FINANCIAL REPORTING BULLETIN

March 1998

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

TFR DUE DATE THURSDAY, APRIL 30, 1998
CMR DUE DATE FRIDAY, MAY 15, 1998

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

Revised TFR Instruction Manual [TOP]

The revised 1998 TFR Form and Instruction Manual are enclosed (OTS Form 1313, Revised Feb. 1998). **It is important that you refer to these materials before submitting your March TFR**.

As a result of requests from report preparers, the 1998 manual includes a glossary, which should be inserted into your binder behind the enclosed tab. Suggestions for changes or additions to the instruction manual should be sent to Trudy Reeves, Financial Reporting Analyst, at the address above or by e-mail to trudy.reeves @ots.treas.gov.

In the enclosed 1998 TFR Instruction Manual, a paragraph for the instructions for SI385, Available-for-Sale Securities, was inadvertently omitted. A page containing the revised instruction for SI385 is attached to this bulletin and should be inserted into the 1998 instruction manual.

The March 1998 TFR should be completed and submitted as soon as possible after the close of the quarter. All schedules except CMR are due no later than Thursday, April 30, 1998. Schedule CMR is due no later than Friday, May 15. The March Cost of Funds Index is also due April 30.

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

ADDITIONAL 1998 THRIFT FINANCIAL REPORT FORM CHANGES [TOP]

The 1998 TFR form which is enclosed (Revised Feb 1998) includes all changes previously reported in the December 1997 Financial Reporting Bulletin. Additionally, in Schedule SC we have combined certain items as follows:

SC170: Federal Funds Sold and Securities Purchased Under Agreements to Resell

SC730: Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Previously, securities purchased under agreements to resell were included in assets on SC185 (Other Investment Securities), and, federal funds purchased were included in liabilities on SC760 (Other Borrowings). The new treatment will better identify these instruments and is consistent with the commercial bank Call Report.

OTS WEBSITE

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

1998 CHANGES TO THE TFR INSTRUCTION MANUAL [TOP]

In addition to the changes necessitated due to the changes to the TFR form and various nonsubstantive editorial changes, the following changes are reflected in the enclosed 1998 TFR Instruction Manual:

Securities backed by nonmortgage loans:

The instructions in SC and CMR have been clarified to indicate that pass-through securities backed by nonmortgage loans, including credit cards and home equity loans, are reported in Schedule SC as securities on SC185 (Other Investment Securities) or, if applicable, on SC130 (U.S. Government and Agency Securities), but in Schedule CMR pass-through securities backed by nonmortgage loans are reported as nonmortgage loans on CMR335-343.

Loans on recreational vehicles:

The list for loans included on SC330 (Other Consumer Loans) has been expanded to include motorcycles, boats, airplanes, and other recreational vehicles. These loans are not reported with auto loans.

Capitalized computer software costs:

Costs of computer software developed or obtained for internal use that have been capitalized and amortized in accordance with the provisions of AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," are to be reported with fixed assets on SC55 (Office Premises and Equipment).

Year 2000 software costs:

Costs specifically associated with modifying internal-use computer software for the year 2000 should be charged to expense on SO530 (Office Occupancy and Equipment Expense) as incurred, rather than capitalized, pursuant to EITF Issue No. 96-14, "Accounting for the Costs Associated with Modifying Computer Software for the Year 2000."

Other Liability identification codes:

Code 20 has been eliminated; all non-interest bearing payables to a holding company or affiliate should be reported under code 17.

SO420, Income, Other Fees and Charges

Effective with the March 1998 Schedule CMR, The instructions for this line have been expanded to clarify that all fee income except mortgage loan servicing fees are reported on this line, including annuity fee income, transaction account fees, and insurance premium and fee income.

Foreclosure expenses:

A code has been added in the detail of other noninterest expense (SO580) as follows:

15 Foreclosure expenses

Deposit reconciliation in Schedule CC

An explanation has been added on reporting deposit activity in a merger with a institution not previously regulated by the OTS.

IRA/Keogh Accounts (SI210)

Clarified that Roth IRAs and educational and first-time home purchase IRAs are to be reported on this line.

Amounts netted against deposits and escrows (SI247 and 248)

Detailed instructions with examples were added to the instructions for these line items.

Oakar Deposits (SI255, 265, and 266)

Instructions were added to explain that this section is completed in the first quarter Oakar deposits are acquired and any time any deposits are purchased or sold thereafter.

Trust Assets (SI350):

Clarified that trust assets reported here include both discretionary and nondiscretionary accounts.

Dividends:

The instructions for SI630 (Dividends Declared on Common Stock) have been clarified to include dividends paid to holding companies as well as individual shareholders.

CMR473, SBA Securities:

All associations that report SBA securities on CMR473 through 475, may also report them in the Optional Supplemental Reporting Section of Schedule CMR. Three different types of instruments may be distinguished in this section: fixed coupon, floating-rate, and inverse floating-rate securities.

DPSC SOFTWARE FOR 1998 FINANCIAL REPORTS[TOP]

On February 13, 1998, DPSC completed the first mailing of the 1998 OTS filing software to allow institutions to complete and transmit their January and February 1998 COF reports. The 1998 TFR/CMR software is scheduled to be mailed March 19, 1998. If you have not received the new software by March 25, 1998, contact Greg Gawthrop at DPSC, 800/825-3772, ext. 210 (e-mail address: greg@dpscsoftware.com).

The new version of the DPSC software must be installed before preparing and transmitting the March 1998 TFR/CMR.

We appreciate comments on your experience in using the software and any suggestions you may have.

Eighty percent of all OTS-regulated institutions are now using the Windows version of the new DPSC software. If you are a DOS user and would like to convert from the DOS version of the OTS reporter to the Windows version, contact Greg Gawthrop at DPSC at the number above for information on hardware and software specification requirements and to arrange for new software discs.

You can use any telephone number available in the pick list (transmission setup screen) to transmit reports to the OTS.

Remember to enter changes as needed in the institution setup and report preparer information in your DPSC software program. The OTS uses the name and address entered for the TFR report preparer to mail the quarterly Financial Reporting Bulletin to you. Include your fax number and internet e-mail address if you have one.

AMENDMENTS TO DECEMBER 1997 REPORTS

All amendments to December 1997 reports must be made using the Sheshunoff software program by May 22, 1998. After June 1, 1998, you may delete the Sheshunoff program from your hard drive.

Associations using the DOS version of the DPSC OTS Reporter Software must type OTSSHESH to access the 1997 Sheshunoff software.

TFR TRAINING[TOP]

In 1998 the OTS and America's Community Bankers (ACB) plan to jointly develop a training module for the TFR to be offered to all savings associations and their data providers. This training is tentatively planned to be available in the first quarter of 1999.

In developing this module, we would like your input as to the contents (e.g., specific issues, TFR schedules and worksheets, software, etc.), the location, and the method of presentation (e.g., classroom vs. self-study, live instructor, computer tutor, VCR, etc.). This training is for you, and we can best serve your needs by hearing directly from you what your needs are.

Please address your comments no later than May 1st to:

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or by e-mail to patrick.berbakos@ots.treas.gov

Questions & Answers [TOP]

Q&A No. 27

LINE(S): CC465

SUBJECT: Direct Credit Substitute

DATE: March 10, 1998

Question: What is the definition of "Direct Credit Substitute" to be reported on CC465?

Answer: A definition of direct credit substitute may be found in the OTS Regulations at 12 CFR 567.1 (f). That definition is subsumed by a more comprehensive definition contained in an interagency proposal on Recourse and Direct Credit Substitutes as follows:

"Direct credit substitute means an arrangement in which a savings association assumes, in form or in substance, any risk of credit loss directly or indirectly associated with a third-party asset or other financial claim, that exceeds the association's pro rata share of the asset or claim. If a savings association has no claim on an asset, then the assumption of any risk of credit loss is a direct credit substitute. Direct credit substitutes include, but are not limited to:

1. Financial guarantee-type standby letters of credit that support financial claims on the account party;
2. Guarantees, surety arrangements, and irrevocable guarantee-type instruments backing financial claims;
3. Purchased subordinated interests or securities that absorb more than their pro rata share of losses from the underlying assets;
4. Loans or lines of credit that provide credit enhancement for the financial obligations of an account party; and
5. Purchased loan servicing assets if the servicer is responsible for credit losses associated with the loans being serviced, or if the servicer makes or assumes certain representations and warranties on the loans other than standard representation and warranties as defined in this section.

Q&A No. 28

LINE(S): SI581-583

SUBJECT: Qualified Thrift Lender (QTL) Test

DATE: March 10, 1998

Question: Now that the liquidity regulation has been amended to permit the inclusion of most mortgage-backed securities, should securities that are eligible as liquidity be deducted from total assets to determine "portfolio assets" on the QTL worksheet?

Answer : Any liquid mortgage-backed securities that are reported on line 12 of the QTL worksheet may not also be included on line 4, "regulatory liquidity." Double counting is not permitted

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Q&A No. 29

LINE(S): CCR64

SUBJECT: Assets to Risk-weight

DATE: March 10, 1998

Question : An association wants to know how they can reconcile assets to be risk-weighted and total assets reported on Schedule SC.

Answer Assets to be risk weighted (CCR64) should equal:

Total assets reported on SC60

Adjusted for unrealized gains and losses reported on CCR137
Less assets of nonincludable subsidiaries (CCR145)
Less goodwill and other nonqualifying intangible assets (CCR155 less CCR250)
Less disallowed servicing assets and disallowed deferred tax assets (CCR170)

This amount should now equal Adjusted Total Assets (CCR25)

Less assets required to be deducted (CCR370)
Less on-balance-sheet financial instruments (CNFIs) reported on CCR375
Plus ALLL (reported on CCR350 and CCR530)
Plus off-balance-sheet assets required to be risk-weighted

Equals Assets to Risk-weight (CCR64)

Q&A No. 30

LINE(S): SC50/SO491

SUBJECT: Limited Partnership (Pass-through Investment)

DATE: March 10, 1998

Question: An association has an investment in a limited partnership that had been reported on SC140 prior to the change in definition of this line. The limited partnership is designated as pass-through per OTS regulations. The institution is assuming that they should now be reported on SC50, is this correct, and should the income generated be reported on SO491? If the income is reported on SO491 what code should be used?

Answer: The instructions for SC140 state that equity investments that are not subject to SFAS No. 115, including pass-through investments, should be reported on SC50. The instructions for SC50 state that investments in pass-through investments accounted for by either the equity or cost method (i.e., not marked to fair value pursuant to SFAS 115) should be reported on SC50. The key here is whether or not the equity investment is included in the scope of SFAS 115. If it is, it is reported on SC140; if it is not, it is reported on SC50. It appears from the above description that this partnership is accounted for using the equity method and is not included in the scope of SFAS 115 and, therefore, should be reported on SC50.

We prefer that income from all investments reported on SC50 accounted for using the equity method be reported on SO491 using an 06 code in SO495 or 497.

Q&A No. 31

LINE(S): SC330

SUBJECT: Commitment Fee on a Letter of Credit

DATE: March 10, 1998

Question : An institution has a deferred commitment fee on a letter of credit. Once the loan is funded (or the letter of credit is drawn on) the unamortized yield adjustment will be netted against the loan, and reported on line SC330. Where should this be reported on the TFR prior to the loan disbursement?

Answer : It should be reported on line SC796, Other Liabilities and Deferred Income, because it is a liability. To be reported as a contra-asset, it must be identified with a specific asset. In this case there is no asset until the letter of credit is drawn down.

Q&A No. 32

LINE(S): SC23

SUBJECT: Credit Balances in Mortgage Loans

DATE: March 10, 1998

Question : An institution has a few mortgage loans for which the borrowers have overpaid; these loans now carry credit balances. Overpaid credit cards are reclassified as deposits; is this also the case with overpaid mortgages?

Answer : Yes. Payments in excess of principal, accrued interest, and all other fees should be reclassified as deposits.

Q&A No. 33

LINE: SC & CMR

SUBJECT: Purchased Receivables

DATE: March 10, 1998

Question : Where should account receivables purchased at a discount be reported on Schedules SC and CMR?

Answer : Account receivables purchased at a discount (factored receivables), should generally be reported as unsecured commercial loans and in most cases may qualify as small business loans for QTL purposes. If the debtors are consumers and the association has fully underwritten each of the receivables and they meet the institution's underwriting requirements, they may be reported as consumer loans.