Financial Reporting Bulletin

September 1999

• *Office of Thrift Supervision* •

• *Office of Research and Analysis* • *Financial Reporting Division* •

1700 G Street, N.W., Washington, DC 20552

TFR DEADLINE MONDAY, NOVEMBER 1, 1999

CMR DEADLINE MONDAY, NOVEMBER 15, 1999

It is important that you refer to this bulletin and the attached materials before submitting your September TFR.

UPDATED SEPTEMBER SOFTWARE DISTRIBUTED

By the end of September all savings associations should have received the September electronic filing software update from DPSC, Inc. Please install the September version of the software prior to transmitting your September 1999 TFR. The updated version contains several revised or new CMR edits. The new CMR edits primarily check for zero fields in cases where something should be reported. The website address in the institution information section of the software has been hard-coded with the hypertext "http://www." If your institution's website address begins with something other than "http://www", please contact Cheyann Houts at 972-281-2412 for instructions on submitting your website address. The September version of the software also contains Schedule CSS, which will be filed with the December 1999 TFR.

TFR TRAINING CLASSES FILLED

Within a month of the distribution of the June Financial Reporting Bulletin announcing the offering of TFR Training to be held this month in Dallas, TX, all four classes were filled and a waiting list was established. Because of the demand for the training, OTS is considering additional presentations of the course sometime next year. Announcement of the dates and locations of the additional training classes will be made in the Financial Reporting Bulletin several months in advance. Attendance preference will be given to those on the waiting list.

The "Financial Reporting Bulletin" is published quarterly by the Financial Reporting Division of the Office of Thrift Supervision and distributed to all OTS regulated institutions. Its purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Comments and suggestions on this bulletin should be sent to Patrick G. Berbakos, Director, Financial Reporting Division, Office of Thrift Supervision, at the above address, or by e-mail to patrick.berbakos@ots.treas.gov.

THIRD QUARTER REGULATORY REPORTS

The September 1999 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 Monday, November 1, 1999. Schedule CMR is due no later than Monday, November 15. ***Savings institutions that are exempt from filing Schedule CMR but choose to voluntarily file must follow the same filing deadlines as those institutions that are required to file. Institutions that fail to meet the filing deadline may not receive their Interest Rate Risk reports for the quarter.***

Please remember to check your institution information, including the name of the report preparer, telephone number, and e-mail and website addresses, each time you submit a report.

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 Houts 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, send an e-mail to tfr.instructions@ots.treas.gov, or obtain them from the OTS website at www.ots.treas.gov/tfrpage.html.

INSTITUTION WEBSITE ADDRESSES

The institution website addresses transmitted via the electronic filing software is the official method by which OTS collects this information. As more OTS staff and others utilize this information to access web sites, it is critical to ensure that these addresses are accurate and current.

We continue to see an inordinate number of incorrect or outdated addresses. Many of the problems are due to missing or incorrect hypertext (http://) and/or www prefixes in the transmitted addresses. We believe that most of these prefix problems will be resolved with changes in the DPSC software for September. (See the September Software section on page 1.) Other problems arise when report preparers mistakenly enter their internet email address rather than the address for the thrift's web home page. We again remind report preparers to check the Web Address in the Institution Information section of the software to ensure that it is correct and current before each report transmission, and to also make and transmit any changes to the institution's web address when they occur. This can be easily done by making the address change in the Institution Information section and then sending a short Usernote about this change to OTS.

SEPTEMBER 1999 CHANGES TO THE TFR INSTRUCTION MANUAL

Attached are 26 pages of the TFR Instruction Manual, which have been updated for September 1999. All pages are dated September 1999, and the revisions are indicated by a bar in the right margin.

The changes are as follows:

Schedule SC: Page 31, SC710, Deposits

Deleted the last sentence about reciprocal balances to clarify the instructions. Reciprocal balances are included in SC710 only when netting is permissible under GAAP. Refer also to the instructions for SI248.

Schedule SO: Page 44, SO120 and SO140, Interest Income on Mortgage Pool Securities and on Mortgage Loans

Added adjustments to premiums and discounts due to prepayments under “Do not Include.” Adjustments to premiums and discounts due to prepayments may distort interest income and, therefore, should be reported under sales.

Schedule CF: Pages 90 and 93, CF280 through CF330, Mortgage Loans Disbursed and Loans and Participations Sold

Loans that are originated and immediately securitized or sold are to be reported as mortgage loans disbursed and mortgage loans sold. If the securities are retained by the reporting association, the transaction should also be reported as an acquisition of mortgage securities.

Schedule SI: Page 103, Amount of Assets Netted Against Deposit and Escrow Liabilities

Moved the paragraph about reciprocal demand balances in front of the examples to make it more noticeable.

Schedule SI: Page 108, SI581 through SI583, Qualified Thrift Lender Test

Corrected a reference to OTS Form 1427.

Schedule CCR: Page 148, CCR302, Unrealized Gains on Available-for-Sale Equity Securities

Clarified this instruction.

Schedule CCR: Page 151, CCR370, Equity Investments and Other Assets Required to be Deducted

Corrected a reference.

Schedule CCR: Page 153, General Instructions for Risk-Weight Categories

Clarified that if gains on equity securities are included in Tier 2 capital on CCR302, the full fair value of the equity securities must be risk weighted.

Schedule CCR: Page 158, CCR460, Qualifying Single-family Residential Mortgage Loans

The federal banking agencies revised the risk-based capital regulation in a rulemaking that took effect on April 1, 1999. The revised rule requires institutions to combine certain junior liens with the first lien. If the institution holds the first and second liens, the loans are now viewed as a single extension of credit for the purpose of determining the LTV ratio, as well as for risk weighting. In this instruction change we clarified that when determining the LTV ratio for qualifying single-family mortgages all loans to the same consumer secured by the same property, with no intervening liens, should be combined, including loans classified as consumer loans in Schedule SC.

Schedule CMR, Page 204, CMR464, Equity Securities

Specified that perpetual and convertible preferred stock, for which there are readily determinable fair values, are included on this line.

Schedule CMR, Page 205, CMR479 through CMR481, Other Securities

Specified that limited life preferred stock is included on this line.

Questions & Answers

TFR Questions and Answers can be found on the OTS Website at www.ots.treas.gov/tfrqanda.html. If you have a question that you would like to appear in this column or to which you would like an e-mail response, please submit it to tfr.instructions@ots.treas.gov.

REVISED Q&A No. 40

SUBJECT: RISK-WEIGHTING HIGH LTV LOANS
LINE(S): CCR460
CCR505
DATE: September 11, 1998 **(Revised August 2, 1999)**

Question: *An institution has a loan product whereby it makes a conventional 80% loan to a borrower with excellent credit, and then issues 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?

Revised Answer: The federal banking agencies revised the risk-based capital regulation in a rulemaking that took effect on April 1, 1999. The revised rule requires institutions to combine certain junior liens with the first lien. Because the institution holds the first and second liens and no other party holds an intervening lien, the loans will be viewed as a single extension of credit secured by a first lien on the underlying property for the purpose of determining the LTV ratio, as well as for risk weighting. The combined loan amount must be assigned to the 100% risk category, because the combined loans have exceeded the 80% LTV limit.

The combined loans would also be aggregated with other high LTV loans reported to the board of directors in accordance with the Interagency Guidelines attached to 12 CFR 560.100-101. The guidelines also state that the institution's aggregate investment in such loans should not exceed 100% of capital.

Q&A No. 69

SUBJECT: ASSISTED LIVING FACILITIES
Line: SC256, SC260, CCR465, CCR505
Date: September 15, 1999

Question: *An institution is planning to make a loan for a senior assisted living facility, and wants to know how this will affect their capital. How should this type of facility be reported on SC, which would determine its risk-weight category on CCR? The instructions for SC256 (Mortgages on 5 or More Dwelling Units) say to include retirement homes, while SC260 (Mortgages on Nonresidential Property) includes nursing and convalescent homes. A senior assisted living facility seems to be a hybrid of these two entities.*

Answer: The key to the classification of assisted living facilities on Schedule SC is whether the facility's primary function is residential. If the facility's primary use is for permanent residents with separate living quarters, and the revenue received is primarily for residential purposes, the mortgage is properly reported on SC256 as a mortgage secured by multifamily residential property. A change was made to the instructions for March 1999 which deleted assisted living from the definition of nonresidential mortgage loans because certain assisted living complexes have permanent residents with their own apartments and common areas including a dining hall. By definition, these facilities provide "assistance" in the form of healthcare and related services not normally an integral part of unassisted multifamily residential living. If the primary function of an assisted living facility is to house people on a temporary basis and/or the bulk of the revenue received is derived from nonresidential health care activities, similar to a nursing or convalescent home, the loan should be classified as a mortgage on nonresidential property and reported on SC260.

For capital purposes, in order to be properly placed in the 50% risk weight, a multifamily loan must meet the definition of "qualifying multifamily mortgage loan" at 12 CFR 567.1. If so, it can be included on CCR465, in the 50% risk-weight category (see instructions to CCR465), otherwise it would be reported in the 100% category on CCR505. Among the many elements and provisos within that definition, there is a requirement that the loan must be secured by a first lien on multifamily residential properties consisting of five or more dwelling units. The analysis above should be followed in making that determination.

Q&A No. 70

SUBJECT: PREFERRED DEPOSITS
LINE(S): SI237
Date: September 15, 1999

Question: *An institution has collateralized deposits from the local school district. They are not required by state law to secure the uninsured portion of these deposits, but they have done so anyway as a safety measure. Are these reported on SI237 as preferred deposits, or are they included only if the state requires that they be secured?*

Answer: Deposits are reported as preferred deposits only if collateralization is required by state law. Therefore, the deposits described above should not be reported as preferred deposits.

Q&A No. 71

SUBJECT: SET-OFF OF NEGATIVE CASH ACCOUNT
LINE(S): SC110
Date: September 15, 1999

Question: *If a cash account with a bank is in a net credit balance at year end and we have federal funds sold to the same bank also at year end, how should the credit balance be reported. Should it be setoff with the fed funds or shown as a deposit liability or as a borrowing? There are no other accounts between the thrift and the bank.*

Answer: The deposit overdraft and Fed Funds sold can only be offset if there is a right of set-off under a legally enforceable cash management arrangement for accounts of the same legal entity. (See FASB Interpretation No. 39, paragraph 5). If the accounts meet all the requirements of set-off, the remaining Fed Funds amount should be reported on SC170. If they cannot be offset, the entire Fed Funds Sold should be reported on SC170 and the credit balance should be reported on SC760 (Other Borrowings).

Q&A No. 72

SUBJECT: LOANS SECURED BY DUPLEXES
LINE(S): SC250/256
Date: September 15, 1999

Question: *An institution has one borrower who owns six duplexes, with one loan for all six duplexes. Based on property type this would be classified as a 1-4. However, since there is only one loan on more than four units would it be considered multifamily?*

Answer: If there is one mortgage on several duplexes totaling 5 or more units, it is classified as multifamily (5 or more). If there were individual mortgages on each property, they would be classified as single family; that is, each loan could have different terms and each could be foreclosed on or sold separately.

Q&A No. 73

SUBJECT: LTV CALCULATION WHEN THE FIRST LIEN IS FHA-INSURED AND THE SECOND LIEN IS CONVENTIONAL
LINE(S): CCR460
Date: September 15, 1999

Question: *Q&A No. 63 discussed the LTV calculation when the first lien is conventional and the second lien is FHA-insured, but how is a mortgage loan risk-weighted when the 1st mortgage lien is an FHA loan and a second lien is a conventional loan?*

Answer: The 1st mortgage loan is risk-weighted at 20% because it is FHA-insured. However, when determining the risk-weight of the junior lien, the first must be combined with all junior liens. If the combined LTV ratio does not exceed 80% and the second mortgage meets the definition of a qualifying mortgage loan, it may be risk-weighted at 50%. The second mortgage is risk-weighted at 100% when the combined LTV ratio exceeds 80%, the loan is more than 90 days past due, or the loan is not prudently underwritten.

Q&A No. 74

SUBJECT: RISK WEIGHTING RESIDUAL OF A LOAN PARTICIPATION
LINE(S): CCR460
Date: September 15, 1999

Question: *An institution is considering selling a 90% participation in a loan and retaining the remaining 10% principal balance. The participation agreement would give the purchaser a senior position to that of the selling institution. However, the total LTV is still only 70%, it is still a first mortgage loan, and it qualifies in all other ways as a 50% risk-weighted asset.*

Given the above circumstances, would the asset still qualify and be risk-weighted at 50%?

Answer: No. The 10% retained by the institution must be risk-weighted at 100% because it is subordinate to the sold participation.

Q&A No. 75

SUBJECT: DEPOSIT PREMIUM ASSESSMENT BASE
LINE(S): SC710
Date: September 15, 1999

From time to time we get questions on the computation of the assessment base for TFR filers. The computation is as follows:

Demand Deposits:

	SI215	Noninterest-bearing Demand Deposits
	+SI239	Outstanding Checks Drawn against FHLB and FRB
	+SI243	Demand Deposits of Consolidated Subsidiaries
	+SI247	Assets Netted against Deposit Liabilities
(1)	=	Gross Demand Deposits
	Less:	16-2/3% Float Deduction
(2)	=	Adjusted Demand Deposits less Float Deduction

Time and Savings Deposits:

	SC710	Total Deposits
	+SC783	Escrows
	+SC763	Accrued Interest Payable - Deposits
	+SI244	Time and Savings Deposits of Consolidated Subsidiaries
	+SI248	Assets Netted against Deposit Liabilities
	Less:	Gross Demand Deposits - (1) above
	=	Gross Time and Savings Deposits
	-SI245	Depository Institution Investment Contracts & Foreign Deposits
	=	Adjusted Time and Savings Deposits
	Less:	1% Float Deduction
(3)	=	Adjusted Time and Savings Deposits less Float Deduction

Total Assessment Base:

	Adjusted Demand Deposits less Float Deduction - (2) above
+	Adjusted Time and Savings Deposits less Float Deduction - (3) above
	Total Assessment Base

Q&A No. 76

SUBJECT: RESERVE FOR UNCOLLECTABLE INTEREST
LINE(S): Schedules SC and VA
Date: September 15, 1999

Question: *For tracking purposes, an institution prefers to utilize a reserve for uncollected interest instead of placing severely delinquent loans in nonaccrual status. On which line should the reserve for uncollected interest be reported on TFR Schedule SC? Should the reserve for uncollected interest be treated as a specific valuation allowance in completing TFR Schedule VA?*

Answer: Interest income cannot be reported on Schedule SO and interest receivable cannot be reported on Schedule SC that is not collectable at the time of accrual. The institution may continue to accrue for tracking purposes, but not for reporting purposes. Therefore, the reserve for uncollected interest must be deducted from the accrued interest on the TFR; it is not a specific valuation allowance or a charge-off, but rather a direct offset.

Q&A No. 77

SUBJECT: LOANS COLLATERALIZED BY ACCOUNT RECEIVABLES
LINE(S): PD10 through PD30
Date: September 15, 1999

Question: *An institution has revolving commercial loans (no maturity) collateralized by account receivables. The amount of the loan is governed by the size of the collateral. The receivables used for collateral can fluctuate daily. If the debtor of the account receivable becomes past due on the monthly payment, the interest and principal amount is automatically capitalized to the loan. The commercial borrower can borrow additional funds to finance the past due amounts, limited by the maximum loan amount specified in the loan agreement with the institution. Should these loans be reported on PD, and would they be considered TDR?*

Answer: No. The loan would be reported on PD only if the commercial borrower were delinquent. As long as the commercial borrower is meeting the terms of its loan with the institution, the loan is not delinquent. This loan would only be TDR if the loan between the institution and the commercial borrower were TDR. The TDR status of the underlying collateral does not cause the loan with the institution to be TDR.

Q&A No. 78

SUBJECT: FLOATING RATE CMO VALUATION
Lines: CMR351, CMR352, CMR359, CMR361, CMR367, CMR368
Date: September 15, 1999

Question: *When valuing floating-rate CMOs using Bloomberg, is the pricing on the FMED screens acceptable for self-reporting on Schedule CMR?*

Answer: No, the FMED screens help you to determine if derivative mortgage securities are “high-risk.” However, this screen does not give accurate prices on floating-rate CMOs, since the prices do not properly take account of the caps and floors embedded in these instruments. As an alternative, Bloomberg’s FSPM or FSPD screens should be used to price these securities, since they explicitly account for the caps/floors.

The pricing methodology of either of the latter screens is consistent with OTS requirements for Schedule CMR. However, the FSPM screen uses Bloomberg median prepayment assumptions. The FSPD screen allows the user to customize prepayment assumptions.

For more complete information, see CEO Letter Number 55, April 30, 1996, Subject: CMO Floaters, and attachments, which is available on OTS' website at http://www.ots.treas.gov/docs/25055.pdf.

Q&A No. 79

SUBJECT: COMPLEX SECURITIES
Line: CMR485
Date: September 15, 1999

Question: *The CMR Instructions now classify Federal Home Loan Bank (FHLB) callable securities as "complex securities," and they are now reported on CMR485 rather than CMR473. Can a small institution use rate shock valuations provided by the FHLB for these securities?*

Answer: Yes, the institution can use valuations provided by FHLBs. For other types of securities, the institution would have to get a valuation from a source other than the issuer or the dealer from whom the security was purchased.

Q&A No. 80

SUBJECT: SERVICING ESCROWS
Line: SC783, CMR777, CMR779, CMR786
Date: September 15, 1999

Question: *An institution currently has $24 million of P&I and T&I escrows on loans serviced for others. The institution deposits the escrows in accounts at the Federal Home Loan Bank. Because the Federal Home Loan Bank is a depository institution, should the $24 million be reported on SC783 or SC796? If the answer is SC796, how should the amount be reported on CMR? Should they be reported as escrows on loans serviced for others, or should they be reported as Miscellaneous I liabilities?*

Answer: Servicing escrows are held in safekeeping for others and as such must be included in Escrows, on SC783. For deposit insurance purposes, escrows are considered a subset of deposits; that is, they are insured as deposits and are included in the deposit premium assessment base. It is irrelevant what the institution does with the funds once they are deposited with them. The issue is the relationship between the institution and the depositors of the escrows.

Servicing escrows should be reported on CMR as follows:

CMR777:	Tax and insurance escrows on single-family mortgages serviced for others;
CMR779:	Tax and insurance escrows on all other loans serviced for others;
CMR786:	Principal and interest escrows on **all** loans serviced for others (single-family, multi-family, consumer loans, etc.)

SELECTED WEBSITE ADDRESSES AND LINKS

OTS Website Home Page	www.ots.treas.gov
FDIC Website Home Page	www.fdic.gov
TFR forms, the TFR Instruction Manual, and Financial Reporting Bulletins	www.ots.treas.gov/tfrpage.html.
TFR Questions and Answers	www.ots.treas.gov/tfrqanda.html
Quarterly aggregate thrift industry data	www.ots.treas.gov/quarter.html
Year 2000 Information	www.ots.treas.gov/y2k.html
FDIC-insured Inst. and Industry Financial Data	www.fdic.gov/databank/index.html
Institution Directory and financial data for both savings associations and commercial banks	www2.fdic.gov/call_tfr_rpts
Annual Report of Trust Assets	http://www2.fdic.gov/artaweb/
Links to OTS industry statistical data	http://www.ots.treas.gov/ind-inst-data.html

- Cost of Funds
- Thrift Industry National and Regional Net Annual Chargeoffs by Asset Type
- OTS Fact Book (Historical Statistical Information of the Thrift Industry)

OTS Press Releases	www.ots.treas.gov/news.html
OTS Regulatory Bulletins	www.ots.treas.gov/bltn_regulatory.html
OTS Thrift Bulletins	www.ots.treas.gov/bltn_thrift.html
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