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

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to 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 183,787 hours; the proposed revisions are estimated to increase the annual burden to 184,692 hours.

The Board, FDIC, and OCC (agencies) propose (1) to replace certain information submitted for deposit insurance assessment purposes with the information described in amendments to Part 327 of the FDIC's regulations, (2) to revise the information on time deposits, (3) to collect certain data on fair value measurements from those institutions that choose, under generally accepted accounting principles, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities and from certain institutions that submit data on trading assets and liabilities, (4) to add a data item to capture the change in the fair value of liabilities under the fair value option that is attributable to a change in a bank's own creditworthiness for purposes of measuring a bank's regulatory capital, (5) to add certain data items on 1-4 family residential mortgages with terms that allow for negative amortization, and (6) to clarify the instructions for assets serviced for others by explicitly stating that such servicing includes the servicing of loan participations.

These proposed revisions to the Call Reports, which have been approved for publication by the FFIEC and are discussed in more detail below, would take effect as of March 31, 2007, and, for certain deposit insurance assessment revisions, 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 Reports. For example, the Federal Reserve collects various data in connection with its measurement of monetary aggregates, of bank credit, and of flow of funds. Reporting banks supply the Federal Reserve with detailed information relating to such balance sheet accounts as balances due from depository institutions, loans, and deposit liabilities. The Federal Reserve also collects financial data from bank holding companies on a regular basis. Such data are presented for the holding company on a consolidated basis, including its banking and nonbanking subsidiaries, and on a parent company only basis.

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

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

Proposed Revisions

Deposit Insurance Assessment Data

On May 18, 2006, the FDIC issued proposed amendments to Part 327 of its regulations, Assessments, under which the FDIC's computation of deposit insurance assessments for certain institutions would be determined using daily averages for deposits rather than quarter-end balances. On November 30, 2006, the FDIC published a final rule amending Part 327 of its regulations largely as proposed on May 18. In conjunction with these amendments, the agencies are proposing to revise and reduce the overall reporting requirements related to deposit insurance assessments in both the Call Reports in order to simplify regulatory reporting. Key elements of the proposed revised reporting requirements are:

- Institutions would separately submit (a) gross deposits as defined in Section 3(l) of the Federal Deposit Insurance Act (FDI Act) (12 U.S.C. 1813(l)) before any allowable exclusions and (b) allowable exclusions;
- The same data items would be submitted for both quarter-end and daily average deposits;
- All institutions would submit using quarter-end deposits and allowable exclusions; and
- All institutions with $1 billion or more in assets, and other institutions that meet specified criteria, would also submit daily averages for deposits and allowable exclusions in addition to quarter-end amounts.

The proposal would provide an interim period covering the March 31, 2007, through December 31, 2007, report dates during which institutions can submit Call Reports using either the current or revised formats for submitting data for measuring their assessment base. An institution that chooses to begin submitting under the revised format in any quarter during the interim period must continue to submit under the revised format through the rest of the interim period and may not revert back to the current reporting format. The revised reporting format would take effect for all institutions on March 31, 2008, at which time the current format would be eliminated. Although no institution that chooses to submit under the revised format during the 2007 interim period would be required to submit daily averages during this period, any institution may elect to submit daily averages as of any quarter-end report date in 2007. However, once an institution begins to submit daily averages (even during the interim period), it must continue to submit daily averages each quarter thereafter in its Call Report.

Currently, the assessment base definition as detailed in 12 CFR 327.5 of the FDIC's regulations has been driven by the agencies' regulatory reporting requirements. Therefore, as the reporting requirements for deposits in the Call Reports changed over time, the regulatory definition of the assessment base required periodic updates. As a result of the Federal Deposit Insurance Reform Act, the FDIC has proposed to revise the definition of the assessment base within its regulations to be consistent with Section 3(l) of the FDI Act. This would eliminate the need for periodic updates to the FDIC's assessment regulations in response to outside factors and allow a simplification of the associated reporting requirements. In addition, to address timing issues with quarter-end reporting, the FDIC would use daily average deposits and exclusions over the quarter instead of quarter-end totals for deposits and exclusions to compute the assessment base for institutions with $1 billion or more in assets and other institutions who meet specified criteria, which are discussed below. Any institution that reports less than $1 billion in assets and does not meet the other specified criteria may opt permanently to determine its assessment base using daily averages.

At present, twenty-three data items are required in the Call Reports to determine a bank's assessment base. The agencies are proposing changes to the way the assessment base is reported that would effectively reduce the number of submitted data items to as few as two for certain small institutions (without foreign offices) and no more than six for other institutions. Specifically, the agencies are proposing to replace data items 1 through 12 (including their subitems) on Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, with the following six data items:

- Total Deposit Liabilities before exclusions (gross) as defined in Section 3(l) of the FDI Act and FDIC regulations;
- Total Allowable Exclusions (including Foreign Deposits);
- Total Foreign Deposits (included in Total Allowable Exclusions);
- Total Daily Average of Deposit Liabilities before exclusions (gross) as Defined in Section 3(l) of the FDI Act and FDIC regulations;
- Total Daily Average of Allowable Exclusions (including Foreign Deposits);
- Total Daily Average of Foreign Deposits (included in Total Daily Average Allowable Exclusions).

Thus, instead of starting with deposits as submitted on the balance sheet of the Call Reports and making adjustments to these submitted deposits for purposes of measuring an institution's assessment base, which is the present method, the computation of the institution's assessment base under the proposed amendments to the FDIC's assessment regulations and these proposed regulatory reporting revisions would start with the gross total deposit liabilities that meet the statutory definition of deposits in Section 3(l) of the FDI Act before any allowable exclusions from the definition. The allowable exclusions, which are set forth in Section 3(l)(5) and other sections of the FDI Act and in the FDIC's regulations, include foreign deposits (including International Banking Facility deposits) and other deposits described below. As the next step in the assessment base calculation, an institution would submit the total amount of all allowable exclusions from the statutory definition of deposits (with separate disclosure of foreign deposits, if any). Total Deposit Liabilities as Defined in Section 3(l) of the FDI Act before Exclusions minus Total Allowable Exclusions would be the institution's Assessment Base. As previously stated, the computation would use either quarter-end balances or daily averages.

The net amount of unposted debits and credits would now not be considered within the definition of the assessment base. For institutions that submit daily averages, these debits and credits are captured in the next day's deposits and thus are reflected in the averages. For consistency and because they should not materially affect assessment bases, unposted debits and credits would also not be considered for institutions that only submit quarter-end balances.

The agencies believe that the amount of gross total deposit liabilities that meet the statutory definition of deposits is typically found in and supported by the control totals in an institution's deposit systems that provide the detail sufficient to track, control, and handle inquiries from depositors about their specific individual accounts. These deposit systems can be automated or manual. In any case, control totals for deposit liabilities should be readily available, which should ease an institution's transition to the revised regulatory reporting requirements. Compared to the amount of information that an institution currently submits in order to determine its assessment base, the proposed changes to the reporting requirements should also facilitate the submission of daily averages for deposits and allowable exclusions since many of the presently submitted adjustments would not need to be tracked and averaged separately.

Section 3(l) of the FDI Act states that the term deposit means

(1) the unpaid balance of money or its equivalent received or held by a bank or savings association in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar name, or a check or draft drawn against a deposit account and certified by the bank or savings association, or a letter of credit or a traveler's check on which the bank or savings association is primarily liable: *Provided*, That, without limiting the generality of the term "money or its equivalent", any such account or instrument must be regarded as evidencing the receipt of the equivalent of money when credited or issued in exchange for checks or drafts or for a promissory note upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank or savings association for collection,

(2) trust funds as defined in this Act received or held by such bank or savings association, whether held in the trust department or held or deposited in any other department of such bank or savings association,

(3) money received or held by a bank or savings association, or the credit given for money or its equivalent received or held by a bank or savings association, in the usual course of business for a special or specific purpose, regardless of the legal relationship thereby established, including without being limited to, escrow funds, funds held as security for an obligation due to the bank or savings association or others (including funds held as dealers reserves) or for securities loaned by the bank or savings association, funds deposited by a debtor to meet maturing obligations, funds deposited as advance payment on subscriptions to United States Government securities, funds held for distribution or purchase of securities, funds held to meet its acceptances or letters of credit, and withheld

taxes: *Provided*, That there shall not be included funds which are received by the bank or savings association for immediate application to the reduction of an indebtedness to the receiving bank or savings association, or under condition that the receipt thereof immediately reduces or extinguishes such an indebtedness,

(4) outstanding draft (including advice or authorization to charge a bank's or a savings association's balance in another bank or savings association), cashier's check, money order, or other officer's check issued in the usual course of business for any purpose, including without being limited to those issued in payment for services, dividends, or purchases, and

(5) such other obligations of a bank or savings association as the Board of Directors, after consultation with the Comptroller of the Currency, Director of the Office of Thrift Supervision, and the Board of Governors of the Federal Reserve System, shall find and prescribe by regulation to be deposit liabilities by general usage, except that the following shall not be a deposit for any of the purposes of this Act or be included as part of the total deposits or of an insured deposit:
(A) any obligation of a depository institution which is carried on the books and records of an office of such bank or savings association located outside of any State,unless--
(i) such obligation would be a deposit if it were carried on the books and records of the depository institution, and would be payable at, an office located in any State;and
(ii) the contract evidencing the obligation provides by express terms, and not by implication, for payment at an office of the depository institution located in any State;
(B) any international banking facility deposit, including an international banking facility time deposit, as such term is from time to time defined by the Board of Governors of the Federal Reserve System in regulation D or any successor regulation issued by the Board of Governors of the Federal Reserve System; and
(C) any liability of an insured depository institution that arises under an annuity contract, the income of which is tax deferred under section 72 of the Internal Revenue Code of 1986.

The total amount of allowable exclusions from the assessment base would be submitted separately for any institution that maintains such records as would readily permit verification of the correctness of its assessment base. These exclusions include:

- *Foreign deposits:* The obligations described in subparagraphs (A) and (B) of Section 3(l)(5) of the FDI Act, quoted above, which generally relate to foreign deposits.
- *Reciprocal balances*: Any demand deposit due from or cash item in the process of collection due from any depository institution (not including a foreign bank or foreign office of another U.S. depository institution) up to the total of the amount of deposit balances due to cash and cash items in the process of collection due such depository institution.
- *Drafts drawn on other depository institutions*: Any outstanding drafts (including advices and authorization to charge the depository institution's balance in another bank) drawn in the regular course of business by the reporting depository institution.
- *Pass-through reserve balances*: Reserve balances passed through to the Federal Reserve

by the reporting institution that are also reflected as deposit liabilities of the reporting institution. This is not applicable to an institution that does not act as a correspondent institution in any pass-through reserve balance relationship. An institution that is not a member of the Federal Reserve System generally cannot act as a pass-through correspondent unless it maintains an account for its own reserve balances directly with the Federal Reserve.

- *Depository institution investment contracts*: Liabilities arising from depository institution investment contracts that are not treated as insured deposits under section 11(a)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(5)). A Depository Institution Investment Contract is a separately negotiated depository agreement between an employee benefit plan and an insured depository institution that guarantees a specified rate for all deposits made over a prescribed period and expressly permits benefit-responsive withdrawals or transfers.
- *Deposits accumulated for the payment of personal loans*: Deposits which are accumulated for the payment of personal loans and are assigned or pledged to assure payment of loans at maturity.

In addition to quarter-end balance reporting, institutions that meet certain criteria would be required to submit average daily deposit liabilities and average daily allowable exclusions to determine their assessment base effective March 31, 2008. The amounts to be submitted would be averages of the balances as of the close of business for each day for the calendar quarter. For days that an office of the reporting institution (or any of its subsidiaries or branches) is closed (e.g., Saturdays, Sundays, or holidays), the amounts outstanding from the previous business day would be used. An office is considered closed if there are no transactions posted to the general ledger as of that date.

The requirement for an institution to submit daily averages would apply to any institution that:

(1) Submits $1 billion or more in total assets in its March 31, 2007, Call Report. The institution would be required to submit daily averages beginning in its March 31, 2008, Call Report.

(2) Submits $1 billion or more in total assets in two consecutive Call Reports beginning with its June 30, 2007, report. The institution would be required to submit daily averages in its Call Report beginning March 31, 2008, or on the report date six months after the second consecutive quarter in which it submitted $1 billion or more in total assets, whichever is later. For example, if an institution submitted $1 billion or more in total assets in its reports for June 30 and September 30, 2007, it would begin to submit daily averages in its report for March 31, 2008. If the institution submitted $1 billion or more in total assets in its reports for December 31, 2007, and March 31, 2008, it would begin to submit daily averages in its report for September 30, 2008.

(3) Becomes newly insured after April 1, 2008. The institution would be required to submit daily averages in its Call Report beginning on the first report date after becoming insured. If daily averages are submitted in the first Call Report the institution files after becoming insured, the daily averages would include only the dollar amounts for the days since the institution began operations.

After an institution has begun to submit daily averages for its total deposits and allowable exclusions, either voluntarily or because it is required to do so, the institution cannot switch back to submitting only quarter-end balances.

An insured depository institution reporting less than $1 billion in total assets in its March 31, 2007, Call Report may continue to determine its assessment base using quarter-end balances until it meets one of the requirements for submitting daily averages described above. Alternatively, the institution may opt permanently to determine its assessment base using daily averages.

Time Deposits Data

The Federal Reserve uses data from Call Reports Schedule RC-E, Deposit Liabilities, to ensure accurate construction of the monetary aggregates for monetary policy purposes.[1] In order to more accurately calculate the monetary aggregates, the agencies propose to revise two Schedule RC-E data items, Memorandum items 2.b, Total time deposits of less than $100,000, and 2.c, Total time deposits of $100,000 or more, and add a new Memorandum item 2.c.(1) to this schedule.

In Schedule RC-E, Memorandum item 2.b would be revised to include brokered time deposits issued in denominations of $100,000 or more that are participated out by the broker in shares of less than $100,000 as well as brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit (when information on the number of $1,000 amounts held by each of the broker's customers is not readily available to the bank). Memorandum item 2.c would be revised to exclude such brokered time deposits. In addition, as a result of the increase in the deposit insurance limit for certain retirement plan deposit accounts from $100,000 to $250,000 earlier this year, a new Memorandum item 2.c.(1) would be added to Schedule RC-E to separately identify the portion of the total time deposits of $100,000 or more submitted in Memorandum item 2.c that represents IRA and Keogh Plan accounts.

Fair Value Measurements and the Use of the Fair Value Option

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for banks and other entities for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the bank has not yet issued a financial statement or filed a Call Report for any period of that fiscal year. Thus, a bank with a calendar year fiscal year may voluntarily adopt FAS 157 as of January 1, 2007. The fair value measurements standard provides guidance on how to measure fair value and would require banks and other entities to disclose the inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are remeasured at fair value on a recurring basis.[2]

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1 In order to calculate the money stock measure M2, the Federal Reserve takes M1 (which consists of currency held by the public, traveler's checks, demand deposits, and other checkable deposits) and adds (1) savings deposits, (2) small-denomination time deposits (time deposits in amounts of less than $100,000) less Individual Retirement Account (IRA) and Keogh balances at depository institutions, and (3) balances in retail money market mutual funds, less IRA and Keogh balances at money market mutual funds.

2 The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting bank has the ability to access at the measurement date (e.g., the Call Report date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The FASB plans to issue a final standard, *The Fair Value Option for Financial Assets and Financial Liabilities*, in the first quarter of 2007, which would be effective for banks and other entities for fiscal years beginning after November 15, 2007. The FASB has tentatively decided to permit an entity to early adopt the final fair value option standard provided that the entity also adopts all of the requirements (measurement and disclosure) of FAS 157 concurrent with or prior to the early adoption of the final fair value option standard. Furthermore, the FASB would permit early adoption of the final fair value option standard within 120 days of the beginning of the entity's fiscal year, thereby making the fair value option election retroactive to the beginning of that fiscal year (or the date of initial recognition, if later) provided that the entity has not yet issued any financial statements for that fiscal year. Thus, a bank with a calendar year fiscal year that voluntarily adopts FAS 157 as of January 1, 2007, would also be able to adopt the final fair value option standard as of that same date. The FASB's Fair Value Option standard would allow banks and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. The agencies anticipate that relatively few banks will elect to use the fair value option for a significant portion of their financial assets and liabilities.

The agencies plan to clarify the Call Report instructions to explain where financial assets and liabilities measured under the fair value option should be submitted in the existing data items of the Call Reports. The agencies are also proposing to add a new Schedule RC-Q to the Call Reports to collect data, by major asset and liability category, on the amount of assets and liabilities to which the fair value option has been applied along with separate disclosure of the amount of such assets and liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hiearchy. The categories are:

- Securities held for purposes other than trading with changes in fair value reported in current earnings;
- Loans and leases;
- All other financial assets and servicing assets;
- Deposit liabilities;
- All other financial liabilities and servicing liabilities; and
- Loan commitments (not accounted for as derivatives).

In addition, the agencies propose to collect data on trading assets and trading liabilities in the new schedule from those banks that complete Schedule RC-D, Trading Assets and Liabilities, i.e., banks that reported average trading assets of $2 million or more for any quarter of the preceding calendar year. In the proposed new schedule, such banks would submit the carrying amount of trading assets and trading liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hierarchy. Trading assets and trading liabilities are required to be submitted at fair value and, thus, are not covered under the fair value option.

The agencies anticipate using this fair value information to make appropriate risk assessments for on-site examinations and off-site surveillance. The addition of these data items should result in minimal additional reporting burden for banks because FAS 157 requires disclosure of amounts under all three levels of the fair value hierarchy on a quarterly and annual basis in financial statements.

The FASB's fair value measurements standard requires banks and other entities to consider the effect of a change in their own creditworthiness when determining the fair value of a financial liability. The agencies are proposing to add one new data item to Schedule RC-R, Regulatory Capital, for the cumulative change in the fair value of all financial liabilities accounted for under the fair value option that is attributable to changes in the bank's own creditworthiness. This amount would be deducted from the bank's retained earnings for purposes of determining Tier 1 capital under the agencies' regulatory capital standards.

The agencies plan to clarify the instructions to Schedule RI for the treatment of interest income on financial assets and interest expense on financial liabilities measured under a fair value option. The instructions would be modified to instruct banks to separate the contractual year-to-date amount of interest earned on financial assets and interest incurred on financial liabilities that are reported under a fair value option from the overall year-to-date fair value adjustment and submit these contractual amounts in the appropriate interest income or interest expense data items on Schedule RI.

Once the FASB issues its final fair value option standard, only if banks are permitted to adopt this standard in the first quarter of 2007 for other financial reporting purposes would the fair value option reporting requirements in the Call Reports take effect as of March 31, 2007. Otherwise, these reporting requirements would be delayed until banks can elect the fair value option for other financial reporting purposes. Additionally, because the FASB's fair value measurements standard requires the effect of a change in own creditworthiness to be considered when determining the fair value of all financial liabilities, the new Schedule RC-R data item would cover the cumulative change in the fair value of all financial liabilities accounted for at fair value through earnings that is attributable to changes in own creditworthiness.

1-4 Family Residential Mortgage Loans with Terms that Allow for Negative Amortization

Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. However, due to the classification of these loans with all other 1-4 family residential mortgage loans in the Call Reports, the agencies have no readily available means of identifying the industry's exposure to such loans. Therefore, the agencies propose to collect some Call Report data items to monitor the extent of use of negatively amortizing residential mortgage loans in the industry.

The agencies propose to collect one memorandum data item from all banks on Schedule RC-C, Part I, Loans and Leases, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties. In addition, the agencies propose to collect two memorandum data items on Schedule RC-C and one memorandum data item on Schedule RI, Income Statement, from banks with a significant volume of negatively amortizing 1-4 family residential mortgage loans. The agencies' determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans being in excess of

$100 million or in excess of five percent of the total loans and leases (in domestic offices) submitted on Schedule RC-C, (both held for sale and held for investment). For reporting during 2007, a bank with negatively amortizing loans would determine whether it met the size threshold for submitting the three additional memorandum data items using data submitted in its December 31, 2006, Call Report. For reporting in 2008 and subsequent years, the determination would be based on data from the previous year-end Call Report.

The two additional Schedule RC-C memorandum data items are (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The Schedule RI memorandum data item is year-to-date noncash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. Banks with negatively amortizing 1-4 family residential loans in excess of the reporting threshold for these data items would submit these three data items for the entire calendar year following the end of any calendar year when this threshold was exceeded.

Instructional Clarification for Servicing of Loan Participations

Banks submit the outstanding principal balance of assets serviced for others in Memorandum item 2 of Schedule RC-S, Servicing, Securitization, and Asset Sale Activities. In Memorandum items 2.a and 2.b, banks disclose the amounts of 1-4 family residential mortgages serviced with recourse and without recourse, respectively. Memorandum item 2.c covers all other loans and financial assets serviced for others, but banks are required to disclose the amount of such servicing only if the servicing volume is more than $10 million. The instructions for Memorandum item 2 do not explicitly state whether a bank that has sold a participation in a 1-4 family residential mortgage or other loan or financial asset, which it continues to service, should include the servicing in Memorandum item 2.a, 2.b, or 2.c, as appropriate. The absence of clear instructional guidance has resulted in questions from bankers and has produced diversity in practice among banks.

Subject to the reporting threshold that applies to Memorandum item 2.c, Memorandum item 2 was intended to cover the entire volume of loans and other financial assets for which banks perform the servicing function, regardless of whether the servicing involves whole loans and other financial assets or only portions thereof, as is typically the case with loan participations. The risks and responsibilities inherent in servicing are present whether all or part of a loan or financial asset is serviced for the benefit of another party. Accordingly, the agencies propose to clarify the instructions to Memorandum item 2 of Schedule RC-S to explicitly state that the amount of loan participations serviced for others should be included in this data item.

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 five-day extension may be given to banks with more than one foreign office.

Aggregate data are published in the *Federal Reserve Bulletin* and the *Annual Statistical Digest*. Additionally, data are used in the *Uniform Bank Performance Report (UBPR)* and the *Annual Report of the FFIEC*. Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request approximately twelve weeks after the report date. 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

The agencies published the notice for comment in the *Federal Register* on October 31, 2006 (71 FR 63848) and received five public comment letters. The agencies modified the proposal in response to several of these comment letters.

Estimate of Respondent Burden

The Federal Reserve estimates that the proposed revisions would increase the estimated annual burden by 905 hours. This proposal would add several new data items to the Call Reports and revise certain existing data items. The proposal as a whole would produce a net increase in reporting burden for banks of all sizes of fifteen minutes per response. This increase is modest since most of the proposed new data items and revisions of existing data items would have an effect on a limited number of banks. The Federal Reserve estimates the total proposed annual reporting burden for state member banks to be 184,692 hours, as shown below. This burden represents 3.9 percent of the total Federal Reserve paperwork burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	905	4	50.77	183,787
Proposed	905	4	51.02	184,692
Change				905

The total cost to state member banks is estimated to be $10,970,705 annually.[3] 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 Reports are estimated to be $1,288,415 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 systems used to edit and validate submitted data.

[3] Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ $25, 50% - Managerial or Technical @ $55, 10% - Senior Management @ $100, and 10% - Legal Counsel @ $144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.