only provide partial credit enhancement; and

(3) Defining "recourse" and associated terms such as "standard representations and warranties."

The ANPR proposed incorporating into the risk-based capital guidelines a framework based on formal credit ratings for assessing capital against exposures with different levels of risk in certain asset securitizations. Thus, the more risky a particular risk position with a securitized transaction, the higher the capital charge.

Staffs of the agencies are reviewing public comments, particularly in light of the Reigle Community Development and Regulatory Improvement Act of 1994 (Act), which was signed into law on September 23, 1994. Section 350 of the Act requires the banking agencies, by the end of March 1995, to promulgate regulations that better reflect the exposure of an insured depository institution to credit risk from transfers of assets with recourse. At a minimum, these regulations must limit the amount of required capital to be held against assets sold with recourse to the maximum amount of recourse for which the "selling" institution is contractually liable. The staffs of the agencies are working to issue by the end of March 1994 a final rule incorporating the proposed "low level" recourse treatment in order to meet the legislative requirements of section 350. Staffs of the agencies are also continuing their work on developing proposals to make the capital requirements for recourse transactions more commensurate with the actual risk inherent in the transactions

## Agricultural Loan Loss Amortization

In the computation of regulatory capital, those banks accepted into the agricultural loan loss amortization program pursuant to Title VIII of the Competitive Equality Banking Act of 1987 are permitted to defer and amortize losses incurred on agricultural loans between January 1, 1984 and December 31, 1991. The program also applies to losses incurred between January 1, 1983 and December 31, 1991, as a result of reappraisals and sales of agricultural Other Real Estate Owned (OREO) and agricultural personal property. These loans must be fully amortized over a period not to exceed seven years and, in any case, must be fully amortized by year-end 1998. Thrifts are not eligible to participate in the agricultural loan loss amortization program established by this statute.

Treatment of Junior Liens on 1- to 4-Family Properties

In some cases, a banking organization may make two loans on a single residential property, one loan secured by a first lien, the other by a second lien. In such a situation, the Federal Reserve views these two transactions as a single loan, provided there are no intervening liens. This could result in assigning the total amount of these transactions to the 100 percent risk weight category, if, in the aggregate, the two loans exceeded a prudent loan-tovalue ratio and, therefore, did not qualify for the 50 percent risk weight. This approach is intended to avoid possible circumvention of the capital requirements and capture the risks associated with the combined transactions.

The FDIC, OCC, and the OTS generally assign the loan secured by the first lien to the 50 percent risk-weight category and the loan secured by the second lien to the 100 percent risk-weight category.

Pledged Deposits and Nonwithdrawable Accounts

The capital guidelines of the OTS permit thrift institutions to include in capital certain pledged deposits and nonwithdrawable accounts that meet the criteria of the OTS. Income Capital Certificates and Mutual Capital Certificates held by the OTS may also be included in capital by thrift institutions. These instruments are not relevant to commercial banks, and, therefore, they are not addressed in the three banking agencies' capital guidelines.

## Mutual Funds

The three banking agencies generally assign all of a bank's holdings in a mutual fund to the risk category appropriate to the highest risk asset that a particular mutual fund is permitted to hold under its operating rules. The purpose of this is to take into account the maximum degree of risk to which a bank may be exposed when investing in a mutual fund in view of the fact that the future composition and risk characteristics of the fund's holding cannot be known in advance.

The OTS applies a capital charge appropriate to the riskiest asset that a mutual fund is actually holding at a particular time. In addition, both the OTS and the OCC guidelines also permit, on a case-by-case basis, investments in mutual funds to be allocated on a pro rata basis in a manner consistent with the actual composition of the mutual fund.

## **Section Two**

## Differences in Accounting Standards Among Federal Banking and Thrift Supervisory Agencies

Under the auspices of the FFIEC, the three banking agencies have developed uniform reporting requirements for commercial banks to be used in the preparation of the Call Report. The FDIC has also applied these uniform reporting requirements to savings banks under its supervision. The income statement and balance sheet accounts presented in the Call Report are used by the bank supervisory agencies for determining the capital adequacy of banks. The data collected in this report also are used for other regulatory, supervisory, analytical, and statistical purposes, and provide information to the Federal Reserve for the conduct of monetary policy.

Section 121 of FDICIA states that "accounting principles applicable to reports or statements required to be filed by all insured depository institutions with federal banking agencies shall be uniform and consistent with generally accepted accounting principles (GAAP)." Under section 121, the objectives of accounting principles applicable to such reports and statements are to:

1. Result in financial statements and reports of condition that accurately reflect the institution's capital;

2. Facilitate effective supervision of depository institutions; and

3. Facilitate prompt corrective action at least cost to the insurance funds.

Section 121 further states that a federal banking agency may "prescribe an accounting principle . . . which is no less stringent than GAAP" when the agency determines that "the application of any generally accepted accounting principle is inconsistent with the objectives" of accounting principles noted above.

Section 121 of FDICIA thus requires the Federal Reserve and the other federal banking agencies to set forth reporting requirements in the Call Report that are consistent with, or no less stringent than, GAAP. The reporting requirements for the Call Report are substantially consistent with GAAP as applied by commercial banks, aside from a few limited exceptions. As a matter of long-standing policy, the reporting requirements for Call Reports depart from GAAP only in those instances where statutory requirements or overriding supervisory concerns warrant a departure from GAAP. Furthermore, in those cases where the reporting requirements for bank Call Reports are different from GAAP, they are more conservative than GAAP.