Supporting Statement for
the 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 revise, with extension, the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031and 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 in order 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 192,549 hours; the proposed revisions are estimated to decrease the annual burden to 186,321 hours.

The last revision to the reporting form and content of the Call Report that significantly affected a substantial percentage of banks was in March 2002. Since that time, the FFIEC and the agencies jointly worked toward the October 1, 2005, implementation of the Central Data Repository (CDR), the Internet-based system they developed to modernize and streamline how Call Report data are collected, validated, managed, and distributed. The agencies have also been carefully evaluating their information needs. In developing this proposal, the agencies have considered a range of potential information needs, particularly in the areas of credit risk, liquidity, and liabilities, and have identified those additions to the Call Report that are believed to be most critical and relevant to the agencies as they seek to fulfill their supervisory responsibilities. At the same time, the agencies have identified certain existing Call Report data that are no longer sufficiently critical or useful to warrant their continued collection from either all banks or banks that meet certain criteria (e.g., an asset size threshold).

As a result, this proposal would add several new data items to the Call Report, revise certain existing data items, eliminate a limited number of data items, and remove the burden hours associated with testing and enrollment in the new CDR system, which had been added to the Call Report burden estimate in 2004, because these CDR activities were completed.

In response to public comments, the agencies plan to stagger the effective dates of the revisions as discussed below under the Proposed Revisions section. The burden-reducing revisions included in the proposal would be implemented March 31, 2006, as proposed. As outlined below, the revision of existing data items and the addition of new data items would be spread over the period from March 31, 2006, through March 31, 2008.

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 reporting form or series of reporting forms that collects from all commercial and savings banks the information gathered through the Reports of Condition and Income taken as a whole. There are other information collection systems 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 Report. 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 to the federal banking agencies' private sector collection agent (currently Electronic Data Systems, Inc.), using software that has been certified for this purpose by the collecting agent. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

Proposed Revisions

Call Report Revisions to be Implemented March 31, 2006

Burden-Reducing Revisions

Uninsured Deposits – All banks have been required to submit the "Estimated amount of uninsured deposits" in Schedule RC-O, Memorandum data item 2, since March 2002. To limit reporting burden, the FFIEC and the agencies advised banks that they were not expected to modify their information systems or acquire new systems solely for purposes of making this estimate. Rather, banks were instructed to base their estimates of the uninsured portion of their deposits on data that are readily available from the information systems and other records the bank has in place. Nonetheless, smaller banks continue to indicate that they find this Memorandum data item burdensome and, as a consequence, many resort to submitting a simple estimate based on the number and amount of their deposit accounts of more than $100,000, the current limit of deposit insurance.

Because banks already submit the number and amount of such deposit accounts in Schedule RC-O, Memorandum data item 1, the agencies are able to calculate the same simple estimate of uninsured deposits as these banks have done. A comparison of the amounts banks have submitted for their estimated uninsured deposits in Memorandum data item 2 with a simple estimate calculated by the agencies from the information submitted in Memorandum data item 1 revealed insignificant differences between the two figures for banks with less than $1 billion in assets, which currently hold only about 20 percent of banks' total domestic deposits. Only at larger institutions were the differences between banks' submitted estimates and the calculated simple estimate significant enough to have a potential effect on the estimate of insured deposits used by the FDIC in the determination of deposit insurance assessment premiums. Accordingly, the agencies are proposing that banks with less than $1 billion in total assets would no longer be required to complete Schedule RC-O, Memorandum data item 2. Banks with $1 billion or more in total assets would continue to submit the "Estimated amount of uninsured deposits" in this Memorandum data item.

To determine whether a bank must complete Memorandum data item 2 during 2006, the $1 billion asset size test would be based on the total assets submitted on the bank's Call Report balance sheet for June 30, 2005. Each year thereafter, this asset size test would be determined based on the total assets submitted in the previous year's June 30 Call Report. Once a bank surpasses the $1 billion total asset threshold, it would continue to submit its estimated uninsured deposits regardless of subsequent changes in its total assets. When estimating the uninsured portion of its deposits, a bank with $1 billion or more in total assets would base its estimate on data that are readily available from the information systems and other records pertaining to its deposits that the bank has in place.

<u>Asset-Backed Securities</u> – In Schedule RC-B, "Securities," the agencies collect a six-way breakdown of banks' holdings of asset-backed securities (not held for trading purposes) in data items 5.a through 5.f.[1] Because banks with domestic offices only and less than $1 billion in total assets hold only a nominal percentage of the industry's investments in asset-backed securities, the agencies have determined that continuing to request a breakdown by category of these institutions' limited holdings is no longer warranted. Instead, these banks would submit only their total holdings of asset-backed securities in Schedule RC-B.

Banks with foreign offices and other banks with $1 billion or more in total assets would continue to submit the existing breakdown of their asset-backed securities, but this information would be collected in new Memorandum data items 5.a through 5.f of Schedule RC-B. The $1 billion asset size test would be applied in the same manner as discussed above under Uninsured Deposits.

<u>Income from Nontrading Derivatives</u> – Banks with foreign offices or with $100 million or more in total assets submit the effect that their use of derivatives outside the trading account has had on their year-to-date interest income, interest expense, and net noninterest income in income statement (Schedule RI) Memorandum data items 9.a through 9.c. The amounts submitted in these Memorandum data items are aggregates of all nontrading derivative positions and combine derivatives that may have substantially different underlying risk exposures, e.g., interest rate risk, foreign exchange risk, and credit risk. In recognition of the new data on credit derivatives that the agencies are proposing to collect, the agencies have identified the three income statement Memorandum data items as being of lesser utility and propose to delete them.

<u>Bankers Acceptances</u> – The Call Report balance sheet (Schedule RC) has long required banks to separately disclose the amount of their "Customers' liability to this bank on acceptances outstanding" (data item 9) and their "Bank's liability on acceptances executed and outstanding" (data item 18). For banks with foreign offices, corresponding amounts are disclosed for acceptance assets and liabilities in domestic offices (Schedule RC-H, data items 1 and 2). In addition, banks

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[1] In Schedule RC-B, the asset-backed securities reported in data items 5.a through 5.f exclude mortgage-backed securities, which are reported separately in data items 4.a.(1) through 4.b.(3) of the schedule.

with foreign offices or $100 million or more in total assets also submit the amount of "Participations in acceptances conveyed to others by the reporting bank" (Schedule RC-L, data item 5). Over time, the volume of acceptance assets and liabilities as a percentage of industry assets and liabilities has declined substantially to a nominal amount, with only a small number of banks submitting these data items. The agencies are proposing to delete these five data items and banks would be instructed to include any acceptance assets and liabilities in "Other assets" and "Other liabilities," respectively, on the Call Report balance sheet.

Revisions of Existing Data Items and New Data Items

Life Insurance Assets – Banks include their holdings of life insurance assets (i.e., the cash surrender value submitted to the bank by the insurance carrier, less any applicable surrender charges not reflected by the carrier in this submitted value) in Schedule RC-F, data item 5, "All other assets." If the carrying amount of a bank's life insurance assets included in data item 5 is greater than $25,000 and exceeds 25 percent of its "All other assets," the bank must disclose this carrying amount in data item 5.b.

In December 2004, the agencies issued an Interagency Statement on the Purchase and Risk Management of Life Insurance to provide guidance to institutions to help ensure that their risk management processes for bank-owned life insurance (BOLI) are consistent with safe and sound banking practices. Given the risks associated with BOLI, the Interagency Statement advises institutions that it is generally not prudent for an institution to hold BOLI with an aggregate cash surrender value that exceeds 25 percent of the institution's capital as measured in accordance with its primary federal regulator's concentration guidelines. Although more than 40 percent of all banks submit the amount of their life insurance assets in data item 5.b under the current 25 percent of "All other assets" disclosure threshold, this reporting mechanism does not ensure that the agencies are able to monitor whether all banks holding life insurance assets are approaching or have exceeded the 25 percent of capital concentration threshold. As a consequence, the agencies are proposing to revise Call Report Schedule RC-F by adding a new data item 5 in which all banks would submit their holdings of life insurance assets and by renumbering existing data item 5, "All other assets," as data item 6. The agencies note that all savings associations are currently required to submit the amount of their life insurance assets in the TFR (Schedule SC, lines SC615 and SC625).

For purposes of submitting "Life insurance assets" in new data item 5 of Schedule RC-F, banks would include the cash surrender value of life insurance submitted by the insurance carrier, less any applicable surrender charges not reflected by the carrier in this submitted value, on all forms of permanent life insurance policies owned by the bank, its consolidated subsidiaries, and grantor (rabbi) trusts established by the bank or its consolidated subsidiaries, regardless of the purposes for acquiring the insurance and regardless of whether the insurance is a general account obligation of the insurer or a separate account obligation of the insurer. Permanent life insurance refers to whole and universal life insurance, including variable universal life insurance. Purposes for which insurance may be acquired include offsetting pre- and post-retirement costs for employee compensation and benefit plans, protecting against the loss of key persons, and providing retirement and death benefits to employees. Banks would include as life insurance assets the bank's interest in insurance policies under split-dollar life insurance arrangements with directors, officers, and employees under both the endorsement and collateral assignment methods.

Credit Derivatives by Type and Remaining Maturity – The volume of credit derivatives, as measured by their notional amount, has increased significantly at banks over the past several years, rising from an aggregate notional amount of $395 billion at year-end 2001 to $3.1 trillion at March 31, 2005. From the end of the fourth quarter of 2004 to the end of the first quarter of 2005 alone, the notional amount of credit derivatives submitted by banks increased by $778 billion or 33 percent. However, despite this volume, the number of banks currently participating in the credit derivatives market, almost all of which have in excess of $1 billion in assets, is extremely small: 19 banks act as a guarantor by selling credit protection to other parties (i.e., they are assuming credit risk), while 26 banks are buying credit protection from other parties (i.e., they are hedging credit risk). A number of these banks enter into some credit derivatives as guarantor and other credit derivatives as beneficiaries.

To gain a better understanding of the nature and trends of the credit derivative activities that are concentrated in a small number of large banks, the agencies are proposing to expand the information they collect in several Call Report schedules. In data item 7 of Schedule RC-L, "Derivatives and Off-Balance Sheet Items," banks currently submit the notional amounts of the credit derivatives on which they are the guarantor and on which they are the beneficiary as well as the gross positive and negative fair values of these credit derivatives. These existing data items would be revised so that banks with credit derivatives would provide a breakdown of these notional amounts by type of credit derivative – credit default swaps, total return swaps, credit options, and other credit derivatives – in data items 7.a.(1) through 7.a.(4) of Schedule RC-L, with those on which the bank is the guarantor submitted in column A and those on which the bank is the beneficiary in column B. Banks would continue to separately submit the gross positive and negative fair values of credit derivatives on which they are the guarantor and the beneficiary without a breakdown by type of credit derivative (data items 7.b.(1) and 7.b.(2), columns A and B).

A credit default swap is a contract in which a guarantor (risk taker), for a fee, agrees to reimburse a beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the "reference entity." If there is no credit default event (as defined by the derivative contract), then the guarantor makes no payments to the beneficiary and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation or moratorium.

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

A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (guarantor) assumes the obligation to purchase or sell the reference asset at a specified "strike" spread level. The option purchaser (beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.

Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and would not be submitted as other credit derivatives.

In addition, banks currently present a maturity distribution for six categories of derivative contracts that are subject to the risk-based capital standards in Schedule RC-R, “Regulatory Capital,” Memorandum data item 2. A new category would be added for credit derivatives that are subject to these standards. The remaining maturities of these credit derivatives would be submitted separately for those where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the bank’s internal credit rating system (Memorandum data item 2.g.(1)) and those where the underlying reference asset is rated below investment grade (“subinvestment grade”) or, if not rated, is the equivalent of below investment grade under the bank’s internal credit rating system (Memorandum data item 2.g.(2)).

Income from Foreign Offices – In the FFIEC 031 version of the Call Report, banks with foreign offices whose international operations account for more than 10 percent of total revenues, total assets, or net income must complete Schedule RI-D, “Income from International Operations.” Banks that must complete this schedule, of which there are less than 40, are directed to submit estimates of the amounts of their income and expense attributable to international operations after eliminating intrabank accounts. These estimates should reflect all appropriate internal allocations of income and expense, whether or not recorded in that manner in the bank’s formal accounting records. The agencies have found that the term “international operations” is subject to varying interpretations and has led to differences between what some banks submit as international income in their internal management reports compared to the income submitted in Schedule RI-D.

In order to obtain better income data about banks’ foreign operations in a less burdensome manner, the agencies are proposing to revise the approach taken in Schedule RI-D. Existing Schedule RI-D would be revised to capture income from foreign offices (as that term is currently defined for Call Report purposes) in place of income from “international operations.” The schedule would be renamed “Income from Foreign Offices” and the threshold for completing revised Schedule RI-D would continue to be based on a 10 percent test, but the test would compare a bank’s foreign office revenues, assets, and net income to its consolidated total revenues, total assets, and net income. Total revenues (net interest income plus noninterest income) and net income would be determined from the preceding calendar year (2005 for purposes of submitting in Schedule RI-D beginning March 31, 2006) and total assets would be measured as of the preceding calendar year end (December 31, 2005 for purposes of submitting in Schedule RI-D beginning March 31, 2006).

The following categories of foreign office income and expense would be submitted in revised Schedule RI-D:

- Total interest income
- Total interest expense
- Provision for loan and lease losses
- Trading revenue
- Investment banking, advisory, brokerage, and underwriting fees and commissions

- Net securitization income
- All other noninterest income
- Realized gains (losses) on held-to-maturity and available-for-sale securities
- Total noninterest expense
- Adjustments to pretax income in foreign offices for internal allocations to foreign offices to reflect the effect of equity capital on overall bank funding costs
- Applicable income taxes
- Extraordinary items and other adjustments, net of income taxes
- Internal allocations of income and expense applicable to foreign offices
- Eliminations arising from the consolidation of foreign offices with domestic offices

The amounts submitted in the preceding income and expense categories (except the categories for adjustments to pretax income, internal allocations, and eliminations) would be submitted on a foreign office consolidated basis, i.e., before eliminating the effects of transactions with domestic offices, but after eliminating the effects of transactions between foreign offices. This is a change from the current Schedule RI-D approach under which amounts are submitted net of all intrabank transactions.

Standby Letters of Credit Issued by a Federal Home Loan Bank – Banks currently submit standby letters of credit issued by a Federal Home Loan Bank on their behalf in Schedule RC-L, data item 9, "All other off-balance sheet liabilities," when these letters of credit exceed 10 percent of the bank's total equity capital. When these letters of credit exceed 25 percent of total equity capital, the amount must also be separately identified and disclosed in Schedule RC-L. Because of the growth in this activity, the agencies would add a preprinted caption to Schedule RC-L, data item 9.c, to facilitate the reporting and identification of standby letters of credit issued by a Federal Home Loan Bank when the amount exceeds 25 percent of total equity capital.

Scope of Securitizations to be Included in Schedule RC-S – In column G of Schedule RC-S, "Servicing, Securitization, and Asset Sale Activities," banks submit information on securitizations and on asset sales with recourse or other seller-provided credit enhancements involving loans and leases other than those covered in columns A through F. Although the scope of Schedule RC-S was intended to cover all of a bank's securitizations and credit-enhanced asset sales, as currently structured column G does not capture transactions involving assets other than loans and leases. As a result, securitization transactions involving such assets as securities, for example, have not been submitted in Schedule RC-S. Therefore, the agencies propose to revise the scope of column G to encompass "All Other Loans, All Leases, and All Other Assets" to ensure that they can identify and monitor the full range of banks' involvement in and credit exposure to securitizations and asset sales. As a result, column G would begin to reflect securitization transactions involving such assets as securities. With fewer than 30 banks submitting data on securitizations in column G of Schedule RC-S at present, the proposed change in the scope of column G is expected to affect only a nominal number of banks.

Instructional Clarification

<u>Servicing of Home Equity Lines</u> - Banks submit the outstanding principal balance of assets serviced for others in Schedule RC-S, Memorandum data item 2. In Memorandum data items 2.a and 2.b, the amounts of 1-4 family residential mortgages serviced with recourse and without recourse, respectively, are submitted. Memorandum data item 2.c covers all other financial assets serviced for others, but banks are required to submit the amount of such servicing only if the servicing volume is more than $10 million. The instructions for Memorandum data items 2.a and 2.b do not explicitly define "1-4 family residential mortgages." However, the caption for column A of the body of Schedule RC-S is "1-4 family residential loans," which the instructions for column A describe as closed-end loans secured by first or junior liens on 1-4 family residential properties as defined for Schedule RC-C, part I, data items 1.c.(2)(a) and (b).

Some banks have asked whether Memorandum data items 2.a and 2.b should include servicing of home equity lines of credit because such lines are also secured by 1-4 family residential properties. Information on securtizations and asset sales involving home equity lines is submitted in column B of the body of Schedule RC-S. To resolve the questions about the scope of Memorandum data items 2.a and 2.b, the agencies are proposing to clarify the instructions by stating that these two data items would include servicing of closed-end loans secured by first or junior liens on 1-4 family residential properties only. Servicing of home equity lines would be included in Memorandum data item 2.c.

Call Report Revisions to be Implemented September 30, 2006

Revisions of Existing Data Items and New Data Items

<u>Federal Home Loan Bank Advances and Other Borrowings</u> – The Federal Home Loan Bank (FHLB) System is an increasingly important funding source for banks, particularly community banks, with over 57 percent of all banks submitting borrowings from FHLBs as of December 31, 2004. From year-end 2001 to year-end 2004, the volume of FHLB advances to commercial banks grew more than 25 percent to $250 billion. At the same time, the array of advances offered by the 12 FHLBs has expanded in recent years, with many of the newer advance products containing features that can significantly alter an institution's interest rate risk profile.

Banks currently submit separate breakdowns by remaining maturity of Federal Home Loan Bank (FHLB) advances and other borrowings in Schedule RC-M, data items 5.a and 5.b., respectively. This information does not reflect the repricing characteristics of banks' FHLB advances and other borrowings because those with variable rates are not evident, which is necessary for assessing interest rate risk, nor does it reveal the volume of FHLB advances with embedded options that may result in their prepayment before their contractual maturity.

These breakdowns would be replaced by the submission of maturity and repricing data similar to those that are submitted for securities, loans and leases, and time deposits elsewhere in the Call Report. Banks would separately submit their advances and their other borrowings based on the amount of time until the next repricing date (one year or less, over one year through three years, over three years through five years, and over five years) in data items 5.a.(1)(a)-(d) and 5.b.(1)(a)-(d), respectively.[2] Banks would also submit the amounts of advances and other borrowings with a remaining maturity of one year or less in data items 5.a.(2) and 5.b.(2), respectively.

In addition, banks would submit the amount of structured FHLB advances included in their advances outstanding in data item 5.a.(3) of Schedule RC-M. Structured advances are advances containing options. Structured advances include (1) callable advances, i.e., fixed rate advances that the FHLB has the option to call after a specified amount of time, (2) convertible advances, i.e., fixed rate advances that the FHLB has the option to convert to floating rate after a specified amount of time, and (3) putable advances, i.e., fixed rate advances that the bank has the option to prepay without penalty on a specified date or dates. Any other advances that have caps, floors, or other embedded derivatives would also be submitted as structured advances.

For purposes of submitting advances and other borrowings by next repricing date, banks would submit fixed rate advances and other borrowings according to the amount of time remaining to their final contractual maturities. Banks would submit floating rate advances and other borrowings according to their next repricing dates. Putable FHLB advances would be submitted according to their remaining maturity without regard to the next date on which they can be prepaid unless the bank has already notified the FHLB that it will prepay the putable advance, in which case the advance would be submitted on the basis of the time remaining until the put date. Similarly, callable FHLB advances would be submitted according to their remaining maturity without regard to the next date on which they can be called unless the FHLB has already called the advance, in which case the advance would be submitted on the basis of the time remaining until the call date. Convertible FHLB advances would be submitted based on the amount of time until the FHLB can next opt to convert the rate on the borrowing to a floating rate. When submitting advances and other borrowings with a remaining maturity of one year or less, banks would include both fixed rate and floating rate instruments.

These revisions to the information submitted on FHLB advances and other borrowings would help the agencies' assessments of interest rate risk, liquidity, and funds management and, in particular, would assist examiners with their risk-scoping of examinations, which can be performed off-site and thereby reduce on-site examination hours.

<u>Nonaccrual Assets</u> – Information on nonaccrual assets is a key indicator of the credit quality of a bank's assets. Effective December 31, 2003, bank holding companies that file the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128) with the Board began to complete two new data items in the reporting form's Schedule HC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets": Memorandum data item 7, "Additions to nonaccrual assets during the quarter," and Memorandum data item 8, "Nonaccrual assets sold during the quarter." The agencies propose to add these same data items to the comparable Call Report schedule (Schedule RC-N).

Although the overall quarter-to-quarter change in a bank's nonaccrual assets can be calculated based on the quarter-end totals submitted for such assets in Schedule RC-N, the reasons for the change cannot be determined from the information currently submitted in Schedule RC-N.

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2 The sum of Schedule RC-M, data items 5.a.(1)(a)-(d) and data items 5.b.(1)(a)-(d), must equal Schedule RC, data item 16, "Other borrowed money."

Information relating to inflows and outflows of nonaccrual assets would enhance the agencies' ability to track shifts in the credit quality of a bank's assets. Information on additions to nonaccrual assets during the quarter would indicate the extent of erosion or improvement in the quality of a bank's assets. Data on the outflow of nonaccrual assets, such as sale activity, would also provide insight into the approaches taken by a bank's management to the resolution of problem assets. Thus, the proposed new data items would assist the agencies in assessing a bank's ability to manage credit risk and deal with credit problems.

For the industry as a whole, information on inflows and outflows would aid in the evaluation of credit cycle trends. For example, a slowdown in inflows of nonaccrual assets may indicate an approaching peak level of nonperforming assets after the end of a recession. The information on nonaccrual asset sales would increase the agencies' understanding of the evolution of the secondary market for sales of distressed assets, which has only come into existence in recent years.

Because bank holding companies that file the FR Y-9C data (i.e., bank holding companies with total consolidated assets of $150 million or more and certain multibank holding companies) have submitted the volume of additions to nonaccrual assets and sales of such assets for the past two years, banks that are subsidiaries of these holding companies should have systems in place for compiling these data. Other banks, however, may not currently track these data, although the agencies believe that sales of nonaccrual assets by small banks are infrequent at present.

In Memorandum data item 7, banks would submit the gross amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status since the prior quarter-end. Banks would include those assets placed in nonaccrual status during the quarter that are included as of the quarter-end report date in Schedule RC-N, column C, data items 1 through 9. Also banks would include those assets placed in nonaccrual status during the quarter that, before the current quarter-end, have been sold, paid off, charged-off, settled through foreclosure or concession of collateral (or any other disposition of the nonaccrual asset) or have been returned to accrual status. In other words, the gross amount of assets placed in nonaccrual status since the prior quarter-end that would be submitted in Memorandum data item 7 would not be reduced, for example, by any charge-offs or sales of such nonaccrual assets. If a given asset is placed in nonaccrual status more than once during the quarter, banks would submit the amount of the asset only once.

In Memorandum data item 8, banks would submit the gross outstanding balance of all loans, leases, debt securities, and other assets held in nonaccrual status (i.e., reportable in Schedule RC-N, column C, data items 1 through 9) that were sold during the current quarter. The amount to be submitted would be the outstanding balance of the asset at the time of the sale. Banks would not include any gains or losses from the sale. For purposes of this data item, banks only would include those nonaccrual asset sales that meet the criteria for a sale as set forth in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

<u>Secured Borrowings</u> – When banks raise funds from sources other than deposit liabilities, they may do so on a secured or unsecured basis. "Securities sold under agreements to repurchase" (Schedule RC, data item 14.b) and "Federal Home Loan Bank advances" (Schedule RC-M, data item 5.a) always represent secured borrowings, whereas "Subordinated notes and debentures" (Schedule RC, data item 19) must be unsecured. However, amounts included in "Federal funds purchased (in

domestic offices)" (Schedule RC, data item 14.a) and "Other borrowings" (Schedule RC-M, data item 5.b) can be secured or unsecured, but this cannot be determined at present from the Call Report. This uncertainty adversely affects the agencies' assessment of banks' liquidity positions. Moreover, as a bank's condition deteriorates, it usually encounters increasing difficulty in rolling over existing unsecured debt or borrowing additional funds on an unsecured basis. When an institution fails, the relative volume of secured and unsecured borrowings directly influences the loss to the FDIC-administered deposit insurance fund.

Thus, to better understand the structure of banks' nondeposit liabilities and the effect of these liabilities on liquidity, the agencies are proposing to add two data items to Schedule RC-M in which banks would submit the secured portion of their "Federal funds purchased" and their "Other borrowings." At present, only about one fifth of all banks have purchased federal funds and the same percentage of institutions have other borrowings. The use of these funding sources increases in relation to bank size, with 15 percent of banks with less than $100 million in assets submitting federal funds purchased data and about 11 percent of such banks submitting other borrowings data. The respective percentages for these two types of liabilities increase to nearly 53 and 64 percent for banks with $1 billion or more in assets.

Banks would include in these data items the amount of "Federal funds purchased" and "Other borrowings" for which the bank (or a consolidated subsidiary) has pledged securities, loans, or other assets as collateral for the borrowings. Transfers of financial assets accounted for as financing transactions because they do not satisfy the criteria for sale accounting under FASB Statement No. 140, mortgages payable on bank premises and other real estate owned, and obligations under capitalized leases would be included as "Secured other borrowings."

Closed-End 1-4 Family Residential Mortgage Banking Activities – Mortgage banking activities, particularly those involving closed-end 1-4 family residential mortages, have become an increasingly important line of business for many banks. Mortgage banking revenues are a significant component of earnings for these institutions and have been critical to the recent record earnings achieved by the banking industry as a whole. The growth of the industry's mortgage banking activities also reflects the central role that securitization mechanisms now play in the mortgage market.

However, these activities and the revenues they generate can be quite volatile over the business and interest rate cycle. Furthermore, a bank's mortgage banking operations can raise significant management and supervisory concerns related to credit, liquidity, interest rate, and operational risk. Understanding the importance of mortgage banking activities to an institution's financial condition and risk profile requires information about the transactional flows associated with residential mortgages. In this regard, the Office of Thrift Supervision (OTS) has collected a large set of cash flow data on mortgage loan disbursements, purchases, and sales in the Thrift Financial Report (TFR) (Form 1313, OMB No. 1550-0023) for more than a decade.

After considering the OTS's reporting requirements as well as the types of information commonly disclosed by banking organizations with large mortgage banking operations, the agencies are proposing to add a new Schedule RC-P to the Call Report that would contain a series of data items that are focused on closed-end 1-4 family residential mortgage banking activities. The schedule would include data items for the principal amount of retail originations during the quarter of mortgage loans for resale, wholesale originations and purchases during the quarter of mortgage loans for resale, and mortgage loans sold during the quarter. The schedule would also collect information on the carrying amount of mortgage loans held for sale at quarter-end. Data would be submitted separately for first lien and junior lien mortgages.[3]

Schedule RC-P would be completed by (1) all banks with $1 billion or more in total assets[4] and (2) banks with less than $1 billion in total assets whose closed-end 1-4 family residential mortgage banking activities exceed a specified level. More specifically, if either closed-end (first lien and junior lien) 1-4 family residential mortgage loan originations and purchases for resale from all sources, loan sales, or quarter-end loans held for sale exceed $10 million for two consecutive quarters, a bank with less than $1 billion in total assets would complete Schedule RC-P beginning the second quarter and continue to complete the schedule through the end of the calendar year. For example, for a bank with less than $1 billion in total assets, if the bank's closed-end 1-4 family residential mortgage loan originations and purchases for resale from all sources exceeded $10 million during the quarter ended June 30, 2006, and the bank's sales of such loans exceeded $10 million during the quarter ended September 30, 2006, the bank would be required to complete Schedule RC-P in its September 30 and December 31, 2006, Call Reports. The level of the bank's mortgage banking activities during the fourth quarter of 2006 and the first quarter of 2007 would determine whether it would need to complete Schedule RC-P each quarter during 2007 beginning March 31, 2007.

Retail originations of closed-end 1-4 family residential mortgage loans for resale include those mortgage loans for which the origination and underwriting process was handled exclusively by the bank or a consolidated subsidiary of the bank. Therefore, retail originations would exclude those closed-end 1-4 family residential mortgage loans for which the origination and underwriting process was handled in whole or in part by another party, such as a correspondent or mortgage broker, even if the loan was closed in the name of the bank or a consolidated subsidiary of the bank. Such loans would be treated as wholesale originations or purchases, as would acquisitions of closed-end 1-4 family residential mortgage loans that were closed in the name of a party other than the bank or a consolidated subsidiary of the bank. Closed-end 1-4 family residential mortgage loans originated or purchased for the reporting bank's own loan portfolio would be excluded from amounts submitted as originations or purchases for resale in Schedule RC-P.

Closed-end 1-4 family residential mortgage loans sold during the quarter would include those transfers of loans originated or purchased for resale from retail or wholesale sources that have been accounted for as sales in accordance with FASB Statement No. 140, i.e., those transfers where the loans are no longer included in the bank's consolidated total assets. Sales of closed-end 1-4 family residential mortgage loans directly from the bank's loan portfolio during the quarter would also be submitted as loans sold.

Closed-end 1-4 family residential mortgage loans held for sale at quarter-end would be

3 As will be discussed in the following section, an additional data item on noninterest income earned during the quarter from these mortgage banking activities would be added to Schedule RC-P effective March 31, 2007.

4 The $1 billion asset size test is generally based on the total assets reported on the Call Report balance sheet (Schedule RC, data item 12) as of June 30 of the preceding year. Banks with $1 billion or more in total assets as of June 30, 2005, must complete Schedule RC-P beginning September 30, 2006.

reported at the lower of cost or fair value consistent with their presentation in the Call Report balance sheet. Such loans would include any mortgage loans transferred at any time from the bank's loan portfolio to a held-for-sale account that have not been sold by quarter-end.

Amounts Payable and Receivable on Credit Derivatives – As mentioned above, the volume of credit derivatives, as measured by their notional amount, has increased significantly at banks over the past several years. To gain a better understanding of the nature and trends of the credit derivatives activities that are concentrated in a small number of large banks, the agencies are proposing to expand the information they collect. Banks with credit derivatives currently submit the notional amount and fair value of these instruments in data item 7 of Schedule RC-L, "Derivatives and Off-Balance Sheet Instruments." The agencies would add new data items 7.c.(1) and (2) to Schedule RC-L to collect information on the maximum amounts that the reporting bank can collect or must pay on the credit derivatives it has entered into effective as of the September 30, 2006, report date.

Other Revisions

Officer and Director Signature Requirements – Statutory requirements specify that the Call Report must be signed by an authorized officer of the bank and attested to by not less than two directors (trustees) for state nonmember banks and three directors for national and state member banks. These statutes further require that, in signing the Call Report, the officer and directors address the correctness of the submitted information. The statutes also recognize that banks are responsible for maintaining procedures to ensure the accuracy of this information.

Effective September 30, 2006, the agencies would revise the existing officer signature requirement so that the Call Report must be signed by the bank's chief financial officer (or the individual performing an equivalent function) rather than by any authorized officer of the bank. In signing the Reports of Condition and Income, the chief financial officer would attest that the reporting forms have been prepared in conformance with the instructions and are true and correct to the best of the officer's knowledge and belief. The requirement for signatures by directors would not be changed.

The introductory paragraph preceding the statements concerning the preparation of the Call Report that must be signed by the chief financial officer and two or three directors would note that each bank's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Reports of Condition and Income. (This language concerning internal control would not appear within the statements to be signed by the chief financial officer and the directors.) Similar references to the responsibility of the board and senior management for the internal control system are contained in the agencies' March 2003 Interagency Policy Statement on the Internal Audit Function and Its Outsourcing. Internal control and its relationship to timely and accurate regulatory reporting forms are also addressed in the Interagency Guidelines Establishing Standards for Safety and Soundness.

Call Report Revisions to be Implemented March 31, 2007, and March 31, 2008

Revisions of Existing Data Items and New Data Items

Construction, Land Development, and Other Land Loans (CLD&OL) – Construction, land development, and other land lending are highly specialized activities with inherent risks that must be managed and controlled to ensure that these activities remain profitable. Management's ability to identify, measure, monitor, and control the risks from these types of loans through effective underwriting policies, systems, and internal controls is crucial to a sound lending program. In areas of the country that experience high levels of construction activity and an extremely competitive lending environment, these factors often lead to thinner profit margins on CLD&OL loans and looser underwriting standards. Moreover, the risk profiles, including loss rates, of CLD&OL loans vary across loan types because of differences in such factors as underwriting and repayment source. The agencies' real estate lending standards recognize these differences in risk, for example, by setting higher supervisory loan-to-value limits for 1-4 family residential construction loans than for other construction loans.

The agencies have seen substantial growth in the volume of CLD&OL loans in recent years. At commercial banks and state-chartered savings banks, these loans grew more rapidly than loan portfolios as a whole during 2003 and 2004. The faster growth in CLD&OL lending than overall lending occurred each year not only for institutions as a whole, but also for banks with less than $100 million in assets, banks with $100 million to $1 billion in assets, and for banks with more than $1 billion in assets. At year-end 2004, banks' CLD&OL loans totaled more than $300 billion, up nearly 40 percent from their level of $217 billion two years earlier. In addition, at banks with less than $100 million in assets, CLD&OL loans were a higher percentage of total loans and leases at year-end 2004 (7 percent) than at banks with more than $1 billion in assets (less than 5 percent). Nearly 88 percent of all banks submitted holding CLD&OL loans at year-end 2004, including almost 79 percent of banks with less than $100 million in assets and more than 91 percent of banks with more than $1 billion in assets.

In the TFR that the OTS collects from the savings associations under its supervision, these institutions are required to submit the amount of construction loans for 1-4 family residential properties separately from other construction loans. Charge-offs and recoveries on 1-4 family residential property construction loans are also submitted separately from other construction loan charge-offs and recoveries in the TFR. The National Association of Home Builders (NAHB), in letters submitted to the agencies in January 2003 and May 2005 in response to the agencies' requests for comment on past proposed revisions to the Call Report, has requested that the agencies "consider itemizing the construction and land development lending data that are currently aggregated" to distinguish between different types of construction loans. The NAHB noted that their analysis of TFR data on construction loans revealed that residential construction loans "perform much better than most other real estate loans" and expressed concern that the "current lack of credible activity and performance data" on construction lending in the Call Report "impedes the Agencies' ability to accurately evaluate the level of risk associated with such activities."

The agencies agree with the NAHB that it would be beneficial to improve their ability to monitor the construction lending activities of individual banks and the industry as a whole by obtaining separate data on 1-4 family residential CLD&OL loans and all other CLD&OL loans, particularly in light of the substantial growth in this type of lending by banks. Such information would also enable the agencies to identify institutions that significantly shift from 1-4 family residential construction lending to other construction lending, and vice versa, and to identify when institutions that had been solely 1-4 family residential construction lenders move into other types of construction lending.

Therefore, the agencies are proposing to split the existing data item for “Construction, land development, and other land loans” in the loan schedule (Schedule RC-C, part I, data item 1.a), the past due and nonaccrual schedule (Schedule RC-N, data item 1.a), and the charge-offs and recoveries schedule (Schedule RI-B, part I, data item 1.a) into separate data items for “1-4 family residential construction, land development, and other land loans” and “Other construction, land development, and other land loans.” In addition, the agencies would similarly split the data item for “Commitments to fund commercial real estate, construction, and land development loans secured by real estate” in the off-balance sheet schedule (Schedule RC-L, data item 1.c.(1)) into two data items.

These changes would take effect March 31, 2007, for (1) all banks with $300 million or more in total assets as of December 31, 2005, or with foreign offices, and (2) banks without foreign offices and with less than $300 million in total assets whose total construction, multifamily, and nonfarm nonresidential real estate loans (Schedule RC-C, sum of data items 1.a, 1.d, and 1.e) is greater than 150 percent of total equity capital (Schedule RC, data item 28) as of December 31, 2005. Banks with less than $300 million in total assets that do not meet this percentage test would begin submitting the breakdown of their construction loans as of March 31, 2008.

“1-4 family residential construction loans” are those loans that are currently submitted in Schedule RC-C, data item 1.a, for the purpose of constructing 1-4 family residential properties, which will secure the loan. The term “1-4 family residential properties” is defined in Schedule RC-C, data item 1.c. “1-4 family residential construction loans” include:

- Construction loans to developers secured by tracts of land on which 1-4 family residential properties, including townhouses, are being constructed.
- Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed.
- Construction loans secured by single-family dwelling units in detached or semidetached structures, including manufactured housing.
- Construction loans secured by duplex units and townhouses, excluding garden apartment projects where the total number of units that will secure the permanent mortgage is greater than four.
- Combination land and construction loans on 1-4 family residential properties, regardless of the current stage of construction or development.
- Combination construction-permanent loans on 1-4 family residential properties until construction is completed or principal amortization payments begin, whichever comes first.
- Bridge loans to developers on 1-4 family residential properties where the buyer will not assume the same loan, even if construction is completed or principal amortization payments have begun.

“1-4 family residential construction loans” exclude loans for the development of building lots and loans secured by vacant land, unless the same loan finances the construction of 1-4 family residential properties on the property.

<u>Loans Secured by Nonfarm Nonresidential Properties</u> – Loans secured by nonfarm nonresidential properties (commercial real estate loans) include loans made to the occupants of such properties and

loans to non-occupant investors. These two types of commercial real estate loans present different risk profiles. Loans secured by owner-occupied properties perform more like commercial and industrial loans because the success of the occupant's business is the primary source of repayment. To ensure repayment of loans to non-occupant investors, the property must generate sufficient cash flow from the parties who are the occupants.

The volume of commercial real estate loans at banks has also increased significantly in recent years. As with CLD&OL loans, commercial real estate loans grew more rapidly than loan portfolios as a whole at commercial banks and state-chartered savings banks during 2003 and 2004, both for the industry as a whole and for small, medium, and large banks. At year-end 2004, banks' commercial real estate loans stood at nearly $700 billion, a jump of 20 percent from the $584 billion in such loans at year-end 2002. The $700 billion in commercial real estate loans represented almost 14 percent of loans at all commercial banks and state-chartered savings banks at year-end 2004, but such loans were 19 percent of loans at banks with less than $100 million in assets versus 11 percent of loans at banks with more than $1 billion in assets. Almost all banks hold commercial real estate loans, including 96 percent of banks with less than $100 million in assets and 93 percent of banks with more than $1 billion in assets.

Because of the significant and growing level of bank involvement in commercial real estate lending and the different risk characteristics of owner-occupied and other commercial properties, separate reporting of these two categories of commercial real estate would enhance the agencies' monitoring and risk-scoping capabilities. The agencies propose to split the existing data item for loans "Secured by nonfarm nonresidential properties" in the loan schedule (Schedule RC-C, part I, data item 1.e), the past due and nonaccrual schedule (Schedule RC-N, data item 1.e), and the charge-offs and recoveries schedule (Schedule RI-B, part I, data item 1.e) into separate data items for loans secured by owner-occupied nonfarm nonresidential properties and loans secured by other nonfarm nonresidential properties.

As with the changes for construction loans above, the changes for nonfarm nonresidential real estate loans would take effect March 31, 2007, for (1) all banks with $300 million or more in total assets as of December 31, 2005, or with foreign offices, and (2) banks without foreign offices and with less than $300 million in total assets whose total construction, multifamily, and nonfarm nonresidential real estate loans (Schedule RC-C, sum of data items 1.a, 1.d, and 1.e) is greater than 150 percent of total equity capital (Schedule RC, data item 28) as of December 31, 2005. Banks with less than $300 million in total assets that do not meet this percentage test would begin submitting the breakdown of their nonfarm nonresidential real estate loans as of March 31, 2008.

"Loans secured by other nonfarm nonresidential properties" are those loans that are currently submitted in Schedule RC-C, data item 1.e, where the primary or a significant source of repayment is derived from rental income associated with the property (i.e., loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Thus, the primary or a significant source of repayment for "Loans secured by owner-occupied nonfarm nonresidential properties" is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property, rather than from third party, nonaffiliated, rental income or the proceeds of the sale, refinancing, or permanent financing of the property. The determination as to whether a property is considered "owner-occupied" would be made upon acquisition (origination or purchase) of the loan. However, for purposes of determining whether existing nonfarm nonresidential real estate loans would be submitted as "owner-occupied" beginning March 31, 2007, or 2008, banks may consider the source of repayment either when the loan was acquired or based on the most recent available information. Once a bank determines whether a loan would be submitted as "owner-occupied" or not, this determination need not be reviewed thereafter.

Retail and Commercial Leases – Banks with foreign offices or with $300 million or more in total assets currently submit a breakdown of their lease financing receivables between those from U.S. and non-U.S. addressees in the loan schedule (Schedule RC-C, part I, data items 10.a and 10.b). Addressee information on leases is also submitted in the past due and nonaccrual schedule (Schedule RC-N, data item 8 on the FFIEC 031 and Memorandum data item 3.d on the FFIEC 041) and on the charge-offs and recoveries schedule (Schedule RI-B, part I, data item 8 on the FFIEC 031 and Memorandum data item 2.d on the FFIEC 041).[5] Because banks lease various types of property to various types of customers, the current addressee breakdown, in which only a limited number of banks report having leases to non-U.S. addressees, does not provide satisfactory risk-related information about this type of financing activity. When submitting information on their loans that are not secured by real estate in the Call Report loan schedule and related schedules, banks distinguish, for example, between consumer (retail) loans and commercial loans. As with retail and commercial loans, there are differences between the underwriting of and repayment sources for retail and commercial leases.

The agencies believe that the different risk characteristics of these two types of leases warrant replacing the existing addressee breakdown of leases with a retail versus commercial lease breakdown in the Call Report schedules for loans and leases, past due and nonaccrual assets, and charge-offs and recoveries. Retail (consumer) leases would be defined in a manner similar to consumer loans, i.e., as leases to individuals for household, family, and other personal expenditures. Commercial leases would encompass all other lease financing receivables. This proposed reporting change would affect only the approximately 500 banks with foreign offices or with $300 million or more in total assets that have lease financing receivables as assets.

Income from Annuity Sales, Investment Banking, Advisory, Brokerage, and Underwriting – In the Call Report income statement (Schedule RI), banks currently submit commissions and fees from sales of annuities (fixed, variable, and deferred) and related referral and management fees in one of three data items: income from sales of annuities by a bank's trust department (or a consolidated trust company subsidiary) that are executed in a fiduciary capacity is submitted in "Income from fiduciary activities" (Schedule RI, data item 5.a); income from sales of annuities to bank customers by a bank's securities brokerage subsidiary is submitted in "Investment banking, advisory, brokerage, and underwriting fees and commissions" (Schedule RI, data item 5.d); and income from all other annuity sales is submitted in "Income from other insurance activities" (Schedule RI, data item 5.h.(2)). Existing data item 5.d also collects the amount of noninterest income from a variety of other activities.

To better distinguish between banks' noninterest income investment banking (dealer) activities and their sales (brokerage) activities, the agencies propose to revise the noninterest income

5 Banks with domestic offices only and less than $300 million in total assets are not required to provide this breakdown in Schedules RC-C, RC-N, and RI-B.

section of the Call Report income statement effective March 31, 2007. A new data item would be added for "Fees and commissions from annuity sales," which would include income from sales of annuities and related referral and management fees (other than income from sales by a bank's trust department or a consolidated trust company subsidiary executed in a fiduciary capacity, which would continue to be submitted in Schedule RI, data item 5.a). Existing data item 5.d would be replaced by separate data items "Fees and commissions from securities brokerage" and "Investment banking, advisory, and underwriting fees and commissions." Securities brokerage income would include fees and commissions from sales of mutual funds and from purchases and sales of other securities and money market instruments for customers (including other banks) where the bank is acting as agent. Other than moving annuity-related income to the new data item for such income, there would be no other changes to the existing data item 5.h.(2), "Income from other insurance activities." In connection with these changes, the data items in the noninterest income section of the Call Report income statement (Schedule RI) would be renumbered. The change to existing data item 5.d and the change to existing data item 5.h.(2) should each affect no more than 25 percent of all banks.

<u>Income from Closed-End 1-4 Family Residential Mortgage Banking Activities</u> – As discussed above in the revisions to be implemented September 30, 2006, new Schedule RC-P would be completed by (1) all banks with \$1 billion or more in total assets and (2) banks with less than \$1 billion in total assets whose residential mortgage activities exceed a specified level. Effective March 31, 2007, another data item would be added to Schedule RC-P in which those banks that must complete this schedule would submit data on noninterest income generated from these mortgage banking activities. New data item 5 of Schedule RC-P, "Noninterest income for the quarter from the sale, securitization, and servicing of closed-end 1-4 family residential mortgage loans," would capture the portion of a bank's "Net servicing fees," "Net securitization income," and "Net gains (losses) on sales of loans and leases" (current data items 5.f, 5.g, and 5.i of Schedule RI) earned during the quarter that is attributable to closed-end 1-4 family residential mortgage loans.

<u>Revenues from Credit Derivatives and Related Exposures</u> – The justification for additional data items on credit derivatives is discussed above. In Schedule RI, Memorandum data item 8, banks that submitted average trading assets of \$2 million or more for any quarter of the preceding calendar year currently provide a four-way breakdown of trading revenue by type of risk exposure: interest rate, foreign exchange, equity, and commodity. Although banks also trade credit derivatives and credit cash instruments, there is no specific existing category in which to submit the revenue from these trading activities. Accordingly, the agencies would add a new risk exposure category for credit-related exposures effective March 31, 2007. In this new Memorandum data item 8.e, a bank would submit its net gains (losses) from trading cash instruments and derivative contracts that it manages as credit exposures. The sum of Memorandum data items 8.a through 8.e must equal the amount of trading revenue submitted in the Call Report income statement in Schedule RI, data item 5.c. This information would address the current weakness in the reporting of trading revenue, but, more importantly, it would enable the agencies to begin to identify the extent to which credit derivatives held for trading purposes contribute to a bank's trading revenue each period and over time.

The agencies would also add new Memorandum data items 9.a and 9.b to Schedule RI, "Income Statement," as of March 31, 2007, in which banks must submit the net gains (losses) recognized in earnings on credit derivatives that economically hedge credit exposures held outside the trading account, regardless of whether the credit derivative is designated as and qualifies as a hedging instrument under generally accepted accounting principles. Credit exposures held outside the trading account include, for example, nontrading assets (such as available-for-sale securities and loans held for investment) and unused lines of credit. Banks would submit such net gains (losses) on credit derivatives held for trading in Memorandum data item 9.a and on credit derivatives held for purposes other than trading in Memorandum data item 9.b. Thus, those net gains (losses) on credit derivatives submitted in Schedule RI, Memorandum data item 9.a, would also have been included in the amount submitted in new Memorandum data item 8.e of Schedule RI.

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 thirty calendar days following the as-of date; a ten-day extension may be given to banks with more than one foreign office.[6]

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. The information is provided in the form of magnetic tapes or hard copy facsimiles of the material on file.

Legal Status

The Board's Legal Division has determined that Section 9(6) 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 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) and (8)]. Finally, Column A and Memorandum data 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) and (8)] for periods prior to March 31, 2001.

Consultation Outside the Agency

There has been no consultation outside the agencies.

Estimate of Respondent Burden

The Federal Reserve estimates that the proposed revisions would decrease the estimated annual burden by 6,228 hours. This proposal would add several new data items to the Call Report,

[6] The extension for banks with more than one foreign office will change to five days effective June 30, 2006. This change was approved several years ago.

revise certain existing data items, eliminate a limited number of data items, and remove the burden hours associated with testing and enrollment in the new CDR system, which had been added to the Call Report burden estimate in 2004, because these CDR activities were completed.

Since the reduction in burden related to the CDR activities (average of 4.01 hours per response) exceeds the net increase in burden associated with the proposed revisions to the content of the Call Report (average of 2.32 hours per response), the proposal as a whole would produce a net decrease in reporting burden for banks of all sizes (average of 1.69 hours per response). Nevertheless, the proposed new data items and revisions of existing data items, taken together, would have an effect on all banks. The Federal Reserve estimates the total proposed annual reporting burden for state member banks to be 186,321 hours, as shown below. This burden represents 3.8 percent of the total Federal Reserve paperwork burden.

	Number of Respondents	*Annual Frequency*	*Estimated Average Hours Per Response*	*Estimated Annual Burden Hours*
Current	919	4	52.38	192,549
Proposed	919	4	50.69	186,321
Change				-6,228

Based on an average hourly cost of $55, the total cost to state member banks is estimated to be $10,247,655 annually. 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.

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 Report are estimated to be $1,330,506 per year. This amount includes the routine annual costs of personnel, printing, and computer processing, as well as internal software development costs for maintaining and modifying existing operating programs used to edit and validate submitted data. With the revisions the estimated costs would decrease by 3 percent to $1,288,415 per year. The one-time costs to implement the revised reporting forms are estimated to be $186,500.