FINANCIAL REPORTING BULLETIN

September 1998

Financial Reporting Division
Office of Thrift Supervision
1700 G Street,, N.W., Washington, DC 20552

TFR DEADLINE <u>FRIDAY, OCTOBER 30, 1998</u>
CMR DEADLINE <u>MONDAY, NOVEMBER 16, 1998</u>
It is important that you refer to this bulletin and the attached materials before submitting your September TFR.

UPDATED SOFTWARE FOR SEPTEMBER

By the end of September, all savings associations should have received the September 1998 electronic filing software from DPSC, Inc. The updated version corrects errors in the previous version.

Each update of the software has its own unique version number. It is important that you update your system with the most current software before preparing and transmitting your September reports. If you have not received the software update (Windows Version 199809.W4 or DOS Version 199809.D4) by September 30, please contact DPSC Customer Support at 800-825-3772.

Internet Home Page Address Added to Software

In addition to the report preparer internet e-mail address, the September software update also provides for the institution's internet home page address on the Institution Information Setup Screen. Please ensure that your institution's internet home page address is entered correctly, e.g., http://www.yourthrift.com, as well as your report preparer internet e-mail address. If you do not have an internet home page address or internet e-mail address, the entry screen on the software should be left blank; please do not enter "0", "N/A", "none", etc.

THIRD QUARTER REGULATORY REPORTS

The September 1998 TFR should be completed and submitted as soon as possible after the close of the quarter. All schedules except CMR are due no later than Friday, October 30, 1998. Schedule CMR is due no later than Monday, November 16.

If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, TX, or Trudy Reeves in Washington, DC, at 202-906-7317. If you have a problem with the electronic filing software or transmission, call Cheyann White at 972-281-2412 or Doris Jackson at 972-281-2052. If you need additional copies of the TFR form or instruction manual, call 202-906-6078, or obtain them from the OTS website at www.ots.treas.gov/tfrpage.html.

Cost of Funds (COF)

The OTS is required under FIRREA, Section 402(e)(3) to publish a monthly National Median Cost of Funds Index. Therefore, each OTS-regulated SAIF-insured association is required to report its monthly cost of funds to the OTS. The September Cost of Funds (COF) is due Friday, October 30, 1998; the October COF is due Monday, November 30; and the November COF is due Wednesday, December 30. Please ensure that your COF is transmitted timely.

Voluntary CMR Filers

Savings associations that meet the CMR exemption criteria, but choose to voluntarily file the CMR to receive their quarterly Interest Rate Risk Report, must adhere to the same CMR filing deadlines as those institutions that are required to file. Institutions that fail to meet the filing deadline may not receive their IRR reports for the quarter.

September Changes to the TFR Instruction Manual

Attached are 38 pages of the TFR Instruction Manual updated for September 1998. The revisions are indicated by a bar in the right margin. The revisions to the manual are summarized below.

General Instructions, No. 7, Exemption from Filing Schedule CMR

Expanded the instructions to clarify that an association must meet the exemption criteria for two consecutive quarters before they are exempt.

Schedule SC

Fair Value Hedges: Added instructions to include accounting for fair value hedges, pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." These instructions affect the following sections: the introductory paragraph on page 5; Cash, Deposits and Investment Securities; Mortgage Pool Securities; Mortgage Loans; Nonmortgage Loans; Servicing Assets; Deposits; and Borrowings.

Other Asset and Other Liability Codes: Code 20 has been added in both Other Assets and Other Liabilities for derivative instruments, pursuant to SFAS No 133. Derivative instruments in a gain position should be reported at fair value in Other Assets, and derivative instruments in a loss position should be reported at fair value in Other Liabilities. Derivative instruments in a gain position should not be netted against those in a loss position.

SC890, Other Components of Capital: The instructions have been expanded to include gains and losses associated with cash flow hedges, after adoption of SFAS No. 133.

Schedule CF [This change will be incorporated into the December 1998 TFR Manual]

Mortgage Loans Disbursed: Added a clarification that all originations made in the name of the reporting association are to be reported, even if the loans are funded by a third party and immediately transferred.

Schedule SI

SI350, Approximate Value of Trust Assets Administered: Clarified that this item should be completed by all savings associations that have received OTS approval to exercise fiduciary powers pursuant to 12 CFR 550, and that employee benefit plans for the association's own employees and custodial arrangements under loan servicing agreements are not to be included.

Schedule CCR

CCR133, Disallowed Servicing Assets: Instruction amended to Increase the percentage of servicing assets permitted in Tier 1 capital to 100% of Tier 1 Capital pursuant to OTS final rule, 12 CFR 567.12.

Unrealized Gains on Available-for-Sale Equity Securities: Revised the instructions to reflect changes to 12 CFR 567.5 which allows associations to include in supplementary capital up to 45% of pretax unrealized gains (net of unrealized losses) on available-for-sale equity securities with readily determinable fair values.

Schedule CMR

Government and Agency Securities: Added the capability for thrifts to break down, at their option, their holdings of Government and Agency Securities by type of coupon (i.e., fixed-rate, floating-rate, or inverse floating-rate). This additional detail will improve the estimates produced by the OTS Net Portfolio Value Model.

Proposed 1999 Changes to the Thrift Financial Report

After reviewing its current supervisory and examination needs, the OTS proposes to revise the Thrift Financial Report (TFR), effective with the March 31, 1999 report. The OTS has limited the changes for 1999, proposing to add nine new data items and eliminate six, to minimize the burden to the savings and loan industry to allow it to focus on year 2000 compliance. Notice of the proposed changes was published in the Federal Register on September 1, 1998, pages 46508-46510. The OTS invites comments on it's proposal. All comments must be received by November 2, 1998. Send comments to Manager, Dissemination Branch, Records Management and Information Policy, Office of Thrift Supervision, 1700 G Street, NW, Washington, DC 20552, Attention 1550-0023. Send facsimile transmissions to FAX Number (202) 906-7755 or (202) 906-6956 (if the comment is over 25 pages). Send e-mails to public.info@ots.treas.gov and include your name and telephone number. For further information contact Trudy Reeves at 202-906-7317.

The following is a discussion of the proposed changes to the Thrift Financial Report.

High Loan-to-Value Loans

The OTS has considerable supervisory concerns regarding high loan-to-value (LTV) lending, particularly LTV ratios in excess of 100% of the market value of the collateral. Currently, the OTS requires associations to report loans with LTV ratios of 90% or greater at least quarterly to their board of directors (OTS Regulation 560.100-101). However, the OTS does not currently require associations to report LTV data on the Thrift Financial Report (TFR). Due to increased concern regarding high LTV lending, coupled with the OTS's current inability to effectively monitor off-site potential high risk lending, the OTS proposes to collect eight additional data items. With this change, the TFR will be more useful in promptly identifying a changing risk profile of regulated institutions. This change should impact only a small number of savings institutions.

Comprehensive Income (SFAS No. 130)

Under Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," entities must report accumulated other comprehensive income separately from retained earnings in the equity section of the balance sheet. Accumulated other comprehensive income includes: (1) unrealized gains and losses on available-for-sale securities; (2) minimum pension liability adjustments; (3) foreign currency translation adjustments; and, upon the adoption of SFAS No. 133, (4) gains and losses associated with cash flow hedges. Under the current TFR format, savings associations report unrealized gains and losses on available-for-sale securities separately on line SC860, and report (1) minimum pension liability adjustments, (2) foreign currency translation adjustments, and (3) gains and losses associated with cash flow hedges on line SC890, Other Components of Equity Capital. The OTS proposes to delete SC860 and replace this item with SC885, Accumulated Other Comprehensive Income, to better reflect generally accepted accounting principles.

Asset Maturity Data

The OTS also proposes to delete five lines that collect data on asset maturities on Schedule SI. Currently, only savings associations that meet the Schedule CMR exemption criteria (assets less than $300 million and risk-based capital in excess of 12%) and that opt not to file Schedule CMR (Asset Maturity and Interest Rates) must provide these data. OTS no longer needs to collect these data.

The OTS proposes to delete the following lines:

SC860, SI700, SI710, SI720, SI730, SI740

The OTS proposes to add the following lines:

Schedule SC

Accumulated Other Comprehensive Income

SC885

"Other comprehensive income" is defined in SFAS No. 130 as "all components of comprehensive income that are excluded from net income." Comprehensive income is defined as the change in equity during a reporting period from transactions and other events, except those resulting from investments by owners and distributions to owners. Therefore, the following types of items are included in Accumulated Other Comprehensive Income, SC885:

1. Unrealized gains and losses on available-for-sale securities (currently reported on SC860)
2. Minimum pension liability adjustments (currently reported on SC890)
3. Foreign currency translation adjustments (currently reported on SC890)
4. Gains and losses associated with cash flow hedges, after adoption of FAS No.133 (currently reported on SC890)

Total comprehensive income will equal Net Income (SO91) plus the change in Other Comprehensive Income (SC885).

Treasury stock and unearned ESOP shares will remain in SC890, Other Components of Equity Capital.

If this change is made, the equity section will consist of the following:

Perpetual Preferred Stock:	
Cumulative	SC812
Noncumulative	SC814
Common Stock:	
Par Value	SC820
Paid in Excess of Par	SC830
Retained Earnings	SC880
Accumulated Other Comprehensive Income	SC885
Other Components of Capital	SC890
Total Equity Capital	SC80

SCHEDULE SI

High Loan-to-Value Loans (Outstanding Balances)

Loans Without PMI or Government Guarantee

Permanent Mortgages On 1-4 Dwelling Units	
90% to 100% LTV	**SI412**
Over 100% LTV	**SI415**
Consumer Loans Secured (in Whole or in Part) by Real Estate, Reported on SC316 and SC340	
90% to 100% LTV	**SI422**
Over 100% LTV	**SI425**

<u>SCHEDULE CF</u>

<u>High Loan-to-Value Loans</u>

Permanent Mortgages On 1-4 Dwelling Units and Consumer Loans Secured (in Whole or in Part) by Real Estate Without PMI or Government Guarantee:

Originated or Purchased During the Quarter:

90% to 100% LTV	**CF405**
Over 100% LTV	**CF407**

Sold During the Quarter:

90% to 100% LTV	**CF409**
Over 100% LTV	**CF410**

LTV must be calculated using the loan extended plus all senior liens. Refer to OTS Regulation 560.101.

The following definitions apply:

- Report on these lines only the loans that exceed the described limits (e.g., if there are two loans secured by the same property, and the first lien has a 75% LTV and the second lien brings the LTV to 95%, report only the second lien).
- Loan-to-value ratios are calculated based on the most recent qualifying appraised value or evaluation amount. The loan amount is the current balance of the loan.

In Schedule SI, include the following that meet the definition above:

1. Outstanding loan balances currently reported in Schedule SC; and
2. The principal balance of loans sold with recourse.

Exclude:

1. Loans to facilitate the sale of repossessed real estate; and
2. Non-real estate loans for which a lien on real estate is taken as an abundance of caution per OTS Thrift Bulletin 72.

In Schedule CF report all loans originated in the name of the reporting association, including those loans sold immediately after origination.

SOFTWARE CORNER

Each quarter, this column addresses questions, problems, helpful tips, etc., regarding the OTS electronic filing software.

If you have a filing software topic you would like to see discussed in this column, please send your comments and questions to Doris Jackson via fax at 972-281-2002, or via the Internet at doris.jackson@ots.treas.gov.

NEW SOFTWARE

You should receive the September version of DPSC filing software by the end of September.

You can upgrade from the DOS to the Windows version of the filing software by contacting DPSC Customer Service at 800-825-3772, ext. 210.

TRANSMISSION PROBLEMS

If you encounter problems in transmitting, such as being dropped from the network in mid-transmission, try queuing and transmitting only one report at a time. If the problems continue, please contact DPSC Customer Service at 800-825-3772.

ACKNOWLEDGMENTS

Remember to log into the network to retrieve your acknowledgments several hours after each report you transmit. For further instructions on receiving acknowledgments, refer to the Software Corner column on page 5 of the June 1998 Financial Reporting Bulletin.

INSTITUTION INFORMATION

Please ensure that your institution's internet homepage address and report preparer's internet e-mail address are entered correctly in the spaces provided under Institution Info and Report Preparer Info, respectively. If you do not have an internet homepage address or e-mail address, the line should be left blank - do not enter "0", "N/A", "none", etc.

PRINTER SELECTION

If you have problems printing your reports in DOS, be sure you have selected your printer type in the Institution Setup option. Answer "Y" to the question "Do you want to change your printer?", then select the appropriate number.

Questions & Answers

LINE(S):	**CCR460** **CCR505**	**Q&A No. 40**
SUBJECT:	**Risk weighting high LTV loans**	
DATE:	**September 11, 1998**	

Question: An institution has a new loan product whereby they make a conventional 80% loan to a borrower with excellent credit, and then issue a 2nd deed of trust to cover the 20% down payment. The 2nd deed of trust is recorded as a separate loan. If the loans are analyzed individually, the first mortgage loan would be reported in the 50% category, since the LTV is 80% or less, and the 2nd would be classified in the 100% category, since it is based on creditworthiness. However, if you look at the loans on a combined basis, they have exceeded the 80% LTV requirement, which would mean that both loans should be reported in the 100% category.

What is the proper risk-weighting for these loan types?

Answer: Aggregation for reporting purposes is not intended to disadvantage the first lienholder for capital purposes. Provided the loan is fully collateralized, prudently underwritten, and otherwise qualifies for 50% risk weighting, only the second mortgage would be subject to 100% risk weighting.

LINE(S):	**SI-215**	**Q&A No. 41**
SUBJECT:	**Escrows as Demand Deposits**	
DATE:	**September 11, 1998**	

Question: Examiners and management at an institution are having a definitional problem with escrows as demand deposits. These are P&I and T&I escrows established for their mortgage customers and placed in deposit accounts from which payments are made on the borrowers' behalf.

Escrows are included on SI-215 if they meet the definition of a demand deposit. But there are three criteria in the instructions for SI-215 in order for the deposit to be considered demand deposits. The third criteria states, “From which the depositor is authorized to make…” In the case of loan escrows, who is the depositor, the borrower or the institution?

The borrower is not authorized to make withdrawals or transfers; if the depositor is the borrower, then these escrows are not demand deposits according to the instructions.

The institution **is** authorized to make withdrawals on behalf of the borrower; if the institution is the depositor, then these accounts **are** demand deposits.

Answer: In this example, the reporting institution maintains and services escrow accounts for its mortgage customers. In this case, the depositor of the escrow accounts is the borrower; the institution is merely holding the funds for remittance to a third party. Therefore, we look to the borrower to determine whether or not the escrow funds represent demand deposits or time and savings deposits.

Escrows that meet the definition of demand deposits are to be reported on SI-215. However, the funds in question do not meet the definition of a demand deposit because the depositor – the borrower – is not authorized to make any transfers from the account. Therefore, these amounts must be reported on SC-783 as Escrows but they should not be reported on SI-215 as demand deposits.

LINE(S): **CC410** **Q&A No. 42**

SUBJECT: **Open-ended Mortgage loans**
DATE: **September 11, 1998**

Question: An institution has a commitment to make home equity lines of credit that will be reported on SC253. Where is the commitment reported, on CC280 or CC410?

Answer: If the commitment is to disburse a specific amount at closing, that amount should be reported on CC280. The remainder of the commitment should be reported on CC410. If the amount to be disbursed at closing is unknown, the full amount of the line of credit should be reported on CC410.

LINE(S): **CF140:330** **Q&A No. 43**
SUBJECT: **Cash Flow treatment of Mortgage loans converted to MBS**
DATE: **September 11, 1998**

Question: An institution is originating mortgage loans, securitizing them, then selling the transformed MBS to another institution.

On schedule CF, they are reporting a mortgage origination on CF230 and a MBS sale on CF160.

Based on the instructions for Mortgage Pools, should the sale be reported on CF310 in the loan category, and the purchase reflected on CF140:150, in the MBS category in addition to CF160 and CF230, to reflect the full cycle of the transaction? Or is it OK for to reflect an origination as a loan, and a sale as a security?

Answer: In order to track and reconcile these transactions, they have to be reported on four lines, CF230 for the origination, CF310 and CF140:150 for the securitization, and CF160 for the sale of the security.

LINE(S): **Schedules CF, CC, SI and SO** **Q&A No. 44**
SUBJECT: **Table Funding (Originating Mortgages Available-for-Sale)**
DATE: **September 11 , 1998**

An association originates mortgages loans and then immediately sells the loans, using a table-funding arrangement with its investors. While the association is the initial lender of record on the note and mortgage, it signs an assignment at the borrower's loan closing and the association’s funds are never invested in these loans. It is unclear whether the association would have an obligation to originate the loans, if for any reason its investors failed to honor their commitment.

Question: Should these loans appear on Schedule CF of the TFR as originations, and of course sales, or should this production not appear at all on CF?

Answer: All loans made in the name of the reporting savings association or its subsidiaries should be reported as commitments and as loans disbursed even if these loans are funded by and immediately transferred to a third party. Loans for which the underwriting is done by the reporting savings association but which are made in the name of a third party should not be reported.

However, prior to loan closing, if the association has a clean legal opinion that they would not be obligated if for any reason the investors failed to honor their commitment, the loan commitment does not have to be reported on Schedule CC.

Question: Should this production be includable in the thrift's QTL calculation? Our compliance examiners have already determined that this production does not count for the bank towards meeting its CRA responsibilities. Instead, it counts for the investor.

Answer: As long as the mortgage loans are "residential," they should be included on line 20 (loans originated and sold) of the association's QTL worksheet. HOLA Section 10(m)(4)(C)(iii)(I) provides that "50 percent of the dollar amount of the residential mortgage loans originated by...(a) savings association and sold within 90 days of origination" are includable in QTL calculations, subject to the 20% of assets cap.

Question: On which lines of Schedule SO should the revenues relating to these loans be reported? Say for example that a $100,000 loan is originated with a 1% origination fee, no discount points to the borrower, and is sold to the investor at par with a 150 b.p. servicing release premium (SRP). Further assume that the bank has 75 b.p. of identifiable direct expenses associated with the loan. I believe that the full 100 b.p. origination fee should be reported on SO420 Other Fees and Charges. In turn, I believe the 150 b.p. SRP should be reported on SO430 as a gain on sale of assets held for sale. Since the sale occurred immediately, I believe the 75 b.p. points of identifiable expenses gets reported on the appropriate categories within SO51 Noninterest Expense. Do you agree with this reporting, or do I have part or all of this wrong?

Answer: Yes, this reporting is acceptable. The identifiable expenses may also be deducted from the origination fee if the association has its records set up to accommodate it.

OTS WEBSITE

Reminder: TFR forms, the TFR Instruction Manual, all Financial Reporting Bulletins, and the 1999 TFR proposal are now available on the OTS website at **www.ots.treas.gov/tfrpage.html**.