



Call Report Seminar

Virtual Live-Stream Session

May 10 - 11, 2022



About ICBA and Community Banker University®

The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America.

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Call Report Preparation: 2022

Presented by:
CLA's Financial Institutions Group

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Presenter Information

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Susan is the Managing Principal of CLA's financial institutions practice across the firm and oversees and directs approximately 250 industry focused associates. Susan joined CLA in 2020 with more than 20 years of financial services experience. She began her career auditing financial institutions before moving into the financial services industry at small community banks and Fortune 500 companies. She has served in a variety of industry roles including controller, chief accounting officer and business unit CFO. Susan has been involved in multiple mergers and acquisitions of sizes ranging from \$150 million to \$500 billion with engagement at all stages of the process.



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Presenter Information

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Andrew is a manager in CLA's financial institutions group specializing in financial statement audit, preparation and review under AICPA and PCAOB standards. He has an industry specific focus in community banking with consulting experiences in internal audit, loan file and credit quality review, mergers and acquisitions, and call reporting.



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Housekeeping

- Please turn on your webcam, if you are able
- If you are having technical problems, please let us know
- We recommend having your most recent call report in front of you as we discuss the various sections
- Please interject and ask questions at any time; there will be designated Q&A time in each section as well
- Goal for Breaks: Every 60 to 90 minutes
- Lunch Break: 12 pm Central Time (30 minutes)



Polling Question 1

What level of experience do you have in preparing the call report?

- a) I've never prepared the call report but expect to begin soon.
- b) I've prepared the call report for over 1 year, but less than 3.
- c) I've prepared the call report for more than 3 years, but less than 10.
- d) I've prepared the call report for more than 10 years.



Agenda

- Getting Started with the Call Report
- Community Bank Leverage Ratio (CBLR)
- Recent Revisions, Proposals, and Accounting Pronouncements
- Balance Sheet Schedules
- Income Statement Schedules
- Lending Schedules
- Other Schedules
- Regulatory Capital



Getting Started with the Call Report

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What is the Call Report?

- Consolidated Report of Condition and Income
- Information report filed by all banks and savings and loan associations on a quarterly basis that includes financial, lending, deposit, and capital information
- Required by the Federal Financial Institutions Examination Council (FFIEC) and overseen by the FDIC
- Information is available to the public with the exception of a few restricted line items
 - Central Data Repository for Public Distribution (CDR)



Why are Call Reports important?

- Used by regulators to monitor institutions during and between examinations
 - Changes in the balance sheet and current year earnings
 - Loan portfolio changes and performance
 - Regulatory capital ratios
- Information serves as a basis for the Uniform Bank Performance Report (UBPR), which compares the bank's results to peer groups
- Failure to accurately file call reports may result in regulatory action



How Often to File



How often do I report?

Call reports are required quarterly by all banks, but some schedules are required on a less frequent basis



When is the report due?

30 days after the end of each quarter
April 30th, July 30th, October 30th,
January 30th



No Extensions Granted!!

Except for 1st Q 2020- given additional 30 days, if needed



Resources

- Are there any instructions for all this information?
 - The FFIEC has the following information available to assist in the preparation of the reports:
 - General Instructions - describe overall reporting requirements
 - Line Item Instructions for each schedule
 - The Glossary - more detail for accounting issues and other topics that may require more interpretation than practical in the line item instructions
 - All of these should be cross-referenced for completing the line items on the reports

https://www.ffiec.gov/ffiec_report_forms.htm



Level of Detail

Call Report Forms

FFIEC 031

Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices

FFIEC 041

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only - replaces FFIEC 032, FFIEC 033, FFIEC 034

FFIEC 051

Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than \$5 Billion



Form 051 - Expanded Eligibility Requirements



Previously Form 051 was available to institutions < \$1 billion in total assets



The Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) expands to institutions < \$5 billion in total assets



Other requirements:

No foreign operations

Not considered an advanced approaches institution

Not considered to be large or highly complex



Form 051 - Other Considerations

- Annual test of eligibility is based on June 30th call report
 - Would be ineligible starting the following March 31st if over threshold
- Filing Form 051 is an option not mandatory
- May switch annually on 3/31
- Regulators reserve right to force you to file Form 041
- For institutions >\$3 billion, consider FRY-9C requirements



Reduced Regulatory Reporting- Form 051

- Reductions in frequency of reporting:
 - Schedule RI, Memo Line 14 – OTTI Impairment- semi-annual
 - Schedule RC-R, Part II – detailed information on risk weightings; semi-annually
 - Still need to calculate risk-weightings every quarter just not reported
 - Schedule RC-C and RC-N Memo Section – troubled debt restructurings (TDRs) - semi-annually for detail
 - Still required to report the totals every quarter
 - Schedule RC-M, Line 8a, 8b, 8c – Trade Names and Websites; semi-annually



Reduced Regulatory Reporting- Form 051

- Reductions in frequency of reporting:
 - Schedule RC-T, Trust Activities- changes in reporting requirements for institutions meeting certain criteria
 - See instructions for more information
- Special reductions for banks over \$1 billion:
 - Schedule RI-C: ALLL Data- Semi-annual reporting
 - Schedule RC-E, Memo 6 and 7: Components of Transaction Accts- annually



Signing the Call Report

- Copy of the cover page should be used to fulfill the signature and attestation requirement
 - An officer of the bank must sign a declaration concerning the accurate preparation of the report
 - Director attestation
 - National and state member banks- at least 3 directors must sign other than declaration signor
 - State nonmember banks-at least 2 directors must sign other than declaration signor
 - Do your directors ever read what they are attesting to?



Signing the Call Report (Continued)

- Modifications to Call Report Signature Requirements and COVID-19 from September 2020 Supplemental Instructions
 - Instructions refer to a single page, but signature may be obtained on separate cover pages from each required signer.
 - Electronic signatures are permitted for the duration of COVID-19 disruptions.
 - Acceptable method includes obtaining written attestation via email from required signer to the person submitting. Email should be saved!
 - Must be made available upon request for subsequent examiner review.
 - FFIEC is evaluating the use of electronic signatures on a permanent basis.



Signing the Call Report (Continued)

NOTE: Each bank's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Reports of Condition and Income. The Reports of Condition and Income are to be prepared in accordance with federal regulatory authority instructions. The Reports of Condition and Income must be signed by the Chief Financial Officer (CFO) of the reporting bank (or by the individual performing an equivalent function) and attested to by not less than two directors (trustees) for state nonmember banks and three directors for state member banks, national banks, and savings associations.

I, the undersigned CFO (or equivalent) of the named bank, attest that the Reports of Condition and Income (including the supporting

schedules) for this report date have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true and correct to the best of my knowledge and belief.

We, the undersigned directors (trustees), attest to the correctness of the Reports of Condition and Income (including the supporting schedules) for this report date and declare that the Reports of Condition and Income have been examined by us and to the best of our knowledge and belief have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true and correct.

Signature of Chief Financial Officer (or Equivalent)

Date of Signature

Director (Trustee)

Director (Trustee)

Director (Trustee)



Submitting the Call Report

- The responsibility for ensuring the report form is accurate and reflective of any changes resides with the bank
- May not be delegated to servicers or others outside the bank
- Most institutions utilize Call Report software to prepare and submit the Call Report to the Central Data Repository
- Electronic submission is considered timely if it is received no later than the filing deadline and passes validity edits and quality edits



Accessing Call Reports Online

- Call reports are available online through Central Data Repository (CDR)
 - Online data goes back to 2001
- Great resource for historic information or information on competitors
- UBPR also available
 - Periods and dates may be customized

<https://cdr.ffiec.gov/public/ManageFacsimiles.aspx>



Amending the Call Report

- What if I have errors in my filed return, may I change them?
- Yes - Call Reports may be amended, if necessary, if errors are found or changes in estimates are needed
 - Most banks have amended at one time or another
- The bank's primary federal regulator may require the filing of an amended report if the previously submitted report contained errors which are deemed to be "material"



The Role of Materiality

Materiality – Information is material if omitting it or misstating it could influence decisions that users make based on the financial information of a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude or both items to which the information relates in the context of the individual entity's financial report.

- Qualitative not just quantitative
- Would the change/error affect the opinion of someone reviewing the financial statements?



Document Retention

- Keep copies of call report and supporting workpapers for at least 3 years including:
 - The complete call report
 - Any amended call reports filed
 - Officer and director signatures
 - Balance sheet and income statement used
 - Loan schedules and reports, investment reports, deposit reports, etc.
 - Any other supporting documentation



Adequate Documentation

Would your documentation meet the “hit by a bus” test?

- If you were gone tomorrow, could someone else pick up what you did last quarter and follow it without difficulty to prepare this quarter’s call report?
- Could your work be duplicated without further explanation?

Ideas for Documentation

- Comprehensive spreadsheet with data extracts
- Custom reports from system for particular line items- include the parameters
- Maintain all of your documentation in an orderly manner sorted by schedule, where applicable



Consistency

Sometimes inconsistency is worse than an error

- Avoid moving or reclassifying items unless you are doing a one-time correction
- If there is not a clear right answer, keep all similar items together
- Consider naming a “czar” as a decision maker on classification issues
 - Particularly for loan classifications

Make sure you have consistency across related schedules



Generally Accepted Accounting Principles

- The instructions to the call report specify that the call report shall conform to U.S. Generally Accepted Accounting Principles (GAAP).
 - In most cases, Regulatory Accounting Principles (RAP) for the call report are the same as Generally Accepted Accounting Procedures (GAAP)
 - However, the instructions do lay out some specific instructions that may differ from GAAP in order to ensure comparability and certain public policy objectives
 - When in doubt, consult the call report detailed instructions and glossary and contact your primary federal regulator



Accrual Basis Accounting

All banks, regardless of size, must prepare all schedules of the call report on an accrual basis.

This includes reporting, if applicable:

Accrued interest income on loans and investments

Accrued interest expense on deposits and debt

Depreciation expense on premises and fixed assets

Amortization and accretion on investment securities

Prepaid and accrued expenses

Accrued income tax expense or benefit



Consolidated Bank

- Call report must report the operations of the bank consolidated with any of its subsidiaries unless the subsidiary is not required to be consolidated under GAAP. Including:
 - All majority-owned (>50% of voting stock) subs that are “significant.” See glossary for definition of significant
 - All non-significant majority owned subs the bank has elected to consolidate in a consistent basis
- Example: Wholly-owned insurance subsidiary
 - Subsidiary salaries are reported with bank salaries
 - Subsidiary fixed assets are report with bank fixed assets



Other Consolidation Considerations

- Any unconsolidated subsidiary over which the bank exercises “significant influence” should be accounted for by the equity method
- If a subsidiary is consolidated, all significant inter-company balances should be eliminated
 - Cash in the subsidiary eliminated against the bank’s deposit account
 - Subsidiary’s equity is eliminated against the bank’s investment in the subsidiary recorded
- Minority interests arise when the bank owns < 100% of a consolidated subsidiary



Close of Business

- The normal cut-off time of your institution which should be both reasonable and consistently applied
 - May not hold open the books for routine transactions such as:
 - Loan payments
 - Deposits
 - Capital transactions
- Post dating entries such as accruals, suspense, and other quarter-end adjusting entries is allowed
 - Tax expense, depreciation expense, provision for loan losses, accrued payroll, etc.



Rounding

- All dollar amounts must be reported in thousands, with figures rounded to the nearest thousand
 - Items < \$500 should be reported as zero
- Rounding may result in detail not adding to their stated totals
- The only permissible differences between totals and sums are those attributable to the mechanics of rounding
 - Differences of \$1 to \$2 are fine



Negative Entries

- Negative entries are generally not allowed on the call report
 - Assets with a credit balance must be reported in liabilities, vice versa
- Retained earnings and other comprehensive income on the balance sheet may have negative balances
- Gains/losses on the income statement may have negative balance
- Provision for loan loss may have negative balance



Legal Entity Identifier Reminder

- 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions
- Must be provided on the cover page of the Call Report
- LEI must be a currently issued, maintained, and valid LEI, not an LEI that has lapsed
- An institution that does not have an LEI is not required to obtain one for purposes of reporting it on the Call Report
- *LEI reminders were highlighted in the 12/31/21 supplemental call report instructions*
- Find out more information on obtaining an LEI here:
<https://www.gleif.org/en/about-lei/get-an-lei-find-lei-issuing-organizations>



Legal Entity Identifier Reminder

Submission of Reports

Each bank must file its Reports of Condition and Income (Call Report) data by either:

- Using computer software to prepare its Call Report and then submitting the report data directly to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), or
- Completing its Call Report in paper form and arranging with a software vendor or another party to convert the data into the electronic format that can be processed by the CDR. The software vendor or other party then must electronically submit the bank's data file to the CDR.

For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at cdr.help@cdr.ffiec.gov.

FDIC Certificate Number
(RSSD 9050)

To fulfill the signature and attestation requirement for the Reports of Condition and Income for this report date, attach your bank's completed signature page (or a photocopy or a computer generated version of this page) to the hard-copy record of the data file submitted to the CDR that your bank must place in its files.

The appearance of your bank's hard-copy record of the submitted data file need not match exactly the appearance of the FFIEC's sample report forms, but should show at least the caption of each Call Report item and the reported amount.

Legal Title of Bank (RSSD 9017)

City (RSSD 9130)

State Abbreviation (RSSD 9200) Zip Code (RSSD 9220)

Legal Entity Identifier (LEI)

(Report only if your institution already has an LEI.) (RCON 9224)



Quality and Validity Checks

- Call report software has built in quality and validity checks to ensure accurate reporting
 - Like the diagnostics used by FDIC analysts
 - Must be cleared prior to filing the call report
- Compare schedules to prior quarters/years
- Compare data between different schedules and line items
- Carefully review each edit check to ensure you understand the reason for the diagnostic
 - Add explanations to your filing as necessary



Where to Start?

Proceed through the schedules in a logical manner:

- Schedule RC - Balance Sheet and related schedules: RC-A, RC-B, RC-F, RC-G, RC-K
- Schedule RI - Income Statement and related schedules: RI-A, RI-E
- Schedule RC-C - Loans and related schedules: RC-L, RC-N, RC-P, RC-S, RI-B, RI-C
- Schedule RC-E - Deposits and any miscellaneous schedules
- Schedule RC-R - Regulatory Capital

Review all inputs to make sure that there are not any data entry errors

Run the quality and validity edit checks



Reviewing the Call Report

- When the call report is prepared by another individual, what is the best approach to reviewing the information?
 - Compare schedules to the prior quarter for reasonableness
 - Question unusual or unexpected balances
 - Review new line items for compliance with form instructions
 - Consider any new products/services/income streams and how they have been reflected in the call report
 - Consider/identify any valuation adjustments, charge-offs, adjusting entries that were not recorded in the g/l at quarter end that may need to be made
 - Verify adequate documentation is in place for the call report
 - Verify the call report has been properly signed prior to filing



Community Bank Leverage Ratio (CBLR) Framework

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Polling Question 2

Does your institution have a community bank leverage ratio (CBLR) framework election in effect?

- a) Yes
- b) No – Our bank does not meet one of the qualifying criteria.
- c) No – Our bank has other reasons for calculating and reporting other regulatory capital ratios.
- d) No – I don't know about the CBLR election.



Overview of the CBLR Framework

CBLR Framework

- Designed to reduce the regulatory burden placed on community banks by the overly complicated Basel III standards
- Regulators are trying to find a balance between reducing the reporting burden and making sure banks are adequately capitalized

Banks with > 9% CBLR are exempt from completing Schedule RC-R, Part II and are considered “well capitalized” under PCA

- Temporarily reduced to >8% starting in 2nd Quarter 2020 (Section 4012, CARES Act)
- Increased to 8.5% 1st Quarter 2021 and 9% 1st Quarter 2022



Overview of the CBLR Framework (Continued)

- Banks on the CBLR are not subject to the capital conservation buffer and have more flexibility in paying dividends and bonuses
- Banks are not required to do risk-based capital calculations
- Keep in mind that CBLR is not designed to reduce the level of regulatory capital community banks are required to hold vs. the risk-based capital rules



Overview of Qualifications



Asset size limitations:

Banks with less than \$10 billion in total assets

Holding companies between \$3 billion and \$10 billion in total assets and subject to consolidated capital rates



Complexity Limitations:

Not an advanced approaches institution

Trading assets and liabilities <5%
Total off-balance sheet exposures <25% or less of consolidated assets



Initial capital ratio of > 9%



Calculating the Ratio



Off-Balance Sheet Liabilities

- CBLR does not rely on risk-weighted assets so off-balance sheet amounts do not impact the CBLR capital ratio
- If off-balance sheet exposures > 25% of total capital, bank may not use CBLR
 - Could create a “cliff” effect as off-balance sheet exposures fluctuate during the year
 - Excludes: Unconditionally cancellable commitments
 - Includes: Unused portion of lines of credit, letters of credit, certain derivatives



Opt-In and Opt-Out

- CBLR is not mandatory for banks under \$10 billion
 - Banks are allowed to opt-in to the new provisions
- Not stuck with CBLR long term
 - May go back to Basel III, if necessary
 - Should have a good reason for switching and not go back and forth quarter to quarter
- If you fall below threshold, may stay on CBLR during a two-quarter cure period



Changes to Line Items: Leverage Ratio

The leverage ratio on Line 31 is the CBLR under the final rules.

Leverage Ratio*

31. Tier 1 leverage ratio (item 26 divided by item 30).....

RCOA	Percentage
7204	

31.

a. Does your institution have a community bank leverage ratio (CBLR) framework election in effect as of the quarter-end report date? (enter "1" for Yes; enter "0" for No).....

0=No	RCOA
1=Yes	LE74

31.a.

- If your institution entered "1" for Yes in item 31.a:
- Complete items 32 through 37 and, if applicable, items 38.a through 38.c.
 - Do not complete items 39 through 54 and
 - Do not complete Part II of Schedule RC-R.

- If your institution entered "0" for No in item 31.a:
- Skip (do not complete) items 32 through 38.c.
 - Complete items 39 through 54, as applicable, and
 - Complete Part II of Schedule RC-R.

Not subject to Tier 2 capital, which includes the ALLL



Qualifying Criteria

Qualifying Criteria and Other Information for CBLR Institutions*

Dollar Amounts in Thousands	(Column A)		(Column B)		
	RCOA	Amount	RCOA	Percentage	
32. Total assets ¹	2170				32.
33. Trading assets and trading liabilities (Schedule RC, sum of items 5 and 15). Report as a dollar amount in column A and as a percentage of total assets (5% limit) in column B	KX77		KX78		33.
34. Off-balance sheet exposures:					
a. Unused portion of conditionally cancellable commitments	KX79				34.a.
b. Securities lent and borrowed (Schedule RC-L, sum of items 6.a and 6.b)	KX80				34.b.
c. Other off-balance sheet exposures	KX81				34.c.
d. Total off-balance sheet exposures (sum of items 34.a through 34.c). Report as a dollar amount in column A and as a percentage of total assets (25% limit) in column B	KX82		KX83		34.d.

Banks near 25% threshold could see ability to qualify vary quarter to quarter.



Off-Balance Sheet Exposures

- Line 34a - Unused portion of conditionally cancellable commitments
 - Unused portion of legally binding commitments including lines of credits
- Line 34c - Other Off-Balance Sheet Exposures
 - All Letters of Credit outstanding
 - Forward agreements- specifically does not include commitments to make residential mortgage loans
 - Credit-enhancing reps and warranties and credit derivatives
 - Could be interpreted to included credit enhancement from Federal Home Loan Bank (FHLB) Mortgage Partnership Finance (MPF) program



Additional Information

	Dollar Amounts in Thousands	RCOA	Amount	
35. Unconditionally cancellable commitments		S540		35.
36. Investments in the tier 2 capital of unconsolidated financial institutions.....		LB61		36.
37. Allocated transfer risk reserve.....		3128		37.
38. Amount of allowances for credit losses on purchased credit-deteriorated assets: ²				
a. Loans and leases held for investment		JJ30		38.a.
b. Held-to-maturity debt securities		JJ31		38.b.
c. Other financial assets measured at amortized cost		JJ32		38.c.

If your institution entered "0" for No in item 31.a, complete items 39 through 54, as applicable, and Part II of Schedule RC-R. If your institution entered "1" for Yes in item 31.a, do not complete items 39 through 54 or Part II of Schedule RC-R.

Note: Inclusion of Line 35 is for reconciling data to Schedule RC-L; line 38 is only for banks that have adopted CECL.



Benefits of CBLR



Simplified Call Reporting

Do not have to complete Schedule RC-R, Part II
Do not have to calculate risk-weighted assets



Easier for management and the board to understand

Based on average assets rather than risk-weighted assets, which may vary significantly from bank to bank



Exempt from capital conservation buffer included in Basel III



Downsides of CBLR

Some community banks will not qualify

- Banks with large mortgage servicing rights (MSRs), deferred tax assets (DTAs), or off-balance sheet items may not qualify
- Current capital levels may be below 9% at time of transition

Will the regulators perceive 9% as the new minimum?

- Regulation allows for flexibility for banks to use Basel III instead, but we do not know how regulators will perceive capital if a bank goes below 9%
- Since CBLR is easier to understand, will it become the new standard everyone is judged by?



Recent Revisions, Proposals, and Accounting Pronouncements

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Paycheck Protection Program Reminders

- [FDIC | FIL-37-2020](#) issued on April 7, 2020
- Report outstanding loans and related borrowings on Schedule RC-M
- PPP loans have a 0% risk weighting for capital purposes.
- **Performing Loans:** Bank should continue to record accrual of interest and apply payments like other performing loans
- **Loan Defaults:** If during the 10-month deferral period or after, it becomes known that the loan will not or may not be repaid by the borrower, the institution should seek the guarantee from the SBA



COVID-19 Related Loan Modifications- Guidance

On March 22, 2020, the agencies issued a statement that:

- Encouraged institutions to work prudently with borrowers impacted by COVID-19
- Presumes that short-term mods (i.e. not more than 6 months) made to borrowers that are current on payments are presumed to NOT be experiencing financial difficulties for purposes of determining TDR status

On April 7, 2020, Agencies Issued a Revised Statement- FIL-36-2020

- Additional clarification following the CARES Act

27 Mar. 2020

22 Mar. 2020

7 Apr. 2020

On March 27, 2020, Congress passed the CARES Act

- Section 4013 of the CARES Act provides banks the option to suspend GAAP requirements to categorize loan modifications as TDRs. Extended to 1/1/2022



Comparison of CARES Act vs. Regulatory Guidance

Section 4013
extended to
1/1/2022

	Section 4013 of the CARES Act	Regulatory Guidance
Modifications terms allowed (safety and soundness principles still apply)	Applies only to the following modifications: forbearance agreements, interest rate modifications, repayment plans or other arrangements that defer/delay principal & interest payments	Applies only to the following modifications made to due to the COVID-19 pandemic: short-term modifications, such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant under ASC 310-40, government-mandated programs
Evaluation date of whether borrower was current (< 30 days past due)	May apply to borrowers not more than 30 days past due at December 31, 2019	Applies on the date which an FI implemented a modification program for borrowers less than 30 days past due
Time period of when the modification occurs	Applicable period began on March 1, 2020 and ends on the earlier of December 31, 2020, or 60 days after the termination date of the presidential national emergency	Applicable period not specified but is expected to be temporary in nature
Duration of non-TDR designation	Remaining life of the loan. Subsequent modifications must be evaluated if they are not also eligible under the criteria.	Remaining life of the loan. Subsequent modifications must be re-evaluated.

[OCC Reference Guide: TDR Designation and COVID-19 Loan Modifications](#)



TDR Reminders

- Classification considerations:
 - Borrower has financial difficulties and
 - Is granted a concession.
- TDRs are reported on Call Report
 - If performing on modified terms: Schedule RC-C, Memo 1
 - If not performing on modified terms: Schedule RC-N, Memo 1



* Accounting Standards Update

ASU* 2016-13 Current Expected Credit Losses



Implementation Timeline

Implemented by certain public companies beginning in 2020

Non-PBEs: Fiscal years beginning after 12/15/22



Key Impacts

Replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates



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ASU 2016-13 Current Expected Credit Losses

- General call report changes:
 - ALLL changed to Allowance for Credit Losses (ACL)
 - Provision for Loan Losses changed to Provision for Credit Losses (PCL)
 - Schedules revised to include ACLs on securities and remove references to purchased credit-impaired loans and other than temporary impairment
- Various updates on Schedule RI, RC, and other balance sheet related schedules to accommodate the changes
 - Ignore these if you have not implemented CECL
- See [FDIC | FIL-32-2020](#): Revised CECL Transition Rule



Create Opportunities 60

60

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Form Changes for CECL- Schedule RI-B

Part II. Changes in Allowances for Credit Losses¹

Dollar Amounts in Thousands	(Column A) Loans and Leases Held for Investment		(Column B) Held-to-Maturity Debt Securities ²		(Column C) Available-for-Sale Debt Securities ²		
	RIAD	Amount	RIAD	Amount	RIAD	Amount	
1. Balance most recently reported for the December 31, 2019, Reports of Condition and Income (i.e., after adjustments from amended Reports of Income)	B522		JH88		JH94		1.
2. Recoveries (column A must equal Part I, item 9, column B, above)	4605		JH89		JH95		2.
3. LESS: Charge-offs (column A must equal Part I, item 9, column A, above less Schedule RI-B, Part II, item 4, column A)	C079		JH92		JH98		3.
4. LESS: Write-downs arising from transfers of financial assets ³	5523		JJ00		JJ01		4.
5. Provisions for credit losses ^{4, 5}	4230		JH90		JH96		5.
6. Adjustments* (see instructions for this schedule)	C233		JH91		JH97		6.
7. Balance end of current period (sum of items 1, 2, 5, and 6, less items 3 and 4) (column A must equal Schedule RC, item 4.c)	3123		JH93		JH99		7.



Form Changes for CECL- Schedule RI-E

4. Cumulative effect of changes in accounting principles and corrections of material accounting errors (from Schedule RI-A, item 2) (itemize and describe all such effects):			
a. Effect of adoption of current expected credit losses methodology - ASU 2016-13 ^{1, 2}	JJ26		4.a.
b. Effect of adoption of lease accounting standard - ASC Topic 842	KW17		4.b.
b. ¹ <u>TEXT</u>	R526		4.c.
b. ¹ <u>TEXT</u>	4499		5.b.
6. Adjustments to allowances for credit losses ¹ (from Schedule RI-B, Part II, item 6) (itemize and describe all adjustments):			
a. Initial allowances for credit losses recognized upon the acquisition of purchased credit-deteriorated assets on or after the effective date of ASU 2016-13 ²	JJ27		6.a.
b. Effect of adoption of current expected credit losses methodology on allowances for credit losses ^{2, 3}	JJ28		6.b.

NOTE: Discloses the amount of the size of impact of CECL. Public information that will be available when banks implement.



ASU 2016-02 Lease Accounting (Topic 842)



Implementation Timeline

Currently effective for PBEs

Non-PBEs: Fiscal years beginning after 12/15/21 (deferral from ASU 2020-05)



Key Impacts

All leases will be recognized on the balance sheet unless certain exceptions are met

- Lessee will record Right-of-Use (ROU) asset and lease liability on balance sheet for both operating leases and finance lease (previously called capital leases)
- Lessor accounting will remain relatively unchanged



Polling Question 3

Did your bank adopt ASU 2016-02 (Topic 842) prior to filing the March 31, 2022 call report?

- Yes
- No – We’re adopting in 2022, but not reporting in the interim periods.
- No – Our bank does not have any leases.
- No or I don’t know – This is the first time I’ve heard of Topic 842.



Lease Classification – Lessee

Financing lease if ANY of the following 5 conditions are met:

Transfer of ownership	Option to purchase is reasonably certain	Lease term is a major part of the economic life	Present value of lease payments is substantially all of the fair value of the underlying asset	The underlying asset is of a specialized nature
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If none of the above are met, the lease is an operating lease



Lease Classification – Lessee

Lease term is “major part” of the economic life

75% or more of remaining economic life of the underlying asset

A commencement date that falls at or near the end of the economic useful life refers to a commencement date that falls within the last 25% of the total economic life

PV of the lease payments is “substantially all” of the FV of the underlying asset

90% or more of the fair value of the underlying asset



Example



3-year lease term



Annual rent of \$100,
escalating \$3 annually



7% interest rate



Example – Operating Lease

Initial Recognition:

Dr. ROU Asset 270
 Cr. Lease Liab 270

Year 1 Entry:

Dr. Lease Expense 103 **A**
 Dr. Lease Liability 81 **D**
 Cr. Cash 100 **B**
 Cr. ROU Asset 84 **A-C**

			Asset		Liability	Expense
	Principal	Interest	Cash	ROU Asset, Net	Lease Liability	Lease Expense
Year	D	C	B	A-C		A
Initial				270	(270)	
1	81	19	100	(84)	81	103
2	90	13	103	(90)	90	103
3	99	7	106	(96)	99	103
	270	39	309	0	0	309

NOTE: No amortization expense is recorded! It is a component of the lease expense!



Example – Finance Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Interest Expense	19 C	
Dr. Amort Expense	90 A	
Dr. Lease Liability	81 D	
Cr. Cash		100 B
Cr. ROU Asset		90 A

			Asset		Liability	Expense	
	Principal	Interest	Cash	ROU Asset, Net	Lease Liability	Interest Expense	Amort Expense
Year	D	C	B	A-C		A	
Initial				270	(270)		
1	81	19	100	(90)	81	19	90
2	90	13	103	(90)	90	13	90
3	99	7	106	(90)	99	7	90
	270	39	309	0	0	39	270

NOTE: No lease expense is recorded.
Each component is recorded.



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Report Right-of-Use Asset on the balance sheet as fixed asset (RC, Item 6) for both operating and finance leases, net of accumulated amortization

Assets			
1. Cash and balances due from depository institutions (from Schedule RC-A):			
a. Noninterest-bearing balances and currency and coin ¹	0081		1.a.
b. Interest-bearing balances ²	0071		1.b.
2. Securities:			
a. Held-to-maturity securities (from Schedule RC-B, column A) ³	JJ34		2.a.
b. Available-for-sale debt securities (from Schedule RC-B, column D)	1773		2.b.
c. Equity securities with readily determinable fair values not held for trading ⁴	JA22		2.c.
3. Federal funds sold and securities purchased under agreements to resell:			
a. Federal funds sold	B987		3.a.
b. Securities purchased under agreements to resell ⁵	B989		3.b.
4. Loans and lease financing receivables (from Schedule RC-C):			
a. Loans and leases held for sale	5369		4.a.
b. Loans and leases held for investment	B528		4.b.
c. LESS: Allowance for loan and lease losses	3123		4.c.
d. Loans and leases held for investment, net of allowance (item 4.b minus 4.c) ⁷	B529		4.d.
5. Trading assets (from Schedule RC-D)	3545		5.
6. Premises and fixed assets (including capitalized leases)	2145		6.
7. Other real estate owned (from Schedule RC-E)	2160		7.



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Report Lease Liability on the balance sheet separately for operating and financing leases:

- Operating Lease**

- Schedule RC, Line 20 and Schedule RC-G, line 4e

Liabilities—continued	2021	2020
20. Other liabilities (from Schedule RC-G).....	2930	
21. Total liabilities (sum of items 13 through 20)	2948	
22. Not applicable		

- Schedule RC-G, line 4.e.

4. All other liabilities (Itemize and describe amounts greater than \$100,000 that exceed 25 percent of this item).....		2938	4.
a. Accounts payable	3066		4.a.
b. Deferred compensation liabilities	C011		4.b.
c. Dividends declared but not yet payable	2932		4.c.
d. Derivatives with a negative fair value held for purposes other than trading ..	C012		4.d.
e. Operating lease liabilities	LB56		4.e.



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Financing lease**

- Schedule RC, Line 16

13. Deposits:			
a. In domestic offices (sum of totals of columns A and C from Schedule RC-E).....		2200	13.a.
(1) Noninterest-bearing ⁸	6631		13.a.(1)
(2) Interest-bearing.....	6636		13.a.(2)
b. Not applicable			
14. Federal funds purchased and securities sold under agreements to repurchase:			
a. Federal funds purchased ⁹	B993		14.a.
b. Securities sold under agreements to repurchase ¹⁰	B995		14.b.
15. Trading liabilities (from Schedule RC-D).....	3548		15.
16. Other borrowed money (includes mortgage indebtedness) (from Schedule RC-M).....	3190		16.
17 and 18. Not applicable			

- Schedule RC-M, Line 5.b. and 10.b.

b. Other borrowings:			
(1) Other borrowings with a remaining maturity or next repricing date of: ⁴			
(a) One year or less.....	F060		5.b.(1)(a)
(b) Over one year through three years.....	F061		5.b.(1)(b)
(c) Over three years through five years.....	F062		5.b.(1)(c)
(d) Over five years	F063		5.b.(1)(d)
10. Secured liabilities:			
a. Amount of "Federal funds purchased" that are secured (included in Schedule RC, item 14.a).....	RCON	Amount	
	F064		10.a.
b. Amount of "Other borrowings" that are secured (included in Schedule RC-M, items 5.b.(1)(a)–(d)).....	F065		10.b.



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Report change in ROU and Lease Liability and Interest Expense on income statement separately for operating and financing leases separately

- Operating Lease Expenses**

- Report on Sch RI, item 7.b. “Expense of premises and fixed assets”

7. Noninterest expense:			
a. Salaries and employee benefits	4135		7.a.
b. Expenses of premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	4217		7.b.



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Financing Lease Expenses**

- Interest Expense – Report on Sch RI, item 2.c. “Other Interest Expense”

2. Interest expense:			
a. Interest on deposits:			
(1) Transaction accounts (interest-bearing demand deposits, NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts)	4508		2.a.(1)
(2) Nontransaction accounts:			
(a) Savings deposits (includes MMDAs)	0093		2.a.(2)(a)
(b) Time deposits of \$250,000 or less	HK03		2.a.(2)(b)
(c) Time deposits of more than \$250,000	HK04		2.a.(2)(c)
b. Expense of federal funds purchased and securities sold under agreements to repurchase ..	4180		2.b.
c. Other interest expense	GW44		2.c.

- Amortization expense on the ROU asset – Report on RI, item 7.b. “Expense of premises and fixed assets”

7. Noninterest expense:			
a. Salaries and employee benefits	4135		7.a.
b. Expenses of premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	4217		7.b.



Example – Operating Lease

- Transition - Modified Retrospective Approach
- Initial record when leases commence prior to effective date:

Right of Use		Lease Liability	
\$ 270	At commencement date	\$ 270	At commencement date
	84 Yr1 Amortization	81	Yr1 Principal
186	At effective date	189	At effective date

Initial Record (when commenced prior to effective date)

DR: Right of Use Asset	186	
DR: Retained Earnings	3	
CR: Lease Liability		189



ASU 2016-02 Lease Accounting – Regulatory Reporting

- Recognize the difference between ROU and Lease Liability as an adjustment to beginning retained earnings.

Schedule RI-A—Changes in Bank Equity Capital

	Dollar Amounts in Thousands		
	RIAD	Amount	
1. Total bank equity capital most recently reported for the <i>December 31, 2021</i> , Reports of Condition and Income (i.e., after adjustments from amended Reports of Income).....	3217		1.
2. Cumulative effect of changes in accounting principles and corrections of material accounting errors*	B507		2.

Schedule RI-E—Explanations

4. Cumulative effect of changes in accounting principles and corrections of material accounting errors (from Schedule RI-A, item 2) (itemize and describe all such effects):			
a. Effect of adoption of current expected credit losses methodology - ASU 2016-13 ^{1,2}	JJ26		4.a.
b. Effect of adoption of lease accounting standard - ASC Topic 842	KW17		4.b.



ASU 2020-04 Reference Rate Reform

- Implementation Timeline
 - Optional limited relevance: March 12, 2020 – December 31, 2022
- Key Impacts
 - Provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued



Balance Sheet Schedules

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor

Schedule RC: Balance Sheet

- Line 1a – Noninterest bearing cash
 - Cash items in collection
 - Teller, vault, ATM, and night depository cash
 - Noninterest bearing due from bank accounts
- Line 1b – Interest-bearing cash balances
 - Certificates of deposit held for investment
 - Balances due from FRB
 - Balances due from FHLB
 - Any other interest-bearing DFB accounts



Line 2: Securities

- Line 2a – Held-to-Maturity (HTM) Securities
 - Debt securities that management has both the positive intent and ability to hold until maturity
 - Report at amortized cost
 - Changes in fair value of securities does not impact net income or other comprehensive income, but are reported on Schedule RC-B
 - Details reported on Schedule RC-B



Line 2: Securities

- Line 2b – Available-for-Sale (AFS) Securities
 - Debt securities that are neither trading securities nor HTM
 - Reported at fair value
 - Changes in fair value runs thru other comprehensive income
 - Only available for debt securities after ASU 2016-01
 - Detail reported on Schedule RC-B



Line 2: Securities

- Line 2c- Equity Securities with Readily Determinable Fair Values not held for trading
 - New line after ASU 2016-01
 - Report fair value of all equity securities with readily determinable fair values
 - Do not report FHLB or FRB stock in this list
 - In most cases, bankers bank stock will not be reported in this line
 - Fair value changes from this stock go through the income statement
 - NO detail to report at Schedule RC-B



Line 3: Fed Funds and Reverse Repos

- Line 3a – Federal Funds Sold
 - Agreement or contract to lend funds
 - Original maturity of one business day or they may rollover under a continuing contract
- Line 3b – Securities Purchased Under Agreements to Resell
 - Also referred to as Reverse Repurchase Agreements
 - Securities are “purchased” and then sold back to third party when the cash is returned
 - Uncommon for community banks



Line 4: Loans

- Line 4a – Loans and leases held for sale
 - Management has the intent to sell but has not closed
 - Reported at the lower of cost or fair value unless you have elected to account for at fair value under the fair value option
- Line 4b – Loans and leases held for investments
 - All other loans and leases net of unearned income
- Line 4c – Less: ALLL
 - Contra account (no negative balance shows on call report)



RC: Other Assets

- Line 5 – Trading Assets
 - Investments and other assets designated as trading under GAAP
 - Uncommon for community banks
- Line 6 – Premises and Fixed Assets
 - Branch locations, furniture, vehicles, and equipment
 - Will include right-of-use assets related to leases after adoption of standard
 - Per instructions – does not include software



RC: Other Assets

- Line 7 – Other Real Estate Owned (OREO)
 - Real estate obtained through foreclosure or in lieu of foreclosure
 - Carried at fair-market value less anticipated selling costs
 - Does not include non-real estate property (i.e., repossessed automobiles)
 - See additional information on accounting in Schedule RC-M section



RC: Other Assets

- Line 8 – Investments in Unconsolidated Subsidiaries
 - Non-controlling interest in another company or partnership other than real estate venture
 - Generally accounted for using equity method
- Line 9 – Direct and Indirect Investments in Real Estate Ventures
 - Real estate held for development, resale, or investment
 - NOT OREO



RC: Other Assets

- Line 10 – Intangible Assets
 - Detail on Schedule RC-M
 - Goodwill - Recorded as part of a business combination
 - Other intangible assets
 - MSAs, core deposit intangibles, covenants not to compete
 - Book of business or customer related intangibles
 - Usually, these intangible assets are amortized for book purposes
- Line 11 – Other Assets
 - Detail on Schedule RC-F



Line 13: Deposits

- Line 13a(1) - Noninterest-bearing deposits
 - Any accounts that do not bear interest
 - Include also escrow accounts, official checks, in process
- Line 13a(2) - Interest-bearing deposits
 - Any deposits that bear interest
- Detail of deposits shown on Schedule RC-E



Line 14: Fed Funds and Repurchase Agreements

- Line 14a – Federal Funds Purchased
 - Agreement or contract to sell funds
 - Original maturity of one business day or they may rollover under a continuing contract
- Line 14b – Securities Purchased Under Agreements to Repurchase
 - Also referred to as Repurchase Agreements
 - Securities are “sold” and then bought back to third party when the cash is returned
 - Not FDIC insured, but otherwise similar to a customer deposit relationship



Line 16: Other Borrowed Money

- Other Borrowed Money
 - Detail on Schedule RC-M
 - FHLB advances
 - Term Repurchase Agreements
 - Maturity of more than 1 day
 - Similar to customer time deposit, but without FDIC insurance
 - Other borrowings
 - Lease liabilities for capital leases (under Topic 840) and finance leases (under Topic 842)



RC: Other Liabilities

- Line 15: Trading Liabilities
 - Uncommon for community banks
- Line 19: Subordinated notes and debentures
 - Debt that is subordinate to the claims of depositors
 - Has an original weighted average maturity of five years or more
 - Uncommon at the bank level, typically at holding company level
- Line 20: Other liabilities
 - Detail available at Schedule RC-G



RC: Equity Components

- Line 23 – Perpetual preferred stock and related surplus
 - Ownership interest that entitles holders to some preference or priority over owners of common stock
 - Uncommon for community banks
- Line 24 – Common Stock
 - Aggregate par or state valued of stock
 - Possible to have “no par” stock and then there is generally no entry in Line 24
- Line 25 – Surplus
 - Any amounts paid by shareholders in excess of par



RC: Equity Components

- Line 26.a – Retained Earnings
 - Accumulated net income less declared dividends and certain transfers
- Line 26.b – Accumulated Other Comprehensive Income (AOCI)
 - Net unrealized gain/loss on AFS investments
 - Pension benefit components
 - Changes to these accounts do not impact the income statement



RC: Equity Components

- Line 26.c – Other equity capital components
 - Treasury stock – stock repurchased by the bank
 - Unearned ESOP shares
- Line 27.b – Non-controlling (minority) interests in consolidated subs
 - If subsidiary is owned less than 100% but still has to be consolidated for call report purposes, total subsidiary assets and liabilities are reported on call report
 - The portion of the subsidiary’s stock not owned by the bank is reported here



Schedule RC- Memo

Memoranda

To be reported with the March Report of Condition.

1. Indicate in the box at the right the number of the statement below that best describes the most comprehensive level of auditing work performed for the bank by independent external auditors as of any date during 2021

RCOON	Number
8724	

M.1.

- 1a = An integrated audit of the reporting institution's financial statements and its internal control over financial reporting conducted in accordance with the standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB) by an independent public accountant that submits a report on the institution
- 1b = An audit of the reporting institution's financial statements only conducted in accordance with the auditing standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the institution
- 2a = An integrated audit of the reporting institution's parent holding company's consolidated financial statements and its internal control over financial reporting conducted in accordance with the standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately)
- 2b = An audit of the reporting institution's parent holding company's consolidated financial statements only conducted in accordance with the auditing standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately)

- 3 = This number is not to be used
- 4 = Directors' examination of the bank conducted in accordance with generally accepted auditing standards by a certified public accounting firm (may be required by state-chartering authority)
- 5 = Directors' examination of the bank performed by other external auditors (may be required by state-chartering authority)
- 6 = Review of the bank's financial statements by external auditors
- 7 = Compilation of the bank's financial statements by external auditors
- 8 = Other audit procedures (excluding tax preparation work)
- 9 = No external audit work



Polling Question 4

What is your least favorite call report schedule?

- a) RC-R
- b) RC-K
- c) RC-C
- d) Other



Schedule RC-B: Securities

- Two Classifications of Securities
 - HTM
 - AFS
- Fair Value and Amortized Costs are both reported
 - Line 1- U.S. Treasury Securities
 - Line 2 - U.S. Government Agency Obligations and Sponsored Agencies
 - Include FFCB, FHLB, FHLMC, FNMA, Sallie Mae, etc. bonds
 - Exclude MBS, Agency issued CMOs, or pass-throughs



Schedule RC-B: Securities

- Fair Value and Amortized Costs are both reported
 - Line 3- Securities issued by states and political subdivisions in the U.S.
 - Line 4 – Mortgage-Backed Securities (All Residential and Commercial MBS)
 - 4.a – Residential mortgage pass through securities
 - Undivided interest in a pool that provides the holder with a pro-rata share of all principal and interest payments in the pool
 - 4.b. – Other residential mortgage-backed securities
 - CMOs, REMICs, etc.
 - 4.c. – Commercial mortgage-backed securities
 - Secured by property other than 1-4 family residential properties



Schedule RC-B: Securities

- Fair Value and Amortized Costs are both reported
 - Line 5 - “Asset backed securities and structured financial products” includes breakdown into: (\$1 billion >)
 - Asset-backed securities (other than mortgage-backed securities)
 - Structured financial products
 - Line 6 - Other securities: Bonds, notes, debentures issued by corporations



RC-B: Securities Memoranda

- Memo 1: Pledged Securities
 - Secure deposits, fed funds, or borrowings
 - Secure repurchase agreements
 - HTM report at amortized cost
 - AFS reported at fair value
- Memo 2: Maturity and repricing data for debt securities
 - Remaining maturity or next repricing date not repricing frequency
 - 3 months or less, 3-12 months, 1-3 years, 3-5 years, 5-15 years, 15 years plus
 - To maturity or repricing date, not call date



RC-B: Memoranda

- Memo 3: Amortized cost of HTM securities transferred to AFS or trading
 - Report only in June and December
 - Transfers should be uncommon and special accounting applies
 - May taint the remaining pool of HTM securities
- Memo 4: Structured notes
 - Debt securities whose cash flow characteristics (coupon rate, redemption amount, or maturity) depend upon one or more indices and/or that have embedded forwards or options
 - Such as floating rate securities that have a rate of return tied to an underlying index



RC-F: Other Assets

- Must agree in total to Schedule RC, Line 11
- Line 1 – Accrued Interest Receivable
 - Include accrued interest on loans, investments, cash accounts
- Line 2 – Net Deferred Assets
 - Timing differences between book and tax return representing tax assets or liabilities in future tax years
- Line 3 – Interest-only strips receivable
 - Uncommon for community banks



RC-F: Other Assets

- Line 4 – Equity Securities
 - Restricted Stock such as FHLB Stock, FRB Stock
 - Bankers Bank stock in most, but not all, cases
- Line 5 – Life Insurance Assets
 - Line 5a – General account life insurance assets
 - Line 5b – Separate account life insurance assets
 - Uncommon for community banks
 - Line 5c – Hybrid account life insurance assets



RC-F: Other Assets

- Line 6: All Other Assets
 - Report semiannually
 - Itemize items over \$100,000 and 25% of all other items
 - Common Examples:
 - Prepaid expenses
 - Repossessed personal property (i.e., cars, equipment)
 - Computer software
 - Accounts receivable



RC-G: Other Liabilities

- Line 1.a – Interest Accrued and Unpaid on Deposits
- Line 1.b – Other Expenses Accrued and Unpaid
 - Includes accrued interest on debt and other non-deposit liabilities
 - Includes income taxes payable
- Line 2 – Net DTLs
- Line 3 – Allowance for Credit Losses on Off-Balance Sheet Liabilities
 - Separate from ALLL
 - Generally, relates to undrawn on lines or letters of credit



RC-G: Other Liabilities

- Line 4- All Other Liabilities
 - Report semiannually
 - Only required to report detailed items if greater than \$100,000 and 25% of all other items
 - Common Examples:
 - Dividends payable
 - Deferred compensation accruals
 - Bonuses payable
 - **Operating lease liability if adopted lease standard**



RC-K: Quarterly Averages

- Important schedule as information is used to calculate many ratios on the UBPR including all yields and cost of funds information
 - Also used to calculate regulatory capital
- Two Methods Available:
 - Daily Average Balance
 - Weekly Average Balance
- Prepare consistently quarter-to-quarter
 - May be necessary if daily average is not available for all items
 - Consistent groupings with other sections of the call report



RC-K: Quarterly Averages

- Daily Average Balance
 - As of the close of business each day during the quarter
 - Generally system generated by core processor
 - Considered to be the most accurate
- Weekly Average Balance
 - As of the close of business each Wednesday during quarter
 - Generally manual calculation if daily average is not available



RC-K: Asset Components

- Line 1 – Interest bearing cash- same accounts as RC Line 1.b
- Line 2, 3, 4 – Investment securities – same basis as Schedule RC-B and RC
 - All amounts are reported at amortized cost
 - Information often provided by investment accounting firm
- Line 5 – Fed funds sold – same accounts as RC Line 3
- Line 6 and 8 – Loans and Leases – similar groupings to RC-C
- Line 9 – Total Assets
 - Not a summation of line items above it on Schedule RC-K



RC-K: Liability Components

- Line 10 – Interest Bearing transaction accounts
 - Only include interest bearing accounts not all deposits
- Line 11 – Deposit accounts consistent with reporting on RC-E
 - Split between Time Deposits < \$250,000 and >\$250,000 may need to be manually calculated
- Line 12 – Fed Funds – same basis as RC
- Line 13 – Other Borrowed Money – same basis as RC



RC-M: Related Party Loans

- Line item 1 – Extensions of credit to its executive officers, directors, and principal shareholders.
- Insiders are defined under Federal Reserve Regulation O as:
 - Executive officers – officer with authority to participate in major policymaking functions of the bank, holding company, or any related subsidiary
 - Director – director of the bank, holding company, or related subsidiary
 - Principal shareholder – directly or indirectly owns, controls, or has power to vote over 10% of the stock of the bank or holding company
 - Related interest – company that is controlled by an executive officer, director, or principal shareholder



RC-M: Related Party Loans

- Aggregate amount of all extensions of credit to insiders must be reported on Schedule RC-M Line 1.a
 - Includes all balances outstanding on loans, any overdrafts, all unused commitments on lines and letters of credit
- Also need to report the number that equals or exceeds the lesser of \$500,000 or five percent of total capital

1. Extensions of credit by the reporting bank to its executive officers, directors, principal shareholders, and their related interests as of the report date:

a. Aggregate amount of all extensions of credit to all executive officers, directors, principal shareholders, and their related interests	6164		1.a.
b. Number of executive officers, directors, and principal shareholders to whom the amount of all extensions of credit by the reporting bank (including extensions of credit to related interests) equals or exceeds the lesser of \$500,000 or 5 percent of total capital as defined for this purpose in agency regulations ...	6165	Number	1.b.



RC-M: Intangible Assets

- Line 2 – Intangible assets
 - Line 2a – MSRs
 - Line 2a1 – Estimated fair value of MSAs
 - Typically, from 3rd party valuation
 - Line 2b – Goodwill
 - Line 2c – All other intangibles
 - Core Deposit Intangible
 - Customer based intangibles



RC-M: OREO

- Line 3- All OREO
 - Fair Value less estimated cost to sell
 - Broken out based on loan categories
- Real property received in foreclosure or in lieu of foreclosure in the full or partial satisfaction of a loan.
- Initially recorded at fair value less estimated costs to sell based on an appraisal or other valuation at the time the property is received.
 - Transfer from loans to other assets on the balance sheet
 - Report on Schedule RC, Line 7



RC-M: Other Items

- Line 4: Cost of Equity Securities with readily determinable fair value
 - Report cost basis, fair value is reported on Sch RC
 - Not investments reported on Schedule RC-B
- Line 5: Other Borrowed Money
 - FHLB Advances
 - Other borrowings
 - Report based on remaining maturity or repricing date
 - **May include certain lease related liabilities prior to adoption of lease standard**



RC-M: Other Items

- Line 6: Sell private label or third-party mutual funds and annuities
 - Yes or No
 - Common if have wealth management or investment advisor
- Line 7: Sell proprietary mutual funds and annuities
 - Yes or No
 - Proprietary mutual funds are funds created by the bank
 - Not common for community banks



RC-M: Other Items

- Line 8: Internet Websites
 - 8a – URL of Primary Bank website
 - 8b – All other public-facing websites used to accept or solicit deposits
 - Any other websites bank has including alternatives to “.com” accounts or old URLs that are still in existence
 - 8c – Trade Names other than the legal title
 - Including ones used to identify branches or divisions
- Line 9: Website has transactional capabilities
 - Able to do internet banking or other online services



RC-M: Other Items

- Line 10: Secured Liabilities
 - Line 10a – Amount of fed funds that is secured
 - Line 10b – Amount of other borrowings that is secured
- Line 11: Trustee or Custodian or IRAS, HSAs or Similar
- Line 12: Bank provide custody, safekeeping, or other services
- Line 14: Captive Insurance and Reinsurance Subs
 - Total assets of captive insurance or reinsurance
 - Separate subsidiary established for insurance and tax purposes



RC-M: Other Items

- Line 13: Qualified Thrift Lender Test
 - Completed by thrifts only
- Line 16: International remittance transferred offered to consumers
 - Line 16a – Mechanisms offered to consumers in any state for sending money to recipients abroad
 - Answer yes if done through a third party and the bank still has customer responsibilities
 - Line 16b – Did your institution provide more than 100 remittance transfers in the previous calendar year or does your institution estimate that it will provide more than 100 remittance transfers in the current calendar year?



International Remittances

16. International remittance transfers offered to consumers:¹

- a. As of the report date, did your institution offer to consumers in any state any of the following mechanisms for sending international remittance transfers?
- (1) International wire transfers.....
 - (2) International ACH transactions.....
 - (3) Other proprietary services operated by your institution.....
 - (4) Other proprietary services operated by another party.....

- b. Did your institution provide more than 100 international remittance transfers in the previous calendar year or does your institution estimate that it will provide more than 100 international remittance transfers in the current calendar year?.....

Items 16.c and 16.d are to be completed by institutions that answered "Yes" to item 16.b in the current report or, if item 16.b is not required to be completed in the current report, in the most recent prior report in which item 16.b was required to be completed.

- c. Indicate which of the mechanisms described in items 16.a.(1), (2), and (3) above is the mechanism that your institution estimates accounted for the largest number of international remittance transfers your institution provided during the two calendar quarters ending on the report date. (For international wire transfers, enter 1; for international ACH transactions, enter 2; for other proprietary services operated by your institution, enter 3. If your institution did not provide any international remittance transfers using the mechanisms described in items 16.a.(1), (2), and (3) above during the two calendar quarters ending on the report date, enter 0.).....

- d. Estimated number and dollar value of international remittance transfers provided by your institution during the two calendar quarters ending on the report date:

- (1) Estimated number of international remittance transfers.....
- (2) Estimated dollar value of international remittance transfers.....
- (3) Estimated number of international remittance transfers for which your institution applied the temporary exception.....

N517				16.a.(1)
N518				16.a.(2)
N519				16.a.(3)
N520				16.a.(4)
N521				16.b.
RCON	Number			
N522				16.c.
N523				16.d.(1)
N524	Amount			16.d.(2)
N527	Number			16.d.(3)



RC-M: Other Items

- Line 16 c. and d.
 - Complete if answered yes to b
 - Line 16c – Indicate which of the mechanisms described above is the mechanism that your institution estimates accounted for the largest number of remittance transfers your institution provided during the last 2 quarters
 - Line 16d – Estimate number and dollar volume of remittance transfers provided during the period



RC-M: Other Items

- Line 17 and 18

17. U.S. Small Business Administration Paycheck Protection Program (PPP) loans² and the Federal Reserve PPP Liquidity Facility (PPPLF):		
a. Number of PPP loans outstanding	LG26	17.a.
	Amount	
b. Outstanding balance of PPP loans	LG27	17.b.
c. Outstanding balance of PPP loans pledged to the PPPLF	LG28	17.c.
d. Outstanding balance of borrowings from Federal Reserve Banks under the PPPLF with a remaining maturity of:		
(1) One year or less	LL59	17.d.(1)
(2) More than one year.....	LL60	17.d.(2)
e. Quarterly average amount of PPP loans pledged to the PPPLF and excluded from "Total assets for the leverage ratio" reported in Schedule RC-R, Part I, item 30.....	LL57	17.e.
18. Money Market Mutual Fund Liquidity Facility (MMLF):		
a. Outstanding balance of assets purchased under the MMLF	LL61	18.a.
b. Quarterly average amount of assets purchased under the MMLF and excluded from "Total assets for the leverage ratio" reported in Schedule RC-R, Part I, item 30.....	LL58	18.b.



RI-A: Changes in Equity Capital

- Rollforward of changes in stockholders' equity
- Line 1: Include any adjustments to equity capital if amended call reports filed
- Line 2: Restatements due to material corrections and changes in accounting principles
 - Changes from applying new accounting principles
 - Change from an unacceptable accounting principle to acceptable
 - Changes in accounting estimates changes are NOT errors - should generally amend prior call reports



RI-A: Equity Components

- Line 4: Net income attributable to the bank
 - From Schedule RI
- Line 5: Sale, conversion, acquisition, or retirement of capital stock
 - Report net
 - Only report bank level activity, not holding company level
- Line 6: Treasury stock transactions
 - Sale or repurchase put into treasury
 - Only report bank level activity, not holding company level



RI-A: Changes in Equity Capital

- Line 7: Changes incident to Business Combination
 - Equity change to adjust capital in business combinations
- Lines 8 and 9: Cash dividends paid
- Line 10: Other Comprehensive Income
 - Includes changes in accumulated net gains (losses) on cash flow hedges and changes in minimum pension liability adjustments.
- Line 11: Other transactions with stockholders
 - Including a parent holding company
 - Describe in Schedule RI-E





Income Statement Schedules

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Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor

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RI: Income Statement

- Line 1.a – Interest and Fee Income on Loans
 - Breakdown of interest income by loan types
 - Uniform loans categories for reporting interest and fee income corresponding to categories in schedules RC-C, RC-K, RC-N
 - Revenue should be broken out based on same coding system as loan balances
 - Includes fee income
 - Origination fees
 - Past due charges
 - Commitment fees
 - Prepayment penalties

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RI: Interest Income

- Line 1.a.(5) – All other loans includes:
 - Loans to depository institutions and acceptances of other banks
 - Loans to finance agricultural productions and other loans to farmers
 - Obligations (other than securities and leases) of states and political subdivisions
 - Other Loans
- Line 1.b – Income from purchase or origination of Lease Financing Receivables
 - Same classification of leases as Schedule RC-C



RI: Interest Income

- Line 1.c – Interest on DFB Accounts
 - Includes interest income on CDs held for investment
- Line 1.d – Interest and Dividend Income on Securities
 - Uniform investment categories for reporting interest income corresponding to categories in Schedules RC-K, RC-B
- Line 1.f – Interest Income on Fed Funds and Reverse Repos
- Line 1.g – Other Interest Income
 - Includes dividends received on restricted stock including FHLB and FRB stock



RI: Interest Expense

- Line 2a – Interest on Deposits
 - Grouping of accounts should be consistent with RC-E and RC-K
 - Time Deposit expense break out of \$250,000 or less and more than \$250,000 may need to be manually calculated
 - Includes: Finder fees/brokers fees; does not include: Retainer fees
- Line 2b – Expense on Fed Funds and Repos
- Line 2c – Other Interest expense
 - Includes debt and FHLB advances



RI: Provision for Loan and Lease Losses

- Line 4: Provision for Loan and Lease Losses
 - May be positive or negative
 - Negative provision may occur under GAAP if ALLL is overfunded
 - Consider notifying regulators in advance of negative provision for loan loss
 - Provision does not include changes to the allowance for off-balance sheet provision
 - Include in Line 7.d. – Other Non-Interest Expense



RI: Non-Interest Income

- Line 5: Non-Interest Income

- Line 5a: Income from fiduciary activities
 - Must coordinate with Schedule RC-T
- Line 5b: Service charges on deposit accounts
- Line 5d(1): Fees and commissions from securities brokerage, advisory, etc.
- Line 5d(2): Income from insurance activities
- Line 5f: Net Servicing Fees
 - Includes changes in fair value of MSRs



RI: Gains and Losses

- Line 5i: Net Gains on Sales of Loans and Leases
 - Gains and losses on loans sold to secondary market or other loan sales
- Line 5j: Net Gains on Sales of OREO
 - Includes gains, losses, and writedowns on OREO
- Line 5k: Net Gains on Other Assets
 - Includes gains/losses on fixed assets, repossessed assets, etc.
- Line 6a and 6b: Realized gains/losses on HTM and AFS Securities
 - Realized gains on bonds or equities sold
 - HTM securities should be rare. May taint remaining HTM pool



RI: Non-Interest Expense

- Line 7a: Salaries and Employee Benefits
 - Includes wages, payroll taxes, benefit plans, insurance premiums, workmen comp, moving expenses, tuition, and other fringe benefits for officers and employees
 - Excluded are training of employees and dues, fees, etc. for organizations
- Line 7b: Expenses of Premises and Fixed Assets
 - Includes depreciation, maintenance, operating leases, related insurance expense, utilities, janitors, and expenses related to bank-owned vehicles
 - Exclude OREO expenses - report on Line 7d
 - Exclude Software and data processing expenses - report on Line 7d
 - Deduct - rental income from premises and fixed assets partially rented out



RI: Non-Interest Expense

- Line 7c(1) – Goodwill Impairment
- Line 7c(2) – Amortization Expense or Impairment
 - Amortization of core deposit intangibles
 - Amortization of other intangibles or impairment writedowns
- Line 7d – Other Noninterest Expense
 - Includes directors' fees, blanket bond insurance, FDIC premiums, legal fees, management fees, software expenses, data processing costs, advertising, legal fees, attorney fees, accounting fees, travel and entertainment, teller shortages
 - Management fees paid to holding company



RI: Other Items

- Line 8b – Unrealized Holding Gains/Losses on Equity securities not held for trading
 - Unrealized gains/losses on bonds that have not yet been sold
 - Market value changes quarter to quarter are reported here
- Line 9 – Applicable Income taxes
 - Includes estimated federal, state, and local income tax expense.
 - Includes both current and deferred portions of these taxes
 - Exclude: Taxes not based on income (i.e., franchise taxes, property taxes, etc.)



RI: Other Items

- Line 11: Discontinued operations, net of applicable income taxes
 - Uncommon for community banks
- Line 13: Net income (loss) attributable to non-controlling (minority) interests
 - All income/expenses reported in lines 1 -12 include the full amounts of all subsidiaries
 - The portion of the income not “owned” by the bank is reported in Line 13 as income attributable to the minority owner
 - Adjustment to get to net income attributable to the bank



RI: Memoranda

- Line 3, Line 4 - Tax Exempt Loans and Tax-Exempt Securities
 - Used to calculate tax equivalent yields on UBPR
- Line 5 - Number of full-time equivalents
 - Calculation is not a head count; FTEs
 - Convert part-time to full time by adding the total number of temp/part-time hours worked during the quarter and divide by the number of hours a full-time would have been expected to work. Then round to the nearest whole number
 - Used to calculate multiple ratios on the UBPR



RI: Memoranda

- Line 6: Interest and Fee Income on Ag Loans
 - Only report if bank has > \$300 million in assets or Loans to farmers > 5% of total loans
- Line 7: Push Down Accounting Applied
 - If did a merger or other business combination, need to enter the date
 - Push down accounting is purchase accounting and applies is most transactions
 - Assets and liabilities are re-valued to fair value as of the date of purchase
- Line 11: Subchapter S Election
 - Used to calculate certain information on UBPR



RI: Memoranda

Memorandum item 15 is to be completed annually in the December report only by institutions with \$1 billion or more in total assets¹ that answered "Yes" to Schedule RC-E, Memorandum item 5.

15. Components of service charges on deposit accounts

(sum of Memorandum items 15.a through 15.d must equal Schedule RI, item 5.b):

- a. Consumer overdraft-related service charges levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use
- b. Consumer account periodic maintenance charges levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use
- c. Consumer customer automated teller machine (ATM) fees levied on those transaction account and nontransaction savings account deposit products intended primarily for individuals for personal, household, or family use
- d. All other service charges on deposit accounts

H032		M. 15. a.
H033		M. 15. b.
H034		M. 15. c.
H035		M. 15. d.



RI-E: Explanations

- Breakdown of non-interest income and non-interest expense
- Completed each quarter
- Include detail from amounts greater than \$100,000 and 7% of Schedule RI, item 5.i. (income) or 7.d. (expense)
 - Reporting smaller dollar amounts is voluntary
- Some key categories:
 - Data processing expenses
 - OREO Expenses
 - Legal expenses



RI-E: Explanations

- Also includes other areas that relate back to other schedules of the call report
 - Line 3 – Discontinued Operations from Sch RI
 - Line 4 – Cumulative Effect of Changes in Accounting Principles from Line RI-A
 - Line 5 – Other transactions with shareholders from Line RI-A
 - Line 6 – Adjustments to the Allowance for Credit Losses from RI-B
 - Line 7 – Other explanations



Lending Schedules

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Polling Question 5

Which statement best describes loan coding at your bank?

- a) We have a strong review process and feel confident our loan coding is materially accurate.
- b) We have a process that meets expectations but could improve.
- c) We regularly have errors in our loan coding.
- d) What is loan coding?



RC-C: Loans and Lease Financing Receivable

- Two Separate Parts
 - Part I - Loans and Leases
 - Part II - Loans to Small Businesses and Small Farms
- Do not deduct the ALLL from amounts reported in this schedule by category.
- Report loans and leases held for sale at the lower or cost or market value
- Unearned income including deferred loan fees and costs may be netted against each category or reported in total on Line 11



Real Estate Loans- Definition

Loans Secured by Real Estate: A loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien(s) on real property for which the lien(s) are central to the extension of credit. That is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien(s) on the real property. To be considered wholly or substantially secured by a lien(s) on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) must be greater than 50% of the principal amount of the loan at origination.

- Coding Challenges
 - Loans with multiple pieces of collateral
 - Cross collateralized loans
 - Previous liens on collateral



Construction Loans

- Construction loans include not only construction of new structures, but also additions or alterations to existing structures
- May also include:
 - Loans secured by vacant land except land known to be used or usable for agriculture (farmland)
 - Loans secured by real estate the proceeds of which are to be used to acquire and improve developed or undeveloped property
- Loans should continue to be reported as construction loans after completion until the loan is refinanced into a new permanent loan
 - Combination construction-permanent loans should be reported as construction loans until completed or principal amortization payments begin, whichever comes first



Residential Real Estate

- In addition to single family homes, the definition of 1-4 family residential real estate includes:
 - Duplexes, triplexes, quads
 - Row houses, townhouses, etc., even if there are more than four connected units if each is separated by dividing walls that extend from ground to roof
 - Mobile homes, in states where laws define the purchase and holding as real property
 - Individual condominium units even if there are more than 4 units in a building
 - Mixed use properties containing commercial and 1-4 family residential units if the use is primarily residential



Owner vs. Non-Owner Occupied - Definition

Owner-occupied nonfarm, nonresidential property: Nonfarm, nonresidential property for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. The primary source of repayment is not derived from third party rental income (i.e. any rental income from third parties is less than 50% of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property.

- Coding Challenges
 - Multiple tenants
 - Changing Income Streams



Special Rules: Owner vs. Non-Owner

- All hospitals, golf courses, recreational facilities, and car washes are considered owner occupied unless owned by an investor who leases the property to an operator
- All hotels, motels, dormitories, nursing homes, assisted living facilities, mini-storage warehouse facilities, and similar properties are considered non-owner occupied regardless of management
 - Housing in hotels, motels, nursing homes, etc. is considered to be non-permanent housing



Other Definitions

- **Farmland:** Includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing and pastureland, whether tillable or not and whether wooded or not.
- **Depository Financial Institutions:** Includes all commercial banks, credit unions, savings and loan associations, mutual or stock savings banks, cooperative banks, and other similar institutions that take deposits from customers/members.
- **Non-depository Financial Institutions:** Includes real estate investment trusts, mortgage companies, bank holding companies, insurance companies, finance companies, financial intermediaries, investment banks, loans or advances made to the bank's own trust department, and similar institutions.



High Volatility Commercial Real Estate ADC

- HVCRE is an acquisition, development, or construction loan prior to permanent financing
 - NOT: 1-to-4 Family Residential Construction Project, Community Development Loan, For the Purchase of Agricultural Land, and
 - NOT: Meeting Certain Exemption Criteria
- Exemptions - must meet all to not be a HVCRE
 - LTV is at or below the maximum supervisory Loan-To-Value
 - Borrower has contributed at least 15% of “as completed” appraised value
 - Borrower contributed capital is contractually required to remain in project



HVCRE Loans

- EGRRCPA provides that, effective upon enactment, bank regulators may only require a depository institution to assign a higher risk weight to an HVCRE exposure if the exposure meets the definition of an “HVCRE ADC” loan
- Effective date of the new HVCRE rules was June 30, 2020
 - For 1st quarter 2020, may continue to use the prior rules or early adopt under the new rules
- Final rule allows, but does not require, banks to re-evaluate prior loans regardless of their date of origination or to continue their historic classification and look prospectively
- May reduce the number of loans risk-weighted 150% somewhat



HVCRE ADC Loans vs. HVCRE Loans

- Clarifies must be secured by real estate
- Must “primarily” finance the ADC of real property
 - Example: majority of loan proceeds go to finance equipment then the loan is not an HVCRE ADC
- Credit must depend upon future income, sales proceeds, or refinancing for repayment
 - Exempts loans if cash flow on property is sufficient to cover debt service and other expenses



HVCRE ADC vs. HVCRE - Continued

- LTV requirement remains with clarification
 - Value of contributed real property - may be the appraised value at time of contribution. Does not need to be purchase price. Allows for appreciation
 - Distribution of excess capital - clarifies no restriction in distributing capital in excess of the 15% requirement
- Transferring out of HVCRE ADC
 - HVCRE was dependent on permanent financing
 - Now: Substantially complete and generating sufficient cash flow



1-4 Family Exception under HVCRE

- 1-4 Family residential exception:
 - Includes construction on individual houses, condos, cooperatives
 - Includes loans to finance acquisition of land and construction of houses
 - Excludes loans to purchase land, but not construct dwellings
 - Excludes lot development loans that solely finance improvements such as sewers, water pipes, and similar land improvements
 - Excludes loans to purchase bare land zoned 1-4 family that will not be developed
 - Excludes multifamily construction development loans regardless of size if more than 5 units



Loan Coding Hierarchy

- See loan coding hierarchy handout for more information
- The Process:
 - Review key definitions and categorization rules
 - Go through the hierarchy from top to bottom
 - Place each loan in the first category it fits into
 - Once a loan has been classified, it generally will not move until it is re-written or paid off
 - Code the loans based on current underwriting, do not change for subsequent events
 - Construction loans are the potential exception



Loan Coding Hierarchy

- First – Loan Type
 - Line 10 – Lease Financing Receivables
 - Does not matter what type of lease
 - Does not matter who the customer is who you are leasing to
 - Line 8 – Obligations of States and Political Subdivision
 - Does not matter what the collateral is
 - Include loans to states, cities, counties, local municipalities, fire departments, schools, etc.
 - Do not include loans to non-profit entities like private hospitals or private universities



Loan Coding Hierarchy

- Second – Loan Collateral
 - Line 1 – Loans secured by real estate
 - 1.a – Construction and Land Development
 - 1.a.1 or 1.a.2- 1-4 Family Residential or Other Construction
 - 1.b – Farmland
 - 1.c – 1-4 Family Residential
 - 1.c.1- HELOCs
 - 1.c.2.a - Closed- First Liens, 1.c.2.b- Closed- 2nd Liens
 - 1.d – Multifamily
 - 1.e – Nonfarm, Nonresidential
 - 1.e.1- Owner Occupied
 - 1.e.2 - Non-owner Occupied



Loan Coding Hierarchy- Continued

- Third – Borrower
 - Line 2 – Loans to depository institutions
 - Line 3 – Loans to farmers (non-real estate)
 - Line 9.a – Loans to non-depository institutions
- Fourth – Loan Purpose
 - Line 4 – Commercial and industrial loans
 - Line 6 – Consumer loans- various types
 - Line 9.b – All other loans
 - Includes overdrafts and loans to non-profits



Troubled Debt Restructurings (TDRs)

- A bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider
- Concession may include the following:
 - Reduction of the stated interest rate
 - Extension of maturity date at a stated rate lower than the current market rate for new debt with similar risk
 - Reduction of the face amount or maturity amount of the debt
 - Reduction of accrued interest



Reporting TDRs

- Report on Schedule RC-C, Memorandum Line 1
 - All loans that have undergone TDRs and that are performing in compliance with their modified terms
 - TDRs in compliance with modified terms and yielding a market rate of interest do not need to be reported in calendar years after the year in which the restructuring took place
 - TDRs not yielding a market rate continue to be reported on Schedule RC-C as TDRs until they are paid off
- Report on Schedule RC-N, Memorandum Line 1
 - All loans that have undergone TDRs and are past due 30 days or more or on nonaccrual



RC-C: Memoranda

- Line 2 - Maturity and repricing data for loans and leases
 - Based on remaining maturity or next repricing date
- Line 3 - Loans to finance commercial real estate, construction, and land development- not secured by real estate
 - Could include loans that are unsecured, secured by cash, other assets
- Line 4 - Adjustable-rate closed-end loans secured by 1-4 families
 - Only include loans that are still owned by the bank
 - Do not include loans sold to the secondary market that are in process of foreclosure



RC-C: Memoranda

- Line 7 - Purchased credit-impaired loans
 - Loans purchased at a deep discount that are subject to special accounting under ASC 310-30
 - Generally related to acquisition
- Line 8 - Closed-end loans with negative amortization
 - Loans where P&I payments do not even cover interest
- Line 9 - Loans in the process of foreclosure
 - Included in Schedule RC-C, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b)
 - Not loans sold and serviced for others



RC-C: Memoranda

- Line 12 – Certain loans and leases acquired in business combinations
 - Fair value of acquired loans
 - Gross contractual amounts from customers
 - Best estimate of cash flows
- Line 13 – Construction, land development, and other land loans with interest reserves
 - Reported when RC-C, part 1, item 1.a, Column B exceeds 100% of total risk-based capital



RC-C: Memoranda

- Line 14 – Pledged loans
 - Report full amount of loans pledged even if not drawn upon
- Line 15 – Reverse mortgages (reported in December only) (an agreement in which the homeowner borrows against the equity and receives cash through a lump sum or through periodic payments)
 - Held for investment
 - Estimated number of reverse mortgage loan referrals to other lenders (compensation received)
 - Principal amount of reverse mortgage originations that have been sold during the year



RC-C Part II: Loans to Small Biz and Farms

- Completed semi-annual for Form 051
- Used for governmental statistics purposes
- Aggregation Requirement:
 - Banks should aggregate loans to single borrower unless it is administratively difficult to do so
 - Most community banks do not aggregate
- Classifications are based on the original loan amount not current balance
 - Amounts reported are the current balance not original balance



RC-L: Off-Balance Sheet Items

- Line 1 - Unused Commitments - includes many types of commitments
 - Loan proceeds the bank is obligated to advance for permanent loans or construction loans
 - Rotating, revolving, and open-end credit arrangements
 - Overdraft protection lines on deposit accounts
 - Commitments to make or purchase extensions of credit
 - Commitments for which the bank has charged a commitment fee
 - Commitments that are legally binding
 - Commitment to issue a commitment at some point in the future when the bank has extended terms, the borrower has accepted the terms, and the extension and acceptances are:
 - In writing, regardless of whether they are legally binding
 - Legally binding even if not in writing



RC-L: Loan Commitments

- Line 1a - Revolving, Open-End Lines Secured by 1-to-4 family
 - Home equity lines of credit (HELOCs)
- Line 1b - Credit Card Lines
- Line 1c(1)a - 1-4 family residential construction loan commitments
- Line 1c(1)b - CRE, other construction loan, and land development
- Line 1c(2) - Commitments to fund CRE, construction, and land development loans- not secured by real estate



RC-L: Loan Commitments

- Line 1e(1) - Commercial and industrial loans
- Line 1e(3) - All other unused commitments
 - Closed End Home Equity Lines
 - Agricultural Lines
 - Personal Lines of Credit



RC-L: Letters of Credit

- Line 2 - Financial Standby
 - Irrevocably obligates the bank to pay a third-party beneficiary when a customer fails to pay an outstanding loan or debt instrument
- Line 3 - Performance Standby
 - Irrevocably obligates the bank to pay a third-party beneficiary when a customer fails to perform some contractual non-financial obligation
- Line 4 - Commercial Letter of Credit
 - Specifically used to facilitate trade or commerce. Under the terms of a commercial letter of credit, as a general rule, drafts will be drawn when the underlying transaction is consummated as intended



RC-N: Past Due and Nonaccrual

- Past due and nonaccrual loans required to be reported by the following requirements
- Past due 30-89 days
- Past due 90 or more (still accruing interest)
- Nonaccrual
 - Maintained on a cash basis
 - Payment in full of interest and principal is not expected or
 - Principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection



RC-N: Past Due and Nonaccrual Loans

- Lines 1-9: Past due and Nonaccrual Loans
 - Use same loan classification as Schedule RC-C
 - Classification is important because it serves as basis of past due ratios for UBPR
- Line 10: Debt Securities and Other Assets
 - Bonds that are past due or on non-accrual are reported on RC-N
- Line 11: Guaranteed Loans and GNMA Loans
 - Guaranteed portion of loans- such as SBA guarantees
 - **Where you will report past due PPP loans**
 - Guaranteed portion of GNMA loans and Repurchased GNMA loans



RC-N: Memo Items

- Memo Line 1 – TDRs
 - Not performing based on their modified terms
 - Continue to report until paid off or charged off
- Memo Line 2 – Loans to finance CRE not secured by RE
- Memo Line 4 – Ag Production Loans
 - Report if over \$300 million or ag loans > 5%
- Memo Line 5 – Loans and leases held for sale that are past due/nonaccrual
 - Report semi-annually



RC-N: Memo

- Memo Line 7 - Additions to Nonaccrual Loans in previous 6 months
 - Allows regulators to rollforward the nonaccrual and see churn in portfolio
- Memo Line 8 - Nonaccrual assets sold in last 6 months
- Memo Line 9 - Purchased credit-impaired loans accounted for in accordance with FASB ASC 310-30:
 - Outstanding contractual balance
 - Carrying balance of loans



RI-B: Charge-offs and Recoveries

- Part I is consistent with standard loan categories from RC-C which also applies to RC-K, RC-N, RI. The loan categories used here are identical to the loan categories used for reporting past due and nonaccrual loan data in RC-N
- Line 1 - Most recently reported December 31, 20XX balance after amendment
- Line 4 - Write downs from transfers of loans to a HFS account
- Line 6 - Adjustments are typically a result of business combinations as well



Other Schedules

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RC-E: Deposits

- Items reported on Schedule RC-E as deposits
 - Transaction accounts
 - Non-transaction accounts
 - Certain suspense and non-post items
 - Escrow accounts
 - Payments related to loan servicing
 - Travelers checks, money orders, cashiers checks, and other official checks
- Accounts are classified into transaction and non-transaction accounts in Columns A, B, and C of RC-E



Defining Transaction Accounts

- Transaction Accounts (Schedule RC-E, Column A)
- Defined under Regulation D
- Account from which the depositor is permitted to make transfers or withdrawals by negotiable or transferable instruments, payment orders of withdrawal, telephone transfers, or other similar devices for purpose of making payments or transfers to third parties or from which the depositor may make withdrawals at an ATM or by using a debit card
- Excludes: Savings deposits (including money markets) even though such deposits may permit some third-party transfers



Transaction Account - Types

- Demand Deposits (Schedule RC-E, Columns A and B)
 - Payable immediately on demand. Bank does not reserve the right to require at least 7 days written notice of an intended withdrawal
 - Includes matured time deposits without auto renewals
 - Includes non-interest bearing
- NOW Accounts (Schedule RC-E, Column A Only)
 - Interest bearing deposit accounts on which the depository institution has reserved the right to require at least 7 days written notice of withdrawal and withdrawals may be made by issuance of a negotiable instrument (i.e. check)
 - Limited by law to individuals, sole proprietorships, non-profits, certain gov't units



Transaction Account - Types

- ATS Accounts (Schedule RC-E, Column A Only)
 - Accounts of individuals or sole proprietors on which the bank has reserved the right to require at least 7 days written notice to withdrawal and under a written agreement withdrawals may be made automatically through transfer to a demand deposit or other account to cover checks or overdrafts
 - Often ATS accounts on the bank's savings platform
 - Reclassification may be necessary a report as transaction accounts
- Telephone, Pre-Authorized Transfer Accounts (Sch RC-E, Col A Only)
 - Same criteria for customers as NOW account, set up for more than 6 automatic transfers per month to another deposit account
 - May include accounts used for ACH transactions



Non-Transaction Accounts - Types

- Non-Transaction Accounts (Schedule RC-E, Column C)
- Individual Retirement Accounts (Memo Line M.1.a)
 - Traditional or Roth retirement account that allows individuals to direct income for retirement savings
- Savings Deposits (Memo Line M.2.a.2)
 - Depositor is not required by the deposit contract but may at any time be required by the bank to give written notice of not less than 7 days before withdrawal



Non-Transaction Accounts

- Money Market Deposit Account (Memo Line M.2.a.1)
 - Meet the definition of a savings account and permit no more than 6 allowable transfers by check, debit card, etc. per month
 - **Reminder** – Regulation D was permanently eliminated however the call report instructions continue to use the six (6) transaction threshold to identify transactional vs. non-transactional accounts.
- Time Deposits (Memo Lines M.2.b, M.2.c, M.2.d)
 - Depositor does not have the right or is not permitted to make a withdrawal before maturity without a penalty



Types of Accountholders

- Transaction and non-transaction accounts reported on Schedule RC-E must further be reported by accountholder type
- Line 1 – Individuals, Partnerships, and Corporations
 - Include all certified and official checks. Include not-for-profits.
- Line 2 – U.S. Government
 - U.S. Treasury or Post Office
- Line 3 – States and Political Subdivisions
 - Cities, school districts, municipalities, other districts
- Line 4 – Commercial Banks and Other Depository Institutions



Deposits - Other Important Definitions

- Brokered Deposits (Memo Line M.1.b)
 - Obtained directly or indirectly from a deposit broker
 - Generally, fully insured because issued by broker in denominations of \$1,000 or \$.01
 - Only includes CDARS and ICS if they do not meet the reciprocal deposit limits
- Preferred Deposits (Memo Line M.1.e)
 - Deposits of state and local municipals, which are secured or collateralized as required by state law
 - Report in December only



Deposits - Other Important Definitions

- Deposit Listing Services (Memo Line M.1.f)
 - Online services who only function is to provide information on the availability and terms of accounts
 - Listing service is not placing deposits with customers, bank pays subscription fees
 - Funds remitted directly by depositor to the bank
 - Example: QwickRate
- Reciprocal Deposits (Memo Line M.1.g)
 - Deposits received by an agent institution through a deposit placement network with the same maturity (if any) and the same aggregate amount as covered deposits placed by the agent institution in other network member banks ICS and CDARS are some of the most common programs



Deposits - Other Important Definitions

- Sweep deposits (Memo Line M.1.h and M.1.i)
 - Fully insured, affiliate sweep deposits
 - Not fully insured, affiliate sweep deposits
 - Fully insured, non-affiliate sweep deposits
 - Not fully insured, non-affiliate sweep deposits
 - Total sweep deposits that are not brokered deposits
- Sweep deposits definition:
 - A deposit held at the reporting institution by a customer or counterparty through a contractual feature that automatically transfers to the reporting institution from another regulated financial company at the close of each business day amounts under the agreement governing the account from which the amount is being transferred.
- **NEW (Forms 031/041 as of 9/30/2021; Form 051 as of 12/31/2021)**



RC-E: Deposit Liabilities Memoranda

- Memo Line 2b-2d: Time Deposit Break out:
 - Less than \$100,000
 - \$100,000 through \$250,000
 - More than \$250,000
- Memo Lines 3 and 4: Maturity and Repricing Data for Time Deposits
 - \$250,000 or less or More than \$250,000
- Memo Line 5: Does your institution offer consumer deposit accounts, i.e., transaction account or nontransaction savings account deposit products intended for individuals for personal, household, or family use?



Deposits - Other Important Definitions

- Consumer Deposit Products (Memo Line M.5)
 - Deposit products offered primarily to individuals for personal, household, and family use
 - Exclude time deposits
 - Consider children's accounts, Christmas clubs, senior accounts, etc. that may be marketed to one group



RC-O: Other Data for Deposit Insurance

- The FDIC relies on Call Report information to estimate the amount of insured and uninsured deposits in banks.
- The FDIC uses estimates of insured deposits to determine the reserve ratios of the deposit insurance funds.
- Thus, having accurate information is critical to managing the fund and assessing insurance premiums.



RC-O: Deposit Insurance

- Line 1 - Total deposit liabilities before exclusions
 - Includes deposit balance plus accrued interest on deposits
- Line 2 - Total allowable exclusions
 - Foreign deposits
 - Reciprocal balances
 - Drafts drawn on other depository institutions
 - Pass through reserve balances
 - Depository institution investment contracts
 - Accumulated deposits



RC-O: Deposit Insurance

- Line 4 – Average consolidated total assets
 - From Sch RC-K
 - Line 4a- Averaging method used (daily or weekly)
- Line 5 – Average Tangible Equity
 - Average at the end of each month- >\$1 Billion on March 31, 2011
 - Quarter end tangible equity- <\$1 Billion
- Item 9 – Reciprocal brokered deposits
 - Included in brokered deposits on RC-E
 - If meet the requirements, may exclude most or all reciprocals from brokered



RC-O: Deposit Insurance

- Memoranda Line 1 - Total Deposits
- When determining the number and size of deposit accounts, each individual certificate, passbook account and other evidence of deposit is to be treated as a separate account
- Multiple accounts to the same depositor should not be aggregated; each deposit contract is a separate account.
- Number if deposit and retirement deposit accounts \$250,000 or less are reported quarterly



Schedule SU - Supplemental Information - 051

- Replaces Schedules RC-D, RC-P, RC-Q, RC-S, and RC-V from Form 041
 - Also includes derivatives information from Schedule RC-L
 - Includes FDIC Loss Share information from RC-M and RC-N
- Series of “Yes” and “No” indicators
- Challenge for community banks
 - Still have to understand the background on each question to determine whether or not they apply
 - Areas covered were often misunderstood by banks prior to the change and so banks may have been underreporting in the past



Schedule SU - Derivative Contracts

- What is a derivative?
 - Contract that allows one party to transfer risk to another party
- Common Derivatives for Community Banks
 - Interest Rate Forward Contracts (Form 041, Sch RC-L, Line 12b)
 - Example- Firm commitments (i.e. commitments that have specific interest rate or price, selling date, and dollar amount) to sell loans secured by 1-to-4 family loans at some date in the future
 - Written OTC Interest Rate Options (Form 041, Sch RC-L, Line 12.d.(1))
 - Example- Interest rate lock/cap/floor on 1-to-4 family loans to customers



Schedule SU - Derivative Contracts

- Interest Rate Swaps (Form 041, Sch RC-L, Line 12e)
 - Example- Agreement to swap a fixed interest rate for a floating interest rate or vice versa
- If have any form of derivative contract, need to answer “Yes” to this question
 - Most will likely to 1.c- Interest rate derivatives not held for trading
- Gross notional amount- principal balance of the loans related to the interest rate derivative



Schedule SU - Mortgage Banking Activities

- Data points from Schedule RC-P merged into Sch SU
- For two calendar quarters preceding the current quarter, have either:
 - The bank’s sales of 1-4 family residential mortgage loans exceeded \$10 million OR
 - The bank’s 1-4 family residential mortgage loans held for sale or trading exceeded \$10 million



Schedule SU - Mortgage Banking Activities

- Line 2a: 1-4 family loans sold during the quarter:
 - Closed end 1st and junior lien- report principal amount sold
 - Open-end lines of credit- report the total commitment
- Line 2b: 1-4 family loans held for sale
 - Report at lower of cost or fair value
 - Report amount held for sale at quarter end
- Exceed \$10 million in September 30, 20XX and December 31, 20XX - must complete questions 2.a. and 2.b. in March 20XY
 - Questions 2.a. and 2.b. are the current quarter, not previous quarters, amounts



Schedule SU - Fair Value Option Assets/Liab.

- What is the fair value option?
 - Accounting alternative that allows companies to record their financial instruments (i.e. loans, investments) at fair values rather than historic costs
 - Not the same as mark-to-market on AFS securities
 - Special election made by management
 - ASC Subtopic 825-10 (FASB No. 159)
- Most community banks have not made this election



Schedule SU - Servicing, Securitization

- Line 4 and 4a - Assets sold and securitized by the institution
 - Formerly- Form 041, Schedule RC-S, Line 1
 - Loans sold and packaged into a bond by the bank
 - Generally, will not apply to community banks as they do not securitize the bond themselves
- Line 5 and 5a - Assets sold with recourse or other seller-provided credit enhancements that are not securitized
 - Formerly- Form 041, Schedule RC-S, Line 11
 - May include loans sold to buyers like Fannie Mae, Freddie Mac, or FHLB with recourse or credit enhancement



Schedule SU- Servicing, Securitization

- Line 5 and 5a - continued
 - Loans sold with recourse - percentage of loss the bank would have to cover if an individual loan went bad
 - Loans sold with seller-provided credit enhancement - bank could have to pay buyer a set amount if a portion of the loans sold went bad
 - Example: Credit Enhancement under certain FHLB MPF programs
- Line 6 and 6a - Service any closed end 1-4 family residential loans or does it service more than \$10 million of other financial assets for others?
 - Formerly Form 041, Schedule RC-S, M.2.b. and M.2.c.



Schedule SU- Servicing, Securitization

- Line 6 and 6a - continued
 - Includes all 1-4 family loans serviced with or without recourse
 - Includes other loans (i.e. commercial, ag, home equity) sold that are serviced for others if service more than \$10 million
 - Could include participation loans sold that are serviced



Schedule SU - Variable Interest Entities

- What is a Variable Interest Entity (VIE)?
 - Formerly Form 041, Schedule RC-V
 - Described in ASC Topic 810- Consolidation
 - Contractual, ownership, or other interest in an entity that changes with changes in the fair value of the entity's net assets
 - Very uncommon for community banks to have



Schedule SU - Other Items

- Line 8 - Does the institution have outstanding credit card receivables that exceed \$500 million as of the report date
 - Uncommon for community banks
 - Includes affiliated institutions
- Line 9 - Institutions with assets covered by FDIC loss-sharing agreements?
 - Applies primarily to older FDIC assisted transactions to purchase failed banks



Polling Question 6

Which statement best describes the process for risk weighting assets at your bank?

- a) We have a strong review process and feel confident our risk weighting is materially accurate.
- b) We have a process that meets expectations but could improve.
- c) We regularly have errors in our risk weighting.
- d) What is risk weighting?





Regulatory Capital

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Basel III Regulatory Capital Rules Reminders

- Additional emphasis on the risk in the bank's portfolio and increased minimum requirements
- Revised regulatory capital definitions and ratios
- Created components of capital and new ratio:
 - Common Equity Tier 1 Capital (CET1)
 - CET1 Risk-Based Capital
- Changed risk weightings for certain assets
- Added risk weightings for certain commitments and off-balance sheet liabilities

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Create Opportunities 208

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Calculating Common Equity Tier 1 Capital

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Common Equity Tier 1 Capital =
Common Stock and Related Surplus (Net of Treasury Stock and Unearned ESOP Shares)
+ Retained Earnings
+/- Accumulated Other Comprehensive Income*
+ Qualifying Minority Interest
+/- Deductions and Adjustment

* This calculation assumes that on your March 31, 2015 call report you chose "Yes" to opt out of including other comprehensive income in CET1. This was an irrevocable election.



Deductions to Common Equity Tier 1

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- Direct Dollar for Dollar Reduction in Capital Components
 - Line 6 - Goodwill net of DTLs
 - Line 7 - Other Intangibles (except MSRs) net of DTLs
 - **Previously a phase-in has been eliminated**
 - Line 8 - Deferred Taxes Associated with losses and carryforwards
 - Federal and state net operating losses that may not be carried back
 - Credit carryforwards
 - Net of any valuation allowance



Adjustments to Common Equity Tier 1

- Assuming “Opt Out” Election was Made
- Direct Dollar for Dollar Adjustment in Capital
 - To eliminate the impact of these items to regulatory capital
- Components
 - Line 9a - AOCI on Available-For-Sale (AFS) Securities
 - Line 9c - AOCI on cash flow hedges (including interest rate swaps)
 - Line 9d - AOCI for Pension and Post-Retirement Benefits
 - Line 9e - AOCI on Held-To-Maturity (HTM) Securities
 - Line 9f - AOCI on other cash flow hedge



Threshold Deductions to CET1

- Deduct amounts if:
 - Greater than 25% of regulatory capital
- Components
 - Line 13 - Investments in capital of unconsolidated financial institutions
 - Line 14 - MSRs, less related DTLs
 - Line 15 - DTAs arising from temporary differences such as:
 - Bad debts
 - Depreciation expense
 - Deferred compensation



Calculating Total Capital

- Additional Tier 1 Capital
 - Generally, these items will not apply for community banks
- Tier 2 Capital
 - Line 30a - ALLL
 - Limited to 1.25% of Risk-Weighted Assets same as the old rules
 - **Does not apply if you are using the CBLR**

Total Capital =
Common Equity Tier 1 Capital +
Additional Tier 1 Capital +
Tier 2 Capital Components



Calculation of Capital Ratios

Common Equity Tier 1 RBC Ratio =
Common Equity Tier 1
/ Total Risk Weighted Asset

Tier 1 Capital Ratio =
Total Tier 1 Capital
/ Total Risk Weighted Asset

Total Capital Ratio =
Total Capital
/ Total Risk Weighted Asset

Tier 1 Leverage Ratio=
Total Tier 1 Capital
/ Total Assets for Leverage Ratio (=Avg Total Assets – Adjustments)

This ratio is the CLBR.



Required Capital Ratios under PCA

	Prompt Corrective Action Adequately Capitalized	Prompt Corrective Action Well Capitalized
CET1 Risk Based Capital	4.5%	6.5%
Tier 1 Risk Based Capital	6.0%	8.0%
Total Risk Based Capital	8.0%	10%
Tier 1 Leverage Ratio	4.0%	5%

Under the CBLR, the ratio must be greater than 9% to be well capitalized.



Capital Conservation Buffer - Overview

- Capital conservative buffer is in addition to the PCA standards
- Limits the payout ratio for dividends and discretionary bonuses based on a percentage of eligible retained income
- S Corp banks generally will not be limited from paying tax dividends and situations will be assessed on a case-by-case basis



Calculating the Conservation Buffer

- Line 52: The capital conservation buffer is equal to the lowest of the following ratios:
 - CET 1 Ratio (Line 41) minus 4.5%
 - Tier 1 Ratio (Line 42) minus 6.0%
 - Total Capital Ratio (Line 43) minus 8.0%
- Example:
 - CET 1 Ratio (Line 41) and Tier 1 Ratio (Line 42) = 7.40%
 - Total Capital Ratio (Line 43) = 10.40%
 - Capital Conservation Buffer (Line 46a) = 1.40%



Eligible Retained Income - Defined

- Allow institutions to make larger distributions with current capital levels if earnings dip
- Applies to banks with a Capital Buffer (line 52) less than 2.5%

RC-R Item	Percentage	Buffer	Net
49. Common Equity Tier 1 (CET1)	9.5000%	4.0000%	5.5000%
50. Tier 1 Capital Ratio	9.5000%	6.0000%	3.5000%
51. Total Capital Ratio	10.2500%	8.0000%	2.2500%
52. Capital Conservation Buffer			2.2500%

- Does not apply to banks with CBLR framework election

If your institution entered "1" for Yes in item 31.a:

- Complete items 32 through 37 and, if applicable, items 38.a through 38.c.
- Do not complete items 39 through 54 and
- Do not complete Part II of Schedule RC-R.



Eligible Retained Income

- Line 53 - Eligible Retained Income
 - Calculation is the greater of (a) The bank's net income for the four preceding quarters net of any distributions, or (b) the average of an institution's net income for the 4 preceding quarters

Quarter	Net Income for Quarter	Distribution for Quarter	Adjusted Net Income
2 nd Q 2019	\$500	\$400	\$100
3 rd Q 2019	\$600	\$400	\$200
4 th Q 2019	\$400	\$400	\$0
1 st Q 2020	\$200	\$400	-\$200
	Avg = \$425		Total = \$100

- Definition (b) was added during COVID-19 and has become a Final Rule.



ERI Limitations: Distributions - Defined

- Line 54 - Distributions and discretionary bonus payments during the quarter; includes:
 - Dividends paid on common or preferred stock
 - Dividends declared not yet paid on common or preferred stock
 - Repurchases of capital instruments
 - Reduction in Tier 2 capital thru the repurchase or redemption of Tier 2 capital instrument
 - A dividend declaration or interest payment on any tier 2 capital instrument if the bank has full discretion to suspend/defer payment



ERI Limitations: Discretionary Bonus Payments - Defined

- Executive officer includes not just Reg O officers
 - Includes president, executive chairman, CEO, COO, CFO, CLO, CRO, and heads of any major business line.
 - Or other individuals that perform these functions regardless of title
- Payment made to an executive officer that meets the following conditions:
 - Bank retains discretion as to whether to make payment and the amount of until the payment is rewarded
 - The amount paid is determined without prior agreement/contract
 - Executive officer has no contractual right to bonus payment



ERI: Maximum Payouts Allowed

- Maximum distributions and discretionary bonus payments

Maximum Payout as % of Eligible Retained Income	Capital Conservation Buffer Percentage
No Limit	> 2.50%
60%	1.875% to 2.50%
40%	1.25% to 1.875%
20%	.625% to 1.25%
0%	.625% or less

See [FDIC | FIL-20-2020](#) for further information



Capital Conservation Buffer



Banks will look for ways to avoid limitations on capital distributions and restrictions

Potentially choosing to hold substantial excess capital over well capitalized levels
Capital conservation buffer limit essentially becomes the new minimum capital ratios



Banks should do contingency planning around conservation buffer

Include in capital plans



Possible limitations on payments of discretionary bonuses

Could impact compensation structures in banks
Limit is on payments not accruals of bonuses



Risk Weighting - Cash and Securities

- Cash and due from banks - Line 1
 - 0% - Currency, balances at Fed, FDIC insured deposits
 - 20% - Amounts in excess of FDIC insured deposits, balances at the FHLB, cash items
- Securities - HTM and AFS - Line 2
 - 0% - US Treasury, US agencies, GNMA MBS
 - 20% - General obligation muni bonds, US government-sponsored agencies, FNMA and FHLMC MBS
 - 50% - Revenue obligation municipal bonds, most other CMOs and MBSs
 - 100% - Mutual funds and equities if not more than 10% of total capital



Risk Weighting - Fed Funds and Loans

- Fed Funds and Reverse Repos - Line 3
 - Generally, risk-weighted 20%
- Loans Held for Sale and Loans and Leases - Lines 4, 5
 - Risk weightings revised to better reflect risk in loan portfolio
 - Residential Mortgage Exposures - Lines 4a and 5a
 - HVCRE - Line 4b and 5b
 - Exposures past due 90 days or more or on NA - Lines 4c, 5c
 - All other exposures - Line 4d and 5d



Residential Mortgage Exposures - Line 4a, 5a

- What are Residential Mortgage Exposures?
 - First or Junior Liens on 1-to-4 family residential real estate (not construction)
 - First or Junior Liens on a multifamily property with an original and outstanding amount of \$1 million or less (including the amount of any more senior liens)
 - Loan Meeting the Definition of a Statutory Multifamily Mortgage
 - Prudently underwritten
 - Timely P&I for at least 1 year
 - Amortization not more than 30 years and maturity 7 years or less
 - Meets annual debt service coverage limits and LTV limits
 - Not past due > 90 days or on nonaccrual



Risk Weighting Residential Mortgage Exposures

- 20% Risk Weighting
 - Guaranteed portion of FHA or VA mortgages
- 50% Risk Weighting
 - First Lien on Residential Mortgage Loan or Statutory Mortgage Loan that is not past due more than 90 days, nonaccrual, or a TDR
- 100% Risk Weighting
 - Junior Lien on Residential Mortgage Loan or Statutory Mortgage Loan
 - Past due more than 90 days, nonaccrual, or a TDR



Loans on Existing Properties

- Loans with permanent financing are not considered HVCRE loans
 - So long as not dependent on the sale or refinancing of the property
- Loans on existing income-producing properties that qualify as permanent financing are excluded from HVCRE
 - So long as the cash flow generated by the real property covers the debt service and related expenses
 - Includes situations where they loan is also financing some improvements to the existing property



Risk Weighting for HVCREs

- All HVCREs will be risk-weighted at 150% regardless of payment status
- Properly identifying HVCREs will be critical:
 - Start with the pool of non-residential construction and land loans
 - Review loan files to determine original LTVs
 - Assess the initial capital contributions by borrowers
- Regulators will likely assume all non-residential construction loans are HVCRE unless proven/documentated otherwise
 - Document in the loan file the determination whether or not a loan is a HVCRE
- Begin by reviewing the population of loans in Schedule RC-C, line 1.a.2



Past Due Loans - Line 4c, 5c

- Loans past due more than 90 days or on nonaccrual will generally have higher risk weightings
- Past due residential mortgages
 - 100% risk weighting - Report on Line 5a
- Past due HVCREs
 - Stay at 150% - Report on Line 5b
- All other past due loans
 - 150% risk weighting- Report on Line 5c
 - **Exception government guaranteed or cash backed loans - would include PPP**



Other Loans- Line 4d, 5d

- Line 5d includes all loans noted reported on Lines 5a, 5b, or 5c
- 0% Risk Weighting
 - Loans secured by cash in deposit accounts
 - Payroll Protection Program (PPP) Loans
- 20% Risk Weighting
 - Certain Guaranteed Loans (i.e. SBA)
- 50% Risk Weighting
 - Pre-sold 1-to-4 family residential construction loans
- 100% Risk Weighting - All other performing loans



Risk Weighting - Other Assets

- All Other Assets - Line 8
 - Not Risk-Weighted - Goodwill, Intangibles, and other deducted from CET1
 - 0% - Federal Reserve Stock, accrued interest on 0% assets
 - 20% - FHLB Stock, accrued interest on 20% assets
 - 50% - Accrued interest on 50% assets
 - 100% - Fixed assets, OREO, accrued interest on 100% items
 - 150% - Accrued interest on 150% risk-weighted loans
 - 250% - MSRs and DTAs not deducted in Sch RC-R Part I
 - Special rules may apply for equity investments and bank owned life insurance



Off-Balance Sheet Items

- Risk weighting for off-balance sheet exposures is complex
 - Consult the detailed guidance in the instructions
- Line 10 – Off-Balance Sheet Securitization Exposures
 - Arise from certain types of credit enhancement, recourse, or warranties that are considered to be securitization exposures
 - Most common example is credit enhancement through the FHLB MPF Program
 - Must be risk-weighted using SSFA, Gross Up, or 1250% risk weighting



Letters of Credit

- Financial Standby Letters of Credit - Line 12
 - From Schedule RC-L, Line 2
 - Credit Equiv= 100% of Letters, Usually 100% Risk-Weighted
- Performance Standby Letters of Credit - Line 12
 - From Schedule RC-L, Line 3
 - Credit Equiv= 50% of Letters, Usually 100% Risk-Weighted
- Commercial Letters of Credit - Line 12
 - From Schedule RC-L, Line 4
 - Credit Equiv= 20% of Letters, Usually 100% Risk-Weighted



Other Commitments

- Repo-Style Transactions - Line 16
 - Includes Repurchase Agreements from Sch RC, Line 14.b.
 - Rules are complex - see instructions
 - Column A – Securities Sold Under Repo (pledged amount)
 - Column B = Column A
 - Column C – Outstanding balance of the repurchase agreement's deposit balance (may not exceed Column A)
 - Column I – Any excess securities pledged



Unused Commitments - Line 18a, 18c

- Original Maturity of 1 Year or Less - Line 18a
 - Amounts from Schedule RC-L, Line 1.a to 1.e.3
 - Do not include unconditionally cancellable commitments
 - Risk weighting is the same as Lines 5a to 5d
 - Credit conversion factor= 20%
- Original Maturity Exceeding 1 Year - Line 18c
 - Same general rules as above except the Credit Conversion factor = 50%



Unconditionally Cancellable Commitments

- May be cancelled at any time by the bank without cause
 - Cancellation may not be related to credit quality of the borrower or their payment history
 - Cancellation must be discretionary by the bank
- Examples provided by regulators include:
 - Certain HELOCs, Certain credit card loans
- Should review your line of credit agreements
- Consult with legal counsel, if necessary



Thank You!

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