

**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 the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 and 041; OMB No. 7100-0036). These data are required of state member banks and are filed on a quarterly basis. The revisions to the Call Reports that are the subject of this request have been approved by the FFIEC. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have also submitted a similar request for OMB review 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 183,841 hours; the proposed revisions are estimated to increase the annual burden to 189,696 hours.

The agencies are proposing to implement certain changes to the Call Report requirements in 2010 that are intended to provide data needed for reasons of safety and soundness or other public purposes. These proposed revisions respond, for example, to a change in accounting standards, a temporary increase in the deposit insurance limit, and credit availability concerns.

The proposed Call Report changes that are the subject of this proposal would take effect as of March 31, 2010, unless otherwise indicated. These revisions include:

- New items identifying total other-than-temporary impairment losses on debt securities, the portion of the total recognized in other comprehensive income, and the net losses recognized in earnings, consistent with the presentation requirements of a recent accounting standard;
- Clarification of the instructions for reporting unused commitments;
- Breakdowns of the existing items for unused credit card lines and other unused commitments, with the former breakdown required only for certain institutions, and a related breakdown of the existing item for other loans;
- New items pertaining to reverse mortgages that would be collected annually as of December 31;
- A breakdown of the existing item for time deposits of \$100,000 or more (in domestic offices);
- Revisions of existing items for brokered deposits;
- New items for the interest expense and quarterly averages for fully insured brokered time deposits and other brokered time deposits;
- A change in the reporting frequency for small business and small farm lending data from annually to quarterly;

- A change in the reporting frequency for the number of certain deposit accounts from annually to quarterly; and
- The elimination of the item for internal allocations of income and expense from the schedule for income from foreign offices.

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 collect 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 Report data electronically. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

Proposed Revisions

A. Other-Than-Temporary Impairment Losses on Debt Securities

On April 9, 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2).¹ This FSP amended the other-than-temporary impairment guidance in other accounting standards that applies to investments in debt securities. Under FSP FAS 115-2, if a bank intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. FSP FAS 115-2 also provides that if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if a bank does not intend to sell the security and it is not more likely than not that the bank will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

¹ Under the FASB Accounting Standards Codification™, see Topic 320, Investments – Debt and Equity Securities.

For other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities, banks report the amount of the other-than-temporary impairment losses that must be recognized in earnings in items 6.a and 6.b of the Call Report income statement (Schedule RI), respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net of applicable taxes, are reported in Schedule RI-A, Changes in Bank Equity Capital, item 10, "Other comprehensive income." However, because items 6.a and 6.b of Schedule RI also include other amounts such as gains (losses) on sales of held-to-maturity and available-for-sale securities, the agencies currently are not able to determine the effect on the net income of banks, individually and in the aggregate, of other-than-temporary impairment losses that must be recognized in earnings. Similarly, because item 10 of Schedule RI-A includes all of the other components of a bank's other comprehensive income, the agencies cannot identify the portion of other comprehensive income attributable to other-than-temporary impairment losses for banks individually and in the aggregate.

According to FSP FAS 115-2, in a period in which a bank determines that a debt security's decline in fair value below its amortized cost basis is other than temporary, the bank must present the total other-than-temporary impairment loss in the income statement with an offset for the amount of the total loss that is recognized in other comprehensive income. This new presentation provides additional information about the amounts that a bank does not expect to collect related to its investments in debt securities held for purposes other than trading. Therefore, to enhance the agencies' ability to evaluate the factors affecting bank earnings, the agencies propose to add three Memorandum items to the Call Report income statement that would mirror the presentation requirements of FSP FAS 115-2. In these new Memorandum items, banks would report total other-than-temporary impairment losses on debt securities for the calendar year-to-date reporting period, the portion of these losses recognized in other comprehensive income, and the net losses recognized in earnings

B. Clarification of the Instructions for Reporting Unused Commitments

Banks report unused commitments in item 1 of Schedule RC-L, Derivatives and Off-Balance Sheet Items. The instructions for this item identify various arrangements that should be reported as unused commitments, including but not limited to commitments for which the bank has charged a commitment fee or other consideration, commitments that are legally binding, loan proceeds that the bank is obligated to advance, commitments to issue a commitment, and revolving underwriting facilities. However, the agencies have found that some banks have not reported commitments that they have entered into until they have signed the loan agreement for the financing that they have committed to provide. Although the agencies consider these arrangements to be commitments to issue a commitment and, therefore, within the scope of the existing instructions for reporting commitments in Schedule RC-L, they believe that these instructions may not be sufficiently clear. Therefore, the agencies originally proposed to revise the instructions for Schedule RC-L, item 1, "Unused commitments," as one of the proposed Call Report changes for implementation as of March 31, 2009.² More specifically, with respect to commitments to issue a commitment at some point in the future, the agencies proposed to add language to the instructions

² 73 FR 54811, September 23, 2008.

for this item explicitly stating that such commitments include those that have been entered into even though the related loan agreement has not yet been signed.

In response to the agencies' request for comment on Call Report revisions for 2009, three commenters specifically addressed the proposed instructional clarification pertaining to unused commitments. One commenter agreed that clarification is needed, but recommended that commitments to issue a commitment in the future, including those entered into even though the related loan agreement has not yet been signed, should be removed from the list of types of arrangements that the instructions would direct banks to report as unused commitments. A second commenter expressed concern about reporting "commitments that contain a relatively high level of uncertainty until a loan agreement has been signed or the loan has been funded with a first advance" and the reliability of data on such commitments. The third commenter stated that because some banks do not have systems for tracking such arrangements, the instructions should in effect permit banks to exclude commitment letters with an expiration date of 90 days or less. Finally, the first commenter also recommended that the instructions for reporting unused commitments should state that amounts conveyed or participated to others that the conveying or participating bank is not obligated to fund should not be reported as unused commitments by the conveying or participating bank.

After evaluating these comments, the agencies have refined their approach to identifying commitments to issue a commitment in a manner that is intended to address the commenters' concerns by focusing on a point in the commitment process when the agencies believe that banks' systems should be tracking their commitments. Thus, the instructions would state that commitments to issue a commitment at some point in the future are those where the bank has extended terms and the borrower has accepted the offered terms, even though the related loan agreement has not yet been signed. In addition, the agencies agree with the commenter's recommendation concerning commitments that have been conveyed or participated to others and are proposing to modify the instructions accordingly.

The proposed revised instructions for Schedule RC-L, item 1, would read as follows:

Report in the appropriate subitem the unused portions of commitments. Unused commitments are to be reported gross, i.e., include in the appropriate subitem the unused amount of commitments acquired from and conveyed or participated to others. However, exclude commitments conveyed or participated to others that the bank is not legally obligated to fund even if the party to whom the commitment has been conveyed or participated fails to perform in accordance with the terms of the commitment.

For purposes of this item, commitments include:

- (1) Commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions.
- (2) Commitments for which the bank has charged a commitment fee or other consideration.
- (3) Commitments that are legally binding.
- (4) Loan proceeds that the bank is obligated to advance, such as:
 - (a) Loan draws;
 - (b) Construction progress payments; and

- (c) Seasonal or living advances to farmers under prearranged lines of credit.
- (5) Rotating, revolving, and open-end credit arrangements, including, but not limited to, retail credit card lines and home equity lines of credit.
 - (6) Commitments to issue a commitment at some point in the future, where the bank has extended terms and the borrower has accepted the offered terms, even though the related loan agreement has not yet been signed.
 - (7) Overdraft protection on depositors' accounts offered under a program where the bank advises account holders of the available amount of overdraft protection, for example, when accounts are opened or on depositors' account statements or ATM receipts.
 - (8) The bank's own takedown in securities underwriting transactions.
 - (9) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, which are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting banks have a legally binding commitment either to purchase any notes the borrower is unable to sell by the rollover date or to advance funds to the borrower.

Exclude forward contracts and other commitments that meet the definition of a derivative and must be accounted for in accordance with FASB Statement No. 133, which should be reported in Schedule RC-L, item 12. Include the amount (not the fair value) of the unused portions of loan commitments that do not meet the definition of a derivative that the bank has elected to report at fair value under a fair value option. Also include forward contracts that do not meet the definition of a derivative.

The unused portions of commitments are to be reported in the appropriate subitem regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligations under certain conditions and regardless of whether they are unconditionally cancelable at any time.

In the case of commitments for syndicated loans, report only the bank's proportional share of the commitment.

For purposes of reporting the unused portions of revolving asset-based lending commitments, the commitment is defined as the amount a bank is obligated to fund – as of the report date – based on the contractually agreed upon terms. In the case of revolving asset-based lending, the unused portions of such commitments should be measured as the difference between (a) the lesser of the contractual borrowing base (i.e., eligible collateral times the advance rate) or the note commitment limit, and (b) the sum of outstanding loans and letters of credit under the commitment. The note commitment limit is the overall maximum loan amount beyond which the bank will not advance funds regardless of the amount of collateral posted. This definition of "commitment" is applicable only to revolving asset-based lending, which is a specialized form of secured lending in which a borrower uses current assets (e.g., accounts receivable and inventory) as collateral for a loan. The loan is structured so that the amount of credit is limited by the value of the collateral.

C. Additional Categories of Unused Commitments and Loans

The extent to which banks are reducing the supply of credit during the current financial

crisis has been of great interest to the agencies and to Congress. Also, bank lending plays a central role in any economic recovery and the agencies need data to better determine when credit conditions have eased. One way to measure the supply of credit is to analyze the change in total lending commitments by banks, considering both the amount of loans outstanding and the volume of unused credit lines. These data are also needed for safety and soundness purposes because draws on commitments during periods when banks face significant funding pressures, such as during the fall of 2008, can place significant and unexpected demands on the liquidity and capital positions of banks. Therefore, the agencies propose breaking out in further detail two categories of unused commitments on Schedule RC-L, Derivatives and Off-Balance Sheet Items. The agencies also propose to break out in further detail one new loan category on Schedule RC-C, part I, Loans and Leases. These new data items would improve the agencies' ability to obtain timely and accurate readings on the supply of credit available to households and businesses. These data would also be useful in determining the effectiveness of the government's economic stabilization programs.

Unused commitments associated with credit card lines are reported in Schedule RC-L, item 1.b. This data item is not sufficiently meaningful for monitoring the supply of credit because it mixes consumer credit card lines with credit card lines for businesses and other entities. As a result of this aggregation, it is not possible to fully monitor credit available specifically to households. Furthermore, bank supervisors would benefit from the split, because the usage patterns, profitability, and evolution of credit quality through the business cycle are likely to differ for consumer credit cards and business credit cards. Therefore, the agencies propose to split Schedule RC-L, item 1.b, into unused consumer credit card lines and other unused credit card lines. This breakout would be reported by institutions with either \$300 million or more in total assets or \$300 million or more in unused credit card commitments. Draws from these credit lines that have not been sold are already reported on Schedule RC-C, part I. For example, banks must report draws on credit cards issued to nonfarm nonfinancial businesses as commercial and industrial (C&I) loans in Schedule RC-C, part I, item 4, and draws on personal credit cards as consumer loans in Schedule RC-C, part I, item 6.a.

Schedule RC-L, item 1.e, aggregates all other unused commitments, and includes unused commitments to fund C&I loans (other than credit card lines to commercial and industrial enterprises, which are reported in item 1.b, and commitments to fund commercial real estate, construction, and land development loans not secured by real estate, which are reported in item 1.c.(2)). Separating these C&I lending commitments from the other commitments included in other unused commitments would considerably improve the agencies' ability to analyze business credit conditions. A very large percentage of banks responding to the Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices (FR 2018; OMB No. 7100-0058) reported having tightened lending policies for C&I loans and credit lines during 2008; however, C&I loans on banks' balance sheets expanded through the end of October 2008, reportedly as a result of substantial draws on existing credit lines. In contrast, other unused commitments reported on the Call Report contracted, but without the proposed breakouts of such commitments, it was not possible to know how total business borrowing capacity had changed. The FR 2018 data are qualitative rather than quantitative and are collected only from a sample of institutions up to six times per year. Having the additional unused commitment data reported separately on the Call Report, along with the proposed changes to Schedule RC-C described below, would have indicated more clearly whether there was a widespread restriction in new

credit available to businesses.

Therefore, the agencies propose to split Schedule RC-L, item 1.e, into three categories: unused commitments to fund commercial and industrial loans (which would include only commitments not reported in Schedule RC-L, items 1.b and 1.c.(2), for loans that, when funded, would be reported in Schedule RC-C, item 4), unused commitments to fund loans to financial institutions (defined to include depository institutions and nondepository financial institutions, i.e., real estate investment trusts, mortgage companies, holding companies of other depository institutions, insurance companies, finance companies, mortgage finance companies, factors and other financial intermediaries, short-term business credit institutions, personal finance companies, investment banks, the bank's own trust department, other domestic and foreign financial intermediaries, and Small Business Investment Companies), and all other unused commitments. With respect to Schedule RC-C, part I, the agencies also propose to revise item 9, "Other loans," by breaking out a new category for loans to nondepository financial institutions (as defined above). Banks already report data on loans to depository institutions in Schedule RC-C, part I, item 2.

Lending by nondepository financial institutions was a key characteristic of the recent credit cycle and many such institutions failed; however, little information existed on the exposure of the banking system to those firms as this information was obscured by the current structure of the Call Report's loan schedule. The proposed addition of separate items for unused commitments to financial institutions and loans to nondepository financial institutions, together with the existing data on loans to depository institutions, will allow supervisors and other interested parties to more closely monitor the exposure of individual banks to financial institutions and to assess the impact that changes in the credit availability to this sector have on the economy.

D. Reverse Mortgage Data

Reverse mortgages are complex loan products that leverage equity in homes to provide lump sum cash payments or lines of credit to borrowers. These products are typically marketed to senior citizens who own homes. The agencies are currently unable to effectively identify and monitor institutions that offer these products due to a lack of reverse mortgage data.

The reverse mortgage market currently consists of two basic types of products: proprietary products designed and originated by financial institutions and a federally-insured product known as a Home Equity Conversion Mortgage (HECM). Some reverse mortgages provide for a lump sum payment to the borrower at closing, with no ability for the borrower to receive additional funds under the mortgage at a later date. Other reverse mortgages are structured like home equity lines of credit in that they provide the borrower with additional funds after closing, either as fixed monthly payments, under a line of credit, or both. There are also reverse mortgages that provide a combination of a lump sum payment to the borrower at closing and additional payments to the borrower after the closing of the loan.

The volume of reverse mortgage activity is expected to dramatically increase in the coming years as the U.S. population ages. A number of consumer protection related risks and safety and soundness related risks are associated with these products and the agencies need to collect

information from banks involved in the reverse mortgage activities to monitor and mitigate those risks. For example, proprietary reverse mortgages structured as lines of credit, which are not insured by the federal government, expose borrowers to the risk that the lender will be unwilling or unable to meet its obligation to make payments due to the borrower. Additionally, in those circumstances in which housing prices are declining, there is the risk that the reverse mortgage loan balance may exceed the value of the underlying collateral value of the home.

As stated above, access to data regarding loan volumes, dollar amounts outstanding, and the institutions offering reverse mortgages or participating in reverse mortgage activity is severely limited. The U.S. Department of Housing and Urban Development provides a monthly report for reverse mortgages endorsed for federal insurance, by fiscal year, for those loans that are part of the federally-sponsored HECM program. While this monthly report provides information such as average expected interest rates, average property values, average age of the borrower, and the number of active insured accounts, there is no aggregate monthly data nor is there institution-specific information that identifies the institutions participating in the program. For proprietary reverse mortgage loans, there is no known data on the volume of reverse mortgages, dollar amounts outstanding, or the institutions offering these products.

The agencies propose that new items be added to the Call Report to collect reverse mortgage data on an annual basis beginning on December 31, 2010. Collecting this information will provide the agencies the necessary information for policy development and the management of risk exposures posed by institutions' involvement with reverse mortgages. First, a new Memorandum item would be added to Schedule RC-C, part I, Loans and Leases, for "Reverse mortgages outstanding that are held for investment." In this Memorandum item, banks would separately report the amount of HECM reverse mortgages and the amount of proprietary reverse mortgages that are held for investment and included in Schedule RC-C, part I, item 1.c, Loans "Secured by 1-4 family residential properties." Additionally, new items would be added to Schedule RC-L, Derivatives and Off-Balance Sheet Items, to collect the amounts of "Unused commitments for HECM reverse mortgages outstanding that are held for investment" and "Unused commitments for proprietary reverse mortgages outstanding that held for investment." Because these reverse mortgages have been structured in whole or in part like home equity lines of credit, the unused commitments associated with these mortgages are also reportable in existing item 1.a, "Revolving, open-end lines secured by 1-4 family residential properties," of Schedule RC-L. The proposed new unused commitment items would be subsets of item 1.a.

In many instances, institutions do not underwrite and fund reverse mortgages, but refer borrowers to other reverse mortgage lenders. These institutions receive a fee for referring customers to the reverse mortgage lender and they may be involved in (although their involvement may not be limited to) the following activities: marketing the reverse mortgage loan product, providing information on or answering questions about the reverse mortgage loan, selling products in conjunction with reverse mortgages, and/or accepting an application for a reverse mortgage from the potential borrower. This model enables consumers to deal first with their local institutions without the institutions having to build an entirely new lending function. It also provides an economy of scale for a specialized lender because they will not necessarily need a large physical branch network when they can partner with existing lenders. The banking agencies propose adding a new Memorandum item to Schedule RC-C, part I, to annually collect the estimated number of fee-paid referrals during the year from each bank making referrals beginning

on December 31, 2010. Banks would report separately the estimated number of fee-paid referrals for HECM reverse mortgages and proprietary reverse mortgages.

Finally, many banks that originate reverse mortgages routinely sell their funded mortgages in the secondary market. As a result, these loans will not remain on the originating banks' balance sheets for long periods of time and, therefore, the proposed items for reverse mortgages outstanding that are held for investment will not capture the extent of banks' reverse mortgage activity when it involves the origination and sale of these loans. Thus, the agencies propose to add Memorandum items to Schedule RC-C, part I, in which banks would report the principal amount of reverse mortgages originated for sale that have been sold during the year. HECM and proprietary reverse mortgages sold would be reported separately. These items are distinct and separate from the items for the estimated number of referrals because the referring bank is not funding the loan, but is merely taking an application or conducting another service in order to refer the borrower to another institution that ultimately funds the reverse mortgage. The information on loans sold during the year also would be collected annually beginning on December 31, 2010.

E. Time Deposits of \$100,000 or More

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the standard maximum deposit insurance amount (SMDIA) from \$100,000 to \$250,000 per depositor. Under this legislation, the SMDIA was to return to \$100,000 after December 31, 2009. However, on May 20, 2009, the Helping Families Save Their Homes Act extended this temporary increase in the SMDIA to \$250,000 per depositor through December 31, 2013, after which the SMDIA is scheduled to return to \$100,000.

At present, banks report a two-way breakdown of their time deposits (in domestic offices) in Schedule RC-E, Deposit Liabilities, distinguishing between time deposits of less than \$100,000 and time deposits of \$100,000 or more. In response to the extension of the temporary increase in the limit on deposit insurance coverage, the agencies understand that time deposits with balances in excess of \$100,000, but less than or equal to \$250,000, have been growing and can be expected to increase further. However, given the existing Schedule RC-E reporting requirements, the agencies are unable to monitor growth in banks' time deposits with balances within the temporarily increased limit on deposit insurance coverage.

Therefore, the agencies are proposing to replace Schedule RC-E, Memorandum item 2.c, "Total time deposits of \$100,000 or more," with a revised Memorandum item 2.c, "Total time deposits of \$100,000 through \$250,000," and a new Memorandum item 2.d, "Total time deposits of more than \$250,000." Existing Memorandum item 2.c.(1), "Individual Retirement Accounts (IRAs) and Keogh Plan accounts included in Memorandum item 2.c, 'Total time deposits of \$100,000 or more,' above," would be renumbered and recaptioned as Memorandum item 2.e, "Individual Retirement Accounts (IRAs) and Keogh Plan accounts of \$100,000 or more included in Memorandum items 2.c and 2.d above," but the scope of this Memorandum item would not change.

F. Revisions of Brokered Deposit Items

As mentioned in Section E. above, the SMDIA has been increased temporarily from \$100,000 to \$250,000 through year-end 2013. However, the data that banks currently report in the Call Report on fully insured brokered deposits in Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), is based on the \$100,000 insurance limit (except for brokered retirement deposit accounts for which the deposit insurance limit was already \$250,000). Therefore, in response to the temporary increase in the SMDIA, the agencies are proposing to revise the reporting of fully insured brokered deposits in Schedule RC-E. Furthermore, given the linkage between the deposit insurance limits and the Memorandum items on fully insured brokered deposits in Schedule RC-E, the scope of these items needs to be changed whenever deposit insurance limits change. To ensure that the scope of these Memorandum items, including the dollar amounts cited in the captions for these items, changes automatically as a function of the deposit insurance limit in effect on the report date, Memorandum item 1.c, “Fully insured brokered deposits,” would be footnoted to state that the specific dollar amounts used as the basis for reporting fully insured brokered deposits in Memorandum items 1.c.(1) and 1.c.(2) reflect the deposit insurance limits in effect on the report date. The instructions for Memorandum item 1.c would be similarly clarified.³

In addition, consistent with the reporting of time deposits in other items of Schedule RC-E, brokered deposits would be reported based on their balances rather than the denominations in which they were issued.

Accordingly, Memorandum items 1.c.(1) and 1.c.(2) of Schedule RC-E and their instructions would be revised as follows:

- Memorandum item 1.c.(1), “Brokered deposits of less than \$100,000”: Report in this item brokered deposits with balances of less than \$100,000. Also report in this item time deposits issued to deposit brokers in the form of large (\$100,000 or more) certificates of deposit that have been participated out by the broker in shares with balances of less than \$100,000. For brokered deposits that represent retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1) eligible for \$250,000 in deposit insurance coverage, report such brokered deposits in this item only if their balances are less than \$100,000.
- Memorandum item 1.c.(2), “Brokered deposits of \$100,000 through \$250,000 and certain brokered retirement deposit accounts”: Report in this item brokered deposits (including brokered retirement deposit accounts) with balances of \$100,000 through \$250,000. Also report in this item brokered deposits that represent retirement deposit accounts (as defined in Schedule RC-O, Memorandum item 1) eligible for \$250,000 in deposit insurance coverage that have been issued by the bank in denominations of more than \$250,000 that have been participated out by the broker in shares of \$100,000 through exactly \$250,000.

The proposed revisions to Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), that relate to the temporary increase in the SMDIA would remain in effect during this increase, after

³The proposed linkage of the scope of the Memorandum items on fully insured brokered deposits in Schedule RC-E to the deposit insurance limits in effect on the report date is consistent with an existing linkage between the deposit insurance limits in effect on the report date and the Memorandum items in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, on the amount and number of deposit accounts within the insurance limit and in excess of the insurance limit.

which the dollar amounts used as the basis for reporting fully insured brokered deposits in these items would revert to the amounts in effect prior to the temporary increase.

The agencies are not proposing to revise the existing requirements for the reporting of maturity data on brokered deposits in Memorandum items 1.d.(1) and 1.d.(2) of Schedule RC-E.

G. Interest Expense on and Quarterly Averages for Brokered Deposits

Under Section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f), an insured depository institution that is less than well capitalized generally may not pay a rate of interest that significantly exceeds the prevailing rate in the institution's "normal market area" and/or the prevailing rate in the "market area" from which the deposit is accepted. In the case of an adequately capitalized institution with a waiver to accept brokered deposits, the institution may not pay a rate of interest on brokered deposits accepted from outside the bank's "normal market area" that significantly exceeds the "national rate" as defined by the FDIC. On May 29, 2009, the FDIC's Board of Directors adopted a final rule making certain revisions to the interest rate restrictions under Section 337.6 of the FDIC's regulations. Under the final rule, the "national rate" is a simple average of rates paid by U.S. depository institutions as calculated by the FDIC.⁴ When evaluating compliance with the interest rate restrictions in Section 337.6 by an institution that is less than well capitalized, the FDIC generally will deem the national rate to be the prevailing rate in all market areas. The final rule is effective January 1, 2010.

At present, the agencies are unable to evaluate the level and trend of the cost of brokered time deposits to institutions that have acquired such funds, nor can the agencies compare the cost of such deposits across institutions with brokered time deposits. Data on the cost of brokered deposits would also assist the agencies in evaluating the overall cost of institutions' time deposits, for which data have long been collected in the Call Report. Furthermore, many of the banks that have failed since the beginning of 2008 have relied extensively on brokered deposits to support their asset growth. Therefore, to enhance the agencies' ability to evaluate funding costs and the impact of brokered time deposits on these costs, the agencies are proposing to add two Memorandum items to both Schedule RC-K, Quarterly Averages, and Schedule RI, Income Statement. In these Memorandum items, banks would report the interest expense and quarterly averages for "fully insured brokered time deposits" and "other brokered time deposits." The definition of "fully insured brokered time deposits" would be based on the definitions of "fully insured brokered deposits" and "time deposits" in Schedule RC-E, Deposit Liabilities. "Other brokered time deposits" would consist of all brokered time deposits that are not "fully insured brokered deposits."

H. Change in Reporting Frequency for Loans to Small Businesses and Small Farms

Section 122 of the Federal Deposit Insurance Corporation Improvement Act requires the banking agencies to collect from insured institutions annually the information the agencies "may need to assess the availability of credit to small businesses and small farms." To implement these requirements, the banking agencies added Schedule RC-C, Part II – Loans to Small Businesses and

⁴ The FDIC publishes a weekly schedule of national rates and national interest-rate caps by maturity, which can be accessed at <http://www.fdic.gov/regulations/resources/rates/>.

Small Farms to the Call Report effective June 30, 1993. This schedule requests information on the number and amount currently outstanding of “loans to small businesses” and “loans to small farms,” as defined in the Call Report instructions, which all banks must report annually as of June 30.

With the United States now more than a year into a recession, the current administration “firmly believes that economic recovery will be driven in large part by America’s small businesses,” but “small business owners are finding it harder to get the credit necessary to stay in business.”⁵ Because “[c]redit is essential to economic recovery,” Treasury Secretary Geithner stated on March 16, 2009, that “we need our nation’s banks to go the extra mile in keeping credit lines in place on reasonable terms for viable businesses.”⁶ Accordingly, Secretary Geithner asked the banking agencies “to call for quarterly, as opposed to annual reporting of small business loans, so that we can carefully monitor the degree that credit is flowing to our nation’s entrepreneurs and small business owners.”⁷ In response to Secretary Geithner’s request and to improve the agencies’ own ability to assess the availability of credit to small businesses and small farms, the agencies propose to change the frequency with which banks must submit Call Report Schedule RC-C, Part II, from annually to quarterly beginning March 31, 2010. The agencies are not proposing to make any revisions to the information that banks are required to report on this schedule.

I. Change in Reporting Frequency for the Number of Certain Deposit Accounts

In Call Report Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments, banks report the number of deposit accounts based on whether the amount of the account is within the deposit insurance limit or is in excess of this limit. Information is reported separately for retirement deposit accounts and all other deposit accounts. At present, for deposit accounts for which the amount of the account exceeds the deposit insurance limit, the number of accounts is reported quarterly (Schedule RC-O, Memorandum items 1.b.(2) and 1.d.(2)). However, for deposit accounts for which the amount of the account is within this limit, the number of accounts is reported annually as of June 30 (Schedule RC-O, Memorandum items 1.a.(2) and 1.c.(2)).

Data on the number of deposit accounts are used to estimate average deposit account balances and changes therein as well as insured and uninsured deposits. These data also assist the FDIC in its planning efforts as it seeks to resolve potential failures of insured institutions. As a consequence, the difference in reporting frequency for deposit accounts with balances within and in excess of the deposit insurance limit hinders the effectiveness of these analyses. Therefore, the agencies are proposing to require all of the existing Call Report items on the number of deposit accounts to be reported quarterly beginning March 31, 2010. The agencies note that savings associations already report the number of all deposit accounts quarterly in the Thrift Financial Report (OMB No. 1550-0023). Thus, this proposed change in reporting frequency in the Call Report would conform the reporting requirements in this area for banks and savings associations.

5 <http://www.financialstability.gov/roadtostability/smallbusinesscommunity.html>.

6 <http://www.financialstability.gov/latest/tg58-remarks.html>.

7 Ibid.

J. Internal Income and Expense Allocations Applicable to Foreign Offices

In Schedule RI-D, Income from Foreign Offices, banks are to report in item 11 their best estimate of all appropriate internal allocations of income and expense applicable to foreign offices, whether or not “booked” that way in the bank’s formal accounting records. This estimate includes, for example, allocations of income and expense in domestic offices applicable to foreign offices and allocations of income and expense in foreign offices applicable to domestic offices. A review of Schedule RI-D data indicates that few banks report any amount for these internal allocations and the usefulness of the amounts that are reported appears to be limited. Accordingly, the agencies propose to eliminate item 11, “Internal allocations of income and expense applicable to foreign offices,” from Schedule RI-D.

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 is given to banks with more than one foreign office.

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

Legal Status

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

Consultation Outside the Agency and Discussion of Public Comments

The agencies published the notice for comment in the *Federal Register* on August 19, 2009 (74 FR 41973). The comment period for this notice expires on October 19, 2009.

Estimate of Respondent Burden

The Federal Reserve estimates that the proposed revisions would increase the estimated annual burden by 5,855 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 1.7 hours per response. The Federal Reserve estimates the total proposed annual reporting burden for state member banks to be 189,696 hours, as shown below. This burden represents less than 4 percent of the total Federal Reserve paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	861	4	53.38	183,841
Proposed	861	4	55.08	189,696
<i>Change</i>				5,855

The total cost to state member banks is estimated to be \$11,267,942 annually.⁸ 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.

⁸ 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% - Administrative or Junior Analyst @ \$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.

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 \$1,589,906 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.