



**Office of Thrift Supervision
Financial Reporting Division (FRD)**

September 2007

<http://www.ots.treas.gov>

Financial Reporting Bulletin

- **It is important that you read this bulletin and the attached materials before preparing and submitting your Thrift Financial Report.**
- *Please share this bulletin for review with all staff members who are involved in preparing and transmitting reports to the OTS.*

September TFR Filing Deadline – Tuesday, October 30, 2007

(remember you must transmit TFR before any other quarterly or annual reports.)

September COF Filing Deadline – Tuesday, October 30, 2007

September CMR Filing Deadline – Wednesday November 14, 2007

September HC Filing Deadline – Wednesday November 14, 2007

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THIRD QUARTER FILING DEADLINES

You should complete and transmit your September 2007 TFR and COF as soon as possible after the close of the quarter:

Filing **deadline** for all schedules except HC and CMR is **Tuesday, October 30, 2007**.

Filing **deadline** for Schedules HC and CMR is **Wednesday, November 14, 2007**.

Institutions that are exempt from filing Schedule CMR but choose to voluntarily file must adhere to the filing deadlines above. The Interest Rate Risk reports will not be available for download by institutions that fail to meet the filing deadline. All voluntary CMR filers should contact Doris Jackson at doris.jackson@ots.treas.gov, or 972.277.9618 after transmitting CMR for confirmation of receipt.

If you have questions concerning the preparation of your report, please call your Financial Reporting Division analyst in Dallas, Texas. A contact listing is provided near the end of this bulletin. You may e-mail reporting questions to tfr.instructions@ots.treas.gov. If you need assistance with Electronic Filing System (EFS) including Quick Importer, or Financial Reports Subscriber (FRS), software or transmission, contact the EFS Helpline Message Center by e-mail at efs-info@ots.treas.gov or by phone toll free at 866.314.1744. If you have questions about your Interest Rate Risk report, you may contact Scott Ciardi at scott.ciardi@ots.treas.gov, or call 202.906.6960.

NO NEW EFS SOFTWARE CD FOR SEPTEMBER

There is **no new software CD** for September cycle reports. You should continue to use the current version of EFS (downloaded version is 6.2 at this writing) to prepare and transmit your September reports. Be sure you have signed up in EFS Net under My EFS Notification Recipients to receive e-mail notification when a new software update is available for download, or other important information is placed on EFS Net. If you do not sign up for e-mail notification, you should go to EFS Net frequently to check for any software updates or news about preparing your reports.

For any software issues you encounter, you should run the OTS Diagnostics from Start, Programs, Office of Thrift Supervision, OTS Diagnostics. If the Diagnostics tool does not identify and offer solutions for your problem, contact the EFS Helpline at efs-info@ots.treas.gov or by phone toll free at 866.314.1744.

EFS AND WINDOWS VISTA INCOMPATIBILITY

The OTS has tested the Electronic Filing System on the new Microsoft Vista operating system, and at this time issues exist which prevent EFS from being fully functional. The OTS is working on the issue but at this time cannot support EFS on Vista workstations. The OTS advises anyone considering upgrading a machine hosting the EFS software to Vista or installing EFS on a new Vista machine to postpone this action until further notice.

FEDERAL REGISTER AND OTHER WEBSITE LINKS

An updated link to access and search for Federal Register Notices, along with many other website links, is now available in the EFS software:

Launch **EFS** and click on:

- **Help** from the menu bar at the top of the screen
- Select **EFS Help Guide (interactive)**
- Double-click on **EFS Technical Support** (the last book under "Contents" tab)
- Double-click on **Related Websites**
- Scroll down to **External Websites**
- Click the link under **Federal Register**

TFR INSTRUCTION MANUAL UPDATES

The following sections of the TFR Instruction manual have been revised and updated. Please refer to the revised instruction pages included with this Bulletin for details.

Schedule CCR - Consolidated Capital Requirements

Edits to the instructions appear on pages 1620 to 1621, and on page 1628.

FDIC WEBSITE UPDATES

Per the FDIC, updates are made to the Industry Analysis portion of their website (<http://www.fdic.gov/>) on the third Friday after the close of the quarter and weekly thereafter. This update is based on individual OTS TFR data as of the previous Tuesday night. The FDIC will post September 2007 data to their website for the first time on Friday, October 19, 2007. The last update of the FDIC website for the September 2007 cycle will be approximately 60 days after the close of the quarter.

AMENDING PRIOR-CYCLE DATA

Before you transmit any prior-period amendments to TFR, CMR, or HC reports, be sure to discuss them with your Financial Reporting Analyst, who may have further instructions for you to follow. All amendments must be filed electronically and should include a detailed EFS Message to OTS explaining the reason for the amendment. A June 2007 TFR, CMR, or HC amendment cannot be processed after Friday, November 9, 2007. After that time, the June 2007 cycle will close permanently.

MARCH 2008 TFR UPDATES (PROPOSED)

The Office of Thrift Supervision, the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (Board), and the Federal Deposit Insurance Corporation (FDIC) (the banking agencies) are requesting comment on several proposed revisions to the Call Report and the TFR. The proposed reporting changes were published September 11, 2007, in the Federal Register (72 FR 51814) with a 60-day request for

comments on the proposal. These revisions are discussed in Section II.A. of this notice and, if approved, would take effect as of March 31, 2008. The banking agencies are proposing to revise the Call Report and TFR instructions for reporting daily average deposit data by newly insured institutions for deposit insurance assessment purposes in Schedule RC-O in the Call Report and in Schedule DI in the TFR to conform these instructions with the FDIC's assessment regulations (12 CFR Part 327). The OTS encourages you to review the proposal and comment on those aspects that are of interest to you. Comments may be sent to any or all of the agencies by the methods described in the notice. All comments will be shared among the agencies and should be submitted by November 13, 2007. The FFIEC and the agencies will consider all of the comments as they finalize the revisions to the Call Report and TFR instructions for reporting daily average deposit data by newly insured institutions for deposit insurance assessment purposes to conform the instructions with the FDIC's assessment regulations (12 CFR Part 327). Please refer to the (March 2008) TFR instructions for further reporting information.

SOFTWARE CORNER

EFS-Net Notification

Remember to sign up in EFS-Net in both Electronic Filing System (EFS) and Financial Reports Subscriber (FRS) to be notified via e-mail when new items are available for your attention in EFS-Net. You will receive e-mail notification when downloadable software updates, the quarterly Financial Reporting Bulletin or other information pertinent to preparing your reports, or the IRR Executive Summary reports are available for download via EFS-Net. From the EFS main screen, click Transmit, immediately click Next, and log in to EFS-Net. From the FRS main screen, click Download; check ONLY the button at the bottom for "I have previously submitted report requests..." (although you haven't), click EFS-Net, and Log in to my Internet..."

On the EFS-Net screen, click on the word Show for My OTS Report Notification Recipients. Enter your e-mail address and click Signup. Verify the accuracy of the e-mail address that is returned. You can add additional e-mail addresses, one at a time. All users signed up will be notified via a blind e-mail distribution when new items are added.

Verify Report Preparer Contact Information

The contact information in EFS Institution Setup is only for Financial Reporting Division staff to use when communicating directly with report preparers. It should show the report preparer's complete first and last name, telephone and fax numbers (including extension numbers), physical mailing address, e-mail address, etc. It is not the OTS Corporate Directory where the official charter location information is kept. You should verify this information before each transmission to the OTS via EFS-Net.

Please ensure that the report-preparer contact information and institution information in Institution Setup is always kept current, accurate, and complete.

Confirm Your Transmissions

Your transmission process is not complete *until you verify that the report you just transmitted shows on both transmission logs*. If it doesn't show in both logs, contact the EFS Helpline.

- Within EFS-Net, the Transmission Log should appear on your screen automatically after the transmission. If it doesn't, go back to the main EFS-Net screen and click the link for [**View Transmission Log**] on the right side of the screen. Be sure the report you just transmitted shows on the log.
- Go back to the blue (main) EFS screen. At the top left, click System, Financial Data, View Transmission Log. Open the Report Filings folder and verify that your most recent transmission, *with OTS Acknowledgment*, shows there as well.

Upgrading Your System or Computer

Before you or your IT personnel perform any system, server, or equipment/workstation upgrade or move, you should contact the EFS Helpline for instructions on how to properly retain your data and correctly install the EFS software to the new location. Failure to contact the EFS Helpline prior to moving EFS files may result in needless time and work by you and OTS staff in recovering your data files and reestablishing your EFS-Net connection capabilities.

FINANCIAL REPORTING DIVISION (FRD) CONTACT LIST

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GENERAL QUESTIONS AND SOFTWARE DISTRIBUTION

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The Financial Reporting Division uses voice-mail extensively. If you reach the voice-mail of the person you are calling, please leave a brief message, speaking slowly enough to be clearly understood. Include your name, phone number, region, and docket number. Your call will be returned as quickly as possible.

TFR REPORTING QUESTIONS AND ANSWERS

The Financial Reporting Division posts TFR Questions and Answers on the OTS website at <http://www.ots.treas.gov> (click TFR). If you have a question that you would like answered, you may submit it to tfr.instructions@ots.treas.gov. Be sure to include your docket number in your Subject line. For security reasons, FRD staff does not respond to e-mails with blank or illogical Subject lines.

EFS HELPLINE MESSAGE CENTER

For assistance with Electronic Filing System (EFS)-related issues, contact the EFS Software Helpline at efs-info@ots.treas.gov or call the toll-free 24-Hour Message Center: 866.314.1744. NOTE: For security purposes, please always include your 5-digit docket number in your e-mail Subject line or your voice-mail message, and provide your name and phone number. **FRD staff does not respond to e-mails with blank or illogical Subject lines.**

INTEREST-RATE RISK REPORTS

Questions about your Interest Rate Risk Report may be directed to Scott Ciardi at scott.ciardi@ots.treas.gov, or 202.906.6960.

COPIES OF TFR MANUAL The OTS provides one copy of the TFR Instruction Manual and Financial Reporting Bulletins free of charge to the report preparer(s) of each OTS-regulated institution. You can also access the manual and bulletins on the OTS website at <http://www.ots.treas.gov> (click TFR).

PREFERRED AND MINIMUM REQUIREMENTS FOR ELECTRONIC FILING OF REGULATORY REPORTS

Preferred Requirements:

Application

- IBM-compatible PC - Pentium 566+ processor
- Windows NT4.0 Workstation, Windows 2000, XP, Me
- 256 Meg of installed RAM memory
- 200+ Meg of available hard drive memory
- SVGA enhanced color monitor 1024x768, 256 colors or 24 bit true colors
- CD-Rom drive
- HP LaserJet or Ink Jet-compatible printer

Communications - EFS-NET

- DSL, Internet Cable, or T1-T3 Direct Line with online Internet access
- Internet Explorer 6.x or greater (for EFS-NET certificate compatibility)

PLEASE NOTE The OTS has tested the Electronic Filing System on the new Microsoft Vista operating system, and at this time issues exist which prevent EFS from being fully functional on it. The OTS is working on the issue but at this time cannot support EFS and Financial Reports Subscriber (FRS) on Microsoft Vista workstations. The OTS advises anyone considering upgrading a machine hosting either the EFS and/or FRS software to Vista or installing either the EFS and/or FRS software on a new Vista machine to postpone this action until further notice.

Minimum Requirements:

Application

- IBM-compatible PC - Pentium 200+ processor
- 128 Meg of installed RAM memory
- 150 Meg of available hard drive memory
- VGA or SVGA color monitor - 640x480, 256 colors screen
- CD-Rom drive
- HP LaserJet or Ink Jet-compatible printer

Communications - EFS-NET

- 56K bps modem and active account with an Internet Access Service Provider
- Internet Explorer 6.x or greater (for EFS-NET certificate compatibility)

For quick reference to this page at any time, save this link in your Favorites:

https://xnet.ots.treas.gov/efsnets/bulletins/efs_6x_requirements.pdf

Office of Thrift Supervision Filing Schedule for 2007 Regulatory Reports

You can and should complete and transmit your reports
as soon as possible after the close of the quarter.

***Please ensure that all reports are filed
before the filing deadlines shown below.***

Reporting "As Of" Date	FILING DEADLINE			
	Thrift Financial Report	Schedule CMR and HC	Cost of Funds	Branch Office Survey

January 31			Friday March 2	
February 28			Friday March 30	
March 31	Monday April 30	Tuesday May 15	Monday April 30	
April 30			Wednesday May 30	
May 31			Monday July 2	
June 30	Monday July 30	Tuesday August 14	Monday July 30	Monday August 27
July 31			Thursday August 30	
August 31			Monday October 1	
September 30	Tuesday October 30	Wednesday November 14	Tuesday October 30	
October 31			Friday November 30	
November 30			Monday December 31	
December 31	Wednesday January 30, 2008	Thursday February 14, 2008	Wednesday January 30, 2008	

THRIFT FINANCIAL REPORT **INSTRUCTION MANUAL**

SEPTEMBER 2007

Insert these revised pages into your Thrift Financial Report Instruction Manual. Delete **only** the pages that have a replacement. Refer to the summary of these changes in the September 2007 Financial Reporting Bulletin.

Direct questions to your Financial Reporting Analyst in Dallas, Texas, or e-mail tfr.instructions@ots.treas.gov

3. The current LTV ratio is 90% or less, calculated using the value at origination, including loans individually insured by private mortgage insurance or other appropriate credit enhancement that brings the effective LTV down to 90% or less.

Notes:

1. See 12 CFR 567.1 for the definition of Qualifying Mortgage Loan.
2. A loan with an LTV higher than 90%, without PMI or other readily marketable collateral enhancement, would not typically qualify for the 50% risk weight. The Real Estate Lending Guidelines urge savings associations as well as other types of banking organizations, to require PMI or other appropriate credit enhancement if a mortgage exceeds 90% LTV. See 12 CFR 560.101, and the footnote in the section on supervisory loan-to-value limits. These guidelines constitute a supervisory presumption of safety and soundness. To overcome that presumption for a loan that exceeds 90% LTV, a bank or thrift must demonstrate to the examiners' satisfaction that the loan is both prudently underwritten, and that it qualifies for the 50% risk weight in spite of the absence of private mortgage insurance or other appropriate credit enhancement.

Also, report the combined carrying value of all mortgage and consumer loans secured by liens on the **same** one- to four-family residential property, with no intervening liens. For example, you hold extensions of credit secured by first lien and second lien positions. Include in 50 percent risk weighting, if the loan meets all the following criteria:

1. You have prudently underwritten each loan.
2. Each loan is performing and not more than 90 days past due.
3. One of the following is true:
 - a. The combined loan-to-value ratio (CLTV) does not exceed 90 percent at origination.
 - b. The combined extension of credit is insured to at least a 90 percent LTV ratio by private mortgage insurance, or there is other appropriate credit enhancement to bring the effective LTV down to 90 percent or less.
 - c. The current LTV ratio is 90% or less, calculated using the value at origination, including loans individually insured by private mortgage insurance or other appropriate credit enhancement that brings the effective LTV down to 90% or less.

When you hold the first lien and junior liens on a 1-to-4-family residential property and no other party holds an intervening lien, view the loans as a **single** extension of credit secured by a first lien on the underlying property. Use this treatment to determine the LTV ratio, as well as for risk weighting. Assign the combined loan amount to either the 50 percent or 100 percent risk category, depending on whether the credit satisfies the criteria for 50 percent risk weighting. In determining the LTV ratio, you need not include loans classified in Schedule SC as commercial loans made to businesses and secured by residential property when you calculate the CLTV ratio for that property. If such loans are not included in the CLTV ratio for that property, you should risk weight such commercial loans at 100 percent.

If there is an intervening lien, do not combine the loans because another entity holds the second lien (the intervening lien). For example, you hold a first mortgage and third lien as a home equity line. In this case, you risk weight the carrying value of the loan secured by the first lien at 50 percent if the LTV is less than 90 percent and it otherwise meets the 50 percent risk-weight criteria. You risk weight the carrying value of the loan secured by the third lien at 100 percent, regardless of the CLTV.

In addition, include the following types of loans in the definition of single-family mortgage loans. These loans must meet the criteria above to be risk weighted at 50 percent:

1. Loans on interests in cooperative buildings.
2. Loans to individuals to fund the construction of their own home that meet the definition of a qualifying mortgage loan in 12 CFR § 567.1. You may include any accrued interest receivable in the loan balance.
3. Mortgage loans on mixed-use properties that are primarily single-family residential properties.

Do not include:

1. The combined carrying value of mortgage and consumer loans secured by first or second liens on the same property when the CLTV ratio exceeds 90 percent. Report the combined carrying value of these loans on CCR506, 100% Risk weight: All Other Assets.
2. The combined carrying value of mortgage and consumer loans secured by first and second liens on the same property if any of the extensions of credit are nonperforming (nonaccrual) or more than 90 days past due. Report on CCR506, 100% Risk weight: All Other Assets.
3. A loan to a consumer collateralized by a junior lien when another lender holds an intervening lien. For example, you hold the second lien and another lender holds the first lien, or you hold the first lien and the third lien, but do not hold the second lien (intervening lien). Report the junior lien on CCR506, 100% Risk weight: All Other Assets.
4. Foreclosed real estate. Report on CCR506, 100% Risk weight: All Other Assets.
5. Loans to individuals to construct their own home that are not qualifying mortgage loans as defined in 12 CFR § 567.1. Report on CCR506, 100% Risk weight: All Other Assets.
6. The portion of loans guaranteed by FHA that may be risk weighted at 20 percent. Report on CCR450.
7. Loans to commercial entities collateralized by mortgages of third-party borrowers (warehouse loans), or small business loans collateralized by a lien on a residential property. Report on CCR506, 100% Risk weight: All Other Assets.

CCR465: Qualifying Multifamily Residential Mortgage Loans**Qualifying Multifamily Mortgage Loans (12 CFR § 567.1) Under Current Rule**

Report the carrying value plus accrued interest receivable, of permanent, first mortgages secured by first liens on multifamily residential properties consisting of five or more dwelling units that meet **all** the following criteria:

1. Amortization of principal and interest occurs over a period of not more than 30 years.
2. Original minimum maturity for repayment of principal on the loan is not less than seven years.
3. At the time you placed the loan in the 50 percent risk-weight category, the owner had made all principal and interest payments on the loan for the preceding year on a timely basis according to the loan terms (not 30 days or more past due).
4. The loan is performing and not 90 days or more past due.
5. You made the loan according to prudent underwriting standards.
6. The current outstanding loan balance does not exceed 80 percent (75 percent for variable rate loans) of the value of the property securing the loan. "Value of the property" (when you originate a loan to purchase a multifamily property) means the lower of either the purchase price or the amount of the initial appraisal, or if appropriate, the initial evaluation. Where a purchaser is not purchasing a multifamily property, but taking a new loan on his currently owned property, determine the value of the property by the most current appraisal, or if appropriate, the most current evaluation.
7. For the property's most recent fiscal year, the ratio of annual net operating income generated by the property, before payment of any debt service on the loan, to annual debt service on the loan is not less than 120 percent, (115 percent for variable-rate loans). In the case of cooperative or other not-for-profit housing projects, the property generates sufficient cash flows to provide you comparable protection. The debt service coverage ratio should be based on a fully indexed payment that will amortize the loan over its contractual term. It has long been industry practice to offer multifamily property loans with relatively short terms compared to the amortizing payment schedule. For example, the loan may have a 10-year term and a payment based on a 30-year amortization schedule with a balloon payment at the end of the term. In such cases, the DSCR

should be based on the fully amortizing, fully indexed payment over the scheduled amortization period, but no longer than 30 years.

In cases where a borrower refinances a loan on an existing property, the borrower must comply with the above criteria.

12 CFR § 567.1 defines residential property as houses, condominiums, cooperative units, and manufactured homes. This definition does not include hospitals and nursing homes. Manufactured homes are those subject to HUD regulations under Title VI of the U.S. Code.

Include mortgage loans on mixed-use properties that are primarily multifamily residential properties if they satisfy the criteria for qualifying multifamily mortgage loans.

Grandfathered Qualifying Multifamily Mortgage Loans

Qualifying multifamily mortgage loans include multifamily mortgage loans that on March 18, 1994, met the criteria of qualifying multifamily mortgage loans under our capital rule on March 17, 1994, and continue to meet those criteria, namely:

1. An existing property consisting of 5 to 36 dwelling units secures the mortgage.
2. The initial LTV ratio is not more than 80 percent.
3. For the past full year, the property's average annual occupancy rate is 80 percent or more of total units.

CCR470: Mortgage and Asset-Backed Securities Eligible for 50% Risk Weight

Mortgage-Backed Securities:

Report MBS, other than high quality MBS reported on CCR430, secured by **qualifying single-family** residential mortgage loans eligible to be reported on CCR460 or **qualifying multifamily** residential mortgage loans eligible to be reported on CCR465. Include POs secured by qualifying single-family or multifamily residential mortgage loans unless you can report them on CCR430.

If **qualifying multifamily residential mortgage loans** back the securities, you must receive timely payments of principal and interest according to the terms of the security. Generally, consider payments timely if they are not 30 days or more past due.

Note that if you have a subordinate class of an otherwise 50% risk-weight, high-quality MBS, you must gross up and risk weight your security plus the balance of all classes senior to it. However, if you are able to utilize the ratings based approach (12 CFR 567.6), it is not necessary to gross up the more senior positions. See also CC455, CC465, and CC468.

Asset-Backed Securities:

Also include asset-backed securities eligible for 50% risk weight under the ratings-based approach ("A" rated that meet all the criteria of the ratings based approach).

Do not include:

Interest Only Strips. Report credit-enhancing interest-only strips as residuals. Refer to the definitions in 12 CFR 567.1 and to the capital treatment in 12 CFR 567.6(b). See instructions for lines CCR133, CCR270, CCR375, CCR605, and SI402. Report IO and PO strips that are not credit enhancing of otherwise high quality MBS on CCR506, 100% risk weight.

CCR475: State and Local Revenue Bonds

Report securities issued by state and local governments where the revenues from a stated project such as a toll road repay the security.

CCR480: Other

Report all fifty-percent risk-weight assets not included above as defined in 12 CFR § 567.6(a)(1)(iii).

Include:

1. The credit equivalent amount of interest and exchange rate contracts (interest-rate swaps and caps) where the counterparty is an entity other than a domestic depository institution, a FHLBank, or a Federal Reserve Bank.
2. Revenue bonds issued by any public-sector entity in an OECD country that are payable solely from the revenues generated from the project financed through the issuance of the obligations.
3. Qualifying residential construction loans, also called residential bridge loans, meeting the criteria of 12 CFR § 567.1. Such loans must satisfy the following criteria:
 - a. You must make the loan according to sound lending principles to a builder with at least 15 percent equity in the project (or higher, depending upon the risk of the project) who will construct a one- to four-family residence that, when sold, will be owner-occupied.
 - b. You must obtain sufficient documentation from a permanent lender (that may be the construction lender) demonstrating all the following:
 - i. The homebuyer intends to purchase the residence.
 - ii. The homebuyer has the ability to obtain a permanent qualifying mortgage loan sufficient to purchase the residence.
 - iii. The homebuyer has made a substantial earnest money deposit.
 - c. The construction loan must meet all the following requirements:
 - i. Not exceed 80 percent of the sales price of the residence.
 - ii. Be secured by a first lien on the lot, residence under construction, and other improvements.
 - iii. Be performing and not more than 90 days past due.
 - d. The home purchaser(s) must intend that the home will be owner-occupied and must not be a business entity or any entity that is purchasing the home(s) for speculative purposes.
 - e. You must retain sufficient undisbursed loan funds throughout the construction period to ensure project completion. The builder must incur a significant percentage of direct costs; for example, the actual costs of land, labor, and material, before he draws on the loan.

CCR485: Total

The EFS software will compute this line as the sum of CCR460 through CCR480.

CCR50: 50% Risk-Weight Total

The EFS software will compute this line as 50 percent times CCR485, the risk-weighted product of all 50 percent risk-weight assets.

- § 208, as implemented, to transfers on or after March 22, 1995. See § 208 of the Riegle Act and 12 CFR § 567.6(a)(2)(i)(C).
3. Forward agreements and other contingent obligations with a specified draw down are legally binding agreements to purchase assets at a specified future date. You should convert the principal amount of the assets you will purchase on the date you enter into the agreement.
 4. Securities of customers where you lend such securities to others as agent and you indemnify the customer against loss.

Example:

You have a \$1 million off-balance-sheet, legally binding commitment to purchase and the institution has the intent to take delivery of (e.g., a regular-way trade, which is not accounted for as a derivative under SFAS Statement No. 133) FannieMae or FreddieMac MBS. Forward agreements to purchase assets at a specified date have a conversion factor of 100 percent. You convert the \$1 million off-balance-sheet item into a \$1 million on-balance-sheet equivalent, and you place it in the 20 percent risk-weight category on CCR450.

Interest-rate and Exchange-rate Contracts, and Certain Derivative Contracts

Credit Equivalent Amount

This calculation translates interest-rate and exchange-rate contracts into an on-balance-sheet credit equivalent amount. The credit equivalent amount of interest-rate and exchange-rate contracts is the sum of: (1) current credit exposure, and (2) potential credit exposure.

The credit equivalent amount, consisting of the current exposure plus the potential credit exposure, is assigned to the appropriate risk-weight category and reported on one of the following lines:

20% Risk weight	
CCR435	Claims on FHLBs
CCR445	Claims on Domestic Depository Institutions
CCR450	Other (where the counter party is a Federal Reserve Bank)
50% Risk weight	
CCR480	Other – where the counter party is other than a domestic depository institution, a FHLBank, or a Federal Reserve Bank

1. Current Credit Exposure

Current credit exposure is the replacement cost of the contract, measured in U.S. dollars, regardless of the currency specified in the contract.

Replacement cost is the loss that you would incur if a counterparty defaults. You measure replacement cost as the net cost of replacing the contract at the current market value. If default would result in a theoretical profit, the replacement value is zero. The replacement cost calculation incorporates changes in both interest rates and counterparty credit quality.

2. Potential Credit Exposure

Potential credit exposure means the estimated potential increase in credit exposure over the remaining life of the contract. You calculate it as follows:

Interest-rate Contracts

Multiply the notional principal amount of the contract by either:

1. Zero percent, if the contract has a remaining maturity of one year or less.

2. One-half of one percent if the contract has a remaining maturity greater than one year.

Exchange-rate Contracts

Multiply the notional principal amount of the contract by either:

1. One percent if the contract has a remaining maturity of one year or less.
2. Five percent if the contract has a remaining maturity greater than one year.

Exchange Rate Contract Example:

You have a \$10 million notional amount interest rate swap agreement. You report the positive fair value of this derivative instrument of \$80 thousand as an asset under FASB Statement No. 133, and include it in line SC689, Other Assets. However, you do **not** include this \$80 thousand on-balance-sheet amount in assets to risk weight. Instead, you include in assets to risk weight the credit equivalent amount of this interest rate exchange agreement, which you have calculated to be \$130 thousand. You computed the \$130 thousand by adding the current credit exposure of \$80 thousand (equal to the replacement cost of the contract) to the potential credit exposure of \$50 thousand (equal to the \$10 million notional amount times 0.5%, for this contract with a remaining maturity of 2 years). You include the \$130 thousand in assets to risk weight, in the 20 percent risk-weight category on CCR435, because the counterparty is a Federal Home Loan Bank.

Interest Rate Contract Example:

You have a legally binding commitment to purchase when-issued (TBA) FannieMae MBS of \$10 million. You entered into the contract for risk management purposes, and you have no intent to take delivery of the MBS, i.e., you intend to net settle. You report this security according to SFAS Statement No. 133 since it is a derivative contract, i.e., an interest rate forward agreement.

The fair value of the commitment is \$ 5,000. The replacement cost of the commitment is \$5,000. It is a 6-month contract.

Report \$5,000 on Schedule SC, under either Other Assets or Other Liabilities, depending on whether the value is positive or negative. Because this TBA MBS is a derivative contract whose value will change with market interest rates, it is treated as an interest rate forward contract under the off-balance to on-balance sheet regulatory conversion rules, and you must determine its credit equivalent amount. For risk-based capital purposes, the credit equivalent amount of such a derivative contract, in this case the interest rate forward contract is the sum of its current credit exposure (replacement cost) plus the potential future exposures over the remaining life of the derivative contract (regardless of current credit exposure, if any). The current credit exposure of a derivative contract is (1) the fair value of the contract when that fair value is positive and (2) zero when the fair value of the contract (exchange rate or interest rate) is negative or zero. The potential future credit exposure of a contract, which is based on the type of contract and the contract's remaining maturity (one year or less or greater than one year), is determined by multiplying the notional principal amount of the contract by the appropriate credit conversion factor discussed above under "Potential Credit Exposure".

In this example, the current credit exposure is \$5,000, the replacement cost. Report \$5,000 on CC335. To determine the potential future credit exposure of the contract, multiply the notional amount of \$10 million times 0% (since the remaining maturity is less than one year), or \$0. The converted equivalent amount to report for risk-based capital purposes is therefore \$5,000. Report \$5000 on CCR430. This amount is then multiplied by the risk-weight factor of 20% because FannieMae is the obligor. FannieMae receives a 20% risk-weight because it is a U.S. government sponsored agency that issues securities under 12 CFR 567.6.

Also see December 2005 changes to page 1626.