

**Consolidated Reports of Condition and Income for
A Bank With Domestic Offices Only**

Table of Contents

Signature Page	Cover	
Contact Information	ii	Report of Condition
Report of Income		Schedule RC—Balance Sheet
Schedule RI—Income Statement	RI-1, 2, 3	Schedule RC-A—Cash and Balances Due From Depository Institutions (to be completed only by selected banks)
Schedule RI-A—Changes in Equity Capital	RI-4	Schedule RC-B—Securities
Schedule RI-B—Charge-offs and Recoveries on Loans and Leases and Changes in Allowance for Loan and Lease Losses	RI-4, 5, 6	Schedule RC-C—Loans and Lease Financing Receivables: Part I. Loans and Leases
Schedule RI-E—Explanations	RI-6, 7	Part II. Loans to Small Businesses and Small Farms (to be completed for the June report only; not included in the forms for the September and December reports)
		Schedule RC-D—Trading Assets and Liabilities (to be completed only by selected banks)
		Schedule RC-E—Deposit Liabilities
		Schedule RC-F—Other Assets
		Schedule RC-G—Other Liabilities
		Schedule RC-K—Quarterly Averages
		Schedule RC-L—Derivatives and Off-Balance Sheet Items
		Schedule RC-M—Memoranda
		Schedule RC-N—Past Due and Nonaccrual Loans, Leases, and Other Assets
		Schedule RC-O—Other Data for Deposit Insurance and FICO Assessments
		Schedule RC-R—Regulatory Capital
		Schedule RC-S—Servicing, Securitization, and Asset Sale Activities
		Schedule RC-T—Fiduciary and Related Services
		Optional Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income
		Special Report (to be completed by all banks)

Disclosure of Estimated Burden

The estimated average burden associated with this information collection is 37.0 hours per respondent and is estimated to vary from 15 to 550 hours per response, depending on individual circumstances. Burden estimates include the time for reviewing instructions, gathering and maintaining data in the required form, and completing the information collection, but exclude the time for compiling and maintaining business records in the normal course of a respondent's activities. A Federal agency may not conduct or sponsor, and an organization (or a person) is not required to respond to a collection of information, unless it displays a currently valid OMB control number. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, D.C. 20503, and to one of the following:

Secretary
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Legislative and Regulatory Analysis Division
Office of the Comptroller of the Currency
Washington, D.C. 20219

Assistant Executive Secretary
Federal Deposit Insurance Corporation
Washington, D.C. 20429

For information or assistance, National and State nonmember banks should contact the FDIC's Reports Analysis and Quality Control Section, 550 17th Street, NW, Washington, D.C. 20429, toll free on (800) 688-FDIC(3342), Monday through Friday between 8:00 a.m. and 5:00 p.m., Eastern time. State member banks should contact their Federal Reserve District Bank.

Schedule RI-A—Changes in Equity Capital

Indicate decreases and losses in parentheses.

Dollar Amounts in Thousands

	Dollar Amounts in Thousands				
	RIAD	Bl	MI	Thou	
1. Total equity capital most recently reported for the December 31, 2001, Reports of Condition and Income (i.e., after adjustments from amended Reports of Income).....	3217				1.
2. Restatements due to corrections of material accounting errors and changes in accounting principles*	B507				2.
3. Balance end of previous calendar year as restated (sum of items 1 and 2)	B508				3.
4. Net income (loss) (must equal Schedule RI, Item 12).....	4340				4.
5. Sale, conversion, acquisition, or retirement of capital stock, net (excluding treasury stock transactions).....	B509				5.
6. Treasury stock transactions, net.....	B510				6.
7. Changes incident to business combinations, net.....	4356				7.
8. LESS: Cash dividends declared on preferred stock.....	4470				8.
9. LESS: Cash dividends declared on common stock.....	4460				9.
10. Other comprehensive Income ¹	B511				10.
11. Other transactions with parent holding company* (not included in Items 5, 6, 8, or 9 above)	4415				11.
12. Total equity capital end of current period (sum of items 3 through 11) (must equal Schedule RC, item 28)	3210				12.

* Describe on Schedule RI-E—Explanations.

¹ Includes changes in net unrealized holding gains (losses) on available-for-sale securities, changes in accumulated net gains (losses) on cash flow hedges, foreign currency translation adjustments, and changes in minimum pension liability adjustments.

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

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

Part I excludes charge-offs and recoveries through the allocated transfer risk reserve.

Dollar Amounts in Thousands

	(Column A) Charge-offs ¹				(Column B) Recoveries				
	Calendar year-to-date								
	RIAD	Bl	MI	Thou	RIAD	Bl	MI	Thou	
1. Loans secured by real estate:									
a. Construction, land development, and other land loans in domestic offices.....	3582				3583				1.a.
b. Secured by farmland in domestic offices	3584				3585				1.b.
c. Secured by 1-4 family residential properties in domestic offices:									
(1) Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit.....	5411				5412				1.c.(1)
(2) Closed-end loans secured by 1-4 family residential properties:									
(a) Secured by first liens	C234				C217				1.c.(2)(a)
(b) Secured by junior liens	C235				C218				1.c.(2)(b)
d. Secured by multifamily (5 or more) residential properties in domestic offices.....	3588				3589				1.d.
e. Secured by nonfarm nonresidential properties in domestic offices	3590				3591				1.e.
f. In foreign offices	B512				B513				1.f.
2. Loans to depository institutions and acceptances of other banks:									
a. To U.S. banks and other U.S. depository institutions	4653				4663				2.a.
b. To foreign banks	4654				4664				2.b.
3. Loans to finance agricultural production and other loans to farmers	4655				4665				3.
4. Commercial and industrial loans:									
a. To U.S. addressees (domicile)	4645				4617				4.a.
b. To non-U.S. addressees (domicile)	4646				4618				4.b.

¹ Include write-downs arising from transfers of loans to a held-for-sale account.

Schedule RC-N—Continued

Amounts reported in Schedule RC-N, Items 1 through 8, above include guaranteed and unguaranteed portions of past due and nonaccrual loans and leases. Report in Item 10 below certain guaranteed loans and leases that have already been included in the amounts reported in Items 1 through 8.

	(Column A) Past due 30 through 89 days and still accruing				(Column B) Past due 90 days or more and still accruing				(Column C) Nonaccrual				
	RCFD	Bil	Mill	Thou	RCFD	Bil	Mill	Thou	RCFD	Bil	Mill	Thou	
Dollar Amounts in Thousands													
10. Loans and leases reported in Items 1 through 8 above which are wholly or partially guaranteed by the U.S. Government.....	5612				5613				5614				10.
a. Guaranteed portion of loans and leases included in Item 10 above.....	5615				5616				5617				10.a.

Memoranda	(Column A) Past due 30 through 89 days and still accruing				(Column B) Past due 90 days or more and still accruing				(Column C) Nonaccrual				
	RCFD	Bil	Mill	Thou	RCFD	Bil	Mill	Thou	RCFD	Bil	Mill	Thou	
Dollar Amounts in Thousands													
1. Restructured loans and leases included in Schedule RC-N, Items 1 through 8, above (and not reported in Schedule RC-C, Part I, Memorandum Item 1).....	1658				1659				1661				M.1.
2. Loans to finance commercial real estate, construction, and land development activities (not secured by real estate) included in Schedule RC-N, Items 4 and 7, above.....	6558				6559				6560				M.2.
3. Loans secured by real estate to non-U.S. addressees (domicile) (included in Schedule RC-N, Item 1, above).....	1248				1249				1250				M.3.
4. Not applicable													
5. Loans and leases held for sale (included in Schedule RC-N, Items 1 through 8, above).....	C240				C241				C226				M.5.

	(Column A) Past due 30 through 89 days				(Column B) Past due 90 days or more				
	RCFD	Bil	Mill	Thou	RCFD	Bil	Mill	Thou	
6. Interest rate, foreign exchange rate, and other commodity and equity contracts: Fair value of amounts carried as assets.....	3529				3530				M.6.

Person to whom questions about the Reports of Condition and Income should be directed:

Name and Title (TEXT 8901)

E-mail Address (TEXT 4036)

Telephone: Area code/phone number/extension (TEXT 8902)

FAX: Area code/phone number (TEXT 8116)

FFIEC 031 and 041

RC-N - PAST DUE

SCHEDULE RC-N -- PAST DUE AND NONACCRUAL LOANS, LEASES, AND OTHER ASSETS

General Instructions

Report on a fully consolidated basis all loans, leases, debt securities, and other assets that are past due or are in nonaccrual status, regardless of whether such credits are secured or unsecured and regardless of whether such credits are guaranteed by the government or by others. Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule RC-C. All lease, debt security, and other asset amounts must be reported net of unearned income. Report the full outstanding balances of assets that are past due or in nonaccrual status, as reported for purposes of Schedule RC, Balance Sheet, not simply the delinquent payments.

For report dates through December 31, 2000, the information reported in column A on assets past due 30 through 89 days and still accruing and in all of Memorandum item 1 on restructured loans and leases included in the past due and nonaccrual totals will be treated as confidential on an individual bank basis by the federal bank supervisory agencies. Beginning with the March 31, 2001, report date, all of the information reported in Schedule RC-N for each bank will be publicly available.

Banks which service for others Government National Mortgage Association (GNMA) pools consisting of 1-to-4 family residential mortgage loans insured by the Federal Housing Administration (FHA) or the Farmers Home Administration (FmHA) or guaranteed by the Veterans Administration (VA) and which, in order to satisfy GNMA's servicing requirements, choose to purchase delinquent FHA, FmHA, or VA residential mortgages in foreclosure status from the pool in lieu of continuing to make monthly advances to the pool need not report such loans in Schedule RC-N provided the process of reimbursement by FHA, FmHA, or VA is proceeding normally.

Definitions

Past Due -- For purposes of this schedule, grace periods allowed by the bank after a loan or other asset technically has become past due but before the imposition of late charges are not to be taken into account in determining past due status. Furthermore, loans, leases, debt securities, and other assets are to be reported as past due when either interest or principal is unpaid in the following circumstances:

- (1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (At a bank's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.
- (2) Open-end credit such as credit cards, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.
- (3) Single payment and demand notes, debt securities, and other assets providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.
- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest or principal remains unpaid for 30 days or more.

FFIEC 031 and 041

RC-N-1
(3-01)

RC-N - PAST DUE

Definitions (cont.)

- (5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, banks should use one of two methods to recognize partial payments on "retail credit," i.e., open-end and closed-end credit extended to individuals for household, family, and other personal expenditures, including consumer loans and credit cards, and loans to individuals secured by their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual payment may be considered a full payment in computing delinquency. Alternatively, a bank may aggregate payments and give credit for any partial payment received. For example, if a regular monthly installment is \$300 and the borrower makes payments of only \$150 per month for a six-month period, the loan would be \$900 (\$150 shortage times six payments), or three monthly payments past due. A bank may use either or both methods for its retail credit, but may not use both methods simultaneously with a single loan.

Nonaccrual -- For purposes of this schedule, an asset is to be reported as being in nonaccrual status if:

- (1) it is maintained on a cash basis because of deterioration in the financial condition of the borrower,
- (2) payment in full of principal or interest is not expected, or
- (3) principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6 are met with respect to a loan or other debt instrument acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.
- (2) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan or a loan secured by a 1-to-4 family residential property. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank's net income is not materially overstated. To the extent that the bank has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in this schedule.

Definitions (cont.)

As a general rule, a nonaccrual asset may be restored to accrual status when:

- (1) none of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or
- (2) when it otherwise becomes well secured and in the process of collection.

For purposes of meeting the first test for restoration to accrual status, the bank must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for "nonaccrual status,"

- (1) the asset has been formally restructured and qualifies for accrual status,
- (2) the asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party and meets the criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6, or
- (3) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and certain repayment criteria are met.

For further information, see the Glossary entry for "nonaccrual status."

Restructured -- For purposes of this schedule, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full or, if the obligation yields a market rate, until the year subsequent to the year in which the restructuring takes place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting bank for the purpose of facilitating the disposal of such real estate is not considered a restructured loan.

For further information, see the Glossary entry for "troubled debt restructurings."

Offsetting (cont.):

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability in the Report of Condition. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Offsetting of assets and liabilities is also permitted by other accounting pronouncements identified in Interpretation No. 39. These pronouncements apply to such items as leveraged leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," describes the circumstances in which amounts recognized as payables under repurchase agreements may be offset against amounts recognized as receivables under reverse repurchase agreements and reported as a net amount in the balance sheet. The reporting entity's choice to offset or not to offset payables and receivables under Interpretation No. 41 must be applied consistently.

See also "reciprocal balances."

One-Day Transaction: See "federal funds transactions."

Option: See "derivative contracts."

Organization Costs: See "start-up activities."

Other Depository Institutions in the U.S.: See "depository institutions in the U.S."

Other Real Estate Owned: See "foreclosed assets" and the instruction to Schedule RC-M, item 3.

Overdraft: An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a "loan" rather than being treated as a negative deposit balance.

Planned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, by type of loan according to the nature of the overdrawn depositor. For example, a planned overdraft by a commercial customer is to be classified as a "commercial and industrial loan."

Unplanned overdrafts in depositors' accounts are to be classified in Schedule RC-C, part I, as "All other loans," unless the depositor is a depository institution, a foreign government or foreign official institution, or a state or political subdivision in the U.S. Such unplanned overdrafts would be reported in Schedule RC-C, part I, item 2, "Loans to depository institutions and acceptances of other banks," item 7, "Loans to foreign governments and official institutions," and item 8, "Obligations (other than securities and leases) of states and political subdivisions in the U.S.," respectively.

For purposes of treatment of overdrafts in depositors' accounts, a group of related transaction accounts of a single type (i.e., demand deposit accounts or NOW accounts, but not a combination thereof) maintained in the same right and capacity by a customer (a single legal entity) that is established under a bona fide cash management arrangement by this customer function as, and are regarded as, one account rather than as multiple separate accounts. In such a situation, overdrafts in one or more of the

Federal Funds Transactions (cont.):

- (1) Unsecured loans (federal funds sold) or borrowings (federal funds purchased). (In some market usage, the term "fed funds" or "pure fed funds" is confined to unsecured loans of immediately available balances.)
- (2) Purchases (sales) of financial assets (other than securities) under agreements to resell (repurchase) that have original maturities of one business day (or are under continuing contracts) and are in immediately available funds.

Any borrowing or lending of immediately available funds in domestic offices that has an original maturity of more than one business day, other than securities repurchase or resale agreements, is to be treated as a borrowing or as a loan, not as federal funds. Such transactions are sometimes referred to as "term federal funds."

Federally-Sponsored Lending Agency: A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

Fees, Loan: See "loan fees."

Foreclosed Assets: The accounting and reporting standards for foreclosed assets are set forth in FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," and FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Subsequent to the issuance of Statement No. 144, AICPA Statement of Position (SOP) No. 92-3, "Accounting for Foreclosed Assets" was rescinded. Certain provisions of SOP 92-3 are not present in Statement No. 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act. These provisions of SOP 92-3 have been incorporated into this Glossary entry, which banks must follow for purposes of preparing their Reports of Condition and Income.

A bank that receives from a borrower in full satisfaction of a loan either a receivables from third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall account for the asset received at its fair value at the time of the restructuring. When a bank receives a long-lived asset, such as real estate, from a borrower in full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the bank shall account for this asset at its fair value less cost to sell. This fair value (less cost to sell) becomes the "cost" of the foreclosed asset. The amount, if any, by which the recorded amount of the loan exceeds the fair value (less cost to sell) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure or repossession. (The recorded amount of the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.)

If an asset is sold shortly after it is received in a foreclosure or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for long-lived assets that will be sold such as real estate) for the fair value (less cost to sell for long-lived assets that will be sold such as real estate) that had been estimated at the time of foreclosure or repossession. Any adjustments should be made to the loss charged against the allowance. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

Foreclosed Assets (cont.):

An asset received in partial satisfaction of a loan should be accounted for as described above and the recorded amount of the loan should be reduced by the fair value (less cost to sell) of the asset at the time of foreclosure.

For purposes of these reports, foreclosed assets include loans where the bank, as creditor, has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place. In such situations, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above.

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 (including any real estate for which the bank receives physical possession, regardless of whether formal foreclosure proceedings take place) 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 paragraphs). 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 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.

If a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure and any gain or loss from the sale or disposition of the asset shall not be reported as a loan or lease loss or recovery and shall not be debited or credited to the allowance for loan and lease losses. Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the income statement in Schedule RI, item 5.j, "Net gains (losses) on sales of other real estate owned."

Dispositions of Foreclosed Real Estate -- The primary accounting guidance for sales of foreclosed real estate is FASB Statement No. 66, "Accounting for Sales of Real Estate." This standard, which applies to all transactions in which the seller provides financing to the buyer of the real estate, establishes the following methods to account for dispositions of real estate. If a profit is involved in the sale of real estate, each method sets forth the manner in which the profit is to be recognized. Regardless of which method is used, however, any losses on the disposition of real estate should be recognized immediately.

Full Accrual Method -- Under the full accrual method, the disposition is recorded as a sale. Any profit resulting from the sale is recognized in full and the asset resulting from the seller's financing of the transaction is reported as a loan. This method may be used when the following conditions have been met:

- (1) A sale has been consummated;
- (2) The buyer's initial investment (down payment) and continuing investment (periodic payments) are adequate to demonstrate a commitment to pay for the property;
- (3) The receivable is not subject to future subordination; and
- (4) The usual risks and rewards of ownership have been transferred.

Guidelines for the minimum down payment that must be made in order for a transaction to qualify for the full accrual method are set forth in the Appendix A to FASB Statement No. 66. These vary

Item No. Caption and Instructions

2.(a).1 For purposes of this item, the reporting bank should determine the fair value of mortgage servicing assets in the same manner that it determines the fair value of these assets for other financial reporting purposes, consistent with the guidance in FASB Statement No. 140.
(cont.)

2.b **Purchased credit card relationships and nonmortgage servicing assets.** Report the carrying value of purchased credit card relationships plus the carrying value of nonmortgage servicing assets.

Purchased credit card relationships represent the right to conduct ongoing credit card business dealings with the cardholders. In general, purchased credit card relationships are an amount paid in excess of the value of the purchased credit card receivables. Such relationships arise when the reporting bank purchases existing credit card receivables and also has the right to provide credit card services to those customers. Purchased credit card relationships may also be acquired when the reporting bank purchases an entire depository institution.

Purchased credit card relationships shall be carried at amortized cost, not in excess of the discounted amount of estimated future net cash flows. Management of the institution shall review the carrying value at least quarterly, adequately document this review, and adjust the carrying value as necessary. If unanticipated acceleration or deceleration of cardholder payments, account attrition, changes in fees or finance charges, or other events occur that reduce the amount of expected future net cash flows, a write-down of the book value of the purchased credit card relationships shall be made to the extent that the discounted amount of estimated future net cash flows is less than the asset's carrying amount.

The carrying value of *nonmortgage servicing assets* is the unamortized cost of acquiring contracts to service financial assets secured by real estate (as defined for Schedule RC-C, part I, item 1), that have been securitized or are owned by another party, net of any related valuation allowances. For further information, see the Glossary entry for "servicing assets and liabilities."

2.c **All other identifiable intangibles.** Report the unamortized amount (book value) of all other specifically identifiable intangible assets such as core deposit intangibles and favorable leasehold rights. Also include the unamortized amount of any unidentifiable intangible assets recorded in accordance with FASB Statement No. 72, *Accounting for Certain Combinations of a Banking or Thrift Institution*. Exclude goodwill, which should be reported in Schedule RC, item 10.a.

2.d **Total.** Report the sum of items 2.a, 2.b, and 2.c. This amount must equal Schedule RC, item 10.b, "Other intangible assets."

3 **Other real estate owned.** Report in the appropriate subitem the book value, less accumulated depreciation, if any, of all real estate other than bank premises owned or controlled by the bank and its consolidated subsidiaries. Do not deduct mortgages or other liens on such property (report in Schedule RC, item 16, "Other borrowed money"). Amounts should be reported net of any applicable valuation allowances.

Exclude any property necessary for the conduct of banking business (report in Schedule RC, item 6, "Premises and fixed assets").

Mandatory Convertible Debt: Mandatory convertible debt is a subordinated note or debenture with a maturity of 12 years or less that obligates the holder to take the common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal by a date at or before the maturity date of the debt instrument (so-called "equity contract notes").

Market Value of Securities: The market value of securities should be determined, to the extent possible, by timely reference to the best available source of current market quotations or other data on relative current values. For example, securities traded on national, regional, or foreign exchanges or in organized over-the-counter markets should be valued at the most recently available quotation in the most active market. Rated securities for which no organized market exists should be valued on the basis of a yield curve estimate. Quotations from brokers or others making markets in securities that are neither widely nor actively traded are acceptable if prudently used. Unrated debt securities for which no reliable market price data are available may be valued at cost adjusted for amortization of premium or accretion of discount unless credit problems of the obligor or upward movements in the level of interest rates warrant a lower estimate of current value. Equity securities that do not have readily determinable fair values such as Federal Reserve stock or equity securities in closely held businesses should be valued at historical cost.

Mergers: See "business combinations."

Money Market Deposit Account (MMDA): See "deposits."

Nonaccrual Status: This entry covers, for purposes of these reports, the criteria for placing assets in nonaccrual status (presented in the general rule below) and related exceptions, the reversal of previously accrued but uncollected interest, the treatment of cash payments received on nonaccrual assets and the criteria for cash basis income recognition, the restoration of a nonaccrual asset to accrual status, and the treatment of multiple extensions of credit to one borrower.

General rule -- Banks shall not accrue interest, amortize deferred net loan fees or costs, or accrete discount on any asset (1) which is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) for which payment in full of principal or interest is not expected, or (3) upon which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which an asset reaches nonaccrual status is determined by its contractual terms. If the principal or interest on an asset becomes due and unpaid for 90 days or more on a date that falls between report dates, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Any state statute, regulation, or rule that imposes more stringent standards for nonaccrual of interest takes precedence over this instruction.

Nonaccrual Status (cont.):

Exceptions to the general rule -- In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6¹ are met with respect to a loan or other debt instrument acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.
- (2) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan or a loan secured by a 1-to-4 family residential property. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the bank's net income is not materially overstated.

Treatment of previously accrued interest -- The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status should be handled in accordance with generally accepted accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the "accrued interest receivable" account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate "interest and fee income on loans" account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the "allowance for loan and lease losses" account on the balance sheet. The use of this method presumes that bank management's additions to the allowance through charges to the "provision for loan and lease losses" on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios and the "accrued interest receivable" account.

Treatment of cash payments and criteria for the cash basis recognition of income -- When doubt exists as to the collectability of the remaining book balance of an asset in nonaccrual status, any payments received must be applied to reduce principal to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does not, in and of itself, require a charge-off, in whole or in part, of the asset's principal. However, any identified losses must be charged off.

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining book balance of the asset (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible.² A bank's determination as to the ultimate collectability of the asset's remaining book balance must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors.

When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable accounting practice involves allocating

¹ American Institute of Certified Public Accountants Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans," August 1989.

² An asset subject to the cost recovery method required by AICPA Practice Bulletin No. 6 should follow that method for reporting purposes.

Nonaccrual Status (cont.):

contractual interest payments among interest income, reduction of principal, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining book balance at the contractual rate. A bank may also choose to account for the contractual interest in its entirety either as income, reduction of principal, or recovery of prior charge-offs, depending on the condition of the loan, consistent with its accounting policies for other financial reporting purposes.

Restoration to accrual status -- As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection.

For purposes of meeting the first test, the bank must have received repayment of the past due principal and interest unless, as discussed below, (1) the asset has been formally restructured and qualifies for accrual status, (2) the asset has been acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party and meets the criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6, or (3) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and the following two criteria are met. These criteria are, first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms involving payments of cash or cash equivalents. A loan that meets these two criteria may be restored to accrual status but must continue to be disclosed as past due in Schedule RC-N until it has been brought fully current or until it later must be placed in nonaccrual status.

A loan or other debt instrument that has been formally restructured so as to be reasonably assured of repayment and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the asset are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents. (In returning the asset to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account.) Such a restructuring must improve the collectability of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the bank from the responsibility to promptly charge off all identified losses.

A formal restructuring may involve a multiple note structure in which, for example, a troubled loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and: (1) there is economic substance to the restructuring and it qualifies as a troubled debt restructuring under generally accepted accounting principles, (2) the portion of the original loan represented by the "B" note has been charged off before or at the time of the restructuring, and (3) the "A" note is reasonably assured of repayment and of performance in accordance with the modified terms.

Nonaccrual Status (cont.):

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for any other reasons, the asset must be placed in nonaccrual status.

For further information on formally restructured assets, see the Glossary entry for "troubled debt restructurings."

Treatment of multiple extensions of credit to one borrower-- As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectability and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a bank does not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a bank has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets the criteria for nonaccrual status, the bank should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Noninterest-Bearing Account: See "deposits."

Nontransaction Account: See "deposits."

NOW Account: See "deposits."

Offsetting: Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Banks are permitted to offset assets and liabilities recognized in the Report of Condition when a "right of setoff" exists. Under FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," a right of setoff exists when all of the following conditions are met:

- (1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.
- (2) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.
- (4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting bank has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

FFIEC 031 and 041

GLOSSARY

Treasury Stock: Treasury stock is stock that the bank has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock, whether carried at cost or at par value, is a deduction from a bank's total equity capital. For purposes of the Reports of Condition and Income, the carrying value of treasury stock should be reported (as a negative number) in Schedule RC, item 27, "Other equity capital components."

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule RI, Income Statement, but should be reflected in Schedule RI-A, item 6, "Treasury stock transactions, net." Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule RC, item 25, "Surplus."

NOTE: National banks are generally prohibited by 12 USC 83 from purchasing shares of their own stock.

For further information, see Accounting Research Bulletin No. 43, as amended by APB Opinion No. 6.

Troubled Debt Restructurings: The accounting standards for troubled debt restructurings are set forth in FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." A summary of this amended accounting standard follows. For further information, see FASB Statements No. 15 and No. 114.

A troubled debt restructuring is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan or other debt instrument (hereafter referred to collectively as a "loan") may include (1) the transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for "foreclosed assets" for further information), (2) a modification of the loan terms, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured loan.

The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

In cases where the new terms of the restructured troubled debt provide for a reduction of either interest or principal (referred to as a modification of terms), the Institution should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for "loan impairment," except that a troubled debt restructuring involving a modification of terms before the effective date of FASB Statement No. 114 may continue to be accounted for and disclosed in accordance with FASB Statement No. 15 as long as the restructured loan is not impaired based on the terms of the restructuring agreement. See the Glossary entry for "nonaccrual status" for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.

A troubled debt restructuring in which a bank receives physical possession of the borrower's assets, regardless of whether formal foreclosure or repossession proceedings take place, should be accounted for in accordance with paragraph 34 of FASB Statement No. 15, as amended. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for "foreclosed assets."

Troubled Debt Restructurings (cont.):

Despite the granting of some type of concession by a bank to a borrower, a troubled debt restructuring may still result in the recorded amount of the loan bearing a market yield, i.e., an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the bank is willing to accept for a new extension of credit with comparable risk. This may arise as a result of reductions in the recorded amount of the loan prior to the restructuring (e.g., by charge-offs). All loans that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured loans in Schedule RC-C, part I, Memorandum item 1. However, a restructured loan that is in compliance with its modified terms and yields a market rate need not continue to be reported as a troubled debt restructuring in this memorandum item in calendar years after the year in which the restructuring took place.

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two step process. First, the recorded amount of the loan is reduced by the fair value less cost to sell of the property received. Second, the institution should measure any impairment on the remaining recorded balance of the restructured loan in accordance with the guidance concerning impaired loans set forth in FASB Statement No. 114.

A restructuring may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a "new" loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value.

A credit analysis should be performed for a restructured loan in conjunction with its restructuring to determine its collectibility and estimated credit loss. When available information confirms that a specific restructured loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The bank should periodically evaluate the collectibility of the restructured loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

Trust Preferred Securities: As bank investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be