Supporting Statement for
the Consolidated Reports of Condition and Income
(FFIEC 031 and 041; OMB No. 7100-0036)

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to extend for three years, with revision, the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 and 041; OMB No. 7100-0036). These data are required of state member banks and are filed on a quarterly basis. The revisions to the Call Reports that are the subject of this request have been approved by the FFIEC. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have also submitted a similar request for OMB review to request this information from banks under their supervision.

The Federal Reserve requires information collected on the Call Reports to fulfill its statutory obligation to supervise state member banks. State member banks are required to file both detailed schedules of assets, liabilities, and capital accounts in the form of a condition report and summary statement as well as detailed schedules of operating income and expense, sources and disposition of income, and changes in equity capital. The current annual burden for the Call Reports is estimated to be 186,837 hours; the proposed revisions are estimated to decrease the annual burden to 185,659 hours.

The agencies are proposing to implement a number of changes to the Call Report requirements effective March 31, 2011. These changes are intended to provide data needed for reasons of safety and soundness or other public purposes. The proposed revisions would assist the agencies in gaining a better understanding of banks' credit and liquidity risk exposures, primarily through enhanced data on lending and securitization activities and sources of deposits. The banking agencies are also proposing certain revisions to the Call Report instructions. The proposed changes include:

- A breakdown by loan category of the existing Memorandum items for loans that are troubled debt restructurings in Schedule RC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets, and Schedule RC-C, part I – Loans and Leases, as well as the elimination of the exclusion from reporting restructured troubled consumer loans in these items;
- The addition of automobile loans as a new separate loan category in the Call Report schedules in which loan data are reported: Schedule RC-C, part I, Schedule RC-D, Schedule RC-N, and Schedule RI-B, part I – Charge-offs and Recoveries on Loans and Leases;
- A breakdown of the existing items for commercial mortgage-backed securities between those issued or guaranteed by U.S. Government agencies and sponsored agencies and those not issued or guaranteed by these agencies in Schedule RC-B – Securities, and Schedule RC-D – Trading Assets and Liabilities;
- A new item for the estimated amount of nonbrokered deposits obtained through the use of deposit listing service companies in Schedule RC-E – Deposit Liabilities;

- A breakdown of two existing items for certain deposits with a remaining maturity of one year or less in Schedule RC-E;
- A new Schedule RC-V, Variable Interest Entities, for reporting the assets of consolidated variable interest entities (VIEs) that can be used only to settle the VIEs' obligations, the liabilities of consolidated VIEs without recourse to the bank's general credit, and the other assets and liabilities of consolidated VIEs, with these data reported separately for securitization trusts, asset-backed commercial paper conduits, and other VIEs;
- Breakdowns by category of the existing items for loans and other real estate owned covered by FDIC loss-sharing agreements in Schedule RC-M – Memoranda, along with a breakdown by loan category of past due and nonaccrual covered loans in Schedule RC-N;
- A breakdown of the existing item for "Life insurance assets" in Schedule RC-F – Other Assets, into items for general account, separate account, and hybrid account life insurance assets;
- New items for the total assets of captive insurance and reinsurance subsidiaries in Schedule RC-M;
- New Memorandum items in Schedule RI for credit valuation adjustments and debit valuation adjustments included in trading revenues for banks with total assets of $100 billion or more;
- A change in reporting frequency from annual to quarterly for the data reported in Schedule RC-T – Fiduciary and Related Services, on collective investment funds and common trust funds for banks with fiduciary assets greater than $250 million or gross fiduciary income greater than 10 percent of bank revenue; and
- Instructional revisions that would:
  - Clarify the reporting of construction loans following the completion of construction in Schedule RC-C, part I, and other schedules that collect loan data; and
  - Incorporate residential mortgages held for trading within the scope of Schedule RC-P – 1-4 Family Residential Mortgage Banking Activities.

Background and Justification

Banks that are members of the Federal Reserve System are required by law to file reports of condition with the Federal Reserve System. Section 9(6) of the Federal Reserve Act (12 U.S.C. 324) states:

> ... banks ... shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Board of Governors of the Federal Reserve System.... Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe.

In discharging this statutory responsibility, the Board of Governors, acting in concert with the other federal banking supervisory agencies since 1979 through the FFIEC, requires banks to submit on the quarterly Reports of Condition and Income such financial data as are needed by the Federal Reserve System to: (1) supervise and regulate banks through monitoring of their financial condition, ensuring the continued safety of the public's monies and the overall soundness of the nation's financial structure, and (2) contribute information needed for background for the proper discharge of the Board's monetary policy responsibilities. The use of the data is not limited to the federal government, but extends to state and local governments, the banking industry, securities analysts, and the academic community.

Description of Information Collection

The Call Reports collect basic financial data from commercial banks in the form of a balance sheet, income statement, and supporting schedules. The Report of Condition contains supporting schedules that provide detail on assets, liabilities, and capital accounts. The Report of Income contains supporting schedules that provide detail on income and expenses.

Within the Call Report information collection system as a whole, there are two reporting forms that apply to different categories of banks: (1) all banks that have domestic and foreign offices (FFIEC 031), and (2) banks with domestic offices only (FFIEC 041). Prior to March 2001, there were four categories of banks and four reporting forms. The FFIEC 031 was filed by banks with domestic and foreign offices and the FFIEC 032, 033, and 034 were filed by banks with domestic offices only and were filed according to the asset size of the bank.

There is no other series of reporting forms that collect from all commercial and savings banks the information gathered through the Reports of Condition and Income. There are other information collections that tend to duplicate certain parts of the Call Reports; however, the information they provide would be of limited value as a replacement for the Call Reports. For example, the Federal Reserve collects various data in connection with its measurement of monetary aggregates, of bank credit, and of flow of funds. Reporting banks supply the Federal Reserve with detailed information relating to such balance sheet accounts as balances due from depository institutions, loans, and deposit liabilities. The Federal Reserve also collects financial data from bank holding companies on a regular basis. Such data are presented for the holding company on a consolidated basis, including its banking and nonbanking subsidiaries, and on a parent company only basis.

However, Federal Reserve reporting forms from banks are frequently obtained on a sample basis rather than from all insured banks. Moreover, these reporting forms are often prepared as of dates other than the last business day of each quarter, which would seriously limit their comparability. Institutions below a certain size are exempt entirely from some Federal Reserve reporting requirements. Data collected from bank holding companies on a consolidated basis reflect an aggregate amount for all subsidiaries within the organization, including banking and nonbanking subsidiaries, so that the actual dollar amounts applicable to any bank subsidiary are not determinable from the holding company reporting forms. Hence, these reporting forms could not be a viable replacement for even a significant portion of the Call Reports since the Federal Reserve, in its role as supervisor of insured state member banks, would be lacking the data necessary to assess the financial condition of individual insured banks to determine whether there had been any deterioration in their condition.

Beginning March 1998, all banks were required to transmit their Call Report data electronically. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

Proposed Revisions

A. Troubled Debt Restructurings

The Federal Reserve, OCC, and FDIC (banking agencies) are proposing that banks report additional detail on loans that have undergone troubled debt restructurings in Call Report Schedule RC-C, part I, Loans and Leases, and Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets. More specifically, Schedule RC-C, part I, Memorandum item 1.b, "Other loans and all leases" restructured and in compliance with modified terms, and Schedule RC-N, Memorandum item 1.b, Restructured "Other loans and all leases" that are past due or in nonaccrual status and included in Schedule RC-N, would be broken out to provide information on restructured troubled loans for many of the loan categories reported in the bodies of Schedule RC-C, part I, and Schedule RC-N. The breakout would also include "Loans to individuals for household, family, and other personal expenditures" whose terms have been modified in troubled debt restructurings, which are currently excluded from the reporting of troubled debt restructurings in the Call Report.

In the aggregate, troubled debt restructurings for all insured institutions have grown from $6.9 billion at year-end 2007, to $24.0 billion at year-end 2008, to $58.1 billion at year-end 2009, with a further increase to $80.3 billion as of September 30, 2010. The proposed additional detail on troubled debt restructurings in Schedules RC-C, part I, and RC-N would enable the agencies to better understand the level of restructuring activity at banks, the categories of loans involved in this activity, and, therefore, whether banks are working with their borrowers to modify and restructure loans. In particular, to encourage banks to work constructively with their commercial borrowers, the agencies issued guidance on commercial real estate loan workouts in October 2009 and small business lending in February 2010. Although this guidance has explained the agencies' expectations for prudent workouts, the agencies and the industry would benefit from additional reliable data outside of the examination process to assess restructuring activity for commercial real estate loans and commercial and industrial loans. Further, it is important to separately identify commercial real estate loan restructurings from commercial and industrial loan restructurings given that the value of the real estate collateral is a consideration in a bank's decision to modify the terms of a commercial real estate loan in a troubled debt restructuring, but such collateral protection would normally be absent from commercial and industrial loans for which a loan modification is being explored because of borrowers' financial difficulties.

It is also anticipated that other loan categories will experience continued workout activity in the coming months given that most asset classes have been adversely affected by the recent recession. This effect is evidenced by the increase in past due and nonaccrual assets across virtually all asset classes over the past two to three years.

Presently, banks report loans and leases restructured and in compliance with their modified terms (Schedule RC-C, part I, Memorandum item 1) with separate disclosure of (a) loans secured by 1-4 family residential properties (in domestic offices) and (b) other loans and all leases (excluding loans to individuals for household, family, and other personal expenditures). This same breakout is reflected in Schedule RC-N, Memorandum item 1, for past due and nonaccrual restructured troubled loans. The broad category of "other loans" in Schedule RC-C, part I, Memorandum item 1.b, and Schedule RC-N, Memorandum item 1.b, does not permit an adequate analysis of troubled debt restructurings. In addition, the disclosure requirements for troubled debt restructurings under generally accepted accounting principles do not exempt restructurings of loans to individuals for household, family, and other personal expenditures. Therefore, if the Call Report added more detail to match the reporting of loans in Schedule RC-C, part I, and Schedule RC-N, the new data would provide the banking agencies with the level of information necessary to assess banks' troubled debt restructurings to the same extent that other loan quality and performance indicators can be assessed. However, the agencies note that, under generally accepted accounting principles, troubled debt restructurings do not include changes in lease agreements[1] and they therefore propose to exclude leases from Schedule RC-C, part I, Memorandum item 1, and from Schedule RC-N, Memorandum item 1.

Thus, the banking agencies' proposed breakdowns of existing Memorandum item 1.b in both Schedule RC-C, part I, and Schedule RC-N would create new Memorandum items in both schedules covering troubled debt restructurings of "1-4 family residential construction loans," "Other construction loans and all land development and other land loans," loans "Secured by multifamily (5 or more) residential properties," "Loans secured by owner-occupied nonfarm nonresidential properties," "Loans secured by other nonfarm nonresidential properties," "Commercial and industrial loans," and "All other loans (including loans to individuals for household, family, and other personal expenditures)."[2] If restructured loans in any category of loans (as defined in Schedule RC-C, part I) included in restructured "All other loans" exceeds 10 percent of the amount of restructured "All other loans," the amount of restructured loans in this category or categories must be itemized and described.

Finally, Schedule RC-C, part I, Memorandum item 1, and Schedule RC-N, Memorandum item 1, are intended to capture data on loans that have undergone troubled debt restructurings as that term is defined in generally accepted accounting principles. However, the captions of these two Memorandum items include only the term "restructured" rather than explicitly mentioning troubled debt restructurings, which has led to questions about the scope of these Memorandum items. Accordingly, the agencies propose to revise the captions so that they clearly indicate that the loans to be reported in Schedule RC-C, part I, Memorandum item 1, and Schedule RC-N, Memorandum item 1, are troubled debt restructurings.

B. Auto Loans

The banking agencies are proposing to add a breakdown of the "other consumer loans" loan category in four Call Report schedules in order to separately collect information on auto

1 Accounting Standards Codification paragraph 470-60-15-11.

2 For banks with foreign offices, the Memorandum items for restructured real estate loans would cover such loans in domestic offices. In addition, banks with foreign offices or with $300 million or more in total assets would also provide a breakdown of restructured commercial and industrial loans between U.S. and non-U.S. addressees.

loans. The affected schedules would be Schedule RC-C, part I, Loans and Leases; Schedule RC-D, Trading Assets and Liabilities; Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets; and Schedule RI-B, part I, Charge-offs and Recoveries on Loans and Leases. Auto loans would include loans arising from retail sales of passenger cars and other vehicles such as minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use. This new loan category would exclude loans to finance fleet sales, personal cash loans secured by automobiles already paid for, loans to finance the purchase of commercial vehicles and farm equipment, and auto lease financing.

Automobile loans are a significant consumer business for many large banks. Because of the limited disclosure of auto lending on existing regulatory reports, supervisory oversight of auto lending is presently diminished by the need to rely on the examination process and public information sources that provide overall market information but not data on idiosyncratic risks.

Roughly 65 percent of new vehicle sales and 40 percent of used vehicle sales are funded with auto loans. According to household surveys and data on loan originations, banks are an important source of auto loans. In 2008, this sector originated approximately one-third of all auto loans. Finance companies, both independent and those affiliated with auto manufacturers originated a bit more than one-third, while credit unions originated a bit less than one-quarter. In addition to originating auto loans, some banks purchase auto loans originated by other entities, which suggests that commercial banks could be the largest holder of auto loans.

Despite the importance of banks to the auto loan market, the agencies know less about banks' holdings of auto loans than is known about finance company, credit union, and savings association holdings of these loans. All nonbank depository institutions are required to report auto loans on their respective regulatory reports, including savings associations, which originate less than five percent of auto loans. On their regulatory reports, credit unions must provide not only the outstanding amount of new and used auto loans, but also the average interest rate and the number of loans. In a monthly survey, the Federal Reserve collects information on the amount of auto loans held by finance companies. As a consequence, during the financial crisis when funds were scarce for finance companies in general and the finance companies affiliated with automakers in particular, a lack of data on auto loans at banks hindered the banking agencies' ability to estimate the extent to which banks were filling in the gap in auto lending left by the finance companies.

Additional disclosure regarding auto loans on bank Call Reports is especially important with the implementation of the amendments to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topics 860, Transfers and Servicing, and 810, Consolidations, resulting from Accounting Standards Update (ASU) No. 2009-16 (formerly Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets* (FAS 166)), and ASU No. 2009-17 (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167)), respectively. Until 2010, Call Report Schedule RC-S had provided the best supervisory information on auto lending because it included a separate breakout of securitized auto loans outstanding as well as securitized auto loan delinquencies and charge-offs. However, the accounting changes brought about by the amendments to ASC Topics 860 and 810mean that if the auto loan securitization vehicle is now required to be consolidated, securitized auto lending previously reported on Schedule RC-S will be grouped as part of “other consumer loans” on Schedules RC-C, part I; RC-D; RC-N; and RI-B, part I, which diminishes supervisors’ ability to assess auto loan exposures and performance.

Finally, separating auto lending from other consumer loans will assist the agencies in understanding consumer lending activities at individual institutions. When an institution holds both auto loans and other types of consumer loans (other than credit cards, which are currently reported separately), the current combined reporting of these loans in the Call Report tends to mask any significant differences that may exist in the performance of these portfolios. For example, a bank could have a sizeable auto loan portfolio with low loan losses, but its other consumer lending, which could consist primarily of unsecured loans, could exhibit very high loss rates. The current blending of these divergent portfolios into a single Call Report loan category makes it difficult to adequately monitor consumer loan performance.

C. Commercial Mortgage Backed Securities Issued or Guaranteed by U.S. Government Agencies and Sponsored Agencies

The agencies propose to split the existing items on commercial mortgage-backed securities (CMBS) in Schedule RC-B, Securities, and Schedule RC-D, Trading Assets and Liabilities, to distinguish between CMBS issued or guaranteed by U.S. Government agencies and sponsored agencies (collectively, U.S. Government agencies) and those issued by others. Until June 2009, information reported in the Call Report on mortgage-backed securities (MBS) issued or guaranteed by U.S. Government agencies included both residential MBS and CMBS. However, in June 2009 when banks began to report information on CMBS separately from residential MBS, data was collected only for commercial mortgage pass-through securities and for other CMBS without regard to issuer or guarantor. Thus, the agencies were no longer able to identify all MBS issued or guaranteed by U.S. Government agencies.

U.S. Government agencies issue or guarantee a significant volume of CMBS that are backed by multifamily residential properties. In the fourth quarter of 2009, out of a total of $854 billion in commercial and multifamily loans that were securitized, loan pools issued or guaranteed by U.S. Government agencies accounted for 19 percent or $164 billion. These pools present a substantially different risk profile than privately issued CMBS, but current reporting does not allow for the identification of bank holdings of CMBS issued or guaranteed by U.S. Government agencies. In addition, because CMBS issued or guaranteed by U.S. Government agencies are accorded lower risk weights than CMBS issued by others, banks generally should have the information necessary to separately report these two categories of CMBS in the proposed new items in Schedules RC-B and RC-D.

Thus, in Schedule RC-B, the banking agencies are proposing to split both item 4.c.(1), “Commercial mortgage pass-through securities,” and item 4.c.(2), “Other commercial MBS,” into separate items for those issued or guaranteed by U.S. Government agencies (new items 4.c.(1)(a) and 4.c.(2)(a)) and all other CMBS (new items 4.c.(1)(b) and 4.c.(2)(b)). Similarly, in Schedule RC-D, existing item 4.d, “Commercial MBS,” would be split into separate items for CMBS issued or guaranteed by U.S. Government agencies (item 4.d.(1)) and all other CMBS (item 4.d.(2)). Less than five percent of banks hold commercial mortgage-backed securities and would be affected by this proposed reporting change.

D. Nonbrokered Deposits Obtained Through the Use of Deposit Listing Service Companies

In its semiannual report to the Congress covering October 1, 2009, through March 31, 2010, the FDIC's Office of Inspector General addressed causes of bank failures and material losses and noted that "[f]ailed institutions often exhibited a growing dependence on volatile, non-core funding sources, such as brokered deposits, Federal Home Loan Bank advances, and Internet certificates of deposit."[3] At present, banks report information on their funding in the form of brokered deposits in Memorandum items 1.b through 1.d of Schedule RC-E, Deposit Liabilities. Data on Federal Home Loan Bank advances are reported in items 5.a.(1) through (3) of Schedule RC-M, Memoranda. These data are an integral component of the banking agencies' analyses of individual institutions' liquidity and funding, including their reliance on non-core sources to fund their activities.

Deposit brokers have traditionally provided intermediary services for financial institutions and investors. However, the Internet, deposit listing services, and other automated services now enable investors who focus on yield to easily identify high-yielding deposit sources. Such customers are highly rate sensitive and can be a less stable source of funding than typical relationship deposit customers. Because they often have no other relationship with the bank, these customers may rapidly transfer funds to other institutions if more attractive returns become available.

The agencies expect each institution to establish and adhere to a sound liquidity and funds management policy. The institution's board of directors, or a committee of the board, also should ensure that senior management takes the necessary steps to monitor and control liquidity risk. This process includes establishing procedures, guidelines, internal controls, and limits for managing and monitoring liquidity and reviewing the institution's liquidity position, including its deposit structure, on a regular basis. A necessary prerequisite to sound liquidity and funds management decisions is a sound management information system, which provides certain basic information including data on non-relationship funding programs, such as brokered deposits, deposits obtained through the Internet or other types of advertising, and other similar rate sensitive deposits. Thus, an institution's management should be aware of the number and magnitude of such deposits.

To improve the banking agencies' ability to monitor potentially volatile funding sources, the agencies are proposing to close a gap in the information currently available to them through the Call Report by adding a new Memorandum item to Schedule RC-E in which banks would report the estimated amount of deposits obtained through the use of deposit listing services that are not brokered deposits.

A deposit listing service is a company that compiles information about the interest rates offered on deposits, such as certificates of deposit, by insured depository institutions. A particular company could be a deposit listing service (compiling information about certificates of deposits) as well as a deposit broker (facilitating the placement of certificates of deposit. A deposit listing service is not a deposit broker if all of the following four criteria are met:

3 http://www.fdicig.gov/semi-reports/sar2010mar/OIGSar2010.pdf

(1) The person or entity providing the listing service is compensated solely by means of subscription fees (i.e., the fees paid by subscribers as payment for their opportunity to see the rates gathered by the listing service) and/or listing fees (i.e., the fees paid by depository institutions as payment for their opportunity to list or "post" their rates). The listing service does not require a depository institution to pay for other services offered by the listing service or its affiliates as a condition precedent to being listed.
(2) The fees paid by depository institutions are flat fees: they are not calculated on the basis of the number or dollar amount of deposits accepted by the depository institution as a result of the listing or "posting" of the depository institution's rates.
(3) In exchange for these fees, the listing service performs no services except (A) the gathering and transmission of information concerning the availability of deposits; and/or (B) the transmission of messages between depositors and depository institutions (including purchase orders and trade confirmations). In publishing or displaying information about depository institutions, the listing service must not attempt to steer funds toward particular institutions (except that the listing service may rank institutions according to interest rates and also may exclude institutions that do not pay the listing fee). Similarly, in any communications with depositors or potential depositors, the listing service must not attempt to steer funds toward particular institutions.
(4) The listing service is not involved in placing deposits. Any funds to be invested in deposit accounts are remitted directly by the depositor to the insured depository institution and not, directly or indirectly, by or through the listing service.

E. <u>Definitions of Core Deposits and Non-Core Funding</u>

Two bankers' associations submitted comments addressing the definition of core deposits, which was not part of the agencies' proposed Call Report revisions for March 2011. The associations noted that the definition of this term, which is used in the calculation of ratios published by the agencies in the Uniform Bank Performance Report (UBPR), currently incorporates a $100,000 threshold for time deposits. This amount was the standard maximum deposit insurance amount before the enactment of the Dodd-Frank Act, which permanently increased the standard maximum amount to $250,000 on July 21, 2010. Consequently, one bankers' association urged the agencies to adjust the core deposit threshold to $250,000 for consistency with the deposit insurance limit. Similarly, the second bankers' association stated this change in the standard maximum deposit insurance amount eliminated the need to continue to base the identification of core deposits on the $100,000 threshold. This association recommended that references in the Call Report to $100,000 be revised and updated.

The banking agencies publish the UBPR quarterly to facilitate peer comparisons of bank performance by bankers, examiners, and bank analysts. UBPR data are calculated primarily from data reported in the Call Report. The UBPR includes a liquidity page that contains calculated values for a variety of predefined ratios, including several ratios measuring core and non-core funding dependency. The agencies' staffs use these ratios for offsite surveillance purposes to identify institutions with potentially heightened risk characteristics, while examiners may use these ratios in their reports, as appropriate, for benchmarking purposes in their liquidity analyses.

At present, the UBPR defines core deposits as the sum of demand deposits, negotiable order of withdrawal (NOW) accounts, automatic transfer service (ATS) accounts, money market deposit accounts (MMDA), other savings deposits, and time deposits of less than $100,000. All time deposits with balances of $100,000 or more, including those with balances between $100,000 and $250,000, are not included in core deposits for UBPR purposes.

The UBPR also defines an associated concept, non-core liabilities, as total time deposits of $100,000 or more, other borrowed money, foreign office deposits, securities sold under agreements to repurchase, federal funds purchased, and brokered deposits of less than $100,000. Thus, for example, all fully insured time deposits in amounts greater than $100,000 are currently deemed to be non-core liabilities. Finally, the UBPR further refines the concept of non-core liabilities by separately defining short-term non-core liabilities as those non-core liabilities with maturities of one year or less.

For purposes of liquidity evaluations conducted during safety-and-soundness examinations, examiners are expected to consider a variety of factors in assessing the stability of a bank's deposit base. Given that such an assessment is complex and fact specific, a bank's core deposit and non-core funding ratios calculated by the UBPR are best viewed as a starting point for further liquidity analysis. Furthermore, a strong case can be made that the current UBPR definitions of core deposits and non-core funds are not the appropriate starting point for analysis given the permanent change in the standard maximum deposit insurance amount to $250,000. At present, non-brokered time deposits of $100,000 or more with fully insured balances are automatically being deemed non-core funds in the current UBPR. Although examiners can, and are expected to, look through ratios to assess the underlying stability of deposits, it seems inappropriate to automatically penalize all such deposits with a non-core funding designation in the UBPR.

Accordingly, after considering the comments from the two bankers' associations, the agencies have concluded that non-brokered time deposits with balances between $100,000 and $250,000 should be considered core deposits rather than non-core liabilities for UBPR calculation purposes. The agencies further believe that, for consistency, this increased deposit threshold should be incorporated at the same time into the UBPR definitions of non-core liabilities and short-term non-core liabilities. Although the definitional changes for core deposits and non-core liabilities can be implemented using information currently collected in the Call Report, each of two existing Call Report items would need to be revised to support an updated definition of short-term non-core liabilities that reflects the increased standard maximum insurance amount of $250,000. Therefore, effective with the Call Report for March 31, 2011, the agencies have decided to propose a further breakdown of two items in Schedule RC-E, Deposit Liabilities, as follows:

(1) Existing Memorandum item 1.d.(2), "Brokered deposits of $100,000 or more with a remaining maturity of one year or less," would be split into new Memorandum item 1.d.(2), "Brokered deposits of $100,000 through $250,000 with a remaining maturity of one year or less," and new Memorandum item 1.d.(3), "Brokered deposits of more than $250,000 with a remaining maturity of one year or less," and

(2) Existing Memorandum item 4.b, “Time deposits of $100,000 or more with a remaining maturity of one year or less,” would be split into new Memorandum item 4.b, “Time deposits of $100,000 through $250,000 with a remaining maturity of one year or less,” and new Memorandum item 4.c, “Time deposits of more than $250,000 with a remaining maturity of one year or less.”

For UBPR calculation purposes beginning with Call Report data reported as of March 31, 2011, core deposits will be defined as the sum of demand deposits, NOW accounts, ATS accounts, MMDAs, other savings deposits, and total time deposits of $250,000 or less, minus brokered deposits of $250,000 or less. Non-core liabilities will be defined as the sum of total time deposits of more than $250,000, brokered deposits of $250,000 or less, other borrowed money, foreign office deposits, securities sold under agreements to repurchase, and federal funds purchased. Short-term non-core liabilities will be defined as the sum of time deposits of more than $250,000 with a remaining maturity of one year or less, brokered deposits of $250,000 or less with a remaining maturity of one year or less, other borrowed money with a remaining maturity of one year or less, foreign office deposits with a remaining maturity of one year or less, securities sold under agreements to repurchase, and federal funds purchased.

F. Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting standards that have changed the way entities account for securitizations and special purpose entities. ASU No. 2009-16 (formerly FAS 166) revised ASC Topic 860, Transfers and Servicing, by eliminating the concept of a “qualifying special-purpose entity” (QSPE) and changing the requirements for derecognizing financial assets. ASU No. 2009-17 (formerly FAS 167) revised ASC Topic 810, Consolidations, by changing how a bank or other company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights, i.e., a “variable interest entity” (VIE), should be consolidated. For most banks, ASU Nos. 2009-16 and 2009-17 took effect January 1, 2010.

Under ASC Topic 810, as amended, determining whether a bank is required to consolidate a VIE depends on a qualitative analysis of whether that bank has a “controlling financial interest” in the VIE and is therefore the primary beneficiary of the VIE. The analysis focuses on the bank’s power over and interest in the VIE. With the removal of the QSPE concept from generally accepted accounting principles that was brought about in amended ASC Topic 860, a bank that transferred financial assets to an SPE that met the definition of a QSPE before the effective date of these amended accounting standards was required to evaluate whether, pursuant to amended ASC Topic 810, it must begin to consolidate the assets, liabilities, and equity of the SPE as of that effective date. Thus, when implementing amended ASC Topics 860 and 810 at the beginning of 2010, banks began to consolidate certain previously off-balance securitization vehicles, asset-backed commercial paper conduits, and other structures. Going forward, banks with variable interests in new VIEs must evaluate whether they have a controlling financial interest in these entities and, if so, consolidate them. In addition, banks must continually reassess whether they are the primary beneficiary of VIEs in which they have variable interests.

For those VIEs that banks must consolidate, the banking agencies' Call Report instructional guidance advises institutions to report the assets and liabilities of these VIEs on the Call Report balance sheet (Schedule RC) in the balance sheet category appropriate to the asset or liability. However, ASC paragraph 810-10-45-25[4] requires a reporting entity to present "separately on the face of the statement of financial position: a. Assets of a consolidated variable interest entity (VIE) that can be used only to settle obligations of the consolidated VIE [and] b. Liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary." This requirement has been interpreted to mean that "each line item of the consolidated balance sheet should differentiate which portion of those amounts meet the separate presentation conditions."[5] In requiring separate presentation for these assets and liabilities, the FASB agreed with commenters on its proposed accounting standard on consolidation that "separate presentation . . . would provide transparent and useful information about an enterprise's involvement and associated risks in a variable interest entity."[6] The banking agencies concur that separate presentation would provide similar benefits to them and other Call Report users, particularly since data on securitized assets that are reconsolidated is no longer reported on Call Report Schedule RC-S, Servicing, Securitization, and Asset Sale Activities.

Consistent with the presentation requirements discussed above, the banking agencies are proposing to add a new Schedule RC-V, Variable Interest Entities, to the Call Report in which banks would report a breakdown of the assets of consolidated VIEs that can be used only to settle obligations of the consolidated VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to the general credit of the reporting bank. The following proposed categories for these assets and liabilities would include some of the same categories presented on the Call Report balance sheet (Schedule RC): Cash and balances due from depository institutions, Held-to-maturity securities; Available-for-sale securities; Securities purchased under agreements to resell, Loans and leases held for sale; Loans and leases, net of unearned income; Allowance for loan and lease losses; Trading assets (other than derivatives); Derivative trading assets; Other real estate owned; Other assets; Securities sold under agreements to repurchase; Derivative trading liabilities; Other borrowed money (other than commercial paper); Commercial paper; and Other liabilities. These assets and liabilities would be presented separately for securitization vehicles, asset-backed commercial paper conduits, and other VIEs.

In addition, the agencies propose to include two separate items in new Schedule RC-V in which banks would report the total amounts of all other assets and all other liabilities of consolidated VIEs (i.e., all assets of consolidated VIEs that are not dedicated solely to settling obligations of the VIE and all liabilities of consolidated VIEs for which creditors have recourse to the general credit of the reporting bank). The collection of this information would help the agencies understand the total magnitude of consolidated VIEs. These assets and liabilities would

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4 Formerly paragraph 22A of FIN 46(R), as amended by FAS 167.

5 Deloitte & Touche LLP, "Back on-balance sheet: Observations from the adoption of FAS 167," May 2010, page 4 (http://www.deloitte.com/view/en_US/us/Services/audit-enterprise-risk-services/Financial-Accounting-Reporting/f3a70ca28d9f8210VgnVCM200000bb42f00aRCRD.htm).

6 See paragraphs A80 and A81 of FAS 167.

also be reported separately for securitization trusts, asset-backed commercial paper conduits, and other VIEs.

The asset and liability information collected in Schedule RC-V would represent amounts included in the reporting bank's consolidated assets and liabilities reported on Schedule RC, Balance Sheet, i.e., after eliminating intercompany transactions.

G. Assets Covered by FDIC Loss-Sharing Agreements

In March 2010, the banking agencies added a four-way breakdown of assets covered by loss-sharing agreements with the FDIC to Schedule RC-M, Memoranda. Items 13.a through 13.d collect data on covered loans and leases, other real estate owned, debt securities, and other assets. In a January 22, 2010, comment letter to the banking agencies on the agencies' submission for OMB review of proposed Call Report revisions for implementation in 2010, the American Bankers Association (ABA) stated that while the addition of the covered asset items to Schedule RC-M was

> a step in the right direction, ABA believes it would be beneficial to regulators, reporting banks, investors, and the public to have additional, more granular information about the various categories of assets subject to the FDIC loss-sharing agreements. While we recognize that this would result in additional reporting burden on banks, on balance our members feel strongly that the benefit of additional disclosure of loss-sharing data would outweigh the burden of providing these detailed data. Thus, we urge the Agencies and the FFIEC to further revise the collection of data from banks on assets covered by FDIC loss-sharing agreements on the Call Report to include the several changes suggested below. . . . We believe these changes would provide a more precise and accurate picture of a bank's asset quality.

The changes suggested by the ABA included revising Schedule RC-M by replacing the two items for covered loans and leases and covered other real estate owned with separate breakdowns of these assets by loan category and real estate category. The ABA also suggested revising existing items 10 and 10.a in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, which collect data on past due and nonaccrual loans and leases that are wholly or partially guaranteed by the U.S. Government, including the FDIC. The ABA recommended that the reporting of these past due and nonaccrual loans and leases be segregated into separate items for loans and leases covered by FDIC loss-sharing agreements and loans and leases with other U.S. Government guarantees.

After reviewing the ABA's recommendations and discussing them with their staff, the banking agencies are proposing to revise the Call Report along the lines suggested by the ABA. Thus, the banking agencies are proposing to create a breakdown of Schedule RC-M, item 13.a, covered "Loans and leases," that would include each category of "Loans secured by real estate" (in domestic offices) from Schedule RC-C, part I, "Loans to finance agricultural production and other loans to farmers," "Commercial and industrial loans," "Credit cards," "Other consumer loans," and "All other loans and all leases." If any category of loans or leases (as defined in Schedule RC-C, part I) included in covered "All other loans and all leases" exceeds 10 percent of total covered loans and leases, the amount of covered loans or leases in that category or categories must be itemized and described. Similarly, the banking agencies would create a breakdown of Schedule RC-M, item 13.b, covered "Other real estate owned," into the following categories: "Construction, land development, and other land," "Farmland," "1-4 family residential properties," "Multifamily (5 or more) residential properties," and "Nonfarm nonresidential properties." Banks would also report the guaranteed portion of the total amount of covered other real estate owned. In Schedule RC-N, as suggested by the ABA, the banking agencies would remove loans and leases covered by FDIC loss-sharing agreements from the scope of existing items 10 and 10.a on past due and nonaccrual loans wholly or partially guaranteed by the U.S. Government. Past due and nonaccrual covered loans and leases would then be collected in new item 11, which would include a breakdown of these loans and leases using the same categories as in proposed revised item 13.a of Schedule RC-M and also provide for banks to report the guaranteed portion of the total amount of covered loans and leases.

H. Life Insurance Assets

Banks purchase and hold bank-owned life insurance (BOLI) policies as assets, the premiums for which may be used to acquire general account or separate account life insurance policies. Banks currently report the aggregate amount of their life insurance assets in item 5 of Call Report Schedule RC-F, Other Assets, without regard to whether their holdings are general account or separate account policies.

Many banks have BOLI assets, and the distinction between those life insurance policies that represent general account products and those that represent separate account products has meaning with respect to the degree of credit risk involved as well as performance measures for the life insurance assets in a volatile market environment. In a general account policy, the general assets of the insurance company issuing the policy support the policy's cash surrender value. In a separate account policy, the policyholder's cash surrender value is supported by assets segregated from the general assets of the insurance carrier. Under such an arrangement, the policyholder neither owns the underlying separate account created by the insurance carrier on its behalf nor controls investment decisions in the account. Nevertheless, the policyholder assumes all investment and price risk.

A number of banks holding separate account life insurance policies have recorded significant losses in recent years due to the volatility in the markets and the vulnerability to market fluctuations of the instruments that are investment options in separate account life insurance policies. Information distinguishing between the cash surrender values of general account and separate account life insurance policies would allow the banking agencies to track banks' holdings of both types of life insurance policies with their differing risk characteristics and changes in their carrying amounts resulting from their performance over time. Accordingly, the banking agencies are proposing to split item 5 of Schedule RC-F into three items: item 5.a, "General account life insurance assets," item 5.b, "Separate account life insurance assets," and item 5.c, "Hybrid account life insurance assets."

I. Captive Insurance and Reinsurance Subsidiaries

Captive insurance companies are utilized by banking organizations to "self insure" or reinsure their own risks pursuant to incidental activities authority. A captive insurance company is a limited purpose insurer that may be licensed as a direct writer of insurance or as a reinsurer. Insurance premiums paid by a bank to its captive insurer, and claims paid back to the bank by the captive, are transacted on an intercompany basis, so there is no evidence of this type of self-insurance activity when a bank prepares consolidated financial statements, including its Call Report. The cash flows for a captive reinsurer's transactions also are not transparent in a bank's consolidated financial statements.

A number of banks own captive insurers or reinsurers, several of which were authorized to operate more than ten years ago. Some of the most common lines of business underwritten by bank captive insurers are credit life, accident, and health; disability insurance; and employee benefits coverage. Additionally, bank captive reinsurance subsidiaries may underwrite private mortgage guaranty reinsurance and terrorism risk reinsurance.

As part of their supervisory processes, the agencies have been following the proliferation of bank captive insurers and reinsurers and the performance trends of these captives for the past several years. Collection of financial information regarding the total assets of captive insurance and reinsurance subsidiaries would assist the agencies in monitoring the insurance activities of banking organizations as well as any safety and soundness risks posed to the parent bank from the activities of these subsidiaries.

The agencies propose to collect two new items in Schedule RC-M, Memoranda, for captive insurance subsidiaries operated by banks: item 14.a, "Total assets of captive insurance subsidiaries," and item 14.b, "Total assets of captive reinsurance subsidiaries." These new items are not expected to be applicable to the vast majority of banks. When reporting the total assets of these captive subsidiaries in the proposed new items, banks should measure the subsidiaries' total assets before eliminating intercompany transactions between the consolidated subsidiary and other offices or subsidiaries of the consolidated bank.

J. Credit and Debit Valuation Adjustments Included in Trading Revenues

Banks that reported average trading assets of $2 million or more for any quarter of the preceding calendar year provide a breakdown of trading revenue by type of exposure in Memorandum items 8.a through 8.e of Schedule RI, Income Statement. These revenue items are reported net of credit adjustments made to the fair value of banks' derivative assets and liabilities that are reported as trading assets and liabilities.

There are two forms of credit adjustments that affect the valuation of derivatives held for trading and trading revenue. The first is the credit valuation adjustment (CVA), which is the discounted value of expected losses on a bank's derivative assets due to changes in the creditworthiness of the bank's derivative counterparties and future exposures to those counterparties. In contrast, the debit valuation adjustment (DVA) reflects the effect of changes in the bank's own creditworthiness on its derivative liabilities. During the financial crisis, the recognition of both the CVA and the DVA had a material impact on overall trading revenues. Because of their potential materiality, information on these two adjustments is needed in order for the agencies to better understand the level and trend of banks' trading revenues.

The banking agencies are therefore proposing to add two new Memorandum items to the existing Schedule RI Memorandum items for trading revenue. In new Memorandum item 8.f, banks would report the "Impact on trading revenue of changes in the creditworthiness of the bank's derivatives counterparties on the bank's derivative assets (included in Memorandum items 8.a through 8.e above)." In new Memorandum item 8.g, banks would report the "Impact on trading revenue of changes in the creditworthiness of the bank on the bank's derivative liabilities (included in Memorandum items 8.a through 8.e above)." Because derivatives held for trading are heavily concentrated in the very largest banks, these new items would be reported by banks with $100 billion or more in total assets.

K. Quarterly Reporting for Collective Investment Funds

For banks that provide fiduciary and related services, the volume of assets under management is an important metric for understanding risk at these institutions and in the banking system. A bank's assets under management may include such pooled investment vehicles as collective investment funds and common trust funds (hereafter, collectively, CIFs) that it offers to investors. When considering how and where to place funds in pooled investment vehicles, which also include registered investment funds (mutual funds), investors' decisions are highly influenced by risk and return factors. While registered investment funds regularly disclose an array of fund-related data to the U.S. Securities and Exchange Commission and the investing public, the banking agencies' collection and public disclosure of summary data on CIFs is limited to annual data reported in Memorandum items 3.a through 3.h of Call Report Schedule RC-T, Fiduciary and Related Services, as of each December 31.

Like other investment vehicles, CIFs were affected by market disruptions during the recent financial crisis. However, annual reporting on CIFs limited the agencies' ability to detect changes in investor behavior and bank investment management strategies at an early stage in this $2.5 trillion line of business. Thus, the agencies believe it would be beneficial to change the reporting frequency for the Schedule RC-T data on CIFs from annually to quarterly for those institutions that currently report their fiduciary assets and fiduciary income quarterly. Quarterly filing of these Schedule RC-T data is required of institutions with total fiduciary assets greater than $250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue for the preceding calendar year. This proposed reporting change would affect fewer than 100 banks.

L. Call Report Instructional Revisions

1. Construction Loans

Banks report the amount of their "Construction, land development, and other land loans" in the appropriate loan subcategory of Call Report Schedule RC-C, part I, item 1.a. Questions have arisen about the reporting treatment for a "Construction, land development, and other land loan" that was not originated as a "combination construction-permanent loan," but was originated with the expectation that repayment would come from the sale of the real estate, when the bank changes the loan's terms so that principal amortization is required. This may occur after completion of construction when the bank renews or refinances the existing loan or enters into a new real estate loan with the original borrower. The agencies believe that as long as the repayment of a loan that was originally categorized as a "Construction, land development, and other land loan" remains dependent on the sale of the real property, the loan should continue to be reported in the appropriate subcategory of item 1.a of Schedule RC-C, part I, because it continues to exhibit the risk characteristics of a construction loan.

> The instructions for Schedule RC-C, part I, item 1.a, state that:
> Loans written as combination construction-permanent loans secured by real estate should be reported in this item until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule RC-C, part I, item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting bank or is otherwise repaid, (2) the bank acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

A combination construction-permanent loan results when the lender enters into a contractual agreement with the original borrower at the time the construction loan is originated to also provide the original borrower with permanent financing that amortizes principal after construction is completed and a certificate of occupancy is obtained (if applicable). This construction-permanent loan structure is intended to apply to situations where, at the time the construction loan is originated, the original borrower:

- Is expected to be the owner-occupant of the property upon completion of construction and receipt of a certificate of occupancy (if applicable), for example, where the financing is being provided to the original borrower for the construction and permanent financing of the borrower's residence or place of business, or
- Is not expected to be the owner-occupant of the property, but repayment of the permanent loan will be derived from rental income associated with the property being constructed after receipt of a certificate of occupancy (if applicable) rather than from the sale of the property being constructed.

For a loan not written as a combination construction-permanent loan at the time the construction loan was originated, the agencies propose to clarify the instructional language quoted above stating that "[a]ll other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until . . . the loan is refinanced into a new permanent loan by the reporting bank." This clarification is intended to ensure the appropriate categorization of such a loan in Schedule RC-C, part I. Thus, the agencies are proposing to revise the instructions for Schedule RC-C, part I, item 1.a, to explain that the phrase "the loan is refinanced into a new permanent loan" refers to

- An amortizing permanent loan to a new borrower (unrelated to the original borrower) who has purchased the real property, or
- A prudently underwritten new amortizing permanent loan at market terms to the original borrower – including an appropriate interest rate, maturity, and loan-to-value ratio – that is no longer dependent on the sale of the property for repayment. The loan should have a clearly identified ongoing source of repayment sufficient to service the required principal and interest payments over a reasonable and customary period relative to the type of property securing the new loan. A new loan to the original borrower not meeting these criteria (including a new loan on interest-only terms or a new loan with a short-term balloon maturity that is inconsistent with the ongoing source of repayment criterion) should continue to be reported as a "Construction, land development, and other land loan" in the appropriate subcategory of Schedule RC-C, part I, item 1.a.

2. <u>Reporting of 1-4 Family Residential Mortgages Held for Trading in Schedule RC-P</u>

The banking agencies began collecting information in Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities in Domestic Offices, in September 2006. At that time, the instructions for Schedule RC-C, part I, Loans and Leases, indicated that loans generally could not be classified as held for trading. Therefore, all 1-4 family residential mortgage loans designated as held for sale were reportable in Schedule RC-P. In March 2008, the banking agencies provided instructional guidance establishing conditions under which banks were permitted to classify certain assets (e.g., loans) as trading, and specified that loans classified as trading assets should be excluded from Schedule RC-C, part I, Loans and Leases, and reported instead in Schedule RC-D, Trading Assets and Liabilities (if the reporting threshold for this schedule were met). However, the agencies neglected to address the reporting treatment on Schedule RC-P of 1-4 family residential loans that met the conditions for classification as trading assets. Therefore, the agencies are proposing to correct this by providing explicit instructional guidance that all 1-4 family residential mortgage banking activities, whether held for sale or trading purposes, are reportable on Schedule RC-P.

Time Schedule for Information Collection

The Call Reports are collected quarterly as of the end of the last calendar day of March, June, September, and December. Less frequent collection of Call Reports would reduce the Federal Reserve's ability to identify on a timely basis those banks that are experiencing adverse changes in their condition so that appropriate corrective measures can be implemented to restore their safety and soundness. State member banks must submit the Call Reports to the appropriate Federal Reserve Bank within 30 calendar days following the as-of date; a five-day extension is given to banks with more than one foreign office.

Aggregate data are published in the *Federal Reserve Bulletin* and the *Annual Statistical Digest*. Additionally, data are used in the *Uniform Bank Performance Report (UBPR)* and the *Annual Report of the FFIEC*. Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request approximately twelve weeks after the report date. Data are also available from the FFIEC Central Data Repository Public Data Distribution (CDR PDD) web site (https://cdr.ffiec.gov/public/). Data for the current quarter are made available, shortly after a bank's submission, beginning the first calendar day after the report date. Updated or revised data may replace data already posted at any time thereafter.

Legal Status

The Board's Legal Division has determined that Section 9 of the Federal Reserve Act (12 U.S.C. § 324) authorizes the Board to require these reports from all banks admitted to membership in the Federal Reserve System. The Board's Legal Division has determined that the individual respondent information contained in Schedule RI-E, item 2.g, "FDIC deposit insurance assessments" are exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. § 552 (b)(4), (8)) for periods beginning June 30, 2009. The Board's Legal Division also determined that the individual respondent information contained in the trust schedule, RC-T are exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. § 552(b)(4), (8)) for periods prior to March 31, 2009. Finally, Column A and Memorandum item 1 to Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," are exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. § 552(b)(4), (8)) for periods prior to March 31, 2001.

Consultation Outside the Agency and Discussion of Public Comments

The agencies published the notice for comment in the *Federal Register* on September 30, 2010 (75 FR 60497) and collectively received 23 comments: 13 banks, 3 bankers' organization, 2 law firms, 2 insurance consultants, an insurance company, a deposit listing service and an individual. The comment period for this notice expired on November 29, 2010. The agencies modified the proposal in response to several comment letters. On January 28, 2011, the Federal Reserve published a final notice in the *Federal Register* (76 FR 5253) on the Call Reports, including a more detailed discussion of the comments received.

Public Comments: Respondents tended to comment on one or more specific aspects of the proposal rather than addressing each individual proposed Call Report revision. One bankers' association observed that it supports the objective of the agencies' proposal, but it also provided comments on several of the proposed Call Report revisions. Another bankers' association reported that its "members have expressed no concerns with many of the agencies' proposed revisions," but it suggested that the agencies make several changes to the revisions. Only three commenters expressed an overall view on the proposal. One banker stated that "I generally support the Agencies proposal," but added that a few items deserve further consideration. The individual who commented stated that "[i]n form and virtually all substance I agree with the requests for data and changes for the definitions." In contrast, another banker expressed "deep concern over the proposed changes," adding that "this is not the time to place additional burdens on community banks."

In addition, one bankers' association provided comments on the definition of core deposits, which was not part of the agencies' proposal. The association noted that the definition currently incorporates a $100,000 threshold for time deposits, which was the standard maximum deposit insurance amount prior to the enactment of the Dodd-Frank Wall Street Reform and

Consumer Protection Act, Public Law 111-203 (July 21, 2010). This legislation permanently increased the standard maximum amount to $250,000 on July 21, 2010. Accordingly, the bankers' association urged the agencies to adjust the core deposit threshold to $250,000 for consistency with the deposit insurance limit. Another bankers' association also addressed the permanent increase in the standard maximum deposit insurance amount from $100,000 to $250,000, indicating that this change removed the need to continue to base the identification of core deposits on the $100,000 threshold. The association recommended that the agencies revise and update the Call Report accordingly.

This second bankers' association also recommended that the agencies revise and update Call Report Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, "to eliminate items that are no longer necessary in light of the new method for calculating the deposit insurance assessment base, as required by the Dodd-Frank Act." The agencies note that the FDIC published a Notice of Proposed Rulemaking on November 24, 2010,[7] to amend its deposit insurance assessment regulations to implement the provision of the Dodd-Frank Act that changes the assessment base from one based on domestic deposits to one based on assets. The agencies will soon be publishing an initial PRA Federal Register notice to request comment on proposed revisions to Schedule RC-O that will support the proposed changes in the FDIC's method of calculating an institution's assessment base.

In summary, after considering the comments received on the proposed Call Report revisions, the FFIEC and the agencies plan to move forward as of the March 31, 2011, report date with most, but not all, of the proposed reporting changes after making certain modifications in response to the comments. The agencies will not implement the items for interest income and quarterly averages for automobile loans as had been proposed, but will add items for automobile loans to the other Call Report schedules for which this revision had been proposed. After evaluating the automobile loan data that banks report, the agencies may propose in the future to collect interest income and quarterly averages for such loans. In addition, the agencies have decided not to add the proposed breakdown of deposits of individuals, partnerships, and corporations into deposits of individuals and deposits of partnerships and corporations. The agencies also are not proceeding with a proposed instructional change that would have revised the treatment of assets and liabilities whose interest rates have reached contractual ceilings or floors when reporting repricing data. The proposed breakdown of life insurance assets into general and separate account assets will be modified to also include a category for hybrid account assets. Finally, to implement revised definitions for core deposits and non-core funding, the agencies will add two-way breakdowns of two existing items for certain deposits with a remaining maturity of one year or less in the Call Report deposits schedule.

The agencies recognize institutions' need for lead time to prepare for reporting changes. Thus, consistent with longstanding practice, for the March 31, 2011, report date, banks may provide reasonable estimates for any new or revised Call Report item initially required to be reported as of that date for which the requested information is not readily available. Furthermore, the specific wording of the captions for the new or revised Call Report data items and the numbering of these data items discussed in this notice should be regarded as preliminary.

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7 See 75 FR 72582, November 24, 2010, at
http://www.fdic.gov/regulations/laws/federal/2010/10proposeAD66.pdf

For a more detailed discussion of the changes proposed, the comments received, and the agencies' responses, please refer to the "Current Actions" section of the final *Federal Register* notice for this submission.

Estimate of Respondent Burden

The current annual reporting burden for the Call Report is estimated to be 186,837 hours and would decrease to 185,659 hours as shown in the following table. The average estimated hours per response for Call Report filers would decrease from 55.54 hours to 55.19 hours resulting from a net decrease of 21 minutes related to the proposed changes. The Federal Reserve anticipates that nearly all respondents would be required to report the proposed breakdown of auto loans and short-term non-core liabilities. The Federal Reserve estimates that approximately three-quarters of the respondents would file the information on deposits obtained through deposit listing services. The Federal Reserve also estimates that about half of the respondents would be required to provide new breakdowns of restructured "other" loans and of life insurance assets, and estimates that less than one-fifth of respondents would be required to report all other proposed new or revised data items. Finally, the Federal Reserve notes that the increase in the hourly estimate for the proposed new items would be offset by the decrease related to deleting items related to the Transaction Account Guarantee program and the revisions to the reporting of covered assets. This reporting requirement represents 1.64 percent of the total Federal Reserve paperwork burden.

	Number of respondents[8]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	841	4	55.54	186,837
Proposed	841	4	55.19	185,659
Change				-1,178

The total cost to state member banks is estimated to be $7,760,546 annually.[9] This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the Call Reports.

8 Of these respondents, 413 are small entities as defined by the Small Business Administration (i.e., entities with less than $175 million in total assets) www.sba.gov/contractingopportunities/officials/size/table/index.html.

9 Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ $16, 50% Financial Managers @ $48, 10% Legal Counsel @ $54, and 10% Chief Executives @ $76). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2008, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

With respect to the changes that are the subject of this submission, banks would incur a capital and start-up cost component, but the amount would vary from bank to bank depending upon its individual circumstances and the extent of its involvement, if any, with the particular type of activity or product about which information would begin to be collected. An estimate of this cost component cannot be determined at this time.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the Call reports are estimated to be $1,118,956 per year. With the revisions the estimated costs will increase to $1,139,127 per year. The one-time costs to implement the revised reports are estimated to be $50,100.