FFIEC 002
Draft Instructions for FFIEC 002 Revisions
Proposed to Take Effect March 31, 2024

The following draft instructions, which are subject to change, present the pages from the FFIEC 002 instructions as they are proposed to be revised. These proposed revisions are described in the federal banking agencies' initial Paperwork Reduction Act (PRA) Federal Register notice published in the Federal Register on September 28, 2023 (see FIL-53-2023, dated October , 2023).

The initial PRA Federal Register notice and the draft redlined reporting form for these proposed revisions to the FFIEC 002, are available on the FFIEC webpage for the FFIEC 002.

Draft as of October 2, 2023

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Impacted Items/ Instructions/ Entry	Pages

Refer to the Glossary entry for "Loan Modifications to Borrowers Experiencing Financial Difficulty" and Call Report Glossary entry for "Foreclosed Assets" for further discussion on these topics.

tial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the branch or agency has obtained physical possession of the underlying collateral, regardless of whether formal foreclosure or repossession proceedings have been instituted against the borrower.

Refer to the Glossary entry for "transfers of financial assets" for a detailed discussion of this topic.

See Insert A

Exclude, for purposes of this schedule, the following:

(1) all loans of immediately available funds that mature in one business day or roll over under a continuing contract, i.e., federal funds sold (report in Schedule RAL, item 1(d), "Federal funds sold and securities purchased under agreements to resell");

(2) all holdings of commercial paper (report in Schedule RAL, item 1(c), "Other bonds, notes, debentures, and corporate stock," if held for purposes other than trading);

(3) interest earned not collected on loans (report in Schedule RAL, item 1(h), "Other assets including other claims on nonrelated parties");

(4) contracts of sale or other loans indirectly representing other real estate (report in Schedule RAL, item 1(h), "Other assets including other claims on nonrelated parties");

(5) undisbursed loan funds, sometimes referred to as incomplete loans or loans in process, unless the borrower is liable for and pays the interest thereon. If interest is being paid by the borrower on the undisbursed proceeds, the amounts of such undisbursed funds should be included in both loans and deposits;

(6) loan commitments that have not yet been taken down, even if fees have been paid; see Schedule L, item 1; and

(7) loans and leases held for trading (report in Schedule RAL, item 1(f), "Trading assets").

Item Instructions for Part I

Item 1 Loans secured by real estate.

In column A, report in the appropriate subitem all loans secured by real estate. In column B, IBFs are to report all loans secured by real estate. Include all loans (other than those to states and political subdivisions in the U.S.), regardless of purpose and regardless of whether originated by the bank or purchased from others, that are secured by real estate as evidenced by mortgages, deeds of trust, land contracts, or other instruments, whether first or junior liens (e.g., equity loans, second mortgages) on real estate. See the Glossary entry for "loans secured by real estate" for the definition of this term.

Include as loans secured by real estate:

(1) Loans secured by residential properties that are guaranteed by the Farmers Home Administration (FmHA) and extended, collected, and serviced by a party other than the FmHA.

(2) Loans secured by properties and guaranteed by governmental entities in foreign countries.

(3) Participations in pools of Federal Housing Administration (FHA) Title I home improvement loans that are secured by liens (generally, junior liens) on residential properties.

Exclude from loans secured by real estate:

(1) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign nongovernmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the branch or agency but are merely pledged as collateral (report in Schedule C, part I, item 2, Loans to depository institutions and acceptances of other banks," or as all other loans in Schedule C, part I, item 8).

(2) Bonds issued by the Federal National Mortgage Association or by the Federal Home Loan Mortgage Corporation that are collateralized by residential mortgages.

(3) Pooled residential mortgages for which participation certificates have been issued or guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation. However, if the reporting branch or agency is the seller-servicer of the residential mortgages backing such securities and, as a result of a

Insert A

When a branch or agency acquires either (1) a portion of an entire loan that does not meet the definition of a participating interest (i.e., a nonqualifying loan participation) or (2) a qualifying participating interest in a transfer that does not does not meet all of the conditions for sale accounting, it should normally report the loan participation or participating interest in Schedule RAL, item 1.e, “Loans and leases held for investment and held for sale.” The branch or agency also should report the loan participation or participating interest in Schedule C, part I, in the loan category appropriate to the underlying loan, e.g., as a “commercial and Industrial loan” in item 4 or as a “loan secured by real estate” in item 1.

INSTRUCTIONS FOR THE PREPARATION OF

Past Due, Nonaccrual, and ~~Restructured~~ Loans

Schedule N

Modified to Borrowers Experiencing Financial Difficulty

modified to borrowers experiencing financial difficulty

Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

General Instructions

Report all loans, including lease financing receivables, that are past due, are in nonaccrual status, or have been ~~restructured~~ because of a deterioration in the financial position of the obligor. All such loans and lease financing receivables held in the reporting branch or agency and its IBF should be distributed by category and reported *net* of any specific reserves. Institutions that have adopted ASU 2016-13, which governs the accounting for credit losses, should report financial assets without any deductions for any applicable allowance for credit losses. Loan amounts should be reported net of unearned income to the extent that the same categories of loans are reported net of unearned income in Schedule C. Report the *full* outstanding balances of past due, nonaccrual, and ~~restructured~~ loans and lease financing receivables, as reported for purposes of Schedule C, not simply the delinquent payments.

Examples of assets reportable as past due include, but are not limited to the following:

...rned but not collected on loans ...e RAL, item 1(h), "Other assets ...ims on nonrelated parties").

NOTE: *Exclude* all transactions of the branch or agency, including its IBF, with related depository institutions (report in Schedule M). However, include transactions with related nondepository institutions.

Definitions

Past due. For purposes of this schedule, grace periods allowed by the branch or agency, including its IBF, after a loan technically has become past due, but before the imposition of late charges, are not to be taken into account in determining past due status. Furthermore, loans and lease financing receivables are to be reported as past due when either interest *or* principal is unpaid

(1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (Branches or agencies may use 30 days as a proxy for a month if they prefer.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

(2) Open-end credit such as charge-card plans, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.

1 ~~(3)~~ Single payment and demand notes providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.

2 ~~(4)~~ Single payment notes providing for the payment of interest at maturity are to be reported as past due after maturity if interest *or* principal remains unpaid for 30 days or more.

~~(5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.~~

For purposes of this schedule, branches or agencies should use one of two methods to recognize partial payments on "retail credit," i.e., open-end and closed-end credit extended to individuals for household, family, and other personal expenditures, including consumer loans and credit cards, and loans to individuals secured by their personal residence, including home equity and home improvement loans. A payment equivalent to 90 percent or more of the contractual

(3) A loan or other asset on which interest and/or principal remains unpaid for 30 days or more and which the institution is in the process of renewing, extending, or modifying in a manner that would change required payment dates, should be reported as past due if the renewal, extension, or modification has not been executed and become effective.

payment may be considered a full payment in computing delinquency. Alternatively, a branch or agency may aggregate payments and give credit for any partial payment received. For example, if a regular monthly installment is $300 and the borrower makes payments of only $150 per month for a six-month period, the loan would be $900 ($150 shortage times six payments), or three monthly payments past due. A branch or agency may use either or both methods for its retail credit but may not use both methods simultaneously with a single loan.

For institutions that have not adopted ASU 2016-13, when accrual of income on a purchased credit-impaired (PCI) loan accounted for individually is appropriate, the delinquency status of the individual loan should be determined in accordance with its contractual repayment terms for purposes of reporting the amount of the loan as past due in the appropriate items of Schedule N, column A or B. When accrual of income on a pool of PCI loans with common risk characteristics is appropriate, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan's contractual repayment terms for purposes of reporting the amount of individual loans within the pool as past due in the appropriate items of Schedule N, column A or B. For further information, see the Glossary entry for "purchased credit-impaired loans."

For institutions that have adopted ASU 2016-13, any PCI loans held as of the adoption date of the standard should prospectively be accounted for as purchased credit-deteriorated (PCD) loans. As of the adoption date of the standard, the remaining noncredit discount or premium on a PCD loan, after the adjustment for the allowance for credit losses, should be accreted to interest income at the new effective interest rate on the loan, if the loan is not required to be placed on nonaccrual. For a PCD loan that is not reported in nonaccrual status, the delinquency status of the PCD loan should be determined in accordance with its contractual repayment terms for purposes of reporting the amortized cost basis of the loan as past due in Schedule N, column A or B, as appropriate. If PCD loan that is not reported in nonaccrual status consists of a pool of loans that was previously PCI, but is being maintained as a unit of account after the adoption of ASU 2016-13, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan's contractual repayment terms. For further information, see the Glossary entry for "purchased credit-deteriorated assets."

Nonaccrual. For purposes of this schedule, loans and lease financing receivables are to be reported as being in nonaccrual status if: (1) they are maintained on a cash basis because of deterioration in the financial position of the borrower, (2) payment in full of interest or principal is not expected, or (3) principal or interest has been in default for a period of 90 days or more unless the obligation is *both* well secured *and* in the process of collection.

A debt is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A debt is "in the process of collection" if collection of the debt is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status listed above, the date on which a loan reaches nonaccrual status is determined by its contractual terms. If the principal or interest on a loan becomes due and unpaid for 90 days or more on a date that falls between report dates, the loan should be placed in nonaccrual status as of the date it becomes 90 days past due and it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

In the following situations, a loan need not be placed in nonaccrual status:

(1) The loan upon which principal or interest is due and unpaid for 90 days or more is a consumer loan, or a loan secured by a 1-to-4 family residential property. Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the reporting institution's net income is not materially overstated. To the extent that the reporting institution has elected to carry such a loan in nonaccrual status on its books, the

loan must be reported as nonaccrual in this schedule.

(2) For an institution that has *not* adopted ASU 2016-13, the criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality, are met for a PCI loan; or a pool of loans, accounted for in accordance with that Subtopic, regardless of whether the loan or; the loans in the pool, had been maintained in nonaccrual status by its seller. (For PCI loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) For further information, see the Glossary entry for “purchased credit-impaired loans and debt securities.”

For an institution that has adopted ASU 2016-13, any outstanding PCI loans as of the adoption date should prospectively be accounted for as PCD loans. Any remaining noncredit discount on such loans should be accreted into interest income at the effective interest rate on the adoption date of ASU 2016-13 if a loan is not required to be placed in nonaccrual status. For PCD loans acquired after the adoption date, ASU 2016-13 refers to ASC Subtopic 310-10 for guidance on recognition of interest income. For PCD loans with common risk characteristics that a branch or agency chooses to aggregate and account for as a pool for allowance measurement purposes under ASU 2016-13, the determination of nonaccrual or accrual status should be made at the individual loan level, not at the pool level.

(3) For an institution that has adopted ASU 2016-13, the following criteria are met for a PCD loan, including a PCD loan that was previously a PCI loan or part of a pool of PCI loans, that would otherwise be required to be placed in nonaccrual status (see the Glossary entry for “Nonaccrual status”):

a. The institution reasonably estimates the timing and amounts of cash flows expected to be collected, and

b. The institution did not acquire the asset primarily for the rewards of ownership of the underlying collateral, such as use of collateral in operations of the institutions or improving the collateral for resale.

When a PCD loan that meets the criteria above is not placed in nonaccrual status, the loan should be subject to other alternative methods of evaluation to ensure that the institution's net income is not materially overstated. Further, regardless of whether a PCD loan is in nonaccrual or accrual status, an institution is not permitted to accrete the credit-related discount embedded in the purchase price of such a loan that is attributable to the acquirer's assessment of expected credit losses as of the date of acquisition (i.e., the contractual cash flows the acquirer did not expect to collect at acquisition). Interest income should no longer be recognized on a PCD loan to the extent that the net investment in the asset would increase to an amount greater than the payoff amount. If an institution is required or has elected to carry a PCD loan in nonaccrual status, the loan must be reported as a nonaccrual asset at its amortized cost basis in this schedule in column C. (For PCD loans for which the institution has made a policy election to maintain previously existing pools of PCI loans upon adoption of ASU 2016-13, the determination of nonaccrual or accrual status should be made at the pool level, not the individual asset level.) For further information, see the Glossary entry for “purchased credit-deteriorated assets.”

(4) The criteria for amortization (i.e., accretion of discount) specified in AICPA Practice Bulletin No. 6 are met with respect to a loan or other debt instrument acquired at a discount (because there is uncertainty as to the amounts or timing of future cash flows) from an unaffiliated third party (such as another institution or the receiver of a failed institution), including those that the seller had maintained in nonaccrual status.

As a general rule, a nonaccrual loan may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the reporting institution expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. For purposes of meeting the first test for restoration to accrual status, the reporting ~~institAny remaining noncredit discountution~~ must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for

institution

modified to a borrower experiencing financial difficulty

Nonaccrual Status

"~~nonaccrual status~~," (1) the loan has been ~~restructured in a troubled debt restructuring~~ and qualifies for accrual status, (2) for an institution that has *not* adopted ASU 2016–13, the asset is a PCI, pool of loans, or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method specified in that Subtopic, or (3) for an institution that has adopted ASU 2016–13, the loan is a PCD loan and it meets the two criteria specified in the third situation discussed above in which the loan need not be placed in nonaccrual status, or (4) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though it has not been brought fully current, and certain repayment criteria are met. For further information, see the Glossary entry for "nonaccrual status."

See Insert A

~~**Restructured and in compliance with modified terms.** For purposes of this schedule, restructured loans and leases are those loans and leases whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal, regardless of whether such loans and leases are secured or unsecured, regardless of whether such credits are guaranteed by the government or by others, and (except as noted in the following paragraph) regardless of the effective interest rate on such credits.~~

~~Once a loan or lease has been restructured because of such credit problems, it continues to be considered restructured until paid in full. However, a restructured loan or lease that is in compliance with its modified terms and yields a market rate (i.e., the recorded amount of the obligation bears an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the branch or agency is willing to accept for a new extension of credit with comparable risk) need not continue to be reported as "restructured and in compliance with modified terms" in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting branch or agency for the purpose of facilitating the disposal of such real estate is not considered a restructured loan. For further information, see ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors.~~

~~Report as "restructured and in compliance with modified terms" all restructured loans and leases as defined above that are in compliance with their modified terms, that is, restructured loans and leases (1) on which *no* contractual payments of principal or interest scheduled under the modified repayment terms are due and unpaid or (2) on which contractual payments of both principal *and* interest scheduled under the modified repayment terms are less than 30 days past due. *Exclude* from "restructured and in compliance with modified terms" all restructured loans secured by 1-to-4 family residential properties and all restructured loans to individuals for household, family, and other personal expenditures. (However, any restructured loans of these two types that subsequently become past due 30 days or more or are placed in nonaccrual status should be reported accordingly.)~~

Column Instructions

Institutions that have adopted ASU 2016-13 should report in columns A and B asset amounts without any deduction for allowances for credit losses.

Report in columns A and B (except for Memoranda item 2) the full outstanding balances (not just delinquent payments) of loans, including lease financing receivables, that are past due and upon which the branch or agency, including its IBF, continues to accrue interest, as follows:

(1) In column A, report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears two or three monthly payments; other multipayment obligations, with payments scheduled other than monthly, when one scheduled payment is due and unpaid for 30 through 89 days; single payment and demand notes providing for payment of interest at stated intervals after one interest payment is due and unpaid for 30 through 89 days; single payment notes providing for payment of interest at maturity, on which interest *or* principal remains unpaid for 30 through 89 days after maturity; unplanned overdrafts, whether or not the branch or agency is

Insert A

Loan Modification to Borrowers Experiencing Financial Difficulty

Institutions are required for financial reporting purposes to disclose modifications to borrowers experiencing financial difficulty if such modifications include principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof).

For purposes of this schedule, a modified loan that meets the criteria of a modification to a borrower experiencing financial difficulty continues to be reported as such for a minimum of 12 months and until the institution performs a current, well documented credit evaluation to support that the borrower is no longer experiencing financial difficulty, or until paid in full or otherwise settled, sold, or charged off.

The amounts reported should include modifications that were accounted for as new loans in addition to modifications that were accounted for as a continuation of existing loans. Include only loans modified after the beginning of the fiscal year in which ASU No. 2022-02, "Financial Instruments -Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," was adopted.

For further information, see Glossary entry for "Loan Modifications to Borrowers Experiencing Financial Difficulty."

modified to borrowers experiencing financial difficulty

accruing interest on them, if the account remains continuously overdrawn for 30 through 89 days.

(2) In column B, report the loans, including lease financing receivables, as specified above on which payment is due and unpaid for 90 days or more.

Report in columns A and B of Memoranda item 2 the fair value, if positive, of all interest rate, foreign exchange rate, equity, and commodity and other contracts or which a required payment by the branch or agency's counter-party is due and unpaid for 30 through 89 days and due and unpaid for 90 days or more, respectively.

Exclude from columns A and B all loans and lease financing receivables that are in nonaccrual status and all loans and leases that are ~~restructured~~ and in compliance with their modified terms.

Report in column C the outstanding balances of loans, including lease financing receivables, that the branch or agency, including its IBF, has placed in nonaccrual status.

Also include in this column all ~~restructured~~ loans and leases that are in nonaccrual status.

Report in column D the outstanding balances of loans, including lease financing receivables, that have been ~~restructured~~ and are in compliance with their modified terms.

Exclude from column D (1) those ~~restructured~~ loans and leases on which under the modified repayment terms either principal *or* interest is 30 days or more past due (report in Schedule N, column A or B, as appropriate) and (2) those ~~restructured~~ loans and leases that are in nonaccrual status under the modified repayment terms (report in Schedule N, column C).

NOTE: Columns A, B, C, and D are mutually exclusive. The full outstanding balance of any loan, including any lease financing receivable, should be reported in no more than one of these four columns. Information reported for any derivative contract should be reported in only column A or column B.

modified to borrowers experiencing financial difficulty

Item Instructions

The loan categories specified in this schedule (except for Memorandum item 1) correspond to the loan category definitions for Schedule C, Part I, including the treatment of leases.

Item 1 Total loans to U.S. addressees (domicile).
See the Glossary entry for "domicile" for further information.

Item 1(a) Commercial and industrial loans.
Corresponds to Schedule C, Part I, item 4(a), column A.

Item 1(b) Loans secured by real estate.
Corresponds to Schedule C, Part I, item 1, column A, consisting of loans to U.S. addressees.

Item 1(c) All other loans.
Corresponds to Schedule C, Part I, items 2(a)(1), 2(a)(2), 2(b), 9(a), column A, and to that portion of Schedule C, Part I, items 3, 7, and 8, column A, consisting of loans to U.S. addressees.

Item 2 Total loans to non-U.S. addressees (domicile).
Corresponds to Schedule C, Part I, item 2(c)(1), 2(c)(2), 4(b), 9(b), column A, and to that portion of Schedule C, Part I, items 1, 3, 6, 7, 8, column A, consisting of loans to non-U.S. addressees.

Item 3 Total.
Report the sum of items 1(a), 1(b), 1(c), and 2.

Memoranda

Item M1 Book value of loans sold or otherwise transferred to head office or to related institutions and still serviced by the reporting branch or agency.
Report in this item in the appropriate column the book value of any past due, nonaccrual, or renegotiated asset of a type reportable in Schedule C that was originated or otherwise acquired by the reporting branch or agency (and its IBF) and was subsequently sold or transferred to the reporting branch or agency's head office or to any related institution, provided such asset is still being serviced by the reporting branch or agency. For purposes of this item, the phrase "being serviced" means that the reporting branch or agency (and its IBF) does not actually carry the asset on its books and so cannot actually report it in Schedule C, but continues to collect loan payments or otherwise maintain

Loan

For purposes of this report, a loan is generally an extension of credit resulting from direct negotiations between a lender and a borrower. The reporting branch or agency may originate a loan by directly negotiating with a borrower or it may purchase a loan or a portion of a loan originated by another lender that directly negotiated with a borrower. The reporting branch or agency may also sell a loan or a portion of a loan, regardless of the method by which it acquired the loan.

Loans may take the form of promissory notes, acknowledgments of advance, due bills, invoices, overdrafts, acceptances, and similar written or oral obligations.

Among the extensions of credit reportable as loans in Schedule C, which covers both loans held for sale and loans that the reporting branch or agency has the intent and ability to hold for the foreseeable future or until maturity or payoff, are:

(1) acceptances of other banks purchased in the open market, not held for trading;

(2) acceptances executed by or for the account of the reporting *branch or agency* and subsequently acquired by it through purchase or discount;

(3) customers' liability to the reporting branch or agency on drafts paid under letters of credit for which the branch or agency has not been reimbursed;

(4) "advances" and commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which the reporting branch or agency has given deposit credit to customers;

(5) paper pledged by the branch or agency whether for collateral to secure bills payable (e.g., margin collateral to secure bills rediscounted) or for any other purpose;

(6) sales of so-called "term federal funds" (i.e., sales of immediately available funds with a maturity of more than one business day), other than those involving security resale agreements;

(7) factored accounts receivable;

(8) loans arising out of the purchase of assets (other than securities) under resale agreements with a maturity of more than one business day if the agreement requires the branch or agency to resell the identical asset purchased; and

(9) participations (acquired or held) in a single loan or in a pool of loans or receivables (see discussion in the Glossary entry for "transfers of financial assets").

See also "loans secured by real estate," "overdraft," and "transfers of financial assets."

Loan Fees

The accounting standards for nonrefundable fees and costs associated with lending, committing to lend, and purchasing a loan or group of loans are set forth in ASC Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases"), a summary of which follows. The statement applies to all types of loans as well as to debt securities (but not to loans or debt securities carried at market value if the changes in market value are included in earnings) and to all types of lenders. For further information, see ASC Subtopic 310-20. A branch or agency may acquire a loan by originating the loan (lending) or by acquiring a loan from a party other than the borrower (purchasing). Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and leasing activities are all considered "lending activities." Nonrefundable loan fees paid by the borrower to the lender may have many different names, such as origination fees, points, placement fees, commitment fees, application fees, management fees, restructuring fees, and syndication fees, but in this Glossary entry, they are referred to as loan origination fees, commitment fees, or syndication fees. ASC Subtopic 310-20 applies to both a lender and a purchaser, and should be applied to individual loan contracts. Aggregation of similar loans for purposes of recognizing net fees or costs and purchase premiums or discounts is permitted under certain circumstances specified in ASC Subtopic 310-20 or if the result does not differ materially from the amount that would have been recognized on an individual loan-by-loan basis.

In general, the statement specifies that:

including loan modifications to borrowers experiencing financial difficulty

(1) Loan origination fees should be deferred and recognized over the life of the related loan as an adjustment of yield (interest income). Once a branch or agency adopts ASC Subtopic 310-20, recognizing a portion of loan fees as revenue to offset all or part of origination costs in the reporting period in which a loan is originated is no longer acceptable.

(2) Certain direct loan origination costs specified in the Statement should be deferred and recognized over the life of the related loan as a reduction of the loan's yield. Loan origination fees and related direct loan origination costs for a given loan should be offset and only the net amount deferred and amortized.

(3) Direct loan origination costs should be offset against related commitment fees and the net amounts deferred except for: (a) commitment fees (net of costs) where the likelihood of exercise of the commitment is remote, which generally should be recognized as service fee income on a straight line basis over the loan commitment period, and (b) retrospectively determined fees, which are recognized as servic

amortized cost basis of the new loan.

on the date as of which the amoun determined. All other commitment fees (net of costs) shall be deferred over the entire commitment period and recognized as an adjustment of yield over the related loan's life or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

(4) Loan syndication fees should be recognized by the branch or agency managing a loan syndication (the syndicator) when the syndication is complete unless a portion of the syndication loan is retained. If the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator should defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.

(5) Loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans shall be recognized as an adjustment of yield by the interest method based on the contractual term of the loan. However, if the branch or agency holds a large number of simi- lar loans for which prepayments are p and the timing and amount of prepay be reasonably estimated, the branch o may consider estimates of future princ payments in the calculation of the con effectiveyield necessary to apply the interest method. Once a branch or agency adopts ASC Subtopic 310-20, the practice of recognizing fees over the estimated average life of a group of loans is no longer acceptable.

and 2) the change in cash flows is more than minor.

following exists: 1) the

(6) A refinanced or restructured loan, ~~other than a troubled debt restructuring~~, should be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan. Any unamortized net fees or costs and any prepayment penalties from the original loan should be recognized in interest income when the new loan is granted. If the refinancing or restructuring does not meet these conditions or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as a part of the ~~net investment in the new loan~~. The ~~investment in~~ the new loan should consist of the remaining net investment in the original loan, any additional amounts loaned, any fees received, and direct loan origination costs associated with the transaction. ~~In a troubled debt restructuring involving a modification of terms, fees received should be applied as a reduction of the recorded investment in the loan, and all related costs, including direct loan origination costs, should be charged to expense as incurred.~~

net investment in, or the amortized cost basis of, the new loan, as applicable,

(7) Deferred net fees or costs shall n during periods in which interest loan is not being recognized bec cerns about realization of loan principal or interest.

Direct loan origination costs of a completed loan are defined to include only (a) incremental direct costs of

See also Glossary entry for "Loan modification to Borrowers Experiencing Financial Difficulty".

See Insert B

loan origination incurred in transactions with independent third parties for that particular loan and (b) certain costs directly related to specified activities performed by the lender for that particular loan. Incremental direct costs are costs to originate a loan that (a) result directly from and are essential to the lending transaction andwould not have been incurred by the lender had that lending transaction not occurred. The specified activities performed by the lender are evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction. The costs directly related to those activities include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that particular loan and other costs related to those activities that would not have been incurred but for that particular loan.

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including costs related to activities performed by the lender for advertising, identifying potential borrowers, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Employees' compensation and fringe benefits related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in "Any unearned income on loans reflected in items 1–8 above" in Schedule C, part I. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule C. Amounts of loan origination, commitment and other fees and costs recognized as an adjustment of yield should be included in interest income which is recognized as part of unremitted profit and loss. Other fees, such as (a) commitment fees that are recognized during the commitment period or included in income when the commitment expires (i.e., fees retrospectively determined and fees for commitments where exercise is remote) and (b) syndication fees that are not deferred, should be included in noninterest income which is recognized as part of unremitted profit and loss.

Loans Secured by Real Estate

For purposes of this report, loans secured by real estate are loans predicated upon a security interest in real property. A loan predicated upon a security interest in real property is a loan secured wholly or substantially by a lien on real property for which the lien is central to the extension of the credit—that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien on real property. All loans satisfying the criteria above are to be reported as loans secured by real estate (Schedule C, part I, item 1), regardless of whether secured by first or junior liens, regardless of the department within the branch or agency that made the loans, regardless of how the loans are categorized in the branch or agency's records, and regardless of the purpose of the financing. Only in transactions where a lien on real property has been taken as collateral solely through an abundance of caution and where the terms as a consequence have not been made more favorable than they would have been in the absence of the lien, would the loans *not* be considered to be secured by real estate and *not* be classifiable as loans secured by real estate in this report.

Money Market Deposit Account (MMDA)

See "deposits."

NOW Account

See "deposits."

Nonaccrual Status

Branches and agencies shall *not* accrue interest or discount on (1) any asset which is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) any asset for which payment in full of interest or principal is not expected, or (3) any asset upon which principal or interest has been in

Insert B

Loan Modifications to Borrowers Experiencing Financial Difficulty

The accounting standards for loan modifications to borrowers experiencing financial difficulty are set forth in ASC Topic 326, Financial Instruments - Credit Losses and ASC Topic 310, Receivables. ASC Subtopic 310-10 requires modifications of receivables to borrowers experiencing financial difficulty where the modification results in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) to be disclosed for financial statement purposes. These disclosures only include loan modifications to borrowers experiencing financial difficulty, regardless of whether the modifications result in new loans or the continuation of existing loans. Loan modifications to borrowers who are not experiencing financial difficulty or do not meet the definition above would not be disclosed.

For reporting purposes, loans modified to borrowers experiencing financial difficulty must be reported in the appropriate loan category in Schedule C, Part I, items 1 through 8. Additionally, if the loan is in compliance with its modified terms, these modifications are reported in the appropriate loan category in Schedule N Column D. For loans that are not in compliance with their modified terms, the loans must be included in the amounts reported in the appropriate loan category in Schedule N, Columns A through C.

See the Glossary entry for “Nonaccrual Status” for a discussion of the conditions under which a loan on nonaccrual that has undergone a modification to a borrower experiencing financial difficulty (including those that involve a multiple note structure) may be returned to accrual status.

Other Considerations:

A modification of a loan in which an institution receives physical possession of the borrower's assets whether in full or partial satisfaction of the debt should be accounted for in accordance with ASC Subtopic 310-20. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Call Report Glossary entry for "Foreclosed Assets."

In addition, if a modification of a loan includes both a modification of terms and the acceptance of property in partial satisfaction of the loan, the accounting for such a modification is a two-step process. First, the amortized cost basis of the loan is reduced by the fair value (less cost to sell, if appropriate) of the property received, and second, the institution is expected to measure any expected credit losses on the remaining recorded balance, or amortized cost basis, as applicable, of the modified loan in accordance with ASC Subtopic 326-20, “Financial Instruments - Credit Losses - Measured at Amortized Cost” and record any related allowance. If the modification of terms meets the definition of the loan modification to a borrower experiencing financial difficulty, then include the loan in the amounts reported on Schedule C Part I or Schedule N, as appropriate.

A modification may also involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Modifications in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Modifications in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a “new” loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value. If the modification of terms meets the definition of the loan modification to a borrower experiencing financial difficulty, then include the loan in the amounts reported on Schedule C Part I or Schedule N, as appropriate.

first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms involving payments of cash or cash equivalents. A loan that meets these two criteria may be restored to accrual status, but must continue to be disclosed as past due in Schedule N until it has been brought fully current or until it later must be placed in nonaccrual status.

A loan or other debt instrument that has been formally ~~restructured in a troubled debt restructuring~~ modified so as to be reasonably assured of repayment (of principal and interest) and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the asset are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents. (In returning the asset to accrual status, sustained historical repayment performance for a reasonable time prior to the ~~restructuring~~ modification may be taken into account.) Such a ~~restructuring~~ must improve the collectability of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the bank from the responsibility to promptly charge off all identified losses.

Offsetting

Offsetting is the reporting of assets and liabilities on a net basis in Schedule RAL. Branches and agencies are permitted to offset assets and liabilities recognized in the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet—Offsettting (formerly FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts"), a right of setoff exists when *all* of the following conditions are met:

(1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.

(2) The reporting party has the right to set off the amount owed with the amount owed by the other party.

(3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.

(4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership). According to ASC Subtopic 210-20, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the reporting branch or agency has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counter-party that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract. Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability in the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently. Offsetting of assets and liabilities is also permitted by other accounting pronouncements

should no longer be recognized on a PCD asset to the extent that the net investment in the asset would increase to an amount greater than the payoff amount.

Any purchased credit-impaired (PCI) loans and debt securities held as of the adoption date of ASC Topic 326 should prospectively be accounted for as PCD assets. The prospective application results in an adjustment to the amortized cost of the asset to reflect the addition of the ACL at the adoption date. As of the adoption date, the remaining noncredit discount or premium on the PCD asset, after the adjustment for the ACL, should be accreted into interest income at the new effective interest rate on the PCD asset if the asset is not required to be placed on nonaccrual.

ASC Subtopic 310-10, Receivables—Overall, does not prohibit a branch or agency from placing a PCD asset in nonaccrual status. Because a PCD asset is an acquired financial asset that, at acquisition, has experienced a more than- insignificant deterioration in credit quality since origination, as determined by an acquiring institution's assessment, the acquiring branch or agency must determine upon acquisition whether it is appropriate to place the PCD asset in accrual status, including accreting the noncredit discount or premium.

For purposes of this report, if a branch or agency has a PCD asset, including a PCD asset that was previously a PCI asset or part of a pool of PCI loans, that would otherwise be required to be placed in nonaccrual status (see the Glossary entry for "nonaccrual status"), the branch or agency may elect to accrue interest income on the PCD asset and not place the PCD asset in nonaccrual status if the following criteria are met:

(1) The institution reasonably estimates the timing and amounts of cash flows expected to be collected, and

(2) The institution did not acquire the asset primarily for the rewards of ownership of the underlying collateral, such as use of collateral in operations of the institution or improving the collateral for resale.

When a PCD asset that meets the criteria above is not placed in nonaccrual status, the asset should be subject to other alternative methods of evaluation to ensure that the branch or agency's income is not materially overstated. If a branch or agency is required or has elected to carry a PCD loan in nonaccrual status, the loan must be reported as a nonaccrual loan at its amortized cost basis in Schedule N, column C. For further information on PCD assets, refer to ASC Topic 326.

~~Purchased Credit-Impaired Loans and Debt Securities~~

~~This Glossary entry applies to branches and agencies that have not adopted ASC Topic 326, Financial Instruments—Credit Losses. Branches and agencies that have adopted ASC Topic 326 should refer to the Glossary entry for "purchased credit-deteriorated assets."~~

~~Purchased credit-impaired (PCI) loans and debt securities are loans and debt securities that a branch or agency has purchased or otherwise acquired by completion of a transfer, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan or debt security and it is probable, at the acquisition date, that the institution will be unable to collect all contractually required payments receivable. Such loans and debt securities must be accounted for in accordance with ASC Subtopic 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. ASC Subtopic 310-30 does not apply to loans that a branch or agency has originated.~~

~~Under ASC Subtopic 310-30, a PCI loan or debt security is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). ASC Subtopic 310-30 limits the yield that may be accreted on the loan or debt security (the accretable yield) to the excess of the branch or agency's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the asset over the institution's initial investment in the asset. The excess of the contractually required payments receivable on the loan or debt security over the cash flows expected to be collected, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on Schedule RAL. After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the asset's yield over~~

~~its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.~~

~~For purposes of applying the guidance in ASC Subtopic 310-30 to loans not accounted for as debt securities, a branch or agency may aggregate loans acquired in the same fiscal quarter that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the pool. To be eligible for aggregation, each loan first should be determined individually to meet the scope criteria in the second paragraph of this Glossary entry.~~

~~Upon establishment of a pool of PCI loans, the pool becomes the unit of account. Once a pool of PCI loans is assembled, the integrity of the pool must be maintained. A branch or agency should remove an individual loan from a pool of PCI loans only if it sells, forecloses, or otherwise receives assets in satisfaction of the loan or if the loan is written off. When an individual loan is removed from a pool of PCI loans under these circumstances, the loan shall be removed at its carrying amount.~~

~~ASC Subtopic 310-30 does not prohibit a branch or agency from placing a PCI loan accounted for individually, a pool of PCI loans with common risk characteristics, or a PCI debt security in nonaccrual status. Because a loan (including a loan aggregated with other loans with common risk characteristics) or debt security accounted for in accordance with ASC Subtopic 310-30 has evidence of deterioration of credit quality since origination, an acquiring branch or agency must determine upon acquisition whether it is appropriate to recognize the accretable yield as income over the life of the loan, pool of loans, or debt security using the interest method. In order to apply the interest method, the branch or agency must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on the loan, loan pool, or debt security.~~

~~Thus, when the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the branch or agency should place the PCI loan, pool, or debt security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For PCI loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) In addition, if a PCI loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. The amount of a PCI loan or pool of loans in nonaccrual status should be reported in the appropriate items of Schedule N, column C.~~

~~For further information on PCI loans and debt securities, refer to ASC Subtopic 310-30.~~

Put Option

See "derivative contracts."

Real Estate, Loans Secured By

See "loans secured by real estate."

Reciprocal Balances

Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting branch or agency has both a *due to* and a *due from* balance with another depository institution.

For purposes of Schedule RAL, reciprocal balances between the reporting branch or agency and other depository institutions (including U.S. branches and agencies of other foreign banks) may be reported on a net basis in accordance with generally accepted accounting principles.

Related Institutions

For purposes of this report, "related institutions" of a reporting U.S. branch or agency of a foreign bank include the following depository institutions and their majority-owned subsidiaries, whether they are located in the U.S., in Puerto Rico or U.S. territories and possessions, or elsewhere outside of the U.S.:

(1) Head office of the foreign bank and its other branches and agencies, hereafter referred to as the foreign bank parent.