

FFIEC 051
Draft Instructions for Call Report Revisions
Proposed to Take Effect March 31, 2024

The following draft instructions, which are subject to change, present the pages from the FFIEC 051 Call Report 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 2, 2023).

The initial PRA Federal Register notice and the draft redlined reporting form for these proposed revisions to the FFIEC 051 Call Report, are available on the [FFIEC webpage for the FFIEC 051 Call Report](#).

Draft as of October 2, 2023

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General Instructions for Part I (cont.)

states and political subdivisions in the U.S.) should be categorized as “Loans secured by real estate” in Schedule RC-C, part I. Loans secured by other collateral, such as securities, inventory, or automobiles, would require further examination of both purpose and borrower to properly categorize the loans in Schedule RC-C, part I. For loan categories in Schedule RC-C, part I, that include certain loans to individuals, the term “individual” may include a trust or other entity that acts on behalf of (or in place of) an individual or a group of individuals for purposes of obtaining the loan. Loans covering two or more categories are sometimes difficult to categorize. In such instances, categorize the entire loan according to the major criterion.

Report in Schedule RC-C, Part I, all loans and leases on the books of the reporting bank even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the bank has sold or charged off. Also exclude assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the bank 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 entries for "~~troubled debt restructurings~~Loan Modifications to Borrowers Experiencing Financial Difficulty" and "~~F~~oreclosed aAssets" for further discussion of these topics.

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Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

NOTE: Schedule RC-C, Part I, Memorandum items 1.a.(1) through 1.f.(5), are to be completed semiannually in the June and December reports only. Memorandum item 1.g is to be completed quarterly.

1 Loans restructured in troubled debt restructurings~~Loan modifications to borrowers experiencing financial difficulty that are in compliance with their modified terms.~~

Report in the appropriate subitem loans that have been ~~restructured in troubled debt restructurings~~modified to borrowers experiencing financial difficulty and are in compliance with their modified terms.

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 Memorandum item, report all loan modifications to borrowers experiencing financial difficulty that are performing in accordance with their modified terms, unless the loan meets the conditions that would require it to be reported in Schedule RC-N, Memorandum item 1. A loan modification to a borrower experiencing financial difficulty should continue to be reported 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, unless paid in full or otherwise settled, sold, or charged off.

~~As set forth in ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), a troubled debt restructuring is a restructuring of a loan in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this Memorandum item, the concession consists of a modification of terms, such as a reduction of the loan's stated interest rate, principal, or accrued interest or an extension of the loan's maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is guaranteed by the government or by others.~~

~~Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off. However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the bank was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring in this Memorandum item 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 troubled debt restructuring. Also, a loan to a third-party purchaser of "other real estate owned" by the reporting bank for the purpose of facilitating the disposal of such real estate is not considered a troubled debt restructuring.~~ loan modification to a borrower experiencing financial difficulty.

For further information, see the Glossary entry for "Loan Modifications to Borrowers Experiencing Financial Difficulty~~troubled debt restructurings.~~"

Include in the appropriate subitem all loans ~~restructured in troubled debt restructurings~~ modifications to borrowers experiencing financial difficulty, as defined above, that are in compliance with their modified terms, that is, ~~modified restructured~~ loans (1) on which all contractual payments of principal or interest scheduled that are due under the modified repayment terms have been paid 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 this item (1) those loan modifications to borrowers experiencing financial difficulty ~~s restructured in troubled debt restructurings~~ on which under their modified repayment terms either principal or interest is 30 days or more past due and (2) those loan modifications to borrowers experiencing financial difficulty ~~s restructured in troubled debt restructurings~~ that are in nonaccrual status under their modified repayment terms. Report such loans ~~restructured in troubled debt restructurings~~ in the category and column appropriate to the loan in Schedule RC-N, items 1 through 7, column A, B, or C, and in Schedule RC-N, Memorandum items 1.a through 1.f, column A, B, or C.

Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule RC-C, Part I.

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Part I. (cont.)**Memoranda****Item No. Caption and Instructions****1.a Construction, land development, and other land loans:**

1.a.(1) 1-4 family construction loans. Report all loans secured by real estate for the purpose of constructing 1-4 family residential properties (as defined for Schedule RC-C, Part I, item 1.a.(1)) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item 1-4 family construction loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.a.(1) and Memorandum item 1.a.(1)).~~

1.a.(2) Other construction loans and all land development and other land loans. Report all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans (as defined for Schedule RC-C, Part I, item 1.a.(2)) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item other construction loans and all land development and other land loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.a.(2) and Memorandum item 1.a.(2)).~~

1.b Loans secured by 1-4 family residential properties. Report all loans secured by 1-4 family residential properties (as defined for Schedule RC-C, Part I, item 1.c) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item loans secured by 1-4 family residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.c and Memorandum item 1.b). Also~~

~~Exclude from this item all 1-4 family construction loans that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms (report in Schedule RC-C, Part I, Memorandum item 1.a.(1), above).~~

1.c Loans secured by multifamily (5 or more) residential properties. Report all loans secured by multifamily (5 or more) residential properties (as defined for Schedule RC-C, Part I, item 1.d) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item loans secured by multifamily residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.d and Memorandum item 1.c).~~

1.d Secured by nonfarm nonresidential properties:

1.d.(1) Loans secured by owner-occupied nonfarm nonresidential properties. Report all loans secured by owner-occupied nonfarm nonresidential properties (as defined for Schedule RC-C, Part I, item 1.e.(1),) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item loans secured by owner-occupied nonfarm nonresidential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past~~

~~due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.e.(1) and Memorandum item 1.d.(1)).~~

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Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

- 1.d.(2) Loans secured by other nonfarm nonresidential properties.** Report all loans secured by other nonfarm nonresidential properties (as defined for Schedule RC-C, Part I, item 1.e.(2)) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item loans secured by other nonfarm nonresidential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 1.e.(2) and Memorandum item 1.d.(2)).~~
- 1.e Commercial and industrial loans.** Report all commercial and industrial loans (as defined for Schedule RC-C, Part I, item 4) that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude commercial and industrial loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N, item 4 and Memorandum item 1.e).~~
- 1.f All other loans.** Report all other loans that cannot properly be reported in Schedule RC-C, Part I, Memorandum items 1.a through 1.e, above that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms. ~~Exclude from this item all other loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Schedule RC-N).~~

Include in this item loans in the following categories that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms:

- (1) Loans secured by farmland (as defined for Schedule RC-C, Part I, item 1.b);
- (2) Loans to depository institutions and acceptances of other banks (as defined for Schedule RC-C, Part I, item 2);
- (3) Loans to finance agricultural production and other loans to farmers (as defined for Schedule RC-C, Part I, item 3);
- (4) Loans to individuals for household, family, and other personal expenditures (as defined for Schedule RC-C Part I, item 6);
- (5) Obligations (other than securities and leases) of states and political subdivisions in the U.S. (as defined for Schedule RC-C, Part I, item 8); and
- (6) Loans to nondepository financial institutions and other loans (as defined for Schedule RC-C, Part I, item 9)

For loans in the following loan categories within “All other loans” that have been modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and are in compliance with their modified terms, report the amount of such restructured-modified loans in the appropriate subitem of Schedule RC-C, Part I, Memorandum item 1.f, if the dollar amount of such restructured-modified loans in that loan category exceeds 10 percent of total loans modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings that are in

Part I. (cont.)**Memoranda****Item No. Caption and Instructions**

1.f (cont.) compliance with their modified terms (i.e., 10 percent of the sum of Schedule RC-C, Part I, Memorandum items 1.a through 1.e plus Memorandum item 1.f):

- Memorandum item 1.f.(1), "Loans secured by farmland";
- Memorandum item 1.f.(4)(a), Consumer "Credit cards";
- Memorandum item 1.f.(4)(b), Consumer "Automobile loans";
- Memorandum item 1.f.(4)(c), "Other" consumer loans; and
- Memorandum item 1.f.(5) "Loans to finance agricultural production and other loans to farmers," for banks with \$300 million or more in total assets and banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers (Schedule RC-C, Part I, item 3) exceeding five percent of total loans and leases held for investment and held for sale (Schedule RC-C, Part I, item 12).

1.g **Total loan modifications to borrowers experiencing financial difficulty loans restructured in troubled debt restructurings that are in compliance with their modified terms.** In the reports for March and September, report the total amount of modified to borrowers experiencing financial difficulty loans restructured in troubled debt restructurings that are in compliance with their modified terms. In the reports for June and December, report the sum of Memorandum items 1.a.(1) through 1.f.

2 **Maturity and repricing data for loans and leases (excluding those in nonaccrual status).** Report in the appropriate subitem maturity and repricing data for the bank's loans and leases held for investment and held for sale. Loans and leases are to be reported in this Memorandum item regardless of whether they are current or are reported as "past due and still accruing" in Schedule RC-N, columns A and B. However, exclude those loans and leases that are reported as "nonaccrual" in Schedule RC-N, column C.

The sum of Memorandum items 2.a.(1) through 2.b.(6) plus total nonaccrual loans and leases from Schedule RC-N, item 9, column C, must equal Schedule RC-C, sum of items 1 through 10.

For purposes of this memorandum item, the following definitions apply:

A fixed interest rate is a rate that is specified at the origination of the transaction, is fixed and invariable during the term of the loan or lease, and is known to both the borrower and the lender. Also treated as a fixed interest rate is a predetermined interest rate which is a rate that changes during the term of the loan on a predetermined basis, with the exact rate of interest over the life of the loan known with certainty to both the borrower and the lender when the loan is acquired. Examples of predetermined-rate transactions are: (1) Loans that carry a specified interest rate, for, say, six months and thereafter carry a rate equal to a specific percentage over the initial rate. (2) Loans that carry a specified interest rate while the loan amount is below a certain threshold amount but carry a different specified rate above that threshold (e.g., a line of credit where the interest rate is 10% when the unpaid balance of amounts advanced is \$100,000 or less, and 8% when the unpaid balance is more than \$100,000).

A floating rate is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities or the bank's "prime rate," or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact rate the loan carries at any subsequent time cannot be known at the time of origination.

Definitions (cont.)

- (3) For an institution that has adopted ASU 2016-13, the following criteria are met for a PCD asset, including a PCD asset that was previously a PCI asset or part of a pool of PCI assets, 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 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 institution's net income is not materially overstated. Further, regardless of whether a PCD asset is in nonaccrual or accrual status, an institution is not permitted to accrete the credit-related discount embedded in the purchase price of such an asset 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 asset 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 asset in nonaccrual status, the asset must be reported as a nonaccrual asset at its amortized cost basis (fair value for a PCD available-for-sale debt security) in Schedule RC-N, column C. (For PCD assets 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."

As a general rule, a nonaccrual asset may be restored to accrual status when:

- (1) None of its principal and interest is due and unpaid, and the bank 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 bank must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for "~~N~~onaccrual ~~s~~Status":

- (1) The asset has been ~~modified to borrowers experiencing financial difficulty-restructured in a troubled debt restructuring~~ and qualifies for accrual status;
- (2) The asset is a purchased credit-impaired loan, 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) 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 the loan has not been brought fully current, and certain repayment criteria are met.

For further information, see the Glossary entry for "~~N~~onaccrual ~~s~~Status."

Definitions (cont.)

Loan Modifications 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 it 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, unless 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.

Restructured in Troubled Debt Restructurings— A troubled debt restructuring is a restructuring of a loan in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this schedule, the concession consists of a modification of terms, such as a reduction of the loan's stated interest rate, principal, or accrued interest or an extension of the loan's maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is guaranteed by the government or by others.

Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off (or meets the conditions discussed under “Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring” in the Glossary entry for “troubled debt restructurings). However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the bank was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring 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 troubled debt restructuring. Also, a loan to a third party purchaser of “other real estate owned” by the reporting bank for the purpose of facilitating the disposal of such real estate is not considered a troubled debt restructuring.

For further information, see the Glossary entry for "Loan Modifications to Borrowers Experiencing Financial Difficulty~~troubled debt restructurings.~~"

Column Instructions

The columns of Schedule RC-N are mutually exclusive. Any given loan, lease, debt security, or other asset should be reported in only one of columns A, B, and C. Information reported for any given derivative contract should be reported in only column A or column B.

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

Report in columns A and B of Schedule RC-N the balance sheet amounts of (not just the delinquent payments on) loans, leases, debt securities, and other assets that are past due and upon which the bank 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, debt securities, and

Memoranda**Item No. Caption and Instructions**

NOTE: Schedule RC-N, Memorandum items 1.a.(1) through 1.f.(5), are to be completed semiannually in the June and December reports only. Memorandum item 1.g is to be completed quarterly.

- 1 Loan modifications to borrowers experiencing financial difficulty ~~Loans restructured in troubled debt restructurings~~ included in Schedule RC-N, items 1 through 7, above.**
Report in the appropriate subitem and column loans that have been modified to borrowers experiencing financial difficulty~~restructured in troubled debt restructurings~~ (as described in "Definitions" above) and are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in one or more of the loan categories in items 1 through 7 of this schedule. Exclude all modified to borrowers experiencing financial difficulty~~loans restructured in troubled debt restructurings~~ that are in compliance with their modified terms (report in Schedule RC-C, Part I, Memorandum item 1),
- For further information, see the Glossary entry for "Loan Modifications to Borrowers Experiencing Financial Difficulty~~troubled debt restructurings~~."
- 1.a Construction, land development, and other land loans:**
- 1.a.(1) 1-4 family construction loans.** Report in the appropriate column all loans secured by real estate for the purpose of constructing 1-4 family residential properties included in item 1.a.(1) of this schedule that have been modified to borrowers experiencing financial difficulty~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~
- 1.a.(2) Other construction loans and all land development and other land loans.** Report in the appropriate column all construction loans for purposes other than constructing 1-4 family residential properties, all land development loans, and all other land loans included in item 1.a.(2) of this schedule that have been modified to borrowers experiencing financial difficulty~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~
- 1.b Loans secured by 1-4 family residential properties.** Report in the appropriate column all loans secured by 1-4 family residential properties included in item 1.c of this schedule that have been modified to borrowers experiencing financial difficulty~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~
- 1.c Loans secured by multifamily (5 or more) residential properties.** Report in the appropriate column all loans secured by multifamily (5 or more) residential properties included in item 1.d of this schedule that have been modified to borrowers experiencing financial difficulty~~restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~
- 1.d Secured by nonfarm nonresidential properties:**
- 1.d.(1) Loans secured by owner-occupied nonfarm nonresidential properties.** Report in the appropriate column all loans secured by owner-occupied nonfarm nonresidential properties included in item 1.e.(1) of this schedule that have been restructured in modified to borrowers experiencing financial difficulty~~troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~
- 1.d.(2) Loans secured by other nonfarm nonresidential properties.** Report in the appropriate

column all nonfarm nonresidential real estate loans not secured by owner-occupied nonfarm nonresidential properties included in item 1.e.(2) of this schedule that modified to borrowers experiencing financial difficulty~~have been restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

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Memoranda**Item No. Caption and Instructions**

1.e Commercial and industrial loans. Report all commercial and industrial loans included in item 4 of this schedule that have been ~~modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~

1.f All other loans. Report in the appropriate column all other loans that cannot properly be reported in Schedule RC-N, Memorandum items 1.a through 1.e, above that have been ~~modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date.~~ Include in the appropriate column of this item all loans in the following categories that have been ~~modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date:~~

- (1) Loans secured by farmland included in Schedule RC-N, item 1.b;
- (2) Loans to depository institutions and acceptances of other banks included in Schedule RC-N, item 2;
- (3) Consumer credit cards included in Schedule RC-N, item 5.a;
- (4) Consumer automobile loans included in Schedule RC-N, item 5.b;
- (5) Other consumer loans included in Schedule RC-N, items 5.c; and
- (6) All other loans included in Schedule RC-N, item 7, including:
 - (a) loans to finance agricultural production and other loans to farmers included in Schedule RC-C, Part I, item 3;
 - (b) obligations (other than securities and leases) of states and political subdivisions in the U.S. included in Schedule RC-C, Part I, item 8;
 - (c) loans to nondepository financial institutions included in Schedule RC-C, Part I, item 9.a; and
 - (d) other loans included in Schedule RC-C, Part I, item 9.b.

For loans in the following loan categories within "All other loans" that have been ~~modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings and, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status as of the report date,~~ report the amount of such ~~restructured-modified~~ loans in the appropriate subitem of Schedule RC-N, Memorandum item 1.f, if the dollar amount of such ~~restructured-modified~~ loans in that loan category exceeds 10 percent of total loans ~~modified to borrowers experiencing financial difficulty restructured in troubled debt restructurings~~ that are not in compliance with their modified terms (i.e., 10 percent of the sum of Schedule RC-N, Memorandum items 1.a through 1.f):

- Memorandum item 1.f.(1), "Loans secured by farmland";
- Memorandum item 1.f.(4)(a), Consumer "Credit cards";
- Memorandum item 1.f.(4)(b), Consumer "Automobile loans";
- Memorandum item 1.f.(4)(c), "Other" consumer loans; and
- Memorandum item 1.f.(5), "Loans to finance agricultural production and other loans to farmers," for banks with \$300 million or more in total assets and banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers (Schedule RC-C, Part I, item 3) exceeding five percent of total loans and leases held for investment and held for sale (Schedule RC-C, Part I, item 12).

Memoranda**Item No. Caption and Instructions**

- 1.g** **Total loan modifications to borrowers experiencing financial difficulty loans restructured in troubled debt restructurings included in Schedule RC-N, items 1 through 7, above.** In the reports for March and September, report in columns A, B, and C the total amount of loans **restructured in troubled debt restructurings modified to borrowers experiencing financial difficulty** that are included in Schedule RC-N, items 1 through 7, columns A, B, and C, above, respectively. In the reports for June and December, for columns A through C, report the sum of Memorandum items 1.a.(1) through 1.f. Exclude amounts reported in Memorandum items 1.f.(1) through 1.f.(5) when calculating the total in this Memorandum item 1.g.
- 2** **Loans to finance commercial real estate, construction, and land development activities included in Schedule RC-N, items 4 and 7, above.** Report in the appropriate column the amount of loans to finance commercial real estate, construction, and land development activities ***not secured by real estate*** included in Schedule RC-C, part I, Memorandum item 3, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in items 4 and 7 of Schedule RC-N above. Exclude from this item all loans secured by real estate included in item 1 of Schedule RC-N above.
- 3** Not applicable.

NOTE: Memorandum item 4 is to be completed by:

- banks with \$300 million or more in total assets, and
- banks with less than \$300 million in total assets that have loans to finance agricultural production and other loans to farmers, as defined for Schedule RC-C, Part I, item 3, exceeding five percent of total loans and leases held for investment and held for sale (Schedule RC-C, Part I, item 12).

- 4** **Loans to finance agricultural production and other loans to farmers.** Report in the appropriate column the amount of all loans to finance agricultural production and other loans to farmers included in Schedule RC-C, Part I, item 3, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans will have been included in Schedule RC-N, item 7, above.

NOTE: Memorandum item 5 is to be completed semiannually in the June and December reports only.

- 5** **Loans and leases held for sale.** Report in the appropriate column the carrying amount of all loans and leases classified as held for sale included in Schedule RC, item 4.a, whether measured at the lower of cost or fair value or at fair value under a fair value option, that are past due 30 days or more or are in nonaccrual status as of the report date. Such loans and leases will have been included in one or more of the loan and lease categories in items 1 through 8 of Schedule RC-N above and would, therefore, exclude any loans classified as trading assets and included in Schedule RC, item 5.
- 6** Not applicable.

NOTE: Memorandum items 7 and 8 are to be reported semiannually in the June and December reports only.

- 7** **Additions to nonaccrual assets during the previous six months.** Report the aggregate amount of all loans, leases, debt securities, and other assets (net of unearned income) that have been placed in nonaccrual status during the six months ending on the semiannual (i.e., June 30 or December 31) report date for this item. Include those assets placed in nonaccrual status during this six month period that are included as of the current report date

Allowance for Credit Losses (cont.):

As of the end of each quarter, or more frequently if warranted, each institution must evaluate the collectability of its financial assets measured at amortized cost, including, if applicable, any recorded accrued interest receivable (i.e., not already reversed or charged off, as applicable), and make adjusting entries to maintain the balance of each of the separate ACLs reported on the balance sheet at an appropriate level.

An institution shall measure expected credit losses on a collective or pool basis when financial assets share similar risk characteristics. If a financial asset does not share similar risk characteristics with other assets, expected credit losses for that asset should be evaluated individually. Individually evaluated assets should not be included in a collective assessment of expected credit losses. If a financial asset ceases to share similar risk characteristics with other assets in its pool, it should be moved to a different pool with assets sharing similar risk characteristics, if such a pool exists.

ASC Subtopic 326-20 generally does not require the use of a specific loss estimation method for purposes of determining ACLs. Various methods may be used to estimate the expected collectability of financial assets measured at amortized cost, with those methods generally applied consistently over time. The same loss estimation method does not need to be applied to all financial assets. An institution is not precluded from selecting a different method when it determines the method will result in a better estimate of ACLs.

ASC Subtopic 326-20 requires an institution to measure estimated expected credit losses over the contractual term of its financial assets, considering expected prepayments. Renewals, extensions, and modifications are excluded from the contractual term of a financial asset for purposes of estimating the ACL ~~unless there is a reasonable expectation of executing a troubled debt restructuring~~ or the renewal and extension options are part of the original or modified contract and are not unconditionally cancellable by the institution. If such renewal or extension options are present, an institution must evaluate the likelihood of a borrower exercising those options when determining the contractual term.

In estimating the net amount expected to be collected on financial assets measured at amortized cost, an institution should consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the institution's financial assets. Under ASC Subtopic 326-20, an institution is required to use relevant forward-looking information and expectations drawn from reasonable and supportable forecasts when estimating expected credit losses.

Expected recoveries, prior to collection, are a component of management's estimate of the net amount expected to be collected for a financial asset. Expected recoveries of amounts previously charged off or expected to be charged off that are included in ACLs may not exceed the aggregate amounts previously charged off or expected to be charged off. All assumptions related to expected recoveries should be appropriately documented and supported. When estimating expected recoveries, management may conclude that amounts previously charged off are not collectible.

Changes in the ACL – Additions to, or reductions of, the ACL to adjust its level to management's current estimate of expected credit losses are to be made through charges or credits to the "provision for credit losses on financial assets" (provision) in item 4 of Schedule RI, Income Statement, except for changes to adjust the level of the ACL for off-balance-sheet credit exposures. When available information confirms that specific financial assets measured at amortized cost, or portions thereof, are uncollectible, these amounts should be promptly charged off against the related ACL in the period in which the financial assets are deemed uncollectible. Under no circumstances can expected credit losses on financial assets measured at amortized cost be charged directly to "Retained earnings" after the initial adoption of ASC Topic 326, for which the change from the incurred loss to the current expected credit losses methodology is required to be recorded through a cumulative-effect adjustment to retained earnings. This cumulative-effect adjustment is reported in Schedule RI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors," and disclosed in Schedule RI-E, item 4.a, "Effect of adoption of current expected credit losses methodology – ASU 2016-13."

Allowance for Credit Losses (cont.):

Recoveries on financial assets measured at amortized cost represent collections on amounts that were previously charged off against the related ACL. Recoveries shall be credited to the ACL, provided that the total amount credited to the ACL as recoveries on a financial asset (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the ACL on that financial asset. Any amounts collected in excess of this limit should generally be recognized as noninterest income upon collection.

Charge-Offs and Establishment of a New Amortized Cost Basis – When an institution makes a full or partial charge-off of a financial asset measured at amortized cost that is deemed uncollectible, the institution establishes a new cost basis for that financial asset. Consequently, once a new cost basis has been established for a financial asset through a charge-off, this amortized cost basis may not be directly "written up" at a later date. Reversing the previous charge-off and "re-booking" the charged-off asset after the institution concludes that the prospects for recovering the charge-off have improved, regardless of whether the institution assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice. Nevertheless, as stated above, management's estimate of the net amount expected to be collected for a financial asset, as reflected in the related ACL, considers expected recoveries.

If losses charged off against an ACL exceed the amount of the ACL, a provision expense sufficient to restore the ACL to an appropriate level must be charged to a provision for credit losses on the income statement during the reporting period in which the charge-off is recorded. An institution shall not increase an ACL by transferring an amount from retained earnings or any segregation thereof to the ACL.

Collateral-Dependent Financial Assets – A collateral-dependent financial asset is a financial asset for which repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date.

For purposes of these reports, the ACL for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable. This application of this requirement for purposes of these reports is limited to collateral-dependent loans; it does not apply to other financial assets such as held-to-maturity debt securities that are collateral dependent.

When estimating the ACL for a collateral-dependent loan, the fair value of collateral should be adjusted to consider estimated costs to sell if repayment or satisfaction of the loan depends on the sale of the collateral. ACL adjustments for estimated costs to sell are not appropriate when the repayment of a collateral-dependent loan is expected from the operation of the collateral.

The fair value of collateral securing a collateral-dependent loan may change over time. If the fair value of the collateral as of the ACL evaluation date has decreased since the previous ACL evaluation date, the ACL should be increased to reflect the additional decrease in the fair value of the collateral. Likewise, if the fair value of the collateral has increased as of the ACL evaluation date, the increase in the fair value of the collateral is reflected through a reduction in the ACL. Any negative ACL that results is capped at the amount previously charged off. In general, any portion of the amortized cost basis in excess of the fair value of collateral less estimated costs to sell, if applicable, that can be identified as uncollectible should be promptly charged off against the ACL.

Financial Assets with Collateral Maintenance Agreements – Institutions may have financial assets that are secured by collateral (such as debt securities) and are subject to collateral maintenance agreements requiring the borrower to continuously replenish the amount of collateral securing the asset. If the fair value of the collateral declines, the borrower is required to provide additional collateral as specified by the agreement.

Allowance for Credit Losses (cont.):

ASC Topic 326 includes a practical expedient for financial assets with collateral maintenance agreements where the borrower is required to provide collateral greater than or equal to the amortized cost basis of the asset and is expected to continuously replenish the collateral. In those cases, the institution may elect the collateral maintenance practical expedient and measure expected credit losses for these qualifying assets based on the fair value of the collateral. If the fair value of the collateral is greater than the amortized cost basis of the financial asset and the institution expects the borrower to replenish collateral as needed, the institution may record an ACL of zero for the financial asset when the collateral maintenance practical expedient is applied. Similarly, if the fair value of the collateral is less than the amortized cost basis of the financial asset and the institution expects the borrower to replenish collateral as needed, the ACL is limited to the difference between the fair value of the collateral and the amortized cost basis of the asset as of the reporting date when applying the collateral maintenance practical expedient.

Loan Modifications

An institution should measure any expected credit losses on loans whose terms have been modified in accordance with ASC Topic 326. ASC Topic 326 allows an institution to use any appropriate loss estimation method to estimate allowances for credit losses. However, there are circumstances when specific measurement methods are required. For Call Report purposes, the ACL of a collateral-dependent loan must be estimated using the fair value of collateral, less cost to sell, as appropriate. An institution measuring the allowance using the present value of expected future cash flow method (i.e., discounted cash flow method) should use the post-modification effective interest rate as the discount rate.

If an institution adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," using the prospective method (versus the modified retrospective method), loans previously identified as troubled debt restructurings should retain the existing method for measurement purposes. As such, unless the loan is collateral-dependent, an institution should continue to apply a discounted cash flow method, discounted at the loan's original effective interest to estimate expected credit losses until the loan is subsequently modified or settled.

Off-Balance-Sheet Credit Exposures – Each institution should also estimate, as a separate liability account, expected credit losses for off-balance-sheet credit exposures not accounted for as insurance, over the contractual period during which the institution is exposed to credit risk. The estimate of expected credit losses should take into consideration the likelihood that funding will occur as well as the amount expected to be funded over the estimated remaining contractual term of the off-balance-sheet credit exposures. Off-balance sheet credit exposures include loan commitments, financial standby letters of credit, and financial guarantees not accounted for as insurance, and other similar instruments except for those within the scope of ASC Topic 815 on derivatives and hedging. This separate allowance should be reported in Schedule RC-G, item 3, "Allowance for credit losses on off-balance-sheet credit exposures," not as part of the "Allowance for credit losses on loans and leases" in Schedule RC, item 4.c. Additions to, or reductions of, the allowance for credit losses on off-balance sheet credit exposures to adjust the balance of the allowance to an appropriate level are reported in net income.

Institutions should not record an estimate of expected credit losses for off-balance-sheet credit exposures that are unconditionally cancellable by the issuer. For example, for an institution that has unfunded commitments (i.e., available credit) on credit cards, the institution should not record an allowance for expected credit losses for unfunded commitments for which the institution has the ability to unconditionally cancel the available line of credit. In contrast, home equity lines of credit may be deemed unconditionally cancellable for regulatory capital purposes. However, unfunded commitments under home equity lines of credit are not considered unconditionally cancellable by the issuer for purposes of estimating expected credit losses under ASC Topic 326, because the lender may not unilaterally refuse to extend credit under the commitment.

Recourse Liability Accounts – Recourse liability accounts that arise from recourse obligations for any

transfers of financial assets that are reported as sales should not be included in an ACL. These accounts are considered separate and distinct from ACLs and from the allowance for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule RC-G, item 4, "All other liabilities."

See also the Glossary entries for "~~a~~Accrued ~~i~~nterest ~~r~~Receivable," "~~a~~Amortized ~~e~~Cost ~~b~~asis," "~~B~~usiness ~~C~~ombinations," "~~f~~oreclosed ~~a~~Assets," "~~L~~oan," "~~L~~oan fees," "~~n~~onaccrual ~~s~~tatus," "~~p~~urchased ~~e~~redit-~~d~~eteriorated ~~a~~Assets," "~~s~~ecurities ~~a~~ctivities," "~~t~~ransfers of ~~f~~inancial ~~a~~Assets," and "Loan Modifications to Borrowers Experiencing Financial Difficulty~~troubled debt restructurings.~~"

Allowance for Loan and Lease Losses: This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments–Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "allowance for credit losses."

Each bank must maintain an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses associated with its loan and lease portfolio, i.e., loans and leases that the bank has intent and ability to hold for the foreseeable future or until maturity or payoff.

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Federal Funds Transactions (cont.):

Any borrowing or lending of immediately available funds in domestic offices that has an original maturity of more than one business day, other than securities repurchase or resale agreements, is to be treated as a borrowing or as a loan, not as federal funds. Such transactions are sometimes referred to as "term federal funds."

Federally-Sponsored Lending Agency: A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

Fees, Loan: See "loan fees."

Foreclosed Assets: The accounting and reporting standards for the receipt and holding of foreclosed assets are set forth in ASC Subtopic 310-20, ~~Nonrefundable Fees and Other Costs~~~~40, Receivables—Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings")~~, and ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"). Subsequent to the issuance of Statement No. 144, AICPA Statement of Position (SOP) No. 92-3, "Accounting for Foreclosed Assets," was rescinded. Certain provisions of SOP 92-3 are not present in Statement No. 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act. These provisions of SOP 92-3 have been incorporated into this Glossary entry, which institutions must follow for purposes of preparing their Consolidated Reports of Condition and Income.

An institution that receives from a borrower in full satisfaction of a loan either receivables from a third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall initially measure the asset received at its fair value at the time of the restructuring. When an institution receives a long-lived asset, such as real estate, from a borrower in full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the institution shall initially measure this asset at its fair value less cost to sell. The fair value (less cost to sell, if applicable) of the asset received in full satisfaction of the loan becomes the "cost" of the asset. The amount, if any, by which the recorded investment in the loan (or the amortized cost basis of the loan, if the institution has adopted ASC Topic 326, Financial Instruments—Credit Losses)¹ exceeds the fair value (less cost to sell, if applicable) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of restructuring, foreclosure, or repossession. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

If an asset is sold shortly after it is received in a restructuring, foreclosure, or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for a long-lived asset, such as real estate, that has been sold) for the fair value (less cost to sell for a long-lived asset, such as real estate, that will be sold) that had been estimated at the time of restructuring, foreclosure, or repossession. Any adjustments should be made to the loss charged against the allowance.

¹ The recorded investment in the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest. For institutions that have adopted ASC Topic 326, the term "amortized cost basis" is used in place of "recorded investment." See the Glossary entry for "amortized cost basis."

Foreclosed Assets (cont.):

An asset received in partial satisfaction of a loan should be initially measured as described above and the recorded investment in, or amortized cost basis of, the loan, as applicable, should be reduced by the fair value (less cost to sell, if applicable) of the asset at the time of restructuring, foreclosure, or repossession.

The measurement and accounting subsequent to acquisition for real estate received in full or partial satisfaction of a loan, including through foreclosure or repossession, is discussed below in this Glossary entry. For other types of assets that an institution receives in full or partial satisfaction of a loan, the institution generally should subsequently measure and account for such assets in accordance with other applicable generally accepted accounting principles and regulatory reporting instructions for such assets.

For purposes of these reports, foreclosed assets include loans (other than residential real estate property collateralizing a consumer mortgage loan) where an institution, as creditor, has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings take place. An institution, as creditor, is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

- (1) The institution obtains legal title to the residential real estate property upon completion of a foreclosure even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law, or
- (2) The borrower conveys all interest in the residential real estate property to the bank to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.

In situations where physical possession is received, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above, except for foreclosures on certain fully and partially government-guaranteed mortgage loans, which are to be reported in Schedule RC-F, item 6, "All other assets," as discussed below in this Glossary entry.

The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC-M, item 5.b, "Other borrowings."

After foreclosure, each foreclosed real estate asset (including any real estate for which the institution receives physical possession) must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraphs). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs.

If a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure and any gain or loss from the sale or disposition of the asset shall not be reported as a loan or lease loss or recovery and shall not be debited or credited to the allowance for loan and lease losses (or allowance for credit losses, if the institution has adopted ASC Topic 326). Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the income statement in Schedule RI, item 5.j, "Net gains (losses) on sales of other real estate owned."

Foreclosed Assets (cont.):

Reporting Certain Government-Guaranteed Mortgage Loans upon Foreclosure – ASC Subtopic 310-40 20 clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate “other receivable” upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan). When these conditions are met, other real estate owned should not be recognized by an institution.

An institution should derecognize a mortgage loan and record a separate other receivable upon foreclosure of the real estate collateral if all of the following conditions are met:

- The loan has a government guarantee that is not separable from the loan before foreclosure.
- At the time of foreclosure, the institution has the intent to convey the property to the guarantor and make a claim on the guarantee and it has the ability to recover under that claim.
- At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed (that is, the real estate property has been appraised for purposes of the claim and thus the institution is not exposed to changes in the fair value of the property).

This guidance is applicable to fully and partially government-guaranteed mortgage loans provided the three conditions identified above have been met. In such situations, upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This other receivable should be reported in Schedule RC-F, item 6, “All other assets.” Any interest income earned on the other receivable should be reported in Schedule RI, item 1.g, “Other interest income.”

Accounting under ASC Subtopic 610-20 (and ASC Topic 606) – Under ASC Subtopic 610-20, if the buyer of the OREO is a legal entity, an institution should first assess whether it has a controlling financial interest in the legal entity buying the OREO by applying the guidance in ASC Topic 810, Consolidation. If an institution determines that it has a controlling financial interest in the buying legal entity, it should not derecognize the OREO and should apply the guidance in ASC Subtopic 810-10. When an institution does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, which is expected to be the case for most sales of OREO, the institution will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of ASC Topic 606. Otherwise, the institution generally will continue reporting the OREO as an asset, with any cash payments or other consideration received from the individual or entity acquiring the OREO (i.e., any down payment and any subsequent payments of principal or interest) reported as a liability in Schedule RC-G, item 4, “All other liabilities,” until it becomes appropriate to recognize the revenue and the sale of the OREO in accordance with ASC Subtopic 610-20 and ASC Topic 606.¹

When applying ASC Subtopic 610-20 and Topic 606, an institution will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the institution has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. These standards apply to all sales or transfers of real estate by institutions, but greater judgment will generally be required for seller-financed sales of OREO.

¹ Although ASC Topic 606 describes the consideration received (including any cash payments) using such terms a “liability,” “deposit,” and “deposit liability,” for regulatory reporting purposes these amounts should be reported in Schedule RC-G, item 4, and not as a deposit in Schedule RC, item 13.

Loan: For purposes of these reports, a loan is generally an extension of credit resulting from direct negotiations between a lender and a borrower. The reporting bank 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 bank 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 RC-C, which covers both loans held for sale and loans held for investment, 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 bank and subsequently acquired by it through purchase or discount;
- (3) customers' liability to the reporting bank on drafts paid under letters of credit for which the bank 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 bank has given deposit credit to customers;
- (5) paper pledged by the bank 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 bank 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 the discussion of loan participations in the Glossary entry for "transfers of financial assets").

Loan assets held for trading are to be reported in Schedule RC, item 5, "Trading assets."

See also "loan 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 fair value if the changes in fair value are included in earnings) and to all types of lenders. For further information, see ASC Subtopic 310-20.

A bank 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.

Loan Fees (cont.):

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:

- (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 bank 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 service fee income on the date as of which the amount of the fee is 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 bank 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 generally by the interest method based on the contractual term of the loan. However, if the bank holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the bank may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. Once a bank adopts ASC Subtopic 310-20, the practice of recognizing fees over the estimated average life of a group of loans is no longer acceptable.
- (6) A refinanced or restructured loan, including loan modifications to borrowers experiencing financial difficulty other than a troubled debt restructuring, should be accounted for as a new loan if the following exists: 1) 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 and 2) the change in cash flows is more than minor. 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 (or the amortized cost basis of the new loan if the institution has adopted ASC Topic 326, Financial Instruments - Credit Losses).

The net investment in, or the amortized cost basis of, the new loan, as applicable, should include 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~~

Loan Fees (cont.):

~~restructuring involving a modification of terms, fees received should be applied as a reduction of the recorded investment in, or the amortized cost basis of, the loan, as applicable; all related costs, including direct loan origination costs, should be charged to expense as incurred. (See the Glossary entry for "troubled debt restructurings" for further discussion.) See also "Loan Modifications to Borrowers Experiencing Financial Difficulty."~~

- (7) Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns 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 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.¹ Incremental direct costs are costs to originate a loan that (a) result directly from and are essential to the lending transaction and (b) would 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 1-9 above" in Schedule RC-C, Part I. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule RC-C, Part I. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 1, "Interest income," in Schedule RI. 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 reported as "Other noninterest income" on Schedule RI.

~~**Loan Impairment:** This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments—Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "allowance for credit losses."~~

~~—The accounting standard for impaired loans is ASC Topic 310, Receivables (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended). For further information, refer to ASC Topic 310.~~

~~—Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses in its entire portfolio of loans and leases held for investment, i.e., loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. ASC Topic 310 sets forth measurement methods for estimating the~~

¹ For purposes of these reports, a bank which deems its costs for these lending activities not to be material and which need not maintain records on a loan-by-loan basis for other purposes may expense such costs as incurred.

Loan Impairment (cont.):

- ~~portion of the overall allowance for loan and lease losses attributable to individually impaired loans. For the remainder of the portfolio, an appropriate allowance must be maintained in accordance with ASC Subtopic 450-20, Contingencies—Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”). For comprehensive guidance on the maintenance of an appropriate allowance, banks should refer to the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 13, 2006, and the Glossary entry for “allowance for loan and lease losses.” National banks should also refer to the Office of the Comptroller of the Currency’s Handbook for National Bank Examiners discussing the allowance for loan and lease losses.~~
- ~~In general, loans are impaired under ASC Topic 310 when, based on current information and events, it is probable that an institution will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the original loan agreement. An institution should apply its normal loan review procedures when identifying loans to be individually evaluated for impairment under ASC Topic 310. When an individually evaluated loan is deemed impaired under ASC Topic 310 and is not collateral dependent, an institution must measure impairment using the present value of expected future cash flows discounted at the loan’s effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), except that as a practical expedient, an institution may measure impairment based on a loan’s observable market price. As discussed in the following paragraph, the agencies require the impairment of an impaired collateral dependent loan to be measured using the fair value of collateral method. A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to “Provision for loan and lease losses.”~~
- ~~For purposes of the Consolidated Reports of Condition and Income, the impairment of an impaired collateral dependent loan must be measured using the fair value of collateral method. In general, any portion of the recorded investment in an impaired collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral (less estimated costs to sell, if applicable) that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.~~
- ~~An institution should not provide an additional allowance for estimated credit losses on an individually impaired loan over and above what is specified by ASC Topic 310. The allowance established under ASC Topic 310 should take into consideration all available information existing as of the Call Report date that indicates that it is probable that a loan has been impaired. All available information would include existing environmental factors such as industry, geographical, economic, and political factors that affect collectibility.~~
- ~~ASC Topic 310 also addresses the accounting by creditors for all loans that are restructured in troubled debt restructurings involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. According to ASC Topic 310, all loans restructured in troubled debt restructurings are impaired loans. For guidance on troubled debt restructurings, see the Glossary entry for “troubled debt restructurings.”~~
- ~~As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule RC-N in accordance with the schedule’s instructions. A loan identified as impaired is one for which it is probable that the institution will be unable to collect all principal and interest amounts due according to the contractual terms of the original loan agreement. Therefore, a loan that is not already in nonaccrual status when it is first identified as impaired will normally meet the criteria for placement in nonaccrual status at that time. Exceptions may arise when a loan not previously in nonaccrual status is identified as impaired because its terms have been modified in a troubled debt restructuring, but the~~

Loan Impairment (cont.):

~~—borrower's sustained historical repayment performance for a reasonable time prior to the restructuring is consistent with the modified terms of the loan and the loan is reasonably assured of repayment (of principal and interest) and of performance in accordance with its modified terms. This determination must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Exceptions may also arise for those purchased credit-impaired loans for which the criteria for accrual of income under the interest method are met as specified in ASC Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"). Any cash payments received on impaired loans in nonaccrual status should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see the Glossary entries for "nonaccrual status" and "purchased credit-impaired loans and debt securities."~~

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 reporting 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 Call Report purposes, loans modified to borrowers experiencing financial difficulty must be included in the amounts reported in the appropriate loan category in Schedule RC-C, Part I, Loans and Leases, items 1 through 9. Additionally, if the loan is in compliance with its modified terms, these modifications are reported in the appropriate loan category in Schedule RC-C, Part I, Memorandum item 1. 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 RC-N, items 1 through 7, and reported in Schedule RC-N, Memorandum item 1.

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. 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 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 RC-C, Part I, or Schedule RC-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 RC-C, Part I, or Schedule RC-N, as appropriate.

Loan Secured by Real Estate: For purposes of these reports, a loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien or liens on real property for which the lien or liens are 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 or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) must be greater than 50 percent of the principal amount of the loan at origination.

A loan satisfying the criteria above, except a loan to a state or political subdivision in the U.S., is to be reported as a loan secured by real estate in Schedule RC-C, Part I, item 1, and related items in the Consolidated Reports of Condition and Income, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of whether the loan was originated by the reporting bank or purchased from others and, if originated by the reporting bank, regardless of the department within the bank or bank subsidiary that made the loan; (3) regardless of how the loan is categorized in the bank's records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan's principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan not be considered a loan secured by real estate for purposes of the Consolidated Reports of Condition and Income. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in these reports based on the purpose of the loan.

The following are examples of the application of the preceding guidance:

- (1) A bank loans \$700,000 to a dental group to construct and equip a building that will be used as its dental office. The loan will be secured by both the real estate and the dental equipment. At origination, the estimated values of the building, upon completion, and the equipment are \$400,000 and \$350,000, respectively. The loan should be reported as a loan secured by real estate in Schedule RC-C, Part I, item 1.a.(2), "Other construction loans and all land development and other land loans." In contrast, if the estimated values of the building and equipment at origination were \$340,000 and \$410,000, respectively, the loan should not be reported as a loan secured by real estate. Instead, the loan should be reported in Schedule RC-C, Part I, item 4, "Commercial and industrial loans."
- (2) A bank grants a \$25,000 line of credit and a \$125,000 term loan to a commercial borrower for working capital purposes on the same date. The loans will be cross-collateralized by equipment with an estimated value of \$40,000 and a third lien on the borrower's residence, which has an estimated value of \$140,000 and first and second liens with unpaid balances payable to other lenders totaling \$126,000. The two loans should be considered together to determine whether

Nonaccrual Status (cont.):

Restoration to accrual status – As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the bank expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. If any interest payments received while the asset was in nonaccrual status were applied to reduce the recorded investment in, or the amortized cost basis of, the asset, as applicable, as discussed in the preceding section of this entry, the application of these payments to the asset's recorded investment or amortized cost basis, as applicable, should not be reversed (and interest income should not be credited) when the asset is returned to accrual status.

For purposes of meeting the first test, the bank must have received repayment of the past due principal and interest unless:

- (1) The asset has been formally restructured and qualifies for accrual status as discussed below;
- (2) For an institution that has not adopted ASU 2016-13, the asset is a PCI loan, 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 therein;
- (3) For an institution that has adopted ASU 2016-13, the asset is a PCD asset and it meets the two criteria specified in the third exception to the general rule discussed above; 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 the loan has not been brought fully current, and the following two criteria are met. These criteria are, 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 RC-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 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.

A ~~troubled debt restructuring~~ modification of a loan to a borrower experiencing financial difficulty may involve a multiple note structure in which, for example, a ~~troubled~~ loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. For a ~~troubled debt restructuring~~ modification of a collateral-dependent loan involving a multiple note structure, the amount of the "A" note should be determined using the fair value of the collateral. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and: (1) there is economic substance to the restructuring ~~and it qualifies as a troubled debt restructuring under generally accepted accounting principles~~, (2) the portion of the original loan represented by the "B" note has been charged off before or at the time of the restructuring, and (3) the "A" note is reasonably assured of repayment and of performance in accordance with the modified terms. In conjunction with the reporting requirements on

Nonaccrual Status (cont.):

Schedule RC-C, Part I, and Schedule RC-N for loan modifications to borrowers experiencing financial difficulty, the institution should consider both the "A" and "B" notes in its analysis of whether the modification results in principal forgiveness, an interest rate reduction, or a deferral of payment(s).

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for any other reasons, the asset must be placed in nonaccrual status.

For further information on formally restructured assets, see the Glossary entry for "[Loan Modifications to Borrowers Experiencing Financial Difficulty](#)~~troubled-debt-restructurings.~~"

Treatment of multiple extensions of credit to one borrower – As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset's collectability and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a bank does not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a bank has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets the criteria for nonaccrual status, the bank should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Noninterest-Bearing Account: See "deposits."

Nontransaction Account: See "deposits."

NOW Account: See "deposits."

Offsetting: Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Banks are permitted to offset assets and liabilities recognized in the Consolidated Report of Condition when a "right of setoff" exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting (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 bank has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty 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.

Purchased Credit-Deteriorated Assets (cont.):

For a PCD asset that is not reported in nonaccrual status, the delinquency status of the PCD asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amortized cost basis of the asset (fair value for a PCD available-for-sale debt security) as past due in Schedule RC-N, column A or B, as appropriate. If the PCD asset 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 on the reporting of interest income on PCD assets, institutions should refer to the Glossary entry for "nonaccrual status" and ASC Subtopic 310-10, Receivables – Overall.

Deferred Tax Asset Considerations – An institution's provisions for credit losses that increase the amount of the ACL also increase the amount of the deductible temporary difference associated with the ACL and the related deferred tax asset because the provisions are expensed for financial reporting purposes. These increases in the ACL typically are not deducted in the same period for income tax purposes. Tax deductions for credit losses typically occur in the period when financial assets are actually charged off. However, an addition to the ACL as of the acquisition date of a PCD asset (i.e., the "gross-up") does not create such a deductible temporary difference or a deferred tax asset. An institution's deferred tax assets should be calculated at the report date by applying the "applicable tax rate" based on the institution's total deductible temporary differences. See the Glossary entry for "income taxes" for information on how to determine the tax effect of such a temporary difference and the need for any deferred tax asset valuation allowance.

See also the Glossary entries for "allowance for credit losses" and "nonaccrual status."

~~**Purchased Credit Impaired Loans and Debt Securities:** This Glossary entry applies to institutions that have not adopted ASC Topic 326, Financial Instruments—Credit Losses. Institutions that have adopted ASC Topic 326 should refer to the Glossary entry for "purchased credit deteriorated assets."~~

~~—Purchased credit impaired loans and debt securities are loans and debt securities that an institution 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 an institution has originated.~~

Purchased Credit-Impaired Loans and Debt Securities (cont.):

- Under ASC Subtopic 310-30, a purchased credit-impaired 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 institution'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 the balance sheet (Schedule RC). 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, an institution 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 first sentence of this Glossary entry. After determining that certain acquired loans individually meet these scope criteria, the institution may evaluate whether such loans have common risk characteristics, thus permitting the aggregation of such loans into one or more pools. The aggregation must be based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics, such as financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. Upon establishment of a pool of purchased credit-impaired loans, the pool becomes the unit of account.
- Once a pool of purchased credit-impaired loans is assembled, the integrity of the pool must be maintained. An institution should remove an individual loan from a pool of purchased credit-impaired loans only if the institution 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 purchased credit-impaired loans under these circumstances, the loan shall be removed at its carrying amount. Carrying amount is defined as the loan's current contractually required payments receivable less its remaining nonaccretable difference, accretable yield, and any post-acquisition loan loss allowance. An institution that accounts for a pool of purchased credit-impaired loans with common risk characteristics as one unit of account may or may not document and maintain data on the nonaccretable difference and accretable yield on a loan-by-loan basis. Accordingly, for purposes of determining the carrying amount of an individual loan in the pool, an institution may apply a systematic and rational approach to allocating the nonaccretable difference and accretable yield for the pool to an individual loan in the pool. One acceptable approach is a pro rata allocation of the pool's total remaining nonaccretable difference and accretable yield to an individual loan in proportion to the loan's current contractually required payments receivable compared to the pool's total contractually required payments receivable.
- A refinancing or restructuring of a loan within a pool of purchased credit-impaired loans should not result in the removal of the loan from the pool. In addition, a modification of the terms of a loan within a pool of purchased credit-impaired loans is not considered a troubled debt restructuring under the scope exceptions in ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). However, a modification of the terms of a purchased credit-impaired loan accounted for individually must be evaluated to determine whether the modification represents a troubled debt restructuring that should be accounted for in accordance with ASC 310-40. For further information, see the Glossary entry for "troubled debt restructurings."

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Purchased Credit Impaired Loans and Debt Securities (cont.):

- ASC Subtopic 310-30 does not prohibit an institution from placing a purchased credit impaired loan accounted for individually, a pool of purchased credit impaired loans with common risk characteristics, or a purchased credit impaired 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 institution 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 institution 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 institution should place the purchased credit impaired loan, pool, or debt security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For purchased credit impaired 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 purchased credit impaired 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 purchased credit impaired loan, pool of loans, or debt security in nonaccrual status should be reported in the appropriate items of Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, column C.
- When accrual of income on a purchased credit impaired loan accounted for individually or a purchased credit impaired debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the individual asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amount of the loan or debt security as past due in the appropriate items of Schedule RC-N, column A or B. When accrual of income on a pool of purchased credit impaired 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 RC-N, column A or B.
- ASC Subtopic 310-30 prohibits an institution from "carrying over" or creating loan loss allowances in the initial accounting for purchased credit impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a business combination. However, for a purchased credit impaired loan accounted for individually (and not accounted for as a debt security), if upon subsequent evaluation it is probable based on current information and events that an institution will be unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition), the purchased credit impaired loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20, Contingencies—Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") or ASC Subtopic 310-10, Receivables—Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), as appropriate. For purchased credit impaired loans with common risk characteristics that are aggregated and accounted for as a pool, this impairment analysis should be performed subsequent to acquisition at the pool level as a whole and not at the individual loan level. An institution should include post-acquisition allowances on purchased credit impaired loans and pools of purchased credit impaired loans in the overall allowance for loan and lease losses it reports in Schedule RC, item 4.c, and Schedule RI-B, Part II, item 7.
- In Schedule RC-C, Part I, Loans and Leases, an institution should report the amount of a purchased credit impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased credit impaired loan should be reported as unearned income in Schedule RC-C, Part I, item 11. In addition, an institution should report in

Purchased Credit-Impaired Loans and Debt Securities (cont.):

~~—Schedule RC-C, Part I, Memorandum items 7.a and 7.b, in the June and December reports only the outstanding balance and amount, respectively, of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, Part I. An institution also should report the outstanding balance and amount of those held for investment purchased credit-impaired loans reported in Schedule RC-C, Part I, Memorandum items 7.a and 7.b, that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status as of the report date in Schedule RC-N, Memorandum items 9.a and 9.b, column A, B, or C, respectively, in the June and December reports only in accordance with the past due and nonaccrual guidance provided above in this Glossary entry.~~

~~—For further information, refer to ASC Subtopic 310-30.~~

Put Option: See "derivative contracts."

Real Estate ADC Arrangements: See "acquisition, development, or construction (ADC) arrangements."

Real Estate, Loan Secured By: See "loan secured by real estate."

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

For purposes of the balance sheet of the Consolidated Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis in accordance with generally accepted accounting principles.

~~**Renegotiated Troubled Debt:** See "troubled debt restructurings."~~

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the "sale" of financial assets by one party to another, subject to an agreement by the "seller" to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the "purchase" of financial assets by one party from another, subject to an agreement by the "purchaser" to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA's Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages), and generally have different principal amounts.

General rule – Consistent with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), repurchase and resale agreements involving financial assets (e.g., securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring ("selling") institution maintains control over the transferred assets. (See the Glossary entry for "transfers of financial assets" for further discussion of control criteria.)

Transfers of Financial Assets (cont.):

transferee institution's designation of the loan to the originator as held for investment or held for sale. In situations where the transferee institution simultaneously extends a loan to the originator and transfers an interest (for example, a participation interest) in the loan to the originator to another party, the transfer to the other party also should be evaluated to determine whether the conditions in ASC Topic 860 for sale accounting treatment have been met. If this transfer qualifies to be accounted for as a sale, the portion of the loan to the originator that is retained by the transferee institution should be classified as held for investment when the transferee has the intent and ability to hold that portion for the foreseeable future or until maturity or payoff (which is generally in the near term).

Financial Assets Subject to Prepayment – Financial assets such as interest-only strips receivable, other beneficial interests, loans, debt securities, and other receivables, but excluding financial instruments that must be accounted for as derivatives, that can contractually be prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment do not qualify to be accounted for at amortized cost. After their initial recording on the balance sheet, financial assets of this type must be subsequently measured at fair value like available-for-sale securities or trading securities.

Traveler's Letter of Credit: See "letter of credit."

Treasury Receipts: See "coupon stripping, Treasury receipts, and STRIPS."

Treasury Stock: Treasury stock is stock that the bank has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock, whether carried at cost or at par value, is a deduction from a bank's total equity capital. For purposes of the Consolidated Reports of Condition and Income, the carrying value of treasury stock should be reported (as a negative number) in Schedule RC, item 26.c, "Other equity capital components."

"Gains" and "losses" on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule RI, Income Statement, but should be reflected in Schedule RI-A, item 6, "Treasury stock transactions, net." Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule RC, item 25, "Surplus."

For further information, see ASC Subtopic 505-30, Equity – Treasury Stock (formerly Accounting Research Bulletin No. 43, Chapter 1, Section B, as amended by APB Opinion No. 6, "Status of Accounting Research Bulletins").

~~**Troubled Debt Restructurings:** The accounting standards for troubled debt restructurings are set forth in ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan") and, for institutions that have adopted ASC Topic 326, Financial Instruments—Credit Losses, in ASC Topic 326. Institutions should refer to the Glossary entries for "allowance for loan and lease losses" and "allowance for credit losses," as applicable, when considering measurement of the allowance for loan losses or allowance for credit losses (allowance, when used interchangeably) for TDRs.~~

~~—A troubled debt restructuring (TDR) is a restructuring in which an institution, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan or other debt instrument (hereafter referred to collectively as a "loan") may include, but is not necessarily limited to: (1) the transfer from the borrower to the institution of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for "foreclosed assets" for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate,~~

Troubled Debt Restructurings (cont.):

- principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a TDR. Modifications of loans should be evaluated to determine if a TDR exists in totality. In some instances a borrower may have been able to add additional collateral or a guarantor to a loan which fully compensates for a concession made by the institution.
- See the Glossary entry for “nonaccrual status” for a discussion of the conditions under which a nonaccrual asset which has undergone a TDR (including those that involve a multiple note structure) may be returned to accrual status.
- A TDR in which an institution receives physical possession of the borrower's assets should be accounted for in accordance with ASC Subtopic 310-40. 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 Glossary entry for “foreclosed assets.”
- A TDR may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two-step process: (i) the recorded amount (or amortized cost basis if the institution has adopted ASC Topic 326) of the loan is reduced by the fair value (less cost to sell, if appropriate) of the property received, and (ii) the institution should measure any impairment (or expected credit losses if the institution has adopted ASC Topic 326) on the remaining recorded balance, or amortized cost basis, as applicable, of the restructured loan in accordance with ASC Topic 310 (or ASC Subtopic 326-20 if the institution has adopted ASC Topic 326) and record any related allowance.
- A TDR may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings 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. Restructurings 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.
- A credit analysis should be performed for a TDR in conjunction with its restructuring to determine its collectibility and estimated allowance. When available information confirms that a specific TDR, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The institution should periodically evaluate the collectibility of the TDR so as to determine whether any additional amounts should be charged to the allowance, or, if the restructuring involved a financial asset other than a loan, to another appropriate account.
- Once an obligation has been restructured in a TDR, it continues to be considered a TDR until paid in full or otherwise settled, sold, or charged off (or meets the conditions discussed below under “Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring”). The loan must be reported in the appropriate loan category in Schedule RC-C, Part I, items 1 through 9, and in the appropriate loan category in:
 - Schedule RC-C, Part I, Memorandum item 1, if it is in compliance with its modified terms, or
 - Schedule RC-N, items 1 through 7, and Memorandum item 1, if it is not in compliance with its modified terms.
- However, for a loan that is a TDR for which the concession did not include a reduction of principal, if the restructuring agreement specifies a contractual interest rate that is a market interest rate at the time

Troubled Debt Restructurings (cont.):

- ~~—of the restructuring and the loan is in compliance with its modified terms, the loan need not continue to be reported as a TDR in Schedule RC-C, Part I, Memorandum item 1, in calendar years after the year in which the restructuring took place. A market interest rate is a contractual interest rate that at the time of the restructuring is greater than or equal to the rate that the institution was willing to accept for a new loan with comparable risk. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.~~
- ~~—Accounting for a Subsequent Restructuring of a TDR—When a loan has previously been modified in a TDR, the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate reporting by the institution under U.S. GAAP. Under certain circumstances it may be acceptable not to report a subsequently restructured loan as a TDR. The banking agencies will not object to an institution no longer reporting such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring. When assessing whether a concession has been granted by the institution, the agencies consider any principal forgiveness on a cumulative basis to be a continuing concession. Accordingly, a TDR loan with any principal forgiveness would retain the TDR designation after subsequent restructurings.~~
- ~~—If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the loan need no longer be disclosed as a TDR in the Call Report.~~
- ~~—The recorded investment or amortized cost basis, as applicable, should not change at the time of the subsequent restructuring (unless cash is advanced or received). When there have been charge-offs prior to the subsequent restructuring, consistent with Call Report instructions, any expected recoveries of amounts previously charged off are not added to the recorded investment in, or the amortized cost basis of, the TDR, as applicable. For institutions that have not adopted ASC Topic 326, no recoveries should be recognized until collections on amounts previously charged off have been received. For institutions that have adopted ASC Topic 326, expected recoveries of amounts previously charged off should be considered as part of the allowance estimate but are not included in the amortized cost basis of the TDR. Similarly, if interest payments were applied to the recorded investment in, or amortized cost basis of, the TDR, as applicable, prior to the subsequent restructuring, the application of these payments to the recorded investment or amortized cost basis, as applicable, should not be reversed nor reported as interest income at the time of the subsequent restructuring.~~
- ~~—If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR, the loan should be reported as a TDR.~~
- ~~—Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted—This section of this Glossary entry applies to institutions that have not adopted ASC Topic 326. Institutions that have adopted ASC Topic 326 should refer to the "Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted" section below.~~
- ~~—All loans whose terms have been modified in a TDR, including both commercial and retail loans, are impaired loans. Therefore, an institution should measure any impairment on the restructured loan in accordance with ASC Topic 310, Receivables, and should refer to the Glossary entry for "loan impairment."~~

Troubled Debt Restructurings (cont.):

- ~~—An institution measuring the allowance on a TDR that is not collateral dependent using the present value of expected future cash flows method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate.~~
- ~~ASC Topic 310 also permits an institution to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.~~
- ~~—For a subsequently restructured TDR, if at the time of the subsequent restructuring the institution appropriately determines that the loan no longer meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for “Loan Impairment.” Accordingly, going forward, the loan’s allowance should be measured under ASC Subtopic 450-20, Contingencies—Loss Contingencies.~~
- ~~—For a subsequently restructured TDR on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the TDR should continue to be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310.~~
- ~~—Measurement of Expected Credit Losses on a TDR when ASC Topic 326 Has Been Adopted—This section of this Glossary entry applies to institutions that have adopted ASC Topic 326. Institutions that have not adopted ASC Topic 326 should continue to refer to the “Measurement of Impairment on a TDR when ASC Topic 326 Has Not Been Adopted” section above.~~
- ~~—An institution should measure any expected credit losses on loans whose terms have been modified in a TDR in accordance with ASC Topic 326 as set forth in the Glossary entry for “Allowance for Credit Losses.” ASC Topic 326 allows an institution to use any appropriate loss estimation method to estimate ACLs for TDRs. However, there are circumstances when specific measurement methods are required. For purposes of the Consolidated Reports of Condition and Income, if a TDR, or a loan for which a TDR is reasonably expected, is collateral dependent, the ACL must be estimated using the fair value of collateral.~~
- ~~—An institution measuring the allowance on a TDR, or a pool of TDRs with shared risk characteristics, using the present value of expected future cash flow method (i.e., discounted cash flow method) should discount the cash flows using the effective interest rate of the original or modified loan prior to the restructuring that resulted in the TDR classification. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate.~~
- ~~—When there is a reasonable expectation of executing a TDR or if a TDR has been executed, the expected effect of the modification (e.g., a term extension or an interest rate concession) is included in the estimate of the allowance.~~
- ~~—If the TDR designation is removed from a loan balance when it is appropriate for the loan to no longer be reported as a TDR, given the change in the loan’s risk characteristics, the institution should determine whether the loan should be included in a pool of loans with similar risk characteristics for allowance measurement purposes or evaluated for expected credit losses on an individual basis.~~
- ~~—See also the Glossary entries for “Allowance for Credit Losses” or “Allowance for Loan and Lease Losses,” as applicable, “Amortized Cost Basis,” and “Foreclosed Assets.”~~

Definitions

Past Due – The past due status of a loan or other asset should be determined in accordance with its contractual repayment terms. For purposes of this schedule, grace periods allowed by the institution bank after a loan or other asset 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, leases, debt securities, and other assets are to be reported as past due when either interest or principal is unpaid in the following circumstances:

- (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. (At an bank's institution's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) 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 credit cards, 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.
- (3) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

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

- (1) Single payment and demand notes, debt securities, and other assets providing for the payment of principal and/ or interest at stated intervals are to be reported as past due after one principal and/ or interest payment is due and unpaid for 30 days or more.
- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest and/ or principal remains unpaid for 30 days or more.
- (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. !!
- (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, banks-institutions 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 payment may be considered a full payment in computing delinquency. Alternatively, a bank an institution 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. An institution bank may use either or both methods for its retail credit, but may not use both methods simultaneously with a single loan.

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6 (cont.) insurance company, that pays either a fixed or variable payment stream over a specified period of time. Both proprietary and private label mutual funds and annuities are established in order to be marketed primarily to a bank's or banking organization's customers. A proprietary product is a product for which the reporting bank or a subsidiary or other affiliate of the reporting bank acts as investment adviser and may perform additional support services. In a private label product, an unaffiliated entity acts as the investment adviser. The identity of the investment adviser is normally disclosed in the prospectus for a mutual fund or annuity. Mutual funds and annuities that are not proprietary or private label products are considered third party products. For example, third party mutual funds and annuities include products that are widely marketed by numerous parties to the investing public and have investment advisers that are not affiliated with the reporting bank.

7 **Assets under the reporting bank's management in proprietary mutual funds and annuities.** Report the amount of assets (stated in U.S. dollars) held by mutual funds and annuities as of the report date for which the reporting bank or a subsidiary of the bank acts as investment adviser.

A general description of a proprietary product is included in the instruction to Schedule RC-M, item 6, above. Proprietary mutual funds and annuities are typically created by large banking organizations and offered to customers of the banking organization's subsidiary banks. Therefore, small, independent banks do not normally act as investment advisers for mutual funds and annuities.

If neither the bank nor any subsidiary of the bank acts as investment adviser for a mutual fund or annuity, the bank should report a zero in this item.

~~NOTE: Schedule RC-M, items 8.a, 8.b, and 8.c, are to be completed semiannually in the June and December reports only. If an institution has any changes in its Internet website addresses or physical office trade names in the first or third calendar quarter, the institution may, at its option, report its website addresses or physical office trade names in the March or September report, respectively, rather than waiting to report this information in the June or December report.~~

8 **Internet website addresses and physical office trade names.** Because the Uniform Resource Locators (URLs) of Internet websites and the physical office trade names reported in items 8.a, 8.b, and 8.c are publicly available, each institution should ensure that it accurately reports its URLs and physical office trade names, if any. This information will assist the FDIC in responding to public inquiries as to whether a particular Internet website or institution operating under a trade name that accepts or solicits deposits from the public is in fact operated by an FDIC-insured depository institution. URLs of Internet websites and physical office trade names should not exceed 75 characters in length.

Examples of URLs are www.bank.com, www.isp.com/bank/, and bank.isp.com. When entering the URL of an Internet website in items 8.a and 8.b, the URL should not be prefaced with http:// because this is already included on the form. Do not provide e-mail addresses in the spaces for URLs of Internet websites.

8.a **Uniform Resource Locator (URL) of the reporting institution's primary Internet website (home page), if any.** The URL of an institution's primary Internet website is the URL of the public-facing website that the institution's customers or potential customers enter into Internet browser software in order to find the first page of the institution's principal website.

If the reporting institution has a primary Internet website or home page, report in this item the URL of this website or home page (e.g., www.examplebank.com). If the reporting institution does not have its own website or home page, but information on or functions of the institution can be accessed through the URL of an affiliate's website, the URL of that affiliate's primary website should be reported in this item.

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8.a
(cont.) An institution that maintains more than one website that prominently displays the institution's legal title should report the URL of the institution's primary Internet website in this item and determine whether it should report the URLs of these other websites operated by the FDIC-insured depository institution in Schedule RC-M, item 8.b, below.

If an institution has no website or home page of its own ~~and the institution cannot be accessed through the URL of an affiliate's website~~, this item should be left blank. Do not enter such phrases as "Not applicable," "N/A," "None," and "Null."

8.b **URLs of all other public-facing Internet websites that the reporting institution uses to accept or solicit deposits from the public, if any.** If the reporting institution:

- (1) Uses one or more trade names (other than its legal title) to accept or solicit deposits from the public, and- directly or indirectly operates one or more public-facing Internet websites – other than its primary Internet website (home page) reported in Schedule RC-M, item 8.a, above – to present such trade names to the public, or
- (2) Uses any other public-facing Internet websites operated by the FDIC-insured depository institution which prominently displaying the institution's legal title – other than its primary Internet website (home page) – to accept or solicit deposits from the public,

the institution should report the URLs of each of its other public-facing websites that it uses to accept or solicit deposits from the public in the text fields for items 8.b.(1) through 8.b.(10) and, if necessary, in Schedule RI-E, item 7, "Other explanations." If an institution has no additional public-facing Internet websites to report, the text fields for these items should be left blank. Do not enter such phrases as "Not applicable," "N/A," "None," and "Null."

When reporting the URLs for public-facing websites used to accept or solicit deposits, report only bank operated websites using the highest level URLs. For example, an institution with a legal title of XYZ Bank reports in item 8.a that the URL of its primary Internet website is www.xyzbank.com. The institution also solicits deposits using the website address www.safeandsoundbank.com and provides more specific deposit information at "www.safeandsoundbank.com/checking" and "www.safeandsoundbank.com/CDs." Only the first of these three URLs (i.e., "www.safeandsoundbank.com") should be reported in this item.

When an institution uses multiple top level domains (e.g., .com, .net, and .biz), it should separately report the URLs that are otherwise the same except for the top level domain name. For example, if XYZ Bank also uses the website address "www.xyzbank.biz" in the solicitation of deposits, it should report this URL in this item.

However, if an institution uses one or more URLs that automatically redirect the public to the institution's primary website or to another website used to accept or solicit deposits that is being reported in this item, the institution should not report these additional URLs. For example, if XYZ Bank uses the URLs "www.xyzbank.net" and "www.safeandsoundbank.net" to automatically redirect the public to "www.xyzbank.com" (reported in item 8.a as its primary website) and "www.safeandsoundbank.com" (reported in this item as the URL of another website the institution uses), respectively, it should not report the two redirecting URLs in this item.

For example, Do not report the URLs of:

- (1) Public-facing Internet websites operated by the reporting institution that do not accept or solicit deposits from the public. For example, if XYZ Bank uses the website address "www.xyzautoans.com" but does not accept or solicit deposits through this site, its URL should not be reported in this item;

Item No. Caption and Instructions

- 8.b**
(cont.)
- (2) Internet websites of any non-bank affiliates or subsidiaries ~~that do not accept or solicit deposits from the public on behalf of the institution;~~
- (3) Affiliated, separately chartered insured depository institutions;
- (4) Foreign affiliates; and
- (5) Third-party deposit listing services and deposit brokers.
- (6) Internet websites of any non-bank entity, including any third-parties that accepts or solicits deposits from the public on behalf of the FDIC-insured depository institution; and
- (7) Any person or entity other than the institution that is acting as fiduciary in the placement of deposit funds into an FDIC insured depository institution as described under 12 C.F.R. §330.5 and 12 C.F.R. §330.7. The FDIC commonly refers to this process as “pass-through deposit insurance coverage.”

- 8.c**
- Trade names other than the reporting institution’s legal title used to identify one or more of the institution’s physical offices at which deposits are accepted or solicited from the public, if any.** An institution may use a trade name other than its legal title as reflected in its charter to identify certain of its physical offices, for example, due to a merger and an interest in maintaining the presence of the acquired institution’s well recognized name in the community or communities it served.

If the reporting institution operates one or more physical offices to conduct banking activities and uses one or more trade names other than its legal title to identify these physical offices (for example, via signage displayed on the facilities), the institution should report each trade name used by one or more of its physical offices at which it accepts or solicits deposits from the public in the text fields for items 8.c.(1) through 8.c.(6) and, if necessary, in Schedule RI-E, item 7, “Other explanations.” Do not report the trade names used by any physical offices of the reporting institution at which the institution does not accept or solicit deposits from the public. In addition, do not report the physical office trade names of any non-bank affiliates or subsidiaries ~~that do not accept or solicit deposits from the public on behalf of the institution.~~ Do not report the physical office trade names of affiliated, separately chartered insured depository institutions. If an institution does not use any trade names other than its legal title, the text fields for items 8.c.(1) through 8.c.(6) should be left blank. Do not enter such phrases as “Not applicable,” “N/A,” “None,” and “Null.”

For example, an institution with a legal title of XYZ Bank operates one or more branch offices under the trade name of “Community Bank of ABC” (as identified by the signage displayed on each facility) where it accepts and solicits deposits from the public. XYZ Bank should report this trade name (and any other trade names it uses at other physical office locations where it accepts or solicits deposits) in this item 8.c. XYZ Bank also has a loan production office that operates under the trade name of “XYZ Consumer Loans” and a mortgage lending subsidiary that operates physical offices using the trade name of “XYZ Mortgage Company”; deposits are not accepted nor solicited on behalf of XYZ Bank at these physical offices. Thus, neither of these two trade names should be reported in this item 8.c.

NOTE: Schedule RC-M, item 9, is to be completed annually in the December report only.

9

Do any of the bank’s Internet websites have transactional capability, i.e., allow the bank’s customers to execute transactions on their accounts through the website?

Indicate whether any of the reporting bank’s Internet websites have transactional capability. Place an “X” in the box marked “Yes” if the bank or a bank affiliate has any Internet websites that allow the bank’s customers to execute transactions on their accounts through the website. Otherwise, place an “X” in the box marked “No.”

The Internet Web address of the website (or sites) with transactional capability does not have to be the address of the bank’s primary Internet website that is reported in Schedule RC-M, item 8.a, above.