VIII. Reporting Instructions—Schedule 4

General Instructions

This supplemental schedule primarily requests information related to the interest rate sensitivity of adjustable-rate mortgage (ARM) holdings. The information required in this supplemental schedule represents the categorization of the reporting bank's ARMs according to the distinct characteristics of each loan or security. The characteristics of an ARM include:

(1) Underlying Index. The underlying index of an ARM represents the base or reference point for calculating the mortgage rate of an ARM loan. There are two main categories of indices: (1) those based on a current market index, and (2) those derived from a lagging market index. A current market index is one that adjusts quickly to changes in market interest rates. Examples include rates on Treasury securities, and the London Interbank Offered Rate (LIBOR). A lagging market index is one that adjusts to changes in market interest rates more slowly than the —current market indexes— such as rates on Treasury securities, the London Interbank Offered Rate (LIBOR), etc. Examples of lagging market indexes are the various published FHLB cost-of-funds indexes and the National Average Contract Rate for the Purchase of Previously Occupied Homes.

(2) Lifetime Interest Rate Cap. The lifetime cap is the upper limit on the mortgage rate that can be charged over the life of a loan. This lifetime loan cap is expressed in terms of the initial rate. For example, if the initial mortgage rate is 7% and the lifetime cap is 5%, the maximum interest rate that the bank can charge over the life of the loan is 12%.

(3) Periodic Cap. A periodic cap limits the amount that the interest rate may increase or decrease at the reset (repricing) date. The periodic cap is expressed in basis points (bp). For example, the bank owns a 7% adjustable-rate mortgage loan. If the periodic cap is 100 bp, then the maximum rate the bank can charge at the next reset date is 8%. Even if the indexing rate rose by 150 bp, making the fully indexed mortgage rate 8.5%, the bank could only charge 8% at the next reset date.

(4) Reset Frequency. The reset or repricing frequency is how often the contract permits the interest rate on a loan to be changed (e.g., daily, monthly, quarterly, semiannually, annually) without regard to the length of time between the report date and the date the rate can next change.

Columns A through I on Schedule 4 list the two major indices, current and lagging, each of which is divided by reset frequencies. The current market index columns are further divided by the presence of a periodic cap, and, in the —Over 6 months through 1 year— columns only, by the size of the periodic cap. Items 2 through 9 cover four distance groups, in terms of basis point ranges, of current ARM rates in relation to the instrument—s lifetime interest rate cap. For each distance group, both the ARM balances and the associated weighted average coupon (WAC) rates must be reported. The weighted average coupon rate for this schedule is determined by multiplying the balance of each ARM loan by the applicable annual interest rate (i.e., the annualized rate in effect for the asset as of the report date) and by dividing the sum of all such calculated amounts by the total carrying value of the category. The WAC required for ARM securities in this schedule is that of the underlying mortgages, which should be estimated by adding 75 bp to the bank's pass-through rate. The 75 bp represents the deduction of servicing fees and any applicable guarantee fees. As a consequence of these fees, the coupon rate of the pass-through is lower than that of the WAC of the underlying mortgages. Therefore, to estimate the WAC of the mortgage pool, the fees should be added back to the coupon rate.

Examples

An adjustable-rate permanent loan secured by a first lien on a 1–4 family residence repricing quarterly whose current rate is 7.25% and has a lifetime cap of 10%, no periodic cap, and based on the COFI index would be reported in Items 4 and 5, Column I.

An ARM pass-through security, repricing annually whose current coupon is 7.75% and has a lifetime cap of 14.25%, periodic cap of 200 bp, and based on the Treasury index would be reported in Items 6a and 7, Column E. Note the WAC of the underlying mortgages in this case is estimated to be 8.5%, which is the pass-through rate of 7.75% plus 75 bp.

For purposes of this supplemental schedule the following definitions apply:

A floating or adjustable rate is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities or the bank's ''prime rate,'' or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact rate the loan or security carries at any subsequent time cannot be known at the time of origination or acquisition.

All loans are to be reported net of unearned income to the extent that the loans have been reported net of unearned income on RC-C, Item 1(c)(2)(a).

Adjustable-rate residential mortgage loans that are held by the bank for sale and delivery to a secondary market participant under the terms of a binding contract should be reported according to their repricing frequency regardless of the delivery date specified in the commitment.

Include as adjustable-rate residential mortgage holdings the following instruments:

(1) All permanent loans secured by first liens on 1–4 family residential mortgages included in Schedule RC-C, Item 1(c)(2)(a) that have adjustable interest rates, regardless of whether they are current or are reported as ''past due and still accruing'' in Schedule RC-N, Columns A and B.

(2) The carrying values [16] of all pass-through securities which have adjustable interest rates and are included in RC-B, Items 4(a)(1) through 4(a)(3), Columns A and D.

Exclude from this schedule:

(1) All adjustable-rate mortgage holdings that are on nonaccrual status.

(2) All collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits.

Column Instructions

Distribute the balance of selected assets in accordance with the procedures described for Columns A through I below.

Report in Column A the balance of the bank's ARM holdings which are based on the current market index, reprice 6 months or less, and have no periodic cap.

Report in Column B the balance of the bank's ARM holdings which are based on the current market index, reprice 6 months or less, and have a periodic cap.

Report in Column C the balance of the bank's ARM holdings which are based on the current market index, reprice, over 6 months through 1 year, and have no periodic cap.

Report in Column D the balance of the bank's ARM holdings which are based on the current market index, reprice over 6 months through 1 year,, and have a periodic cap equal to or less than 150 bp.

Report in Column E the balance of the bank's ARM holdings which are based

[16] For purposes of this schedule, available-for-sale debt securities are to be reported on the basis of their fair value, while held-to-maturity debt securities are to be reported on the basis of their amortized cost. Therefore, throughout the instructions to this schedule, references to the carrying value should be read as such.