

DRAFT

**Draft Instructions
for New and Revised Call Report Items
for June 30, 2009**

DRAFT

Draft Instructions for New and Revised Call Report Items for June 30, 2009

Contents

Schedule RC – Balance Sheet Items 8 and 9	1
Schedule RC-B – Securities Items 4 through 4.c.(2)	2
Items 5 through 5.b.(3)	5
Memorandum items 6 through 6.g	6
Schedule RC-C, part I – Loans and Leases Memorandum items 13 and 14	7
Schedule RC-D – Trading Assets and Liabilities Items 4 through 4.d	8
Items 5 through 5.b	9
Memorandum items 3 through 3.g	9
Memorandum items 4 through 4.b	10
Schedule RC-H – Selected Balance Sheet Items for Domestic Offices (FFIEC 031) Items 10 through 17	11
Schedule RC-L – Derivatives and Off-Balance Sheet Items Items 7 through 7.d.(2)(b)	13
Items 16 through 16.b.(8)	16
Schedule RC-M – Memoranda Item 3	18
Items 11 and 12	19
Schedule RC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets Memorandum item 6	20
Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments Items 7 through 7.d	20
Items 8 through 8.d	21
Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis Entire Schedule	21
Schedule RC-R – Regulatory Capital Derivatives and Off-Balance Sheet Items	25
Items 53 through 53.b	25
Memorandum item 1	28
Memorandum items 2.g through 2.g.(2)	29

DRAFT

Draft Instructions for New and Revised Call Report Items for June 30, 2009

Schedule RC – Balance Sheet

Item No. Caption and Instructions

- 8** **Investments in unconsolidated subsidiaries and associated companies.** Report the amount of the bank's investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence (collectively referred to as "investees"), excluding those that represent direct and indirect investments in real estate venture (which are to be reported in Schedule RC, item 9). Include loans and advances to investees and holdings of their bonds, notes, and debentures.

Investments in investees shall be reported using the equity method of accounting. Under the equity method the carrying value of the bank's investment in an investee is originally recorded at cost but is adjusted periodically to record as income the bank's proportionate share of the investee's earnings or losses and decreased by the amount of any cash dividends or similar distributions received from the investee. For purposes of these reports, the date through which the carrying value of the bank's investment in an investee has been adjusted should, to the extent practicable, match the report date of the Report of Condition, but in no case differ by more than 93 days from the report date.

Unconsolidated subsidiaries include those majority-owned subsidiaries that do not meet the significance standards for required consolidation that the bank chooses not to consolidate under the optional consolidation provisions. Refer to the General Instructions section of this book for a detailed discussion of consolidation. See also the Glossary entry for "subsidiaries."

- 9** **Direct and indirect investments in real estate ventures.** Report the amount of the bank's direct and indirect investments in real estate ventures.

NOTE: 12 USC 29 limits the authority of national banks to hold real estate. State member banks are not authorized to invest in real estate except with the prior approval of the Board of Governors of the Federal Reserve System under Federal Reserve Regulation H (12 CFR Part 208). In certain states, nonmember banks may invest in real estate.

Include as direct and indirect investments in real estate ventures:

- (1) Any real estate acquired, directly or indirectly, by the bank or a consolidated subsidiary and held for development, resale, or other investment purposes. (Do not include real estate acquired in any manner for debts previously contracted, including, but not limited to, real estate acquired through foreclosure or acquired by deed in lieu of foreclosure. Report such real estate in Schedule RC-M, item 3.)
- (2) Real estate acquisition, development, or construction (ADC) arrangements which are accounted for as direct investments in real estate or real estate joint ventures in accordance with guidance prepared by the American Institute of Certified Public Accountants (AICPA) in Notices to Practitioners issued in November 1983, November 1984, and February 1986.

DRAFT

Schedule RC – Balance Sheet (cont.)

Item No. Caption and Instructions

- 9
(cont.)
- (3) Real estate acquired and held for investment by the bank or a consolidated subsidiary that has been sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, *Accounting for Sales of Real Estate*. Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance with FASB Statement No. 66.
- (4) Any other loans secured by real estate and advanced for real estate acquisition, development, or investment purposes if the reporting bank in substance has virtually the same risks and potential rewards as an investor in the borrower's real estate venture.
- (5) Investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence (collectively referred to as "investees") that are primarily engaged in the holding of real estate for development, resale, or other investment purposes. Investments by the bank in these investees may be in the form of common or preferred stock, partnership interests, loans or other advances, bonds, notes, or debentures. Such investments shall be reported using the equity method of accounting. For further information on the equity method, see the instruction to Schedule RC, item 8, above.
- (6) Investments in corporate joint ventures, unincorporated joint ventures, and general or limited partnerships that are primarily engaged in the holding of real estate for development, resale, or other investment purposes and over which the bank does not exercise significant influence.

Schedule RC-B – Securities

Item No. Caption and Instructions

- 4 **Mortgage-backed securities (MBS)**. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all residential and commercial mortgage-backed securities, including mortgage pass-through securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments), and mortgage-backed commercial paper not held for trading.

Exclude from mortgage-backed securities:

- (1) Securities backed by loans extended under home equity lines, i.e., revolving open-end lines of credit secured by 1-4 family residential properties (report as asset-backed securities in Schedule RC-B, item 5, and, if applicable, in Schedule RC-B, Memorandum item 5.b, "Home equity lines").

DRAFT

Schedule RC-B – Securities (cont.)

Item No. Caption and Instructions

- 4 (cont.) (2) Bonds issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are collateralized by mortgages, i.e., mortgage-backed bonds, (report in Schedule RC-B, item 2.b, Obligations "Issued by U.S. Government-sponsored agencies") and mortgage-backed bonds issued by non-U.S. Government issuers (report in Schedule RC-B, item 6, "Other debt securities," below).
- (3) Participation certificates issued by the Export-Import Bank and the General Services Administration (report in Schedule RC-B, item 2.a, Obligations "Issued by U.S. Government agencies").
- (4) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule RC-F, item 4, "Equity securities that do not have readily determinable fair values").

4.a **Residential mortgage pass-through securities.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of residential mortgage pass-through securities that are not held for trading. In general, a residential mortgage pass-through security represents an undivided interest in a pool of loans secured by 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the residential mortgages in the pool, and includes certificates of participation in pools of residential mortgages.

Include certificates of participation in pools of 1-4 family residential mortgages even though the reporting bank was the original holder of the mortgages underlying the pool and holds the instruments covering that pool, as may be the case with GNMA certificates issued by the bank and swaps with FNMA and FHLMC. Also include U.S. Government-issued participation certificates (PCs) that represent a pro rata share of all principal and interest payments on a pool of resecuritized participation certificates that, in turn, are backed by 1-4 family residential mortgages, e.g., FHLMC Giant PCs.

Exclude all holdings of commercial mortgage pass-through securities, including pass-through securities backed by loans secured by multifamily (5 or more) residential properties (report in Schedule RC-B, item 4.c.(1), below). Also exclude all collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments), and mortgage-backed commercial paper (report in Schedule RC-B, item 4.b or 4.c.(2), below, as appropriate).

4.a.(1) **Guaranteed by GNMA.** Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) that are not held for trading. Exclude 1-4 family residential mortgage pass-through securities issued by FNMA and FHLMC (report in Schedule RC-B, item 4.a.(2), below).

4.a.(2) **Issued by FNMA and FHLMC.** Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are not held for trading. Exclude 1-4 family residential mortgage pass-through securities that are guaranteed by the Government National Mortgage Association (GNMA) (report in Schedule RC-B, item 4.a.(1), above).

DRAFT

Schedule RC-B – Securities (cont.)

Item No. Caption and Instructions

4.a.(3) Other pass-through securities. Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by others (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) that are not guaranteed by the U.S. Government and are not held for trading.

If the bank has issued pass-through securities backed by a pool of its own 1-4 family residential mortgages and the certificates are not guaranteed by the U.S. Government, any holdings of these pass-through securities (not held for trading) are to be reported in this item.

4.b Other residential mortgage-backed securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all 1-4 family residential mortgage-backed securities other than pass-through securities that are not held for trading.

Other residential mortgage-backed securities include:

- (1) All classes of collateralized mortgage obligations (CMOs) and real estate mortgage investments conduits (REMICs) backed by loans secured by 1-4 family residential properties.
- (2) CMO and REMIC residuals and similar interests backed by loans secured by 1-4 family residential properties.
- (3) Stripped 1-4 family residential mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).
- (4) Commercial paper backed by loans secured by 1-4 family residential properties.

4.b.(1) Issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs and REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA) that are backed by loans secured by 1-4 family residential properties. For purposes of these reports, also include REMICs issued by the U.S. Department of Veterans Affairs (VA) that are backed by 1-4 family residential mortgages in this item.

4.b.(2) Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral consists of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

4.b.(3) All other residential mortgage-backed securities. Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by 1-4 family residential properties (or by securities collateralized by such loans) that have been issued by

DRAFT

Schedule RC-B – Securities (cont.)

Item No. Caption and Instructions

4.b.(3) non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state
(cont.) and local housing authorities in the U.S.).

Exclude residential mortgages for which the collateral does not consist of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

4.c **Commercial mortgage-backed securities.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of commercial mortgage-backed securities issued by U.S. Government-sponsored agencies or by others that are not held for trading. In general, a commercial mortgage-backed security represents an interest in a pool of loans secured by properties other than 1-4 family residential properties.

4.c.(1) **Commercial mortgage pass-through securities.** Report in the appropriate columns the amortized cost and fair value of all holdings of commercial mortgage pass-through securities issued by the U.S. Government-sponsored agencies or by others. In general, a commercial mortgage pass-through security represents an undivided interest in a pool of loans secured by properties other than 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the mortgages in the pool.

4.c.(2) **Other commercial mortgage-backed securities.** Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by properties other than 1-4 family residential properties that have been issued by U.S. Government-sponsored agencies or by others. Exclude commercial mortgage pass-through securities (report in Schedule RC-B, item 4.c.(1), above).

5 **Asset-backed securities and structured financial products:**

5.a **Asset-backed securities.** Report in the appropriate columns the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. For banks with \$1 billion or more in total assets, this item must equal Schedule RC-B, sum of Memorandum items 5.a through 5.f.

5.b **Structured financial products.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products not held for trading according to whether the product is a cash, synthetic, or hybrid instrument. Structured financial products generally convert a pool of assets (such as whole loans, securitized assets, and bonds) and other exposures (such as derivatives) into products that are tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in order to create investment products that diversify risk. One of the more common structured financial products is referred to as a collateralized debt obligation (CDO). Other products include synthetic structured financial products (such as synthetic CDOs) that use credit derivatives and a reference pool of assets, hybrid structured products that mix cash and synthetic instruments, collateralized bond obligations (CBOs), resecuritizations such as CDOs squared or cubed (which are CDOs backed primarily by the

DRAFT

Schedule RC-B – Securities (cont.)

Item No. Caption and Instructions

5.b tranches of other CDOs), and other similar structured financial products. For each column, (cont.) the sum of items 5.b.(1) through 5.b.(3) must equal the sum of Memorandum items 6.a through 6.g.

Exclude from structured financial products:

- (1) Mortgage-backed pass-through securities (report in Schedule RC-B, item 4, above).
- (2) Collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, stripped mortgage-backed securities, and mortgage-backed commercial paper (report in Schedule RC-B, item 4, above).
- (3) Asset-backed commercial paper not held for trading (report in Schedule RC-B, item 5.a, above).
- (4) Asset-backed securities that are primarily secured by one type of asset (report in Schedule RC-B, item 5.a, above).

5.b.(1) **Cash instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are cash instruments. A cash instrument means that the instrument represents a claim against a reference pool of assets.

5.b.(2) **Synthetic instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are synthetic instruments. A synthetic instrument means that the investors do not have a claim against a reference pool of assets; rather, the originating bank merely transfers the inherent credit risk of the reference pool of assets by such means as a credit default swap, a total return swap, or another arrangement in which the counterparty agrees upon specific contractual covenants to cover a predetermined amount of losses in the loan pool.

5.b.(3) **Hybrid instruments.** Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Schedule RC-B, item 5.b, above) that are hybrid instruments. A hybrid instrument means that the instrument is a mix of both cash and synthetic instruments.

Schedule RC-B – Securities

Memoranda

Item No. Caption and Instructions

6 **Structured financial products by underlying collateral or reference assets.** Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products (as defined in Schedule RC-B, item 5.b, above) not held for trading by the predominant type of collateral or reference assets supporting the product. For each column, the sum of Memorandum items 6.a through 6.g must equal the sum of Schedule RC-B, items 5.b.(1) through 5.b.(3).

DRAFT

Schedule RC-B – Securities (cont.)

Memoranda

Item No. Caption and Instructions

- 6.a** Trust preferred securities issued by financial institutions. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by financial institutions.
- 6.b** Trust preferred securities issued by real estate investment trusts. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by real estate investment trusts.
- 6.c** Corporate and similar loans. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by corporate and similar loans.
- Exclude securities backed by commercial and industrial loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Schedule RC-B, item 5.a).
- 6.d** 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs). Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises.
- 6.e** 1-4 family residential MBS not issued or guaranteed by GSEs. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities not issued or guaranteed by U.S. government-sponsored enterprises.
- 6.f** Diversified (mixed) pools of structured financial products. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by diversified (mixed) pools of structured financial products. Include such products as CDOs squared and cubed (also known as “pools of pools”).
- 6.g** Other collateral or reference assets. Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by other types of collateral or reference assets not identified above.

Schedule RC-C, part I – Loans and Leases

Memoranda

Item No. Caption and Instructions

- 13** Construction, land development, and other land loans (in domestic offices) with interest reserves. Memorandum items 13.a and 13.b are to be completed by banks that had construction, land development, and other land loans (in domestic offices) (as reported in Schedule RC-C, part I, item 1.a, column B) that exceeded 100 percent of total risk-based capital (as reported in Schedule RC-R, item 21) as of December 31, 2008.

DRAFT

Schedule RC-C, part I – Loans and Leases (cont.)

Memoranda

Item No. Caption and Instructions

- 13.a** **Amount of loans that provide for the use of interest reserves.** Report the amount of construction, land development, and other land loans (in domestic offices) included in Schedule RC-C, part I, item 1.a, column B, for which the loan agreement with the borrower provides for the use of interest reserves. An interest reserve is often included in the amount of the loan commitment to the borrower and it allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest is capitalized and added to the loan balance. Also include in this item loans granted for the purpose of paying interest on construction, land development, and other land loans (in domestic offices).
- 13.b** **Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter.** Report the amount of interest advanced to borrowers on construction, land development, and other land loans (in domestic offices) (as defined for Schedule RC-C, part I, item 1.a, column B) that has been capitalized into the borrowers' loan balances through the use of interest reserves (or loans granted for the purpose of paying interest) and included in interest and fee income during the quarter on "All other loans secured by real estate" (Schedule RI, item 1.a.(1)(b), on the FFIEC 041; Schedule RI, item 1.a.(1)(a)(2) on the FFIEC 031). The amount of capitalized interest included in interest income during the quarter should be reduced by amounts reversed against interest during the quarter.
- 14** **Pledged loans.** Report the amount of all loans included in Schedule RC-C, part I, above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans are pledged) or for any other purpose. Include loans that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under FASB Statement No. 140. In general, the pledging of loans is the act of setting aside certain loans to secure or collateralize bank transactions with the bank continuing to own the loans unless the bank defaults on the transaction.

Schedule RC-D – Trading Assets and Liabilities

Item No. Caption and Instructions

- 4** **Mortgage-backed securities (MBS).** Report in the appropriate subitem the total fair value of all mortgage-backed securities held for trading.
- 4.a** **Residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all residential mortgage pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.a.(1), Residential pass-through securities "Guaranteed by GNMA," and item 4.a.(2), Residential pass-through securities "Issued by FNMA and FHLMC") held for trading.
- 4.b** **Other residential MBS issued or guaranteed by FNMA, FHLMC, or GNMA.** Report the total fair value of all other residential mortgage-backed securities issued by FNMA, FHLMC, or GNMA (as defined for Schedule RC-B, item 4.b.(1), Other residential mortgage-backed securities "Issued or guaranteed by FNMA, FHLMC, or GNMA") held for trading.

DRAFT

Schedule RC-D – Trading Assets and Liabilities (cont.)

Item No. Caption and Instructions

- 4.c** **All other residential MBS.** Report the total fair value of all other residential mortgage-backed securities (as defined for Schedule RC-B, item 4.a.(3), "Other [residential] pass-through securities," item 4.b.(2), Other residential mortgage-backed securities "Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA," and item 4.b.(3), "All other residential MBS") held for trading.
- 4.d** **Commercial MBS.** Report the total fair value of all commercial mortgage-backed securities (as defined for Schedule RC-B, item 4.d, "Commercial MBS") held for trading.
- 5** **Other debt securities:**
- 5.a** **Structured financial products.** Report in the appropriate subitem the total fair value of all structured financial products (as defined for Schedule RC-B, item 5.b, "Structured financial products") held for trading according to whether the product is a cash, synthetic, or hybrid instrument.
- 5.a.(1)** **Cash instruments.** Report the total fair value of structured financial products that are cash instruments (as defined for Schedule RC-B, item 5.b.(1)) held for trading.
- 5.a.(2)** **Synthetic instruments.** Report the total fair value of structured financial products that are synthetic instruments (as defined for Schedule RC-B, item 5.b.(2)) held for trading.
- 5.a.(3)** **Hybrid instruments.** Report the total fair value of structured financial products that are hybrid instruments (as defined for Schedule RC-B, item 5.b.(3)) held for trading.
- 5.b** **All other debt securities.** Report the total fair value of all other debt securities (as defined for Schedule RC-B, item 5.a, "Asset-backed securities," and item 6, "Other debt securities") held for trading.

Schedule RC-D – Trading Assets and Liabilities

Memoranda

Item No. Caption and Instructions

- 3** **Structured financial products by underlying collateral or reference assets.** Report in the appropriate subitem the total fair value of all structured financial products held for trading by the predominant type of collateral or reference assets supporting the product. The sum of Memorandum items 3.a through 3.g must equal the sum of Schedule RC-D, items 5.a.(1) through 5.a.(3).
- 3.a** **Trust preferred securities issued by financial institutions.** Report the total fair value of structured financial products held for trading that are supported predominantly by trust preferred securities issued by financial institutions.
- 3.b** **Trust preferred securities issued by real estate investment trusts.** Report the total fair value of structured financial products held for trading that are supported predominantly by trust preferred securities issued by real estate investment trusts.

DRAFT

Schedule RC-D – Trading Assets and Liabilities (cont.)

Memoranda

Item No. Caption and Instructions

3.c Corporate and similar loans. Report the total fair value of structured financial products held for trading that are supported predominantly by corporate and similar loans.

Exclude securities backed by commercial and industrial loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Schedule RC-B, item 5.a).

3.d 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs). Report the total fair value of structured financial products held for trading that are supported predominantly by 1-4 family residential mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises.

3.e 1-4 family residential MBS not issued or guaranteed by GSEs. Report the total fair value of structured financial products held for trading that are supported predominantly by 1-4 family residential mortgage-backed securities not issued or guaranteed by U.S. government-sponsored enterprises.

3.f Diversified (mixed) pools of structured financial products. Report the total fair value of structured financial products held for trading that are supported predominantly by diversified (mixed) pools of structured financial products. Include such products as CDOs squared and cubed (also known as “pools of pools”).

3.g Other collateral or reference assets. Report the total fair value of structured financial products held for trading that are supported predominantly by other types of collateral or reference assets not identified above.

4 Pledged trading assets:

4.a Pledged securities. Report the total fair value of all securities held for trading included in Schedule RC-D above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the securities are pledged); as performance bonds under futures or forward contracts; or for any other purpose. Include as pledged securities any securities held for trading that have been “loaned” in securities borrowing/lending transactions that do not qualify as sales under FASB Statement No. 140.

Also include securities held for trading owned by consolidated insurance subsidiaries and held in custodial trusts (that are reported as securities held for trading in Schedule RC-D) that are pledged to insurance companies external to the consolidated bank.

4.b Pledged loans. Report the total fair value of all loans held for trading included in Schedule RC-D above that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the loans are pledged) or for any other purpose. Include loans held for trading that have been transferred in transactions that are accounted for as secured borrowings with a pledge of collateral because they do not qualify as sales under FASB Statement No. 140. In general, the pledging of loans is the act of setting aside certain loans to secure or collateralize bank transactions with the bank continuing to own the loans unless the bank defaults on the transaction.

DRAFT

Schedule RC-H – Selected Balance Sheet Items for Domestic Offices (FFIEC 031 only)

NOTE: Items 10 through 17 have two columns for information on securities in domestic offices, one column for held-to-maturity securities and one column for available-for-sale securities. Report the amortized cost of held-to-maturity securities in column A and report the fair value of available-for-sale securities in column B. Information on equity securities with readily determinable fair values is reported in the column for available-for-sale securities only (column B). Amounts reported in column A will have been included in the amounts reported in Schedule RC-B, column A. Amounts reported in column B will have been included in the amounts reported in Schedule RC-B, column D.

Exclude from items 10 through 17 all securities held for trading in domestic offices and securities in domestic offices the bank has elected to report at fair value under a fair value option even if bank management did not acquire the securities principally for the purpose of selling them in the near term. Securities held for trading and securities reported under a fair value option are to be reported in Schedule RC, item 5, "Trading assets," and, for certain banks, in Schedule RC-D – Trading Assets and Liabilities.

Item No. **Caption and Instructions**

- 10** **U.S. Treasury securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale U.S. Treasury securities (as defined for Schedule RC-B, item 1) held in domestic offices of the reporting bank.

- 11** **U.S. Government agency obligations.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale U.S. Government agency obligations (as defined for Schedule RC-B, items 2.a and 2.b) held in domestic offices of the reporting bank. Exclude mortgage-backed securities (report in Schedule RC-H, item 13 below).

- 12** **Securities issued by states and political subdivisions in the U.S.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale securities issued by states and political subdivisions in the U.S. (as defined for Schedule RC-B, item 3) held in domestic offices of the reporting bank.

- 13** **Mortgage-backed securities:**

- 13.a** **Pass-through securities.** Report in the appropriate columns of the appropriate subitems the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities (as defined for Schedule RC-B, items 4.a and 4.c.(1)) held in domestic offices of the reporting bank.

- 13.a.(1)** **Issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale pass-through securities issued or guaranteed by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, items 4.a.(1), 4.a.(2), and 4.c.(1)) held in domestic offices of the reporting bank.

- 13.a.(2)** **Other pass-through securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities issued by non-U.S. Government issuers (as defined for Schedule RC-B, items 4.a.(3) and 4.c.(1)) held in domestic offices of the reporting bank.

DRAFT

Schedule RC-H – Selected Balance Sheet Items for Domestic Offices (cont.)

Item No. Caption and Instructions

- 13.b** **Other mortgage-backed securities.** Report in the appropriate columns of the appropriate subitems the amortized cost of held-to-maturity and the fair value of available-for-sale mortgage pass-through securities other than pass-through securities (as defined for Schedule RC-B, items 4.b and 4.c.(2)) held in domestic offices of the reporting bank.
- 13.b.(1)** **Issued or guaranteed by FNMA, FHLMC, or GNMA.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA) (as defined for Schedule RC-B, items 4.b.(1) and 4.c.(2)) held in domestic offices of the reporting bank. Also include REMICs issued by the U.S. Department of Veterans Affairs (VA) held in domestic offices of the reporting bank.
- 13.b.(2)** **All other mortgage-backed securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities issued non-U.S. Government issuers (as defined for Schedule RC-B, items 4.b.(2), 4.b.(3), and 4.c.(2)) held in domestic offices of the reporting bank.
- 14** **Other domestic debt securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale asset-backed securities (as defined for Schedule RC-B, item 5.a) issued by issuers in the U.S., structured financial products (as defined for Schedule RC-B, item 5.b) issued by issuers in the U.S., and “Other domestic debt securities” (as defined for Schedule RC-B, item 6.a) held in domestic offices of the reporting bank.
- 15** **Foreign debt securities.** Report in the appropriate columns the amortized cost of held-to-maturity and the fair value of available-for-sale asset-backed securities (as defined for Schedule RC-B, item 5.a) issued by non-U.S. issuers, structured financial products (as defined for Schedule RC-B, item 5.b) issued by non-U.S. issuers, and foreign debt securities (as defined for Schedule RC-B, item 6.b) held in domestic offices of the reporting bank.
- 16** **Investments in mutual funds and other equity securities with readily determinable fair values.** Report in column B the fair value of all investments in mutual funds and other equity securities with readily determinable fair values (as defined for Schedule RC-B, item 7) held in domestic offices of the reporting bank.
- 17** **Total held-to-maturity and available-for-sale securities.** Report the sum of items 10 through 16. The total of column A for this item must be less than or equal to Schedule RC-B, item 8, column A. The total of column B for this item must be less than or equal to Schedule RC-B, item 8, column D.

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items

Item No. Caption and Instructions

7 **Credit derivatives.** In general, credit derivatives are arrangements that allow one party (the “protection purchaser” or “beneficiary”) to transfer the credit risk of a “reference asset” or “reference entity” to another party (the “protection seller” or “guarantor”). Banks should report the notional amounts of credit derivatives by type of instrument in Schedule RC-L, items 7.a.(1) through 7.a.(4). Banks should report the gross positive and negative fair values of all credit derivatives in Schedule RC-L, items 7.b.(1) and 7.b.(2). For both the notional amounts and gross fair values, report credit derivatives for which the bank is the protection seller in column A, “Sold Protection,” and those on which the bank is the protection purchaser in column B, “Purchased Protection.” Banks should report the notional amounts of credit derivatives by regulatory capital treatment in Schedule RC-L, items 7.c.(1)(a) through 7.c.(2)(c). Banks should report the notional amounts of credit derivatives by remaining maturity in Schedule RC-L, items 7.d.(1)(a) through 7.d.(2)(b).

All credit derivative transactions within the consolidated bank should be reported on a net basis, i.e., intrabank transactions should not be reported in this item. No other netting of contracts is permitted for purposes of this item. Therefore, do not net the notional amounts or fair values of: (1) credit derivatives with third parties on which the reporting bank is the protection purchaser against credit derivatives with third parties on which the reporting bank is the protection seller, or (2) contracts subject to bilateral netting agreements. The notional amounts of credit derivatives should not be included in Schedule RC-L, items 12 through 14, and the fair values of credit derivatives should not be included in Schedule RC-L, item 15.

7.a **Notional amounts.** Report in the appropriate subitem and column the notional amount (stated in U.S. dollars) of all credit derivatives. For tranching credit derivative transactions that relate to an index, e.g., the Dow Jones CDX NA index, report as the notional amount the dollar amount of the tranche upon which the reporting bank’s credit derivative cash flows are based.

7.a.(1) **Credit default swaps.** Report in the appropriate column the notional amount of all credit default swaps. A credit default swap is a contract in which a protection seller or guarantor (risk taker), for a fee, agrees to reimburse a protection purchaser or beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the “reference entity.” If there is no credit default event (as defined by the derivative contract), then the protection seller makes no payments to the protection purchaser and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.

7.a.(2) **Total return swaps.** Report in the appropriate column the notional amount of all total return swaps. A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection purchaser (beneficiary) receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The protection seller receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the protection purchaser, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items (cont.)

Item No. Caption and Instructions

7.a.(3) **Credit options.** Report in the appropriate column the notional amount of all credit options. A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (protection seller or guarantor) assumes the obligation to purchase or sell the reference asset at a specified “strike” spread level. The option purchaser (protection purchaser or beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.

7.a.(4) **Other credit derivatives.** Report in the appropriate column the notional amount of all other credit derivatives. Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.

7.b **Gross fair values.** Report in the appropriate subitem and column the gross fair values of all credit derivatives.

As defined in FASB Statement No. 157, fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset’s or liability’s principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for “fair value.” For purposes of this item, the reporting bank should determine the fair value of its credit derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.

7.b.(1) **Gross positive fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with positive fair values.

7.b.(2) **Gross negative fair value.** Report in the appropriate column the total fair value of those credit derivatives reported in Schedule RC-L, items 7.a.(1) through 7.a.(4), above, with negative fair values. Report the total fair value as an absolute value; do not enclose the total fair value in parentheses or use a minus (-) sign.

7.c **Notional amount of all credit derivatives by regulatory capital treatment.** Report in the appropriate subitem the notional amount of all credit derivative contracts according to the reporting bank’s treatment of the derivative for regulatory capital purposes. Because each subitem under item 7.c is mutually exclusive, each credit derivative contract should be reported in only one subitem..

7.c.(1) **Positions covered under the Market Risk Rule.** For banks subject to the Market Risk Rule, report in the appropriate subitem the notional amount of covered positions.

7.c.(1)(a) **Sold protection.** For those credit derivatives that are covered positions under the Market Risk Rule, report the notional amount of credit derivative contracts where the bank is the protection seller (guarantor).

7.c.(1)(b) **Purchased protection.** For those credit derivatives that are covered positions under the Market Risk Rule, report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary).

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items (cont.)

Item No. Caption and Instructions

- 7.c.(2)(a) **Sold protection.** Report the notional amount of credit derivative contracts where the reporting bank is the protection seller (guarantor).
- 7.c.(2)(b) **Purchased protection that is recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is recognized as a guarantee for regulatory capital purposes. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where an underlying position (usually an asset of the bank) is being hedged by the protection and credit derivative contract meets the criteria for recognition as a guarantee under the regulatory capital standards of the bank's primary federal regulator.
- 7.c.(2)(c) **Purchased protection that is not recognized as a guarantee for regulatory capital purposes.** Report the notional amount of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the protection is not recognized as a guarantee for regulatory capital purposes. The credit derivative contracts to be reported in this item are limited to those providing purchased protection where the protection is not being used to hedge an underlying position or where the "hedging" credit derivative contract does not meet the criteria for recognition as a guarantee under the regulatory capital standards of the bank's primary federal regulator. These "naked" purchased protection positions sometimes arise when a bank has sold the asset that was being hedged by the credit derivative contract while retaining the credit derivative contract.
- 7.d **Notional amounts by remaining maturity.** Report in the appropriate subitem and column the notional amount of all credit derivative contracts. Report notional amounts in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.
- 7.d.(1) **Sold credit protection.** Report the notional amount of all credit derivative contracts where the bank is the protection seller (guarantor).
- 7.d.(1)(a) **Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.
- 7.d.(1)(b) **Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.
- 7.d.(2) **Purchased protection.** Report the notional amount of all credit derivative contracts where the bank is the protection purchaser (beneficiary).
- 7.d.(2)(a) **Investment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items (cont.)

Item No. Caption and Instructions

7.d.(2)(b) **Subinvestment grade.** Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.

* * * * *

Schedule RC-L – Derivatives and Off-Balance Sheet Items

Item No. Caption and Instructions

16 **Over-the-counter derivatives.** Items 16.a and 16.b.(1) through (8) are to be completed only by banks with total assets of \$10 billion or more. Include all over-the-counter (OTC) interest rate, foreign exchange, commodity, equity, and credit derivative contracts that are held for trading and held for purposes other than trading.

Column Instructions for items 16.a and 16.b.(1) through (8):

Column A, Banks and Securities Firms: Banks include U.S. banks and foreign banks as defined in the Glossary entry for "Banks, U.S. and Foreign." Securities firms include broker-dealers that are registered with the U.S. Securities and Exchange Commission (SEC), firms engaged in securities activities in the European Union (EU) that are subject to the EU's Capital Adequacy Directive, and other firms engaged in securities activities.

Column B, Monoline Financial Guarantors: Monoline financial guarantors are companies that are primarily engaged in the business of providing credit enhancement in the form of a "guarantee" of payment of principal and interest to bond issuers when an issuer defaults. In essence, these companies provide a back-up guarantee, which generally increases the bond rating of debt issued by lower-rated borrowers, in exchange for insurance premiums. Monoline financial guarantors provide guarantees on securities that range from municipal bonds to structured financial products such as collateralized debt obligations (CDOs).

Column C, Hedge Funds: Hedge funds are generally privately-owned investment funds with a limited range of investors. Hedge funds are not required to register with the SEC, which provides them with an exemption in many jurisdictions from regulations governing short selling, derivative contracts, leverage, fee structures, and the liquidity of investments in the fund.

Column D, Sovereign Governments: Sovereign governments are the central governments of foreign countries.

Column E, Corporations and All Other Counterparties: Corporations and all other counterparties include all counterparties other than those included in columns A through D above.

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items (cont.)

Item No. Caption and Instructions

16.a **Net current credit exposure.** Report in the appropriate column the sum of the net current credit exposures on OTC derivative contracts by type of counterparty. The sum of the net current credit exposures reported in columns A through E for this item may not equal the amount reported in Schedule RC-R, Memorandum item 1, "Current credit exposure across all derivative contracts covered by the risk-based capital standards," because the amount reported in Schedule RC-R, Memorandum item 1, excludes, for example, OTC derivatives not covered by the risk-based capital standards. All transactions within the consolidated bank should be reported on a net basis.

The current credit exposure (sometimes referred to as the replacement cost) is the fair value of a derivative contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. For purposes of this item, the net current credit exposure to an individual counterparty should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and the counterparty. If such an agreement is in place, the fair values of all applicable derivative contracts with that counterparty that are included in the scope of the netting agreement are netted to a single amount, which may be positive, negative, or zero.

16.b **Fair value of collateral.** Report in the appropriate subitem and column the total fair value of the collateral pledged by counterparties to secure OTC derivative transactions by type of counterparty, even if the fair value of the collateral as of the report date exceeds the net current credit exposure to a counterparty or the current credit exposure to a counterparty is zero. Include the fair value of collateral in the reporting bank's possession and collateral held on the bank's behalf by third party custodians.

16.b.(1) **Cash – U.S. dollar.** Report in the appropriate counterparty column the total of all cash denominated in U.S. dollars held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(2) **Cash – Other currencies.** Report in the appropriate counterparty column in U.S. dollar equivalents the total of all cash denominated in non-U.S. currency held on deposit in the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(3) **U.S. Treasury securities.** Report in the appropriate counterparty column the fair value of U.S. Treasury securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(4) **U.S. Government agency and U.S. Government-sponsored agency debt securities.** Report in the appropriate counterparty column the fair value of U.S. Government agency and U.S. Government-sponsored agency debt securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(5) **Corporate bonds.** Report in the appropriate counterparty column the fair value of corporate bonds held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

16.b.(6) **Equity securities.** Report in the appropriate counterparty column the fair value of equity securities held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.

DRAFT

Schedule RC-L – Derivatives and Off-Balance Sheet Items (cont.)

Item No. Caption and Instructions

- 16.b.(7) **All other collateral.** Report in the appropriate counterparty column the fair value of collateral that cannot properly be reported in Schedule RC-L, item 16.b.(1) through item 16.b.(7), held directly by the bank or by third party custodians on behalf of the bank that provide protection to the bank against counterparty risk on OTC derivatives.
- 16.b.(8) **Total fair value of collateral.** For each column, report the sum of items 16.b.(1) through 16.b.(7).

Schedule RC-M – Memoranda

Item No. Caption and Instructions

- 3 **Other real estate owned.** Report in the appropriate subitem the net book value of all real estate other than (1) bank premises owned or controlled by the bank and its consolidated subsidiaries (which should be reported in Schedule RC, item 6) and (2) direct and indirect investments in real estate ventures (which should be reported in Schedule RC, item 9). Do not deduct mortgages or other liens on such property (report mortgages or other liens in Schedule RC, item 16, "Other borrowed money"). Amounts should be reported net of any applicable valuation allowances.

Include as all other real estate owned:

- (1) Foreclosed real estate, i.e.,
- (a) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the bank has not yet received title to the property.
 - (b) Real estate collateral underlying a loan when the bank has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower.

Foreclosed real estate received in full or partial satisfaction of a loan should be recorded at the fair value less cost to sell of the property at the time of foreclosure. This amount becomes the "cost" of the foreclosed real estate. When foreclosed real estate is received in full satisfaction of a loan, the amount, if any, by which the recorded amount of the loan exceeds the fair value less cost to sell of the property is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure. The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC, item 16, "Other borrowed money."

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraph). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge

DRAFT

Schedule RC-M – Memoranda (cont.)

Item No. Caption and Instructions

- 3
(cont.) to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs. (For further information, see the Glossary entries for "foreclosed assets" and "troubled debt restructurings.")
- (2) Foreclosed real estate backing mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) that back Government National Mortgage Association (GNMA) securities, i.e., "GNMA loans."
- (3) Property originally acquired for future expansion but no longer intended to be used for that purpose.
- (4) Foreclosed real estate sold under contract and accounted for under the deposit method of accounting in accordance with FASB Statement No. 66, *Accounting for Sales of Real Estate*. Under this method, the seller does not record notes receivable, but continues to report the real estate and any related existing debt on its balance sheet. The deposit method is used when a sale has not been consummated and is commonly used when recovery of the carrying value of the property is not reasonably assured. If the full accrual, installment, cost recovery, reduced profit, or percentage-of-completion method of accounting under FASB Statement No. 66 is being used to account for the sale, the receivable resulting from the sale of the foreclosed real estate should be reported as a loan in Schedule RC-C and any gain on the sale should be recognized in accordance with FASB Statement No. 66. For further information, see the Glossary entry for "foreclosed assets."

Property formerly but no longer used for banking may be reported either in this item as "All other real estate owned" or in Schedule RC, item 6, as "Premises and fixed assets."

NOTE: Items 3.b.(1) through 3.b.(6) and item 3.c of Schedule RC-M on the FFIEC 041 report will be renumbered as items 3.a through 3.g. Items 3.b.(1) through 3.b.(7) and item 3.c of Schedule RC-M on the FFIEC 031 report will be renumbered as items 3.a through 3.h. The current instructions for these items are not being revised.

* * * * *

Schedule RC-M – Memoranda (cont.)

Item No. Caption and Instructions

- 11 **Does the bank act as trustee or custodian for Individual Retirement Accounts, Health Savings Accounts, and other similar accounts?** Indicate whether the institution acts as trustee or custodian for Individual Retirement Accounts (IRAs), Health Savings Accounts (HSAs), or other similar accounts. Other similar accounts include Roth IRAs, Coverdell Education Savings Accounts, and Archer Medical Savings Accounts. State-chartered institutions are allowed, under certain circumstances, to act as trustee or custodian for these types of accounts without obtaining trust powers. In addition, national banks can serve as custodian to IRAs, HSAs, and other similar accounts without obtaining trust powers. Place an "X" in the box marked "Yes" if the reporting institution acts as trustee or custodian for these types of accounts, regardless of whether it has trust powers. Otherwise, place an "X" in the box marked "No."

DRAFT

Schedule RC-M – Memoranda (cont.)

Item No. Caption and Instructions

- 12 **Does the bank provide custody, safekeeping, or other services involving the acceptance of orders for the sale or purchase of securities?** Indicate whether the institution takes orders from customers for the sale or purchase of securities, regardless of whether this activity occurs in a custody or safekeeping account or elsewhere in the institution as an accommodation to the customer. Place an “X” in the box marked “Yes” if the reporting institution takes securities sale or purchase orders from customers. Otherwise, place an “X” in the box marked “No.”

Schedule RC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets

Memoranda

Item No. Caption and Instructions

NOTE: On the FFIEC 041, Memorandum item 6 is not applicable to banks that have less than \$300 million in total assets.

- 6 **Derivative contracts: Fair value of amounts carried as assets.** Report in the appropriate column the fair value of all credit derivative contracts (as defined for Schedule RC-L, item 7) and all interest rate, foreign exchange rate, equity, and commodity and other derivative contracts (as defined for Schedule RC-L, item 12) on which a required payment by the bank's counterparty is past due 30 days or more as of the report date.

Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments

Item No. Caption and Instructions

- 7 **Unsecured "Other borrowings" with a remaining maturity of.** Report the amount of the bank's unsecured "Other borrowings" (as defined for Schedule RC-M, item 5.b) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. In general, "Other borrowings" are unsecured if the bank (or a consolidated subsidiary) has not pledged securities, loans, or other assets as collateral for the borrowing. Include both fixed rate and floating rate "Other borrowings" that are unsecured.

The sum of Schedule RC-M, items 7.a through 7.d, must equal Schedule RC-M, items 5.b.(1)(a) through (d) minus item 10.b.

- 7.a **One year or less.** Report all unsecured "Other borrowings" with a remaining maturity of one year or less. The unsecured "Other borrowings" that should be included in this item will also have been reported in Schedule RC-M, item 5.b.(2), "Other borrowings with a remaining maturity of one year or less."
- 7.b **Over one year through three years.** Report all unsecured "Other borrowings" with a remaining maturity of over one year through three years.
- 7.c **Over three years through five years.** Report all unsecured "Other borrowings" with a remaining maturity of over three years through five years.

DRAFT

Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments (cont.)

Item No. Caption and Instructions

- 7.d** Over five years. Report all unsecured “Other borrowings” with a remaining maturity of over five years.
- 8** Subordinated notes and debentures with a remaining maturity of. Report the amount of the bank’s subordinated notes and debentures (as defined for Schedule RC, item 19) in the appropriate subitems according to the amount of time remaining until their final contractual maturities. Include both fixed rate and floating rate subordinated notes and debentures.
- The sum of Schedule RC-M, items 8.a through 8.d, must equal Schedule RC, item 19, “Subordinated notes and debentures.”
- 8.a** One year or less. Report all subordinated notes and debentures with a remaining maturity of one year or less.
- 8.b** Over one year through three years. Report all subordinated notes and debentures with a remaining maturity of over one year through three years.
- 8.c** Over three years through five years. Report all subordinated notes and debentures with a remaining maturity of over three years through five years.
- 8.d** Over five years. Report all subordinated notes and debentures with a remaining maturity of over five years.

SCHEDULE RC-Q – ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

General Instructions

Schedule RC-Q is to be completed by banks that: (1) have total assets of \$500 million or more as of the beginning of their fiscal year, (2) have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings, or (3) are required to complete Schedule RC-D, Trading Assets and Liabilities. Banks should report all assets and liabilities that are measured at fair value in the financial statements on a recurring basis (at least annually).

Column Instructions

Column A, Total Fair Value Reported on Schedule RC

Report in Column A the total fair value, as defined by FASB Statement No. 157, “Fair Value Measurements” (FAS 157), of those assets and liabilities reported on Schedule RC, Balance Sheet, that the bank reports at fair value on a recurring basis.

Columns B through E, Fair Value Measurements and Netting Adjustments

For items reported in Column A, report in Columns C, D, and E the fair value amounts which fall in their entirety in Levels 1, 2, and 3, respectively. The level in the fair value hierarchy within which a fair value measurement in its entirety falls should be determined based on the lowest level input that is significant to

DRAFT

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis (cont.)

Column Instructions (cont.)

the fair value measurement in its entirety. Thus, for example, if the fair value of an asset or liability has elements of both Level 2 and Level 3 measurement inputs, report the entire fair value of the asset or liability in Column D or Column E based on the lowest level measurement input with the most significance to the fair value of the asset or liability in its entirety as described in FAS 157. For assets and liabilities that the bank has netted under legally enforceable master netting agreements in accordance with FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," or FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," report the gross amounts in Columns C, D, and E and the related netting adjustment in Column B. For more information on Level 1, 2, and 3 measurement inputs, see the Glossary entry for "fair value."

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis (cont.)

Item Instructions

For each item in Schedule RC-Q, the sum of columns C, D, and E less column B must equal column A.

Item No. Caption and Instructions

- 1 **Available-for-sale securities.** Report in the appropriate column the total fair value of available-for-sale debt and equity securities as reported in Schedule RC, item 2.b; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

- 2 **Federal funds sold and securities purchased under agreements to resell.** Report in the appropriate column the total fair value of those federal funds sold and securities purchased under agreements to resell reported in Schedule RC, items 3.a and 3.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

- 3 **Loans and leases held for sale.** Report in the appropriate column the total fair value of those loans held for sale reported in Schedule RC-C, part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for sale that the bank has elected to report under the fair value option are included in Schedule RC-C, part I, and Schedule RC, item 4.a. Exclude loans held for sale that are reported at the lower of cost or fair value in Schedule RC, item 4.a, and loans that have been reported as trading assets in Schedule RC, item 5. Leases are generally not eligible for the fair value option.

- 4 **Loans and leases held for investment.** Report in the appropriate column the total fair value of those loans held for investment reported in Schedule RC-C, part I, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Loans held for investment that the bank has elected to report under the fair value option are included in Schedule RC-C, part I, and Schedule RC, item 4.b. Leases are generally not eligible for the fair value option.

- 5 **Trading assets:**

- 5.a **Derivative assets.** Report in the appropriate column the total fair value of derivative assets held for trading purposes as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

DRAFT

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis (cont.)

Item No. Caption and Instructions

- 5.b** **Other trading assets.** Report in the appropriate column the total fair value of all trading assets, except for derivatives, as reported in Schedule RC, item 5; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs, including the fair values of loans that have been reported as trading assets; and any netting adjustments.
- 5.b.(1)** **Nontrading securities at fair value with changes in fair value reported in current earnings.** Report in the appropriate column the total fair value of those securities the bank has elected to report under the fair value option that is included in Schedule RC-Q, item 5.b above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Securities that the bank has elected to report at fair value under the fair value option are reported as trading securities pursuant to FAS 159 even though management did not acquire the securities principally for the purpose of trading.
- 6** **All other assets.** Report in the appropriate column the total fair value of all other assets that are required to be measured at fair value on a recurring basis or that the bank has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 1 through 5 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- Include derivative assets held for purposes other than trading, interest-only strips receivable (not in the form of a security) held for purposes other than trading, and other categories of assets required to be measured at fair value on the balance sheet on a recurring basis under applicable accounting standards.
- 7** **Total assets measured at fair value on a recurring basis.** Report the sum of items 1 through 6.
- 8** **Deposits.** Report in the appropriate column the total fair value of those deposits reported in Schedule RC, items 13.a and 13.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments. Deposits withdrawable on demand (e.g., demand and savings deposits in domestic offices) are generally not eligible for the fair value option.
- 9** **Federal funds purchased and securities sold under agreements to repurchase.** Report in the appropriate column the total fair value of those federal funds purchased and securities sold under agreements to repurchase reported in Schedule RC, items 14.a and 14.b, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 10** **Trading liabilities:**
- 10.a** **Derivative liabilities.** Report in the appropriate column the total fair value of derivative liabilities held for trading purposes as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 10.b** **Other trading liabilities.** Report in the appropriate column the total fair value of trading liabilities, except for derivatives, as reported in Schedule RC, item 15; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.

DRAFT

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis (cont.)

Item No. Caption and Instructions

- 11 **Other borrowed money.** Report in the appropriate column the total fair value of those Federal Home Loan Bank advances and other borrowings reported in Schedule RC, item 16, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 12 **Subordinated notes and debentures.** Report in the appropriate column the total fair value of those subordinated notes and debentures (including mandatory convertible debt) reported in Schedule RC, item 19, that the bank has elected to report under the fair value option; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- 13 **All other liabilities.** Report in the appropriate column the total fair value of all other liabilities that are required to be measured at fair value on a recurring basis or that the bank has elected to report under the fair value option that is included in Schedule RC, Balance Sheet, and is not reported in Schedule RC-Q, items 8 through 12 above; the fair values determined using Level 1, Level 2, and Level 3 measurement inputs; and any netting adjustments.
- Include derivative liabilities held for purposes other than trading and other categories of liabilities required to be measured at fair value on the balance sheet on a recurring basis under applicable accounting standards.
- 14 **Total liabilities measured at fair value on a recurring basis.** Report the sum of items 8 through 13.

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis

Memoranda

Item No. Caption and Instructions

- 1 **All other assets.** Disclose in Memorandum items 1.a through 1.f each component of all other assets, and the dollar amount of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported in Schedule RC-Q, item 6, column A. For each component of all other assets that exceeds this disclosure threshold for which a preprinted caption has not been provided in Memorandum items 1.a and 1.b, describe the component with a clear but concise caption in Memorandum items 1.c through 1.f. These descriptions should not exceed 50 characters in length (including spacing between words).
- Preprinted captions have been provided for the following categories of all other assets:
- Memorandum item 1.a, "Mortgage servicing assets," and
 - Memorandum item 1.b, "Nontrading derivative assets."
- 2 **All other liabilities.** Disclose in Memorandum items 2.a through 2.f each component of all other liabilities, and the dollar amount of such component, that is greater than \$25,000 and exceeds 25 percent of the amount reported in Schedule RC-Q, item 13, column A. For each component of all other liabilities that exceeds this disclosure threshold for which a preprinted caption has not been provided in Memorandum items 2.a and 2.b, describe the component with a clear but concise caption in Memorandum items 2.c through 2.f. These descriptions should not exceed 50 characters in length (including spacing between words).

DRAFT

Schedule RC-Q – Assets and Liabilities Measured at Fair Value on a Recurring Basis

Memoranda

Item No. Caption and Instructions

- 2 Preprinted captions have been provided for the following categories of all other liabilities:
(cont.)
- Memorandum item 2.a, “Loan commitments (not accounted for as derivatives),” and
 - Memorandum item 2.b, “Nontrading derivative liabilities.”

Schedule RC-R – Regulatory Capital

Derivatives and Off-Balance Sheet Items

(Page RC-R-22c of the Call Report instructions)

Banks should refer to the supervisory guidance issued by their primary federal supervisory authority for information on how they should treat credit derivatives for risk-based capital purposes and, as a consequence, for purposes of completing the section of Schedule RC-R for derivatives and off-balance sheet items.

Treatment of Liquidity Facilities for Asset-Backed Commercial Paper Programs – Banks that provide liquidity facilities to asset-backed commercial paper (ABCP) programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule RC-R (unless the bank is a sponsor and has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes).¹ The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53.a, column A. The full amount of the unused portion of an *eligible* liquidity facility with an original maturity of one year or less should be reported in item 53.b, column A. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), banks should report the full amount of the unused portion of the facility in Schedule RC-R, item 51, column A.

* * * * *

Schedule RC-R – Regulatory Capital

Item No. Caption and Instructions

53 Unused commitments:

- 53.a With an original maturity exceeding one year.** Report in column A the unused portion of commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions as reflected in Schedule RC-L, item 1, that have an original maturity exceeding one year and are subject to the risk-based capital guidelines. Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible asset-backed commercial paper liquidity facilities) or which are unconditionally cancelable (without

¹ For further guidance on eligible and ineligible liquidity facilities, banks should refer to the “Interagency Guidance on the Eligibility of Asset-Backed Commercial Paper Liquidity Facilities and the Resulting Risk-Based Capital Treatment” issued August 4, 2005 (FDIC Financial Institution Letter 74-2005, Federal Reserve Supervision and Regulation Letter 05-13, and OCC Bulletin 2005-26).

DRAFT

Schedule RC-R – Regulatory Capital (cont.)

Item No. Caption and Instructions

53.a
(cont.)

cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item and from item 53.b. "Original maturity" is defined as the length of time between the date a commitment is issued and the date of maturity, or the earliest date on which the bank (1) is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended and (2) can unconditionally cancel the commitment. Also include in column A all revolving underwriting facilities (RUFs) and note issuance facilities (NIFs), regardless of maturity.

In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant federal law. Retail credit cards and related plans, including overdraft checking plans and overdraft protection programs, are defined to be short-term commitments that should be converted at zero percent and excluded from this item 53.a if the bank has the unconditional right to cancel the line of credit at any time in accordance with applicable law.

For commitments providing for increases in the dollar amount of the commitment, the amount to be converted to an on-balance sheet credit equivalent amount and risk weighted is the maximum dollar amount that the bank is obligated to advance at any time during the life of the commitment. This includes seasonal commitments where the dollar amount of the commitment increases during the customer's peak business period. In addition, this risk-based capital treatment applies to long-term commitments that contain short-term options which, for a fee, allow the customer to increase the dollar amount of the commitment. Until the short-term option has expired, the reporting bank must convert and risk weight the amount which it is obligated to lend if the option is exercised. After the expiration of a short-term option which has not been exercised, the unused portion of the original amount of the commitment is to be used in the credit conversion process.

- *In column B*, report 50 percent of the amount of unused commitments reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above. Include commitments that have been conveyed to U.S. and other OECD depository institutions.
- *In column E–50% risk weight*, include the credit equivalent amount of unused commitments for extensions of credit to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as

DRAFT

Schedule RC-R – Regulatory Capital (cont.)

Item No. Caption and Instructions

53.a described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34
(cont.) through 42, above.

- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

53.b **With an original maturity of one year or less to asset-backed commercial paper conduits.** Report in column A the unused portion of eligible asset-backed commercial paper (ABCP) liquidity facilities with an original maturity of one year or less.

Under the risk-based capital guidelines, the unused portion of commitments (facilities) with an original maturity of one year or less (other than eligible ACBP liquidity facilities) or which are unconditionally cancelable (without cause) at any time by the bank, provided a separate credit decision is made before each drawing, have a zero percent conversion factor. The unused portion of such commitments should be excluded from this item.

- *In column B*, report 10 percent of the amount of unused commitments reported in column A.
- *In column C–0% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the zero percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column D–20% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 20 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column E–50% risk weight*, include the credit equivalent amount of unused eligible ABCP liquidity facilities to counterparties who meet, or that have guarantees or collateral that meets, the criteria for the 50 percent risk weight category as described in the instructions for Risk-Weighted Assets and for Schedule RC-R, items 34 through 42, above.
- *In column F–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through E.

* * * * *

DRAFT

Schedule RC-R – Regulatory Capital

Memoranda

Item No. Caption and Instructions

- 1 **Current credit exposure across all derivative contracts covered by the risk-based capital standards.** Report the total current credit exposure amount for all interest rate, foreign exchange, commodity, and equity derivative contracts covered by the risk-based capital standards after considering applicable legally enforceable bilateral netting agreements. Banks that are subject to the market risk capital guidelines should exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC) derivatives. Foreign exchange derivatives that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount for these derivatives should be reported in this item.

Include the current credit exposure arising from credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.

The following types of derivative contracts are not covered by the risk-based capital standards:

- (1) interest rate, foreign exchange, equity, commodity and other derivative contracts traded on exchanges that require daily payment of variation margin,
- (2) foreign exchange contracts with an original maturity of fourteen calendar days or less, and
- (3) all written option contracts except for those that are, in substance, financial guarantees.

Purchased options held by the reporting bank that are traded on an exchange are covered by the risk-based capital standards unless such options are subject to a daily variation margin. Variation margin is defined as the gain or loss on open positions, calculated by marking to market at the end of each trading day. Such gain or loss is credited or debited by the clearing house to each clearing member's account, and by members to their customers' accounts.

If a written option contract acts as a financial guarantee, then it will be treated as a direct credit substitute for risk-based capital purposes and the notional amount of the option should be included in Schedule RC-R, item 52, column A, as an "other off-balance sheet liability." An example of such a contract occurs when the reporting bank writes a put option to a second bank which has a loan to a third party. The strike price would be the equivalent of the par value of the loan. If the credit quality of the loan deteriorates, thereby reducing the value of the loan to the second bank, the reporting bank would be required by the second bank to take the loan onto its books.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable

DRAFT

Schedule RC-R – Regulatory Capital (cont.)

Memoranda

Item No. Caption and Instructions

1
(cont.) derivative contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable derivative contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards. The current credit exposure reported in this item is a component of the credit equivalent amount of derivative contracts that is to be reported in Schedule RC-R, item 54, column B.

Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk-based capital standards (e.g., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement.

The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.

* * * * *

Schedule RC-R – Regulatory Capital

Memoranda

Item No. Caption and Instructions

2.g **Credit derivative contracts: Purchased credit protection that (a) is a covered position under the market risk rule or (b) is not a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes.** Report in the appropriate subitem the remaining maturities of credit derivative contracts where the bank is the protection purchaser (beneficiary) and the credit derivative contract is either (a) defined as a covered position under the market risk rule or (b) not defined as a covered position under the market risk rule and is not recognized as a guarantee for risk-based capital purposes. Banks should report the full gross notional amount of all such credit derivative contracts in the appropriate subitem.

2.g.(1) **Investment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank's internal credit rating system.

DRAFT

Schedule RC-R – Regulatory Capital (cont.)

Memoranda

Item No. Caption and Instructions

- 2.g.(2) **Subinvestment grade.** Report the remaining maturities of those credit derivative contracts described in Schedule RC-R, Memorandum item 2.g, above, where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the bank's internal credit rating system.