

**DEPARTMENT OF THE TREASURY****Office of the Comptroller of the Currency****FEDERAL RESERVE SYSTEM****FEDERAL DEPOSIT INSURANCE CORPORATION****Agency Information Collection Activities; Submission for OMB Review; Comment Request**

**AGENCIES:** Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

**ACTION:** Notice of information collection to be submitted to OMB for review and approval under the Paperwork Reduction Act of 1995.

**SUMMARY:** In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the OCC, the Board, and the FDIC (the "agencies") may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. On April 29, 2004, the agencies requested public comment for 60 days on proposed revisions to the instructions for the Consolidated Reports of Condition and Income (Call Report), which are currently approved collections of information. After considering the comments received, the Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has adopted the proposed instructional revisions and also will add new items to the Call Report based on suggestions by commenters. In addition, on March 11, 2005, the agencies requested public comment for 60 days on other proposed revisions to the Call Report. The FFIEC and the agencies have considered the comments received on these additional revisions, which the FFIEC has adopted as proposed. The agencies are submitting the revisions adopted by the FFIEC to OMB for review and approval.

**DATES:** Comments must be submitted on or before June 30, 2005.

**ADDRESSES:** Interested parties are invited to submit written comments to any or all of the agencies. All comments, which should refer to the OMB control number(s), will be shared among the agencies.

OCC: You may submit comments, identified by [Attention: 1557-0081], by any of the following methods:

- *E-mail:* [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov). Include [Attention: 1557-0081] in the subject line of the message.

- *Fax:* (202) 874-4448.

- *Mail:* Public Information Room, Office of the Comptroller of the Currency, 250 E Street, SW., Mailstop 1-5, Washington, DC 20219; Attention: 1557-0081.

Public Inspection: You may inspect and photocopy comments at the Public Information Room. You can make an appointment to inspect the comments by calling (202) 874-5043.

Board: You may submit comments, which should refer to "Consolidated Reports of Condition and Income, 7100-0036," by any of the following methods:

- *Agency Web Site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments on the <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- *Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.

- *E-mail:* [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include docket number in the subject line of the message.

- *Fax:* 202-452-3819 or 202-452-3102.

- *Mail:* Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, except as necessary for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or on paper in Room MP-500 of the Board's Martin Building (20th and C Streets, NW.) between 9 a.m. and 5 p.m. on weekdays.

FDIC: You may submit comments, which should refer to "Consolidated Reports of Condition and Income, 3064-0052," by any of the following methods:

- <http://www.FDIC.gov/regulations/laws/federal/propose.html>.

- *E-mail:* [comments@FDIC.gov](mailto:comments@FDIC.gov). Include "Consolidated Reports of Condition and Income, 3064-0052" in the subject line of the message.

- *Mail:* Steven F. Hanft (202-898-3907), Paperwork Clearance Officer, Room MB-3064, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

- *Hand Delivery:* Comments may be hand delivered to the guard station at the rear of the 550 17th Street Building

(located on F Street) on business days between 7 a.m. and 5 p.m.

Public Inspection: You may inspect comments at the FDIC Public Information Center, Room 100, 801 17th Street, NW., between 9 a.m. and 4:30 p.m. on business days.

A copy of the comments may also be submitted to the OMB desk officer for the agencies: Mark Menchik, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, Washington, DC 20503, or electronic mail to [mmenchik@omb.eop.gov](mailto:mmenchik@omb.eop.gov).

**FOR FURTHER INFORMATION CONTACT:** For further information about the revisions discussed in this notice, please contact any of the agency clearance officers whose names appear below. In addition, copies of Call Report forms can be obtained at the FFIEC's Web site ([http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)).

OCC: Mary Gottlieb, OCC Clearance Officer, or Camille Dixon, (202) 874-5090, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219.

Board: Michelle E. Long, Clearance Officer, (202) 452-3829, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

Telecommunications Device for the Deaf (TDD) users may call (202) 263-4869.

FDIC: Steven F. Hanft, Paperwork Clearance Officer, (202) 898-3907, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

**SUPPLEMENTARY INFORMATION:** Request for OMB approval to revise the currently approved collections of information identified below.

The effect of the proposed revisions to the reporting requirements for the Call Report will vary from institution to institution depending on the institution's involvement with the types of activities or transactions to which the proposed changes apply. More specifically, the agencies expect that the reporting changes that relate to certain securitized U.S. government-guaranteed or -insured residential mortgage loans will primarily affect the small percentage of institutions that originate or purchase and then securitize these loans. The revisions to the Call Report dealing with acquired loans with evidence of deterioration of credit quality since origination, including acquisitions of such loans in business combinations accounted for using the purchase method, will generally apply only to the limited number of

institutions that are involved in purchase business combinations or that engage in purchases of loans with credit quality problems as a business activity. The agencies estimate that implementation of these reporting changes will result in a small increase in the current reporting burden imposed by the Call Report for those institutions involved with these activities and transactions. The following burden estimates include the effect of the proposed revisions.

*Report Title:* Consolidated Reports of Condition and Income (Call Report).

*Form Number:* Call Report: FFIEC 031 (for banks with domestic and foreign offices) and FFIEC 041 (for banks with domestic offices only).

*Frequency of Response:* Quarterly.

*Affected Public:* Business or other for-profit.

#### OCC

*OMB Number:* 1557-0081.

*Estimated Number of Respondents:* 2,000 national banks.

*Estimated Time per Response:* 46.45 burden hours.

*Estimated Total Annual Burden:* 371,633 burden hours.

*Board:*

*OMB Number:* 7100-0036.

*Estimated Number of Respondents:* 922 state member banks.

*Estimated Time per Response:* 52.38 burden hours.

*Estimated Total Annual Burden:* 193,177 burden hours.

#### FDIC

*OMB Number:* 3064-0052.

*Estimated Number of Respondents:* 5,263 insured state nonmember banks.

*Estimated Time per Response:* 37.10 burden hours.

*Estimated Total Annual Burden:* 781,029 burden hours.

The estimated time per response for the Call Report is an average that varies by agency because of differences in the composition of the institutions under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and existence of foreign offices). The average reporting burden for the Call Report includes the effect on burden of the new Central Data Repository (CDR) system that the agencies are developing for processing Call Reports. The time per response for the Call Report is estimated to range from 15 to 600 hours, depending on an individual institution's circumstances, before considering the effect of voluntary testing and global enrollment activities related to the CDR. The reporting burden for testing and enrollment activities for an individual

institution is estimated to range from 16 to 69 hours, depending on the institution's level of participation.

#### General Description of Reports

These information collections are mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), and 12 U.S.C. 1817 (for insured state nonmember commercial and savings banks). Except for selected items, these information collections are not given confidential treatment.

#### Abstract

Institutions file Call Reports with the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. In addition, Call Reports provide the most current statistical data available for evaluating institutions' corporate applications such as mergers, for identifying areas of focus for both on-site and off-site examinations, and for monetary and other public policy purposes. Call Reports are also used to calculate all institutions' deposit insurance and Financing Corporation assessments and national banks' semiannual assessment fees.

#### Current Actions

##### I. Overview

On April 29, 2004, the agencies (together with the Office of Thrift Supervision (OTS)) jointly published a notice soliciting comments for 60 days on proposed revisions to the Call Report (69 FR 23502). This joint notice requested comment on two proposed instructional changes that would affect how institutions report certain information in the Call Report, but the notice did not propose to change the report forms themselves. First, the agencies proposed to change and clarify the reporting requirements related to certain U.S. Government-guaranteed or -insured residential mortgage loans backing Government National Mortgage Association (GNMA) securities that meet certain delinquency criteria and are subject to seller buy-back provisions, i.e., "GNMA loans." These clarifications involved the reporting of GNMA loans as delinquent and the balance sheet classification of property backing a delinquent GNMA loan on which an institution has foreclosed. Second, the agencies proposed to change the reporting requirements for "when-issued" securities from settlement date accounting to trade date accounting.

The agencies received 13 comments on their April 2004 proposal, ten from banks and banking organizations, two from bankers' associations, and one

from a trade group whose members include banking organizations. Only two of the commenters addressed both of the subjects in the agencies' April 2004 proposal. The FFIEC and the agencies have considered these comments and have decided to proceed with the instructional revisions pertaining to mortgage loans subject to buy-back provisions, but with the addition of new items to the Call Report schedules in which banks report information on past due loans and on other real estate owned.<sup>1</sup> The FFIEC and the agencies also have decided against requiring trade date accounting for all "when-issued" securities. These decisions are discussed below.

In addition, on March 11, 2005, the agencies jointly published a notice requesting comment on proposed revisions to the Call Report in response to Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3), which was issued by the American Institute of Certified Public Accountants (70 FR 12269). SOP 03-3 applies to loans acquired in fiscal years beginning after December 15, 2004. The agencies proposed to add three items to the Call Report relating to loans within the scope of SOP 03-3. The agencies also proposed a revision to the Call Report instructions to explain how the delinquency status of loans within the scope of SOP 03-3 should be determined for purposes of disclosing past due loans in the Call Report.

The agencies received three comments in response to their March 2005 proposal, one from a community bank trade association, one from a large banking organization, and another from a trade group outside the banking industry. The FFIEC and the agencies have considered these comments and, as discussed below, have decided to proceed with the SOP 03-3 changes as proposed.

The revisions to the Call Report have been approved for publication by the FFIEC. The agencies will implement the proposed Call Report changes as of the June 30, 2005, report date, except for the revisions pertaining to foreclosed properties backing delinquent GNMA loans. Nonetheless, as is customary for Call Report changes, if the information to be reported in accordance with the revised reporting requirements is not readily available, institutions are advised that they may report reasonable

<sup>1</sup> The OTS joined with the agencies in the April 2004 proposal. The OTS intends to follow a course of action similar to the agencies with respect to mortgage loans subject to buy-back provisions in the future when updating the reporting requirements for the Thrift Financial Report.

estimates of this information for the report date as of which the proposed changes first take effect, *i.e.*, June 30, 2005. With respect to the reporting of foreclosed properties backing GNMA loans, institutions should report these properties in their Call Reports in accordance with their existing reporting policies for such properties through the December 31, 2005, report date. Effective with the March 31, 2006, report date, all institutions should report these properties as other real estate owned on the balance sheet and disclose the amount in a new subitem that will be added to the Call Report schedule in which information on the composition of other real estate owned is reported.

*Type of Review:* Revision of currently approved collections.

## II. Revisions to the Call Report

### A. GNMA Buy-Back Option

Under the GNMA Mortgage-Backed Securities Guide, the issuer of GNMA securities has the option to repurchase individual Federal Housing Administration (FHA), Department of Veterans Affairs/Veterans Administration (VA), and Farmers Home Administration (FmHA) mortgage loans backing the securities when these GNMA loans meet certain delinquency criteria. Because of this option, if and when individual loans that have been accounted for as sold in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FAS 140), later meet GNMA's specified delinquency criteria and are eligible for repurchase, FAS 140 requires these individual delinquent GNMA loans to be brought back onto the issuer's books as assets, along with an offsetting liability. This rebooking of the GNMA loans is required regardless of whether the issuer intends to exercise the buy-back option.

The agencies proposed that all delinquent rebooked GNMA loans (including those for which the institution is taking steps to foreclose on the real estate collateral at the time of repurchase, but for which the sheriff's sale has not yet taken place) should be reported as past due on Call Report Schedule RC-N—Past Due and Nonaccrual Loans, Leases, and Other Assets, in accordance with their contractual terms. As part of this change, the agencies proposed to eliminate an existing provision in the Call Report instructions that permits institutions not to report delinquent GNMA loans that are repurchased when

they are “in foreclosure status” at the time of repurchase as past due loans in Schedule RC-N, provided the government reimbursement process is proceeding normally. In proposing this reporting change, the agencies noted that delinquent rebooked GNMA loans would also be reported in supplemental items 10 and 10.a of Schedule RC-N, which disclose amounts for past due loans wholly or partially guaranteed or insured by the U.S. Government. These items supplement the main body of the past due loans schedule by providing information that enables users of the Call Report to determine the amount of an institution's total delinquent loans that are not protected by a U.S. Government guarantee or insurance.

In addition, the agencies proposed that, when an institution forecloses on real estate backing a delinquent GNMA loan that it has rebooked as an asset, it should report the property as “other real estate owned” and not as an “other asset” on the Call Report balance sheet. The foreclosed property should be reported in this manner beginning at the time of foreclosure until it has been sold, transferred to HUD, or otherwise disposed of.

The agencies received ten comments addressing the portion of the April 2004 proposal on GNMA loan reporting issues. With one exception, commenters disagreed with the agencies' proposed reporting treatment for past due GNMA loans and foreclosed property.<sup>2</sup> One commenter did “not object to the proposal that all delinquent rebooked GNMA loans should be treated consistently and reported as past due” in the schedule for past due loans, observing that users of this schedule “will have a method to identify the amount of loans that are not guaranteed by the U.S. Government.” However, this commenter did not favor the proposed treatment of foreclosed property.

### Delinquency Reporting

With respect to delinquency reporting, nine commenters did not support reporting rebooked past due GNMA loans in the main body of Call Report Schedule RC-N. These commenters recommended that if these delinquent loans must be reported in this schedule, they should be reported only in a Memorandum section of the schedule and should not be aggregated with other past due loans. They favored segregated reporting for the GNMA loans because these loans have a different risk profile than other past due loans due to their guarantees or

insurance. These commenters stated that reporting these delinquent rebooked GNMA loans with the other past due loans will skew analytical ratios used to evaluate credit risk, which will lead to misinterpretation of the past due data and cause banks to have to respond to questions regarding these data. One commenter specifically suggested that if the agencies decided to proceed with the proposed inclusion of delinquent rebooked GNMA loans in the body of the past due schedule, “a separate line should be added for past due GNMA loans.” Nevertheless, this commenter also expressed concern that the agencies' proposed past due reporting treatment in Schedule RC-N would produce disparities between the Call Report past due schedule and the past due reporting by public banking organizations in their filings with the Securities and Exchange Commission (SEC).

The agencies do not believe that their proposal to include delinquent rebooked GNMA loans in the body of the past due schedule should lead to inconsistencies in the disclosure of these loans in the Call Report and in SEC filings. Accounting staff members in the SEC's Division of Corporation Finance prepared guidance on “Current Accounting and Disclosure Issues in the Division of Corporation Finance” dated November 30, 2004, and updated on March 4, 2005. Both versions of this guidance discuss “Accounting for Loans or Other Receivables Covered by Buyback Provisions,” including, but not limited to, loans securitized through GNMA.<sup>3</sup> (See Section II.K.1. of the SEC staff's November 2004 guidance, which was carried forward without revision to Section II.N.1. of the March 2005 guidance.) The SEC staff's discussion of this topic states the following concerning loans, including GNMA loans, that have been “re-recognized,” *i.e.*, rebooked as assets in accordance with FAS 140:

In the event that loans re-recognized by the transferor have the risk elements contemplated by Item III.C.1. of Industry Guide 3 (*i.e.*, nonaccrual, past due, restructured), the amount of such loans should be included in the disclosures required by that Item. Supplemental disclosures may be made to facilitate understanding of the aggregate amounts reported pursuant to Item III.C.1. These disclosures may include, for example, information as to the nature of the loans, any guarantees, the extent of collateral, or amounts in process of collection. For example, if a loan re-recognized by a transferor is accruing, but it is contractually

<sup>2</sup> Only eight of the ten commenters specifically addressed foreclosed property.

<sup>3</sup> This guidance can be accessed at <http://www.sec.gov/divisions/corpfin/acctdis030405.htm>.

past due 90 days or more as to principal or interest, that loan should be included in the disclosure required by Item III.C.1(b) even if the loan is guaranteed through a government program, such as the Veterans Administration (VA) or Federal Housing Authority (FHA).

As recognized by the SEC staff, delinquent rebooked GNMA loans are to be included in the aggregate past due disclosures required by Industry Guide 3. However, public banking organizations may provide supplemental disclosure of the fact that these loans are guaranteed or insured by the U.S. Government to assist users in understanding the aggregate amounts of past due loans. The agencies' proposal for reporting past due rebooked GNMA loans in Call Report Schedule RC-N parallels the SEC staff's guidance because this schedule includes items that permit the "supplemental disclosure" of the amount of past due loans wholly or partially guaranteed or insured by the U.S. Government. Nevertheless, the agencies and other users of the supplemental Schedule RC-N items on past due government-guaranteed or -insured loans would benefit from having delinquent rebooked GNMA loans identified separately from other past due government-guaranteed or -insured loans, especially for institutions that have securitized and sold a significant volume of GNMA loans.

Accordingly, the agencies have decided to proceed with their original proposal that would require rebooked GNMA loans that are past due to be reported in the main body of Call Report Schedule RC-N and in supplemental item 10, "Loans and leases reported in items 1 through 8 above which are wholly or partially guaranteed by the U.S. Government." However, based on suggestions from commenters, the agencies will add a new supplemental item 10.b to Schedule RC-N effective June 30, 2005, in which banks would report "Rebooked "GNMA loans" that have been repurchased or are eligible for repurchase included in item 10 above."<sup>4</sup>

In this regard, the agencies note that banks that originate and hold FHA, VA, and FmHA mortgage loans in their loan portfolios, rather than securitizing and selling them in the form of GNMA

securities, currently report these loans as past due in the main body of Call Report Schedule RC-N if and when these loans become delinquent. These past due loans are also reported in existing supplemental items 10 and 10.a for past due loans wholly or partially guaranteed or insured by the U.S. Government in Call Report Schedule RC-N. The reporting treatment of these guaranteed and insured loans in Schedule RC-N will not change.

#### Foreclosed Real Estate

Commenters on the portion of the agencies' April 2004 proposal on GNMA loans objected to the proposed balance sheet classification of foreclosed real estate collateral backing delinquent GNMA loans as "other real estate owned." Commenters recommended that institutions report such real estate as "other assets" because they do not believe that institutions are exposed to the underlying risk of the real estate, despite the foreclosure, due to the insurance or guarantee by the U.S. Government. They also observed that, in contrast to foreclosed real estate arising from other types of loans, institutions do not intend to sell foreclosed properties resulting from GNMA loans in order to recover the value of these assets. Instead, institutions look to their claim on the U.S. Government for recovery.

The agencies have reviewed and considered these comments. As stated in the April 2004 proposal, the U.S. Department of Housing and Urban Development (HUD), the federal entity that administers the GNMA program, cannot accept a foreclosed property nor can the government guarantee or insurance be honored until all legal actions related to the foreclosure process have been completed. Commenters confirmed that certain conditions must be met before a property can be conveyed to HUD. While these conditions normally will be met, whether they will ultimately be met for an individual property is not known at the time of foreclosure. For example, the servicing guide for VA loans indicates the circumstances in which foreclosed property would not be conveyed, including when the VA issues "no-bid" advice (because the VA's cost of paying its guarantee is less than its estimated cost of taking possession of the property and selling it) and when there has been a failure to follow the regulations upon which the VA's guarantee is based.

Although the existence of insurance or a guarantee from the U.S. Government on a particular foreclosed loan will aid in determining whether

the carrying value of the asset is recoverable, it does not determine the classification of the asset upon foreclosure. Because an institution's claim against the U.S. Government is effectively conditional until all the conditions have been met for the conveyance of a foreclosed property to HUD, the asset resulting from an institution's foreclosure on a delinquent GNMA loan has more of the characteristics of real estate than a receivable from the U.S. Government. Accordingly, the agencies believe that, for Call Report balance sheet purposes, it is more appropriate to view this asset as other real estate owned than as a receivable at foreclosure.

The agencies recognize that the more common practice is for institutions that foreclose on delinquent GNMA loans to report the resulting asset as an "other asset" rather than "other real estate owned" on the Call Report balance sheet. In this regard, some commenters recommended that if the agencies concluded that these assets should not be reported as "other assets," there should be separate disclosure of these assets in the Call Report because of the difference in their risk profile compared to other types of foreclosed real estate. The agencies see merit in enabling institutions with foreclosed properties from GNMA loans to distinguish the amount of these properties from other foreclosed properties. Therefore, the agencies will delay the implementation date for institutions to report foreclosed real estate from GNMA loans as "other real estate owned" on the balance sheet until the March 31, 2006, report date. The agencies will also add a new subitem to Schedule RC-M, item 3.b, "All other real estate owned," to enable institutions to disclose the amount of such real estate in the March 2006 Call Report. Until then, *i.e.*, through the December 31, 2005, report date, institutions should continue to report these foreclosed properties in their Call Reports in accordance with their existing reporting policies for such properties.

#### B. "When-Issued" Securities

The agencies also proposed in April 2004 to revise the Call Report Glossary entry for "When-Issued Securities Transactions," which currently indicates that institutions should follow settlement date accounting for when-issued securities, by replacing it with one that calls for trade date accounting for such securities. In addition, the agencies proposed to remove the references to commitments to purchase and sell when-issued securities from the instructions for Schedule RC-L, item 9,

<sup>4</sup>In addition, if a bank services but did not originate mortgage loans backing a GNMA security, *i.e.*, where the bank was not the transferor of the losses that have been securitized, the servicing bank should also include any government-guaranteed or -insured mortgage loans that it has purchased out of the securitization in Schedule RC-R, items 10 and 10b, even if the bank was not required to record the delinquent loans as assets prior to purchasing the loans.

"All other off-balance sheet liabilities," and item 10, "All other off-balance sheet assets," respectively. Furthermore, the agencies proposed to revise the Call Report Glossary entry for "Trade Date and Settlement Date Accounting" to clarify that institutions should follow trade date accounting for all securities, including when-issued securities.

Five commenters on the agencies' April 2004 proposal addressed the reporting of when-issued securities, two of whom supported using trade date accounting for such securities. The other three commenters disagreed with the agencies' proposal. These commenters noted that, under paragraph 59(a) of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (FAS 133), when-issued securities that meet certain criteria should be accounted for as derivatives rather than securities and, therefore, this derivatives accounting treatment should be followed in the Call Report.

The agencies have reviewed relevant portions of FAS 133 and agree that, in appropriate circumstances, banks should report when-issued securities as derivatives and not as securities. Accordingly, the FIEEC and the agencies have concluded that they should not proceed with the three elements of their April 2004 proposal related to when-issued securities. However, the agencies will clarify the Call Report instructions addressing when-issued securities, where necessary, to ensure that they are in conformity with FAS 133.

### C. Loans Within the Scope of SOP 03-3

SOP 03-3 applies to "purchased impaired loans," *i.e.*, loans<sup>5</sup> that a bank has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. To assist the agencies in understanding the relationship between the allowance for loan and lease losses and the carrying amount of the loan portfolios of those banks whose portfolios include purchased impaired loans, the agencies proposed to add three items to the Call Report. All three of these items represent information included in the disclosures required by SOP 03-3. The agencies proposed to add two Memorandum items to Schedule RC-C,

part I—Loans and Leases: (1) The outstanding balance<sup>6</sup> and (2) the carrying amount (before any loan loss allowances) as of the report date of the purchased impaired loans held for investment<sup>7</sup> that are included in Schedule RC-C. In addition, the agencies proposed to add a Memorandum item to Schedule RI-B, part II—Changes in Allowance for Loan and Lease Losses, in which banks would report the amount of post-acquisition loan loss allowances for purchased impaired loans held for investment that is included in the total amount of the allowance for loan and lease losses as of the report date.

The agencies also stated that they planned to revise the instructions to Schedule RC-N—Past Due and Nonaccrual Loans, Leases, and Other Assets, to explain how purchased impaired loans should be reported in this schedule. SOP 03-3 does not prohibit placing loans on nonaccrual status and any nonaccrual purchased impaired loans should be reported accordingly in Schedule RC-N. For those purchased impaired loans that are not on nonaccrual status, banks should determine the loans' delinquency status in accordance with the contractual repayment terms of the loans without regard to the purchase price of (initial investment in) these loans or the amount and timing of the cash flows expected at acquisition.

As previously mentioned, the agencies received three comments in response to their March 2005 proposed reporting revisions related to SOP 03-3, one from a community bank trade association, one from a large banking organization, and another from a trade group outside the banking industry. In its comment letter, the community bank trade association advised that, although most community banks it surveyed are not purchasers of impaired loans, the proposed items would add clarity to the Call Report for those that are. The association also stated that the additional time needed by bankers to report the proposed items may range

from 10 minutes to one hour once the process for automating the reporting of this information has been created, which can be burdensome. The agencies note that the need for a bank that purchases impaired loans to establish a process to account for and track these loans is a result of SOP 03-3 becoming part of generally accepted accounting principles, which are the foundation for the Call Report, and would be necessary even if no new items were added to the Call Report for purchased impaired loans. The new items for purchased impaired loans produce only a small increase in the overall reporting burden for the Call Report because the overall burden represents an average across all institutions, including the vast majority that will not be purchasers of impaired loans.

The community bank trade association also identified certain Call Report schedules that its member banks consider most burdensome because of the level of detail required. The agencies recognize these bankers' concerns and are evaluating potential revisions to the Call Report that would reduce the level of detail for small institutions.

The large banking organization that commented on the SOP 03-3 revisions agreed with the proposed addition of items for the outstanding balance and carrying amount of purchased impaired loans and with the proposed use of contractual terms for determining the delinquency status of such loans for Call Report purposes. The organization also did not object to the proposed item for reporting amounts included in the allowance for loan and lease losses related to purchased impaired loans, but disagreed with the agencies' statement in the March 2005 proposal that all post-acquisition impairments recorded under SOP 03-3 should be included in the allowance account. The organization stated that it plans to recognize impairments resulting from decreases in forecasted cash flows through interest income and only recognize impairments through the allowance for loan and lease losses when undiscounted forecasted cash flows decrease below the amortized cost of the purchased impaired loan or pool of loans.

The agencies have considered the banking organization's comment on post-acquisition impairments. After reviewing the relevant portions of SOP 03-3 and discussing this comment with persons involved in the development of SOP 03-3, the agencies do not believe the interest income approach advocated by the banking organization is an appropriate application of this accounting standard. Such an approach will result in the recognition of interest

<sup>5</sup> As defined in SOP 03-3, the term "loans" includes "debt securities."

<sup>6</sup> The outstanding balance is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loan, owed to the bank at the report date, whether or not currently due and whether or not any such amounts have been charged off by the bank. However, the outstanding balance does not include amounts that would be accrued under the contract as interest, fees, penalties, and other after the report date.

<sup>7</sup> Loans held for investment are those loans that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. Thus, the outstanding balance and carrying amount of any purchased impaired loans that are held for sale would not be reported in these proposed Memorandum items.

income at an inappropriate percentage yield under the Statement of Position. Therefore, the agencies have decided against revising their statement in the March 2005 proposal that decreases in originally expected cash flows on a purchased impaired loan should be recognized as an impairment through an addition to the loan loss allowance.

In its comment letter, the trade group from outside the banking industry did not address the SOP 03-3 revisions, but requested that the agencies revise several other items in the Call Report. The agencies will consider these suggested Call Report changes at a later date.

#### D. Other Matters

Call Report Schedule RC-R—"Regulatory Capital, does not currently allow a bank to report an amount in column B, "Items Not Subject to Risk-Weighting," of item 34, "Cash and balances due from depository institutions," because such items were not expected to exist within this asset category when this schedule was originally designed. However, when amounts are included in column A, "Totals (from Schedule RC<sup>8</sup>)," of item 34 for certain embedded derivatives, these embedded derivatives should be risk-weighted under the rules for derivatives rather than the rules that apply to the cash and due from asset account. As a result, banks contacted the agencies upon finding that they could not properly report the carrying amount of these derivatives in column B when allocating the total carrying amount of their "Cash and balances due from depository institutions" across the columns of item 34. In response to banks' comments about this reporting difficulty, the agencies are revising Schedule RC-R to permit the use of column B of item 34.

A number of banks have requested that they be permitted to provide USA PATRIOT Act Section 314(a) Anti-Money Laundering contact information for more than two contact persons at their institutions. The agencies are adding text fields for two additional contact persons that will enable a bank, at its option, to supply information for a third and fourth anti-money laundering contact person. This contact information is not released to the public.

#### III. Request for Comment

Public comment is requested on all aspects of this joint notice. In addition, comments are invited on:

(a) Whether the proposed revisions to the Call Report collections of information are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;

(b) The accuracy of the agencies' estimates of the burden of the information collections as they are proposed to be revised, including the validity of the methodology and assumptions used;

(c) Ways to enhance the quality, utility, and clarity of the information to be collected;

(d) Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this joint notice will be shared among the agencies and will be summarized or included in the agencies' requests for OMB approval. All comments will become a matter of public record. Written comments should address the accuracy of the burden estimates and ways to minimize burden as well as other relevant aspects of the information collection request.

Dated: May 25, 2005.

**Stuart E. Feldstein,**

*Assistant Director, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency.*

Board of Governors of the Federal Reserve System, May 24, 2005.

**Robert deV. Frierson,**

*Deputy Secretary of the Board.*

Dated at Washington, DC, this 25th day of May, 2005.

Federal Deposit Insurance Corporation.

**Robert E. Feldman,**

*Executive Secretary.*

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**BILLING CODE 4810-33; 6210-01; 6714-01-P**

## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### Proposed Collection; Comment Request for Forms 1040-SS, 1040-PR, and Anejo H-PR

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice and request for comments.

**SUMMARY:** The Department of the Treasury, as part of its continuing effort to reduce paperwork and respondent

burden, invites the general public and other Federal agencies to take this opportunity to comment on proposed and/or continuing information collections, as required by the Paperwork Reduction Act of 1995, Public Law 104-13 (44 U.S.C. 3506(c)(2)(A)). Currently, the IRS is soliciting comments concerning Form 1040-SS, U.S. Self-Employment Tax Return; Form 1040-PR, Planilla Para La Declaracion De La Contribucion Federal Sobre El Trabajo Por Cuenta Propia—Puerto Rico; and Anejo H-PR, Contribuciones Sobre El Empleo De Empleados Domesticos.

**DATES:** Written comments should be received on or before August 1, 2005, to be assured of consideration.

**ADDRESSES:** Direct all written comments to Glenn P. Kirkland, Internal Revenue Service, room 6516, 1111 Constitution Avenue, NW., Washington, DC 20224.

**FOR FURTHER INFORMATION CONTACT:** Requests for additional information or copies of the forms and instructions should be directed to Larnice Mack, (202) 622-3179, Internal Revenue Service, room 6512, 1111 Constitution Avenue, NW., Washington, DC 20224, or through the Internet at [Larnice.Mack@irs.gov](mailto:Larnice.Mack@irs.gov).

#### SUPPLEMENTARY INFORMATION:

**Title:** Form 1040-SS, U.S. Self-Employment Tax Return, Form 1040-PR, Planilla Para La Declaracion De La Contribucion Federal Sobre El Trabajo Por Cuenta Propia—Puerto Rico; and Anejo H-PR, Contribuciones Sobre El Empleo De Empleados Domesticos.

**OMB Number:** 1545-0090.

**Form Number:** Forms 1040-SS, 1040-PR, and Anejo H-PR.

**Abstract:** Form 1040-SS is used by self-employed individuals in the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands to report and pay self-employment tax and provide proper credit to the taxpayer's social security account. Form 1040-PR is a Spanish version of Form 1040-SS for use in Puerto Rico. Anejo H-PR is used to compute household employment taxes. Form 1040-SS and Form 1040-PR are also used by bona-fide residents of Puerto Rico to claim the additional child tax credit.

**Current Actions:** There are no changes being made to the forms at this time.

**Type of Review:** Extension of a currently approved collection.

**Affected Public:** Individuals or households, business or other for-profit organizations and farms.

**Estimated Number of Responses:** 430,400.

<sup>8</sup> Schedule RC of the Call Report is the balance sheet.