Report purposes, provided the transfers would be reported as sales under GAAP. Furthermore, private transfers of first lien one-to-four family residential mortgages are also reported as sales if the transferring institution retains only an insignificant risk of loss on the assets transferred. However, under the risk-based capital framework, the seller's obligation under any recourse provision resulting from transfers of mortgage loans under the government programs or in private transfers that qualify as sales is viewed as an off-balance sheet exposure that will be assigned a 100 percent credit conversion factor. Thus, for risk-based capital purposes, capital is generally required to be held for any recourse obligation associated with such transactions.

The OTS accounting policy is to follow FASB Statement No. 77. However, in the calculation of risk-based capital under OTS guidelines, off-balance sheet recourse obligations are converted at 100 percent. This effectively negates the sale treatment recognized on a GAAP basis for risk-based capital purposes, but not for leverage capital purposes.

On May 25, 1994, the agencies issued for public comment a proposal addressing certain aspects of the regulatory capital and reporting treatment of assets sold with recourse. If finalized, the proposal could reduce the differences between the bank regulatory reporting requirements and GAAP in this area (which OTS follows) by allowing a larger portion of asset transfers with recourse to be treated as sales for Call Report purposes. In addition, the staffs of the four agencies are working to implement Section 208 of the RCDRIA which mandates that the regulatory reporting requirements applicable to transfers of small business obligations with recourse by qualified insured depository institutions to be consistent with GAAP.

C.2. Futures and Forward Contracts

The banking agencies, as a general rule, do not permit the deferral of losses on futures and forward contracts whether or not they are used for hedging purposes. All changes in market value of futures and forward contracts are reported in current period income. The banking agencies adopted this reporting standard prior to the issuance of FASB Statement No. 80, which permits hedge or deferral accounting under certain circumstances. Hedge accounting in accordance with FASB Statement No. 80 is permitted by the banking agencies only for futures and forward contracts used in mortgage banking operations.

The OTS practice is to follow generally accepted accounting principles for futures and forward contracts. In accordance with FASB Statement No. 80, when hedging criteria are satisfied, the accounting for a contract is related to the accounting for the hedged item. Changes in the market value of the contract are recognized in income when the effects of related changes in the price or interest rate of the hedged item are recognized. Such reporting can result in deferred losses which would be reflected as assets on the balance sheet.

The FASB is working to develop a comprehensive hedge accounting framework for all free-standing derivative instruments, including futures and forward contracts and certain on-balance sheet instruments, that can be applied consistently by all enterprises. The banking agencies and the OTS are monitoring the progress of this project.

C.3. Excess Servicing Fees

As a general rule, the banking agencies do not follow GAAP for excess servicing fees, but require a more conservative treatment. Excess servicing arises when loans are sold with servicing retained and the stated servicing fee rate is greater than a normal servicing fee rate. With the exception of sales of pools of first lien one-to-four family residential mortgages for which the banking agencies' approach is consistent with FASB Statement No. 65, excess servicing fee income in banks must be reported as realized over the life of the transferred asset.

In contrast, the OTS allows the present value of the future excess servicing fee to be treated as an adjustment to the sales price for purposes of recognizing gain or loss on the sale. This approach is consistent with FASB Statement No. 65.

C.4. Specific Valuation Allowances for, and Charge-offs of, Troubled Real Estate Loans not in Foreclosure

A troubled real estate loan is considered ''collateral dependent'' when the repayment of the debt will be provided solely by the underlying real estate and there are no other available and reliable sources of repayment.

For a troubled collateral dependent real estate loan, the banking agencies generally treat any portion of the loan balance that exceeds the amount that is adequately secured by the value of the collateral, and that can clearly be identified as uncollectible, as a loss that should be charged off. The banking agencies believe that this approach accurately reflects the amount of recovery a financial institution is likely to receive if it is forced to foreclose on the underlying collateral. This banking agency approach is basically consistent with GAAP as it has been applied by banks.

The most recent OTS policy has been to require a specific valuation allowance against (or a partial charge-off of) a loan for the amount by which the recorded investment in the loan (generally, its book value) exceeds its ''value,'' as defined, when it is probable, based on current information and events, that a thrift will be unable to collect all amounts due (both principal and interest) on the loan. The ''value'' is either the present value of the expected future cash flows on the loan discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral. Previously, the OTS generally required specific valuation allowances for troubled real estate loans based on the estimated net realizable value of the collateral, an amount that normally exceeds fair value. By revising its policy in 1993, OTS narrowed the accounting difference between banks and thrifts. The revised OTS policy is somewhat similar to the requirements of FASB Statement No. 114 on loan impairment, which was issued in May 1993.

As all banks and thrifts adopt FASB Statement No. 114 during 1995, this accounting difference will be eliminated. When Statement No. 114 is applied for regulatory reporting purposes, impairment of a collateral dependent loan must be measured using the fair value of the collateral.

C.5. Offsetting of Assets and Liabilities

FASB Interpretation No. 39, ''Offsetting of Amounts Related to Certain Contracts,'' became effective in 1994. Interpretation No. 39 interprets the longstanding accounting principle that ''the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists.'' Under Interpretation No. 39, four conditions must be met in order to demonstrate that a right of setoff exists. A debtor with ''a valid right of setoff may offset the related asset and liability and report the net amount.'' The banking agencies allow banks to apply Interpretation No. 39 for Call Report purposes solely as it relates to on-balance sheet amounts associated with off-balance sheet conditional and exchange contracts (e.g., forwards, interest rate swaps, and options). Under the Call Report instructions, netting of other assets and liabilities is not