR39, Total Risk-based Capital. Follow the TFR Instructions for Schedule CCR to calculate the amount on CCR39, which (as indicated in the instructions) is net of any deductions you make on Lines CCR370 and CCR375.
In summary:

Tier 1 (Core) Capital	*(following the instructions for CCR20)*
+ Allowable Tier 2 (Supplementary) Capital	*(following the instructions for CCR35)*
- Equity Investments and Other Assets Required to be Deducted	*(following the instructions for CCR370)*
- Deduction for Low-Level Rsource and Residual Interests	*(following the instructions for CCR375)*
= Total Capital=Total Risk-based Capital	

[TOP]

Q&A No. 238
SUBJECT: Risk-Weighting Available-for-Sale Equity Securities with Unrealizes Losses
LINE(S):CCR506
DATE: March 1, 2004

Question: On SC860 we report net unrealized losses (after deducting unrealized gains and adjusting for taxes) on available-for-sale equity securities. How should we risk-weight these securities, since we cannot add back the net loss on CCR180

or CCR302?
Answer: If these equity securities are permissible for savings associations and therefore qualify to be risk-weighted at 100%, report on CCR506 the fair value (rather than the cost) of these securities.
[TOP]

Q&A No. 240
SUBJECT: Revolving Lines Of Credit – As Refinancings
LINE(S):CF361
DATE: June 4, 2004

Question: *We have revolving lines of credit secured by 1-4 dwellings and some secured by commercial property that expire in one year. If we renew these lines with the same terms at the end of the one-year expiration period, must we report them as refinancings on CF361? We continue these loans with the same loan number.*
Answer: Yes. If the term of a loan is extended, the loan is modified and should be reported as a refinancing on CF361.
[TOP]

Q&A No. 241
SUBJECT: Lines Of Credit To A Service Corporation
LINE(S):SI588
DATE: June 4, 2004

Question: *Must a savings association report on SI588 available lines of credit that the association has granted to its service corporation? While these are not loan balances outstanding currently, they may become outstanding balances in the future if drawn upon by the service corporation.*
Answer: No. If the line of credit is unfunded or it is not otherwise recognized as a balance sheet asset, then the savings association is not required to include the amount of the line for purposes of calculating its aggregate investment (both debt and equity) in service corporations. Therefore, the association is not required to report the line of credit on SI588 (Aggregate Investment in Service Corporations).
[TOP]

Q&A No. 242
SUBJECT: Transactions With An Affiliated Bank
LINE(S):SI760
DATE: June 4, 2004

Question: *An institution under a bank holding company buys and sells participations with its sister bank. Would these be reported on SI760?*

Answer: No.
Under 12 CFR 223.52 (the Federal Reserve's 23B reg), sister bank transactions are not covered by 23B. It states that all transactions are covered except for transactions cited under 223.41, which cites the sister bank exception
[TOP]

Q&A No. 243
SUBJECT: Holding Company's Dividends From Thrift Subsidiary
LINE(S):HC525
DATE: June 4, 2004

Question: *Our holding company, in its parent only financial statements, does not treat dividends from its wholly-owned thrift subsidiary as income. Using the equity method of accounting, the holding company records the thrift subsidiary's net income as an increase in its investment in subsidiary (an asset), and as equity in net income of thrift subsidiary (an item of income). The holding company records dividends from the thrift subsidiary as an increase in cash or intercompany receivable, and as a reduction in its investment in subsidiary. Therefore, in the parent only column of Schedule HC, the holding company reports zero on HC525, Reflected in Net Income for the Quarter: Dividends: From Thrift Subsidiaries. Is this reporting correct?*
Answer: No. In the parent only column of Schedule HC, your holding company should report dividends from its thrift subsidiary on HC525. Typically, under the equity method of accounting used for parent only financial statements, a holding company's equity in the net income or loss of its subsidiaries is presented as two separate components: (1) dividends from subsidiaries – that is, the distributed income component; and (2) equity in undistributed income or loss of subsidiaries – the undistributed income or loss component. Accordingly, your holding company should report on HC525 the distributed income component of the holding company's equity in income or loss of its thrift subsidiary.
For example, assume that the holding company's equity in the net income of its thrift subsidiary is $10 million; and that dividends declared by, and received from, the subsidiary are $3 million. The holding company's net income on a parent only basis reported on HC250, "Net Income for the Quarter", would include the $10 million. The holding company would report the $3 million on HC525. Note that the holding company's $7 million ($10 million - $3 million) undistributed income component of its equity in income of the thrift subsidiary would not be reported separately on Schedule HC.
[TOP]

Q&A No. 244
SUBJECT: Trust Preferred Securities
LINE(S):HC445/HC670
DATE: June 4, 2004

Question: *Our holding company (a) has a $3 million investment in all the common stock of an entity that issued trust preferred securities of $97 million to third parties, and (b) has borrowed $100 million from that entity, which is all of the proceeds from that entity's issuance of common stock and trust preferred securities ($3 million + $97 million). During the quarter, our holding company incurred $2 million in interest on the borrowing (which was equal to the dividends paid by the investee entity on the trust preferred securities). Pursuant to FASB Interpretation No. 46 and other relevant sources of GAAP, our holding company does not consolidate this investee entity. How should our holding company report these amounts on Schedule HC?*

Answer: We understand that, for most financial institution holding companies, under GAAP, it is appropriate not to consolidate the investee entity that issues trust preferred securities. Accordingly, the holding company, on both a parent-only and a consolidated basis, reports separately: (a) its investment in the common stock of the entity (an asset); (b) its borrowing from the entity (a liability); and (c) its interest incurred on the borrowing (an expense).

Your holding company should report the amounts above as follows:

1. Include its $3 million investment in the common stock of the entity on both HC210 (for parent only) and HC600 (for consolidated), "Total Assets".
2. Include the balance of its borrowing of $100 million on both HC220 (for parent only) and HC610 (for consolidated), "Total Liabilities".
3. Report the balance of its borrowing of $100 million on both HC445 (for parent only) and HC670 (for consolidated), "Included in Total Liabilities (Excluding Deposits): Trust Preferred Instruments".
4. Reflect the interest of $2 million on the borrowing on both HC250 (for parent only) and HC640 (for consolidated), "Net Income for the Quarter".
5. Report the interest of $2 million on the borrowing on both HC545 (for parent only) and HC710 (for consolidated), "Reflected in Net Income for the Quarter: Interest Expense: Trust Preferred Instruments".

[TOP]

Q&A No. 245
SUBJECT: Net Deferred Tax Assets
LINE(S):CCR133/CCR270
DATE: June 4, 2004

Question 1: *We have included in other assets on SC689 a net deferred tax asset (that is, deferred tax asset components, net of deferred tax liability components) of $2.4 million. Is this the amount that is subject to the regulatory capital limitation for deferred tax assets outlined in TB 56?*

Answer 1: Not necessarily. The net deferred tax asset subject to the regulatory capital limitation is not simply the amount included on SC689. Rather, that amount should be adjusted for any additions or subtractions to the net deferred tax asset related to intangible assets, disallowed servicing assets, disallowed residual interests, other disallowed assets, and accumulated gains and losses on certain available-for-sale securities and cash flow hedges included on CCR265, CCR270,

and CCR280, in computing adjusted total assets on CCR25.
For example, assume also that (1) available-for-sale (AFS) debt securities reflect unrealized losses of $1.0 million; (2) the net deferred tax asset of $2.4 million includes a deferred tax asset component of $0.4 million associated with the unrealized losses on AFS securities; and (3) equity capital reflects a reduction of $0.6 million for the unrealized losses on AFS securities of $1 million net of the associated deferred tax benefit of $0.4 million.
In this case, the net deferred tax asset subject to the regulatory capital limitation is $2.0 million (not $2.4 million). This $2.0 million is computed as $2.4 million less $0.4 million. The $0.4 million adjustment represents the deferred tax asset component associated with the unrealized losses on AFS securities of $1.0 million.
You report $0.6 million on CCR180, representing the unrealized loss on AFS debt securities. This adds the unrealized losses on AFS securities, net of income taxes, to equity capital in computing Tier 1 (core) capital on CCR20. You also report $0.6 million on CCR280 to compute adjusted total assets on CCR27. The total amount included on CCR280 related to unrealized losses on AFS securities is a net addition of $0.6 million, representing a gross addition to AFS securities of $1.0 million for the pretax amount, net of a subtraction from the net deferred tax asset of $0.4 million for the associated income taxes.
Note the table as follows ($ in millions):

Net deferred tax asset included in other assets on SC689	$2.4
Adjustment for deferred tax asset component associated with unrealized losses on AFS securities included on CCR280	(0.4)
Net deferred tax asset subject to regulatory capital limitation	$2.0

Or, for example, assume instead that (1) AFS debt securities reflect unrealized gains of $1.0 million; (2) the net deferred tax asset of $2.4 million includes a deferred tax asset liability component of $0.4 million associated with the unrealized gains on AFS securities; and (3) equity capital reflects an increase of $0.6 million for the unrealized gains on AFS securities of $1 million net of the associated deferred tax liability of $0.4 million.
In this case, the net deferred tax asset subject to the regulatory capital limitation is $2.8 million (not $2.4 million). This $2.8 million is computed as $2.4 million plus $0.4 million. The $0.4 million adjustment represents the deferred tax liability component associated with the unrealized gains on AFS securities of $1.0 million.
You report $0.6 million on CCR180. This deducts the unrealized gains on AFS securities, net of income taxes, from equity capital to compute Tier 1 (core) capital on CCR20. You also report $0.6 million on CCR280 to compute adjusted total assets on CCR27. The total amount included on CCR280 related to unrealized gains on AFS securities is a net reduction of $0.6 million, representing a gross reduction to AFS securities of $1.0 million for the pretax amount, net of an addition of the net deferred tax liability of $0.4 million for the associated income taxes.
Note the table as follows ($ in millions):

Net deferred tax asset included in other assets on SC689	$2.4
Adjustment for deferred tax asset component associated with unrealized losses on AFS securities included on CCR280	0.4
Net deferred tax asset subject to regulatory capital limitation	$2.0

As you can see, the net deferred tax asset subject to the regulatory capital limitation depends on the additions or subtractions to the net deferred tax asset related to various items, including accumulated gains and losses on certain AFS securities.

Question 2: *We have included in other assets on SC689 a net deferred tax asset (that is, deferred tax asset components, net of deferred tax liability components) of $2.4 million. As we made regulatory capital adjustments to this amount, the net deferred tax asset subject to the regulatory capital limitation outlined in TB 56 is $2.0 million. How do we determine the portion of this amount that is includable in Tier 1 (core) capital?*

Answer 2: TB 56 requires you to limit the amount of net deferred assets under FASB Statement No. 109 that may count toward regulatory capital. Application of the limit depends on the possible sources of taxable income available to you. In other words, there may be sources of deferred tax assets that are not generally limited. These assets are:

· Taxes paid in prior carryback years

· Future reversals of existing taxable temporary differences.

To the extent that realization of deferred tax assets depends on an institution's future taxable income generally, deferred tax assets (other than the ones listed above) are limited for regulatory capital purposes to the lesser of:

· The amount you can realize within one year, or

· 10% of core capital

For example, with respect to the net deferred tax asset that is subject to the limitation of $2.0 million, assume that (1) the amount that can be realized from taxes paid in prior carryback years is $0.9 million, and (2) realization of the remaining amount of $1.1 million ($2.0 million less $0.9 million) depends on your future taxable income - all of which can be realized within one year. Assume also that your Tier 1 (core) capital before the deduction for disallowed deferred tax assets is $10 million.

In this example, the net deferred tax asset includable in Tier 1 (core) capital is $1.9 million, computed as $0.9 million plus $1.0 million. The $1.0 million is computed as the Tier 1 (core) capital subtotal of $10 million times 10%. Note that the $0.9 million whose realization is not dependent on future taxable income is not subject to the limit, but that the $1.1 million whose realization is dependent on future taxable income is limited. With respect to the latter, the amount you can realize within one year of $1.1 million exceeds the 10% of Tier 1 (core) capital subtotal of $1.0 million, and therefore you must use the lower $1.0 million number.

Question 3: *We have included in other assets on SC689 a net deferred tax asset* *(that is, deferred tax asset components, net of deferred tax liability components) of $2.4 million. As we made regulatory capital adjustments to this amount, the net deferred tax asset subject to the regulatory capital limitation outlined in TB 56 is $2.0 million. In addition, we have determined that the net deferred tax asset that is includable in Tier 1 (core) capital) is $1.9 million. What is the amount of the deduction for disallowed deferred tax assets that we should include on CCR133 and CCR270?*

Answer 3: The amount of the deduction is $0.1 million, computed as $2.0 million less $1.9 million.

[TOP]

Q&A No. 246
SUBJECT: Interest-Only Mortgages
LINE(S): CMR Assets
DATE: August 31, 2004

Question *Our institution is engaging in new lending products that provide an interest-only payment term. This feature can be for up to 10 or 15 years and applies to fixed- and adjustable-rate 1-4 family first mortgage loans. Principal amortizes over the remaining period (20 or 15 years, respectively) after the interest-only term. Pre-payment of principal is at the borrower's option for the entire 30-year loan term. Where on Schedule CMR should these new loan types be reported?*

Answer Until further notice, these loans should be reported in CMR as if they are amortizing loans. For example, if the loans you describe had a coupon of 6.25%, the dollar balance should be reported in CMR003, the WARM in CMR008, the WAC in CMR013, and any portion that is FHA/VA guaranteed in CMR018.

[TOP]

Q&A No. 247
SUBJECT: FHLB Overdrafts
LINE(S): SC760, CMR Liabilities
DATE: August 31, 2004

Question *We have an overdraft at the FHLB of $575,000 and reported this in SC760--Other Borrowed Money. Where in Schedule CMR should this amount be reported?*

Answer FHLB overdrafts should be reported in the CMR section – "Fixed-Rate, Fixed-Maturity FHLB Advances, Other Borrowings, Redeemable Preferred Stock, and Subordinated Debt" under the appropriate maturity and coupon lines. For example, assuming these overdrafts have a remaining maturity of 0 to 3 months and a coupon under 3%, the amount would be reported in CMR675

[TOP]

Q&A No. 248
SUBJECT: Bounce Protection (Overdraft Protection)
LINE(S): SC303/330/689
DATE: April 5, 2005

Question: *Our thrift recently began offering checking account customers "bounce protection" where we will honor overdrafts up to $1,000 for a fee of $20 for each overdraft occurrence. This saves the customer merchant overdraft fees and the hassle and embarrassment of returned checks. Should these overdrafts be included in SC330 - "Other Loans?"*
Answer: From your description, the overdrafts should be reported on the TFR in SC689 - "Other Assets" since the overdrafts are a service to account holders rather than a line of credit (loan) established using typical underwriting procedures.
In general, overdraft protection extended to customers under prearranged credit lines where you review and consider the customer's credit history, account history, employment, and other usual loan underwriting considerations, should be reported in SC330 - Other Loans (if an individual) or SC303 - Unsecured Commercial Loans. These lines are typically established through an application submitted by the customer and have a stated rate of interest that will be applied to the outstanding balance until repaid. Overdrafts added to a customer's existing line of credit - such as a credit card - should be reported in that line item (in this example SC328 - Credit Cards) when the overdraft occurs.
In contrast, overdraft protection offered as part of an account "package" should be reported in SC689 - Other Assets. These account services known as "bounce protection" or "courtesy overdrafts" among other names, are offered to customers opening accounts with such features. No customer loan underwriting is performed for these overdraft packages and accounts, there is no stated interest rate, and the overdrafts are generally due immediately or in less than 30 days.

Q&A No. 249
SUBJECT: Thrift Holding Company Net Income
LINE: HC250
DATE: June 1, 2005

Question: *Should I include a parent holding company's proportionate share of any thrift institution subsidiary's quarterly net income in line* HC250?
Answer: Yes. Including the proportionate share of any subsidiary income in line HC250 is in accordance with GAAP (APB No. 18).
[TOP]

Q&A No. 250
SUBJECT: Reporting Deposit Account Sweeps
LINE(S): SO215, DI310, DI320, DI610, SI890, CMR Deposits
DATE: August 8, 2005

Question: *How should sweep accounts be reported between transaction accounts and savings accounts? Should Schedule DI match Form FR2900 for these accounts?*

Answer: Sweep account reporting should generally reflect the position of the swept funds at the end of the reporting period. Funds swept into a savings account should be reported as savings accounts. This reporting matches that of the Federal Reserve Form 2900 -"Report of Transaction Accounts, Other Deposits and Vault Cash." Schedule DI should tie to Form 2900.
Sweep account reporting may also affect reporting for SO215 - "Interest Expense", SI890 - "Average Interest-Earning Deposits and Escrows", as well as reporting of CMR deposits. Deposits reported in CMR need not match those reported in Schedule DI. For reporting swept funds in CMR, you should generally choose the line item that best describes the type of account from which funds are swept from an ongoing economic perspective, not an accounting point-in-time perspective. The OTS Interest Rate Risk Model uses different modeling assumptions for different deposit accounts in CMR. Therefore, it is more important that CMR deposit reporting reflect overall account behavior and characteristics while Schedule DI reflects a point-in-time accounting of deposit balances.
[TOP]

Q&A No. 251
SUBJECT: General Valuation Allowances Associated with a Loan Portfolio Sale
LINE: VA145
DATE: July 6, 2005

Question: *We recently sold the majority portion of our auto loan portfolio for which there is a general valuation allowance associated with this portfolio. What is the proper reporting on the VA schedule to remove the general allowance which is no longer required?*
Answer: The reduction of general valuation allowances associated with a loan portfolio sale should be reported as a negative amount on line VA145 - "Adjustments."
[TOP]

Q&A No. 252
SUBJECT: Commitments to Originate and Sell Mortgages Loans
LINE: SC689, SC796, CC280-300, CC330, CMR801-880, CCR506
DATE: July 6, 2005

Question: *We read the May 3, 2005, Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. When is the advisory effective for TFR reporting purposes?*
Answer: Generally, savings associations are expected to immediately apply the guidance in the advisory when preparing their TFRs. The advisory is not a new

requirement but rather provides additional guidance on the application and regulatory reporting under FAS 133. It was issued to clarify previously existing requirements. However, certain questions have been raised about floating derivative loan commitments. Until those questions are resolved, savings associations should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for TFR purposes.
The advisory can be accessed at (http://www.ots.treas.gov/docs/r.cfm?25220.pdf).

[TOP]

Q&A No. 253
SUBJECT: Reporting Financing Arrangements Under the Tobacco Transition Payment Program
LINE: SC300, Schedule CCR
DATE: August 10, 2005
REVISED: January 3, 2006

Question: *Our savings association is considering financing arrangements with farmers in our area for which we will make a discounted lump-sum payment in exchange for their assignment of tobacco buyout payments from the USDA / Commodity Credit Corporation (CCC). Should we report these arrangements in SC689--"Other Assets?"*
Answer: Reporting these arrangements in TFR line SC300, "Secured Commercial Loans", is more appropriate.
The Fair and Equitable Tobacco Reform Act, commonly referred to as the "Tobacco Buyout," was enacted into law on October 22, 2004, as part of the American Jobs Creation Act of 2004. This Act established the Tobacco Transition Payment Program, which is administered by the U.S. Department of Agriculture (USDA). Under this program, the Commodity Credit Corporation (CCC) will make annual payments to eligible tobacco quota holders (i.e., landowners) and tobacco producers (i.e., farmers) beginning in 2005 and ending in 2014.
The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, the statute and the rules implementing the tobacco buyout program permit a private party, such as a bank or savings association, to make a lump-sum payment to the quota holder or producer in return for the right to receive one or more of the annual payments to be made by the CCC under the buyout program. More specifically, a quota holder or producer can obtain a lump-sum payment from a savings association or other party by executing an "assignment" of tobacco buyout payments or a "successor-in-interest" contract. Under both of these financing arrangements, the consideration paid to the quota holder or producer must be greater than or equal to the present value of the transferred annual payments discounted at the prime rate plus two percentage points rounded to the nearest whole number. Assignment contracts and successor-in-interest contracts become effective only upon the approval of the CCC. The annual payments by the CCC will be made directly to the

assignee or successor party.
However, any annual payments to be made to a savings association or other party under an assignment contract will be reduced if the quota holder or producer owes any debt to an agency of the United States at any time over the life of the contract, thereby exposing the assignee to credit risk. On the other hand, on a successor-in-interest contract, a successor party obtains all rights to the transferred payments and the annual payments cannot be reduced for any debt owed by the quota holder or producer to an agency of the United States subsequent to the CCC's approval of the successor-in-interest contract.
Nevertheless, the CCC will reduce any annual payments to the successor party if the successor owes any debt to an agency of the United States. In addition, the CCC will not issue a payment to the successor to a producer contract if the successor is not in compliance with wetlands and highly erodible land provisions of the USDA's regulations or is convicted of trafficking in controlled substances.
Savings associations that enter into CCC-approved assignment contracts and successor-in-interest contracts and make lump-sum payments to tobacco quota holders or producers should report these financing arrangements on TFR line SC300, "Secured Commercial Loans". The discount reflected in these lump-sum payments should be recognized as interest income over the life of the contract using the interest method.
For risk-based capital purposes, assignment contracts should be risk weighted at 100 percent because of the potential exposure to payment reductions for any debt owed by the quota holder or producer to an agency of the United States as outlined above. Successor-in-interest contracts from producers or quota holders are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at zero percent.
[TOP]

Q&A No. 254

SUBJECT: FAS123 (R) Charges
LINE(S): SO510
DATE: December 15, 2005

Question: *Where on the TFR Schedule SO should FAS123 (R) charges be recorded?*

Answer: FAS 123 (R) charges should be reported in SO510 - Personnel Compensation and Benefits.
[TOP]

Q&A No. 255

SUBJECT: Commercial Loans
LINE(S): SC300/303/306
DATE: August 21, 2006

Question: *We currently report on the TFR in Commercial Loans loans for which the ultimate collateral are single-family liens. Are these appropriately reported as Commercial Loans?*

Answer: Institutions have flexibility in categorizing loans with characteristics of different loan types. (See OTS Regulation 12 CFR 560.31 and OTS Thrift Bulletin TB-78a for detail on this flexibility.) Categorizing and reporting on the TFR the described loans in SC254 "Permanent Mortgages on 1-4 Dwelling Units" is also appropriate given that 1-4 family liens are available as collateral. Any change in TFR reporting should be discussed with your OTS regional supervisors and you should maintain documentation supporting the change.
[TOP]

Q&A No. 256

SUBJECT: Defined Benefit Postretirement Plans and FAS158
LINE(S): CCR20, CCR25, CCR195, CCR290, and SC870
DATE: Revised March 20, 2007
Question: *How do I report FASB Statement No. 158 on Defined Benefit Postretirement Plans?*

Answer: Financial institutions that sponsor single-employer defined benefit postretirement plans must adopt FAS158 for TFR purposes in accordance with the standard's effective date and transition provisions. Note that FAS158 adjustments should be reversed on Schedule CCR. Similarly, Tier 1 capital (CCR20), total assets (CCR25), and risk-based assets should not include FAS158 adjustments.
On December 14, 2006, the OTS along with the other federal banking agencies announced that financial institutions should exclude, on an interim basis, any amount recorded in AOCI resulting from the adoption and application of FAS 158 from regulatory capital. This excluded amount should be reported on CCR 195 (net of applicable income taxes). For example, if the amount included in AOCI on line SC 870 for defined benefit postretirement plans under FAS 158 is a credit, this amount should be reported as a negative value on CCR 195. If the amount is a debit, it should be reported as a positive value on CCR 195.
Savings associations should also "reverse" FAS158 adjustments from regulatory

tangible assets. Report on CCR 290, FAS 158 adjustments included in total assets for defined benefit postretirement plans and any related components of income tax assets. Do not report FAS 158 adjustment amounts on CCR290 for defined benefit postretirement plan liabilities.
Report the results on CCR290 as follows:
When the amount on this line represents a net amount that increased assets reported on Schedule SC, report a negative number that will deduct this amount from total assets for regulatory capital purposes.
When the amount on this line represents a net amount that decreased assets reported on Schedule SC, report a positive number that will add this amount back to total assets for regulatory capital purposes.
As stated in <http://www.ots.treas.gov/docs/7/776058.html>, FAS 158 will require, as early as December 31, 2006, a banking organization that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the over funded or under funded status of each such plan as an asset or liability on its balance sheet with corresponding adjustments recognized in AOCI, a component of equity capital. After a banking organization initially applies FAS 158, changes in the benefit plan asset or liability reported on the organization's balance sheet will be recognized in the year in which the changes occur and will result in an increase or decrease in AOCI.

[TOP]

Q&A No. 257

SUBJECT: FDIC One-Time Assessment Credit
LINE(S): SO580
DATE: March 20, 2007
Question: *How should thrifts account for the FDIC One-Time Assessment Credit?*
Answer: The FDIC has issued insurance assessment credits to certain institutions. These credits may be offset against future FDIC assessments beginning in 2007. The FDIC generally invoices assessments within 90-days of the calendar year quarter-end date. For example, an assessment invoice for January 1, 2007 through March 31, 2007 (2007Q1) would be received in June 2007. Institutions holding credits would accrue 2007Q1 assessment estimates net of available credits. For example, assume the institution estimates its 2007Q1 assessment to total $10,000 and the institution holds credits in the amount of $100,000. No assessment expense would be recorded for 2007Q1.
Assessment credit may not be recorded as assets; however, institutions selling their credits may record income for cash received. Purchasing institutions would record an asset in the amount paid for the credit.
Additional information related to accounting for the FDIC One-Time Assessment Credit is available in the FDIC's Supplemental Instructions for December 2006 Call

Report posted on the FFIEC web site at the following address:
http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf
[TOP]

Q&A No. 258

SUBJECT: Fair Value Option Accounting
LINE(S): SO485, SI375, SI376, SI377
DATE: April 16, 2007

Question: *We hold various assets and liabilities that are accounted for at fair value with the changes in fair value reflected in current earnings, as required or permitted (under a fair value option) by GAAP. These assets and liabilities, and the related income and expense, are as follows:*

			Income (Expense)	
Asset or Liability	**FASB Statement**	**Balance Asset (Liability)**	**Change in Fair Value**	**Interest & Other**
Trading securities (1)	No. 115	$100,000	$(1,200)	$ 900
Derivatives	No. 133	60,000	500	-
Financial assets carried at fair value		$160,000		
FHLB advances (2)	No. 159	(80,000)	600	(1,000)
Derivatives	No. 133	(10,000)	(100)	-
Financial liabilities carried at fair value		$(90,000)		
Net loss on financial assets and liabilities carried at fair value			$ (200)	
Available-for-sale securities	No. 115	$ 50,000	$ (700)	200

Servicing assets (2)	No. 156	40,000	300	500

(1) Includes $30,000 of securities held for trading purposes; that is, securities for which it is management's intent to actively buy and sell to generate profits in the short term.
(2) Fair value option elected.

How do we report these assets and liabilities and the related income and expense in the TFR?

Answer: For balance sheet purposes, report the assets and liabilities in the appropriate lines on Schedule SC along with other assets and liabilities not carried at fair value. For example, report the FHLB advances of $80,000 on line SC720, along with any other FHLB advances that you do not carry at fair value.

In addition, report certain amounts on Schedule SI. Report the balance of financial assets carried at fair value of $160,000 on line SI376, and report the balance of financial liabilities carried at fair value of $90,000 on Schedule SI377. Also, report the balance of securities held for trading purposes of $30,000 on line SI375.

Available-for-sale securities are financial assets carried at fair value. However for available-for-sale securities, the changes in fair value are not reflected in current earnings, but rather in other comprehensive income. Accordingly, do not include the balance of available-for-sale securities of $50,000 on line SI376. Rather, report the balance on line SI385.

As you have elected a fair value option for servicing assets of $40,000, they are assets carried at fair value with the changes in fair value reflected in current earnings. However, servicing assets are not financial assets. Accordingly, do not include servicing assets on Schedule SI lines SI376 and SI377. Rather report the fees, and fair value adjustments on the servicing assets of $800 ($300 + $500) separately on lines SO410 and SO411, as appropriate.

Similarly available-for-sale securities are not reported on Schedule SI as financial assets carried at fair value. Do not include the loss on available-for-sale securities of $700 on line SO485. Rather, include the loss on available-for-sale securities of $700 on line SI662.

For income statement purposes, report interest income (excluding interest on nonaccrual assets), interest expense, and other income and expense amounts in the appropriate lines on Schedule SO. For example, report the interest expense on FHLB advances of $1,000 on Schedule SO line SO230, along with the interest expense on any other FHLB advances that you do not carry at fair value.

In addition, report the net loss in fair value on financial assets and liabilities of $200 on Schedule SO line SO485.

At the effective date or early adoption date of SFAS 159, report the difference between the carrying value of items for which fair value option was elected and their fair value as a cumulative-effect adjustment to the opening balance of retained earnings on Schedule SI line SI668, Prior Period Adjustments.

[TOP]

Q&A No. 259

SUBJECT: Risk Weight for Assets with FDIC Assistance
LINE(S): CCR409, 445, 450
DATE: December 18, 2008

Question:

What risk weight is assigned to assets with an FDIC guarantee or subject to an FDIC assistance agreement?

Answer:

The FDIC has various programs that provide assistance.

- o Senior unsecured bank debt that is guaranteed under the Temporary Liquidity Guarantee Program receives a risk weight of 20 percent. (Report on CCR445 – Claims on Domestic Depository Institutions)

- o For recent assets sales and acquisitions where the FDIC provides assistance, the assistance provided may vary from transaction to transaction, and it may be limited or tiered, i.e. it does not cover the full amount of the assets. Only the portion of losses covered by the FDIC would ordinarily qualify for 20% risk weight (report on CCR450 – 20% risk weight: other). The remainder would be the ordinary risk weight for the asset type (reported on the appropriate risk weight line) except where the OTS determines that a different risk weight is commensurate with the risk of the transaction.

- o For older existing transactions with FDIC assistance, continue to follow the instructions for CCR409 for risk weighting the assets (CCR409 - Notes and obligations of FDIC, Including Covered Assets)

[TOP]

Q&A No. 260

SUBJECT: Push-Down Accounting
LINE(S): SC
DATE: March 17, 2009

Question: What percentage of a change in control triggers push-down accounting? And how is push-down accounting reported on the TFR?

Answer: SEC Staff Accounting Bulletin (SAB) No. 54, issued in 1983, requires "push-down" accounting when the acquired company has become "substantially wholly-owned". SEC staff has stated that the threshold for "substantially wholly-owned" should be at a control level of 95%. Accordingly, with certain limited exceptions, SEC has stated that "push-down" accounting should be required at 95% or more control, and "push-down" accounting should be permitted at 80% to 95% control. In general, the OTS and the other Federal Banking Agencies follow the SEC guidance regarding "push-down" accounting.

For the acquisition of a savings association by a holding company, the accounting for business combinations requires that, at the date of acqusition, the holding company's consolidated financial statements include the subsidiary savings association's assets and liabilities at fair value. When "push-down" accounting is applied, at the date of acqusition, the savings association's assets and liabilities are reported at fair value in the savings association's TFR (and other separately-issued financial statements). In contrast, when "push-down" accounting is not applied, the savings association's assets and liabilities are reported at their pre-acquisition carrying amounts (book value) in the savings association's TFR.

By way of illustration, assume a savings association with a book value of $1,000 was acquired for $600, based on the following:

	Book Value	Fair Value
Total Assets	$10,000	$9,700
Total Liabilities	(9,000)	(9,100)
Stockholder's equity	$1,000	$600

At the date of acquisition, in its TFR, the savings association would report stockholder's equity of:

a. $1,000 (book value) without "push-down" accounting, or
b. $600 (fair value) with "push-down" accounting.

[TOP]

Q&A No. 261

SUBJECT: TARP Funds / Capital Purchase Program
LINE(S): SC736, SC814, SC830, SC80, CCR100, CCR310
DATE: April 21, 2009 (Revised June 25, 2009)

Question: An institution received funds under the U. S. Treasury Department Capital Purchase Program in exchange for TARP senior preferred stock and warrants or other securities; which line item should be used to report the credit side of the transaction?

Answer: The credit representing the senior preferred stock and warrants of the institution should be reported on line item SC814: Noncumulative Preferred Stock. Both the stock and warrants will be included 1) in total equity on SC80 Equity Capital, and 2) on Schedule CCR, line item CCR100 in the calculation of Tier 1 Core Capital.

Note that TARP funds received by institution holding companies are in the form of *cumulative* preferred stock. Proceeds from this preferred stock downstreamed to the institution in the form of cash should be reported on SC830 Paid in Excess of Par.

For thrifts that have elected to be taxed under Subchapter S or are organized in mutual form, the full amount of all subordinated debt securities issued to the Treasury Department under the CPP should be reported in SC736 Subordinated Debentures (Including Mandatory Convertible Securities and Limited-Life Preferred Stock). For regulatory capital purposes, report on CCR310 Qualifying Subordinated Debt and Redeemable Preferred Stock, the portion of such subordinated debt securities that qualify for inclusion in Tier 2 capital according to the regulatory capital regulations as described in the introductory instructions to CCR.

[TOP]

Q&A No. 262

SUBJECT: Other-than-temporary-impairment
LINES(S): SC860, SI671, SO441, CCR180, CCR280
Date: May 11, 2009

Question: How do I report the impact of the April 9, 2009 issuance of FASB Staff Position (FSP) FAS 115-2, *Recognition and Presentation of Other Than Temporary Impairment* (FSP 115-2)?

Answer:
Effective date and transition

FSP 115-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. If FSP 115-2 is adopted early, FSP FAS 157-4 (FSP 157-4) *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* must also be adopted at the same time.

Note also that FSP 115-2 must also be adopted at the same time if (1) FSP FAS 157-4, or (2) FSP FAS 107-1 and APB 28-1 *Interim Disclosures about Fair Value of Financial Instruments* are adopted early,

Institutions may choose early adoption of FSP 115-2 in their March 31, 2009 TFR (2009Q1), and the FSP must be adopted no later than the June 30, 2009 TFR (2009Q2).

At initial adoption

Schedule SC Line 860, "Unrealized Gains (Losses) on Available-for-Sale Securities" under Accumulated Other Comprehensive Income (AOCI), and **Schedule SI Line 671, "Other Adjustments"-** Report the cumulative impacts of OTTI on debt securities classified as AFS and HTM related to all factors other than credit ("non-credit losses") previously recognized in earnings, and therefore, included in beginning retained earnings.

At initial adoption, FSP 115-2 requires that the cumulative impacts of OTTI on debt securities classified as AFS or HTM related to non-credit factors previously recognized in earnings should be reclassified from the beginning retained earnings balance into the appropriate Accumulated Other Comprehensive Income account. Subsequent accounting for these reclassified amounts is consistent with the guidance established in the FSP for OTTI related to non-credit factors.

Institutions should refer to the FSP for guidance on how to determine the OTTI related to credit losses and losses related to non-credit factors.

At initial adoption and on-going reporting

Schedule SO Line 441, "Other-Than-Temporary Impairment on Debt and Equity Securities." - Savings associations should report the appropriate OTTI losses that must be recognized in earnings on AFS and HTM debt securities determined in accordance with the FSP, as well as OTTI losses on AFS equity securities.

Schedule SC Line 860, "Unrealized Gains (Losses) on Available-for-Sale Securities" under AOCI – Savings associations should report OTTI losses related to non-credit factors for *both* AFS *and* HTM securities that are reported as a component of other comprehensive income along with the net Unrealized Gains (Losses) on AFS securities that are otherwise reported in this item.

Schedule CCR Line 180, "Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges, Net of Taxes" – Report the amount included in equity capital for OTTI losses related to non-credit factors on AFS and HTM debt securities, net of tax, not previously reported in AOCI, along with the net Unrealized Gains (Losses) on AFS securities, net of tax, that are otherwise reported in this item.

Schedule CCR Line 280, "Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges – Report the amount included in total assets for OTTI losses related to non-credit factors on AFS or HTM debt securities not previously reported in AOCI, along with the net Unrealized Gains (Losses) on AFS securities that are otherwise reported in this item.

Background

On April 9, 2009, the FASB released FSP 115-2 which amends the existing guidance for the recognition and presentation of other than temporary impairment (OTTI) on *debt* securities classified as either available-for-sale (AFS) or held-to-maturity (HTM). It does not amend existing recognition and measurement guidance related to OTTI of *equity* securities. It also does not apply to either debt or equity securities classified as trading or for which the fair value option (FVO) has been elected.

FSP FAS 115-2

When the fair value of a security is less than its amortized cost basis, the impairment is either temporary or other-than-temporary. If the loss is determined to be other-than-temporary, the security's cost basis is adjusted with a corresponding loss recognized in earnings. The amount of loss recognized in earnings is dependent on an institution's intent and ability to hold the security to recovery.

Full fair value loss (credit and non-credit losses) through earnings:

If the fair value of a debt security classified as AFS or HTM is less than its amortized cost basis, and the institution:

(1) ***intends*** to sell the security, or
(2) it is **"more likely than not"** that the institution ***will be required*** to sell the debt security before recovery of its amortized cost basis (less any current period credit loss),

OTTI exists and the entire amount of the impairment (both credit losses and non-credit losses) must be recognized in earnings. The fair value of the investment becomes its new cost basis at the date OTTI is recognized.

Credit loss through earnings/Non-credit loss through AOCI:

If the fair value of a debt security classified as AFS or HTM is less than its amortized cost basis and the present value of the expected future cash flows for the security, discounted at the security's effective interest rate, ("present value of expected future cash flows) is less than its amortized cost basis, an OTTI credit loss exists if the institution:

(1) **does not intend** to sell the debt security and

(2) it is **not "more likely than not"** that the institution **will be required** to sell the debt

security before recovery of its amortized cost basis (less any current-period credit loss.)

AFS securities
The amount of the impairment related to credit losses must be recognized in earnings. The debt security's new cost basis is its previous cost basis less the credit losses recognized in earnings. The difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing guidance (for example, SFAS No. 91) as interest income and reported on Schedule SO, either Line SO115 or Line SO125.

The amount of the impairment related to non-credit losses must be recognized as a component of other comprehensive income, net of tax, similar to the Unrealized Gains and (Losses) on AFS securities. The contra-asset account established for non-credit losses is included in the total Unrealized Gains/Losses on AFS securities such that the carrying value of the security is equal to fair value.

HTM securities
The amount of the impairment related to non-credit must be recognized as a new component of other comprehensive income, net of tax, similar to the Unrealized Gains/Losses on AFS securities. A corresponding contra-asset account is established for the full amount of non-credit impairment, such that the carrying value of the security is fair value at the time OTTI is recognized. Subsequently, this new component of other comprehensive income and the corresponding contra-asset account are each amortized over the remaining life of the HTM debt security, resulting in an increase in the carrying value of the security and AOCI *with no effect on earnings*.

Example:

During 2008, OTTI charges of $500 were recorded through earnings on certain AFS and HTM debt securities, as follows:

	AFS	HTM	Total
Face amount	$1,000	$1,000	
OTTI amount	(300)	(200)	$(500)
Fair value	$ 700	$ 800	

For the AFS and HTM securities, respectively, the OTTI amount attributable to credit losses is $120 and $80 (for a total of $200), based on the present value of expected future cash flows, discounted at the implicit interest rates for the securities. Therefore, the OTTI loss amount attributable to non-credit is $300 ($500 - $200) in the aggregate.

Upon adoption of FSP FAS 115-2 in 2009, what adjustment(s) are recorded?

Note: For simplicity, income taxes will be ignored.

Upon adoption of FSP FAS 115-2 in 2009, the OTTI amounts not attributable to credit losses, on a *retrospective* basis, should be charged to AOCI. This can be accomplished with the following journal entry:

	Debit (Credit)
AOCI – securities	$300
Retained earnings	(300)

Accordingly, beginning with the quarter of adoption in 2009 of FSP FAS 115-2, the ending balance of the following lines on Schedules SC and CCR will reflect the adjustments to the equity capital accounts above:

	Line No.
Accumulated other comprehensive income:	
Unrealized gains (losses) on certain securities	SC860
Retained earnings	SC880
Tier 1 (core) capital:	
Add: Accumulated losses (gains) on certain securities	CCR180
Adjusted total assets:	
Add: Accumulated losses (gains) on certain securities	CCR280

In addition, in the quarter of adoption in 2009 of FSP FAS 115-2, the amount reported on Schedule SI, Line SI662, will include the adjustment to AOCI – securities above. Accordingly, in order for the "Summary of Changes in Savings Association Equity Capital" on Schedule SI to reconcile, the adjustment to AOCI – securities above should also be reported on SI Line SI671, "Other Adjustments".

[TOP]

Q&A No. 263

SUBJECT: Risk Weighting Downgraded Securities
LINE(S): CCR
DATE: June 25, 2009

Question: If a mortgage or asset backed security is downgraded more than one category below investment grade (e.g., below BB-), and therefore no longer eligible for the ratings based approach, how is it reported on Schedule CCR?

Answer: In November 2001, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, and the Federal Deposit Insurance Corporation issued a joint rule addressing regulatory capital standards including two methods for risk weighting certain mortgage and asset backed securities, the default approach and an optional ratings based approach (RBA)[1].

Many institutions have utilized the optional RBA to risk weight senior and mezzanine positions in securitizations rated by one of the nationally recognized statistical rating organizations (NRSRO). However, in times of stress on the financial markets, there may be numerous and sometimes dramatic changes in the ratings for many of these positions. Thus, the default treatment for risk weighting certain mortgage and asset backed securities takes on increasing importance.

To be eligible for the RBA,[2] the asset or exposure must be rated by an NRSRO no lower than one category below investment grade with risk weights assigned as follows:

Long Term Rating Category	Example	Risk Weight
Highest or second highest investment grade	AAA or AA	20%

Third highest investment grade	A	50%
Lowest investment grade	BBB	100%
One category below investment grade	BB	200%

If the security is below BB-, first look to whether the security is the most senior position in the structure. If the security is in the most senior position in terms of credit risk, generally use the risk weight appropriate for the underlying assets. If there is a portion of a senior security composed of underlying loans that are delinquent, that portion should not be assigned a risk-weight lower than 100%. For example, if an investment in a senior security backed by 1-4 family Qualifying Mortgage Loans [3] is $100, and 40% of the underlying loans are delinquent, then at most $60 could be eligible for the 50% risk weight. The remaining $40 would generally be placed in the 100% risk weight category. For reporting on Schedule CCR using this example, report $60 on line CCR470 for mortgage and asset-backed securities eligible for 50% risk weight, and $40 on CCR506 for all other 100% risk weight assets.

For regulatory capital purposes, a security is considered "mezzanine" if it is not, functionally for credit risk purposes, the most senior in the structure—regardless of how it may be named, and if it is also not an equity tranche/residual interest that absorbs losses before any other tranche in a structure. Generally, for a mezzanine position, use the "gross-up" approach that is required by 12 CFR 567.6(b)(1). [4] In the gross-up approach, calculate the capital required for both the security *and* the pro rata portion of all more senior securities, that is, those securities in the structure deriving credit support from the particular mezzanine security subject to risk-weighting.

For example, assume a $10 par value interest in a mezzanine security that is part of a $100 asset-backed security structure shown below. This structure is composed of a $75 par value senior tranche, a $20 par value mezzanine tranche, and a $5 par value equity (or first loss) tranche. Assume that the assets underlying this asset-backed security are subject to a 100% risk weight. Although the securities in the senior and mezzanine tranches were originally rated AAA and BBB, respectively, when the bank purchased its interest in the mezzanine security, assume both tranches have been downgraded to ratings of A and CCC respectively.

[5]

For this example, assume the face value of the savings association's mezzanine security is $9.50.

Securitization Structure (Par Values) for Available-for-Sale or Held-to-Maturity Securities (Pro-Rata)

<table>
<tr><td colspan="2">Pro Rata Gross Up Amount</td></tr>
<tr><td colspan="2">SENIOR TRANCHE
owned by others

TOTAL $75 par value</td></tr>
<tr><td>Mezzanine position owned by savings association

Par value = $10
Face Value = $9.50</td><td>Mezzanine position owned by others
Par value = $10</td></tr>
<tr><td colspan="2">Residual position owned by others
$5</td></tr>
</table>

Use the following formula to calculate assets to risk weight and capital for Available-for Sale or Held-to-Maturity Securities

Assume:

A = M + (S x P)
C = A * 8%

C = Capital charge
A = Assets to risk weight under the gross-up approach
M = Face value (amortized cost) of the savings association's mezzanine security ($9.50 in the example)
S = Par value of all more senior securities ($75 in the example)
P = Proportion of the par value of the savings association's mezzanine security relative to all other equally positioned mezzanine securities (This is 0.50 in the example because the $10 par value of savings association's mezzanine security is 50% of $20 total par value of all equally positioned mezzanine securities)

Capital Requirement =

A = $9.50 + ($75 x 0.50)
A = $47
C = $47*.08 = $3.76

If the underlying assets are, appropriately categorized as 100% risk weight assets, report the $47 on line CCR506 for 100% risk weight—"All Other Assets". (If the underlying assets are eligible for the 50% risk weight, report $47 on line CCR470 for mortgage and asset-backed securities eligible for the 50% risk weight. If some portion of the underlying assets is delinquent, the portion of the $47 that is delinquent should be reported separately on CCR506.)

Securitization Structure (Par Values) for Trading Securities (Pro Rata)

Use the following formula to calculate assets to risk weight and capital for Trading Securities:

Assume:

<table>
<tr><td colspan="2" align="center">Pro Rata Gross Up Amount</td></tr>
<tr><td colspan="2" align="center">SENIOR TRANCHE
owned by others

TOTAL $75 par value</td></tr>
<tr><td align="center">Mezzanine position owned by savings association

Par value = $10
Fair Value = $4</td><td align="center">Mezzanine position owned by others
Par value = $10</td></tr>
<tr><td colspan="2" align="center">Residual position owned by others
$5</td></tr>
</table>

A = M + (S x P)
C = A * 8%

C = Capital charge
A = Assets to risk weight under the gross-up approach
M = Face amount (fair value) of the savings association's mezzanine security ($4.00 in the example)
S = Par value of all more senior securities ($75 in the example)
P = Proportion of the par value of the savings association's mezzanine security relative to all other equally positioned mezzanine securities (This is 0.50 in the example because the $10 par value of savings association's mezzanine security is 50% of $20 total par value of all equally positioned mezzanine securities)

Capital Requirement =

A = $4.00 + ($75 x 0.50)
A = $41.50

C = $41.50*.08 = $3.32

If the underlying assets are, appropriately categorized as 100% risk weight assets, report the $41.50 on line CCR506 for 100% risk weight—"All Other Assets". (If the underlying assets are eligible for the 50% risk weight, report $41.50 on line CCR470 for mortgage and asset-backed securities eligible for the 50% risk weight. If some portion of the underlying assets is delinquent, the portion of the $41.50 that is delinquent should be reported separately on CCR506.)

Low Level Exposure Rule

Under the OTS capital regulations, if the maximum contractual exposure to loss is less than the effective risk-based capital requirement for the assets supported by the savings association's position, the risk-based capital requirement is limited to that contractual exposure.[6] In that case, there are two optional methods to enter the low level exposure capital requirement on schedule CCR: either on CCR375, *or* on CCR605.

Securitization Structure (Par Values) - Low Level Recourse

Pro Rata Gross Up Amount	
SENIOR TRANCHE **owned by others** **TOTAL $75 par value**	
Mezzanine position owned by savings association Par value = $3 Face Value = $2.75	Mezzanine position owned by others Par value = $2
Residual position owned by others $15	

Use the following formula to determine the applicability of low level exposure rule:

Assume:

A = M + (S x P)
C = A * 8%

C = Capital charge
A = Assets to risk weight under the gross-up approach
M = Face amount of the savings association's mezzanine security ($2.75 in the example)
S = Par value of all more senior securities ($80 in the example)
P = Proportion of the par value of the savings association's mezzanine security relative to all other equally positioned mezzanine securities (This is 0.60 in the example because the $3 par value of savings association's mezzanine security is 60% of $5 total par value of all equally positioned mezzanine securities)

Capital Requirement =

A = $2.75 + ($80 x 0.60)
A = $50.75

C= $50.75 *.08 = $4.06

$4.06 is greater than the face amount of the institution's exposure of $2.75. Therefore, the low level exposure rule applies and the risk based capital charge is capped at $2.75.

[TOP]

Q&A No. 264

SUBJECT: Investment in the common stock of a bankers' bank
LINES: SC & CCR
DATE: March 22, 2010

Question: Our institution plans to do business with a bankers' bank. Consequently, we are required to invest in the common stock of the bankers' bank. Where should the common stock investment in the bankers' bank be reported on the TFR Schedules SC and CCR?

Answer: OTS thrifts may invest in the stock of a bankers' bank because national banks are allowed such investments. The investment amount should be reported in the TFR as follows:

SC540: **Equity Investments Not Carried at Fair Value:** Other

CCR506: All Other Assets

[TOP]

Q&A No. 265

SUBJECT: Expenses on Cramdown Loans
LINE: SO580
DATE: May 11, 2011

Question: If we accept a short sale on a borrower's loan is there any special instructions for where expenses on the sale should be reported on the TFR?

We have charged off the loan down to the expected sale value.
If we pick up additional expenses such as at closing would these be included in SO580 Other Noninterest Expense?

Answer: Yes, expenses associated with facilitating the sale of cram down loans should be reported on SO580 as Other Noninterest Expense.

[TOP]

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[1]

See 12 CFR 567.6(b)(3).

[2]

To determine whether a particular security is qualifies for the RBA, see the eligibility requirements of 12 CFR 567.6(b)(3)(ii).

[3]

Follow the definition of Qualifying Mortgage Loans in 12 CFR 567.1. In order to use the 50% risk weight instead of 100% risk weight, there must be sufficient documentation to demonstrate that the underlying loans meet the definition of Qualifying Mortgage Loans.

[4]

The gross-up approach applies to recourse obligations and direct credit substitutes as both are defined in 12 CFR 567.1.

[5]

For risk-based capital purposes, the “face amount” of an available-for-sale security (AFS) and a held-to-maturity security is amortized cost. (If a security has been written down to fair value because of other-than-temporary impairment, the write-down establishes a new cost basis for the security.) The “face amount” of a trading security is its fair value.

[6]

12 CFR 567.6(b)(7)(i).