Loan Classification Hierarchy Guide

CLA Call Report Preparation Training

Instructions: *To use this guide, first review the important definitions below. Then review the terms of the loan including all collateral, the type of loan, and the nature of the borrower. Then work down from the top of the loan classification hierarchy list to the bottom of the list. The loan should be classified for call report purposes into the first category that it fits into.*

IMPORTANT DEFINITIONS

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) is 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.

Construction, land development, and other land loans: loans secured by real estate made to finance (a) land development (i.e. the process of improving land- laying sewers, water pipes, roads, etc.) preparations for the future erection of new structures or (b) the on-site construction of industrial, commercial, residential, or farm buildings. Construction includes not only the construction of new structures by also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Loans written as combination construction-permanent loans should be reported as construction loans until either construction is complete or principal amortization payments begin, whichever comes first.

1-4 Family residential construction loans: loans meeting the definition of a construction, land development, or other land loan above for the purchase of construction 1-4 family residential properties including:

- Construction loans to developers secured by tracts of land on which 1-4 family residential properties are being constructed
- Construction loans secured by individual parcels of land on which single 1-4 family residential properties are being constructed
- Construction loans secured by single-family dwelling units or duplexes, condos, townhomes, etc. that would be considered 1-4 family property

- Combination land and construction loans on 1-4 family residential properties
- Loans secured by apartment buildings being converted to condominiums
- **Do Not Include**: Loans to develop building lots or secured by vacant land unless the same loan finances the construction of 1-4 family residential properties on the property. (report in 1.a.2)

1-to-4 Family Residential Real Estate: Loans secured by mortgages or other liens on nonfarm property containing:

- 1-to-4 dwelling units or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (i.e. rowhouses or townhouses)
- Mobile homes if state law classifies as a real estate mortgage
- Individual condominium dwelling units even if there are more than 4 units in a building
- Mixed use properties containing commercial and 1-to-4 family residential units that are primarily residential

Multifamily residential properties: Loans secured by mortgages or other liens on nonfarm properties containing 5 or more dwelling units in structures (such as apartment buildings) used primarily to accommodate households on a more or less permanent basis. It does not include hotels, motels, dormitories, or other temporary living quarters.

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, of 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. Exceptions:

- 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.

Farmland: includes all land known to be used or usable (whether or not the property is currently in production) 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.

Lease: an agreement that transfers the right to use land, buildings, equipment, or vehicles for a specific period of time. Can be a direct financing arrangement or a leveraged lease. The lessee may bare the residual risk if the value of the property would decrease during the lease term. Accounted for under ASC Topic 840.

Obligations of states and political subdivisions of the U.S.: includes the fifty states of the U.S. and district of Columbia as well as their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; governments of Puerto Rico and other U.S. territories and their political subdivisions; and Native American tribes of the U.S.

LOAN CLASSIFICATION HIERARCHY

Loan Type:

- Line 10- Lease Financing Receivables
  - Line 10a- Consumer Leases
  - Line 10b- Other Leases
- Line 8- Obligations of State and Political Subdivisions in the U.S.

Loan Collateral:

- Line 1- Loans Secured by Real Estate
  - Line 1a- Construction, Land Development, Vacant Land
    - Line 1a(1)- 1-4 Family Construction
    - Line 1a(2)- Other Construction Loans
  - Line 1b- Farmland Used or Usable
  - Line 1c- 1-4 Family Residential
    - Line 1c(1)- Revolving Open-Ended 1-4 Family Residential Loans
    - Line 1c(2)- Closed Ended 1-4 Family Residential Loans
      - Line 1c(2)(a)- First Liens
      - Line 1c(2)(b)- Junior Liens
  - Line 1d- Multifamily Residential Loans
  - Line 1e- Non-Farm, Nonresidential Loans
    - Line 1e(1)- Owner Occupied Non-Farm, Nonresidential Loans
    - Line 1e(2)- Nonowner Occupied Non-Farm, Nonresidential Loans

Borrower Type:

- Line 2- Loans to Depository Institutions
  - Line 2a- Loans to Commercial Banks in the US
    - Line 2a(1)- To US branches and Agencies of Foreign Banks
    - Line 2a(2)- To Other Commercial Banks
  - Line 2b- To Other Depository Institutions in US
  - Line 2c- To Banks in Foreign Countries
- Line 3- Non-Real Estate Loans to Finance Agricultural Production and Other Loans to Farmers
- Line 7- Loans to Foreign Governments
- Line 9a- Loans to Non-Depository Financial Institutions

Loan Purpose:

- Line 4- Commercial Business Loans including equipment, inventory, and working capital lines
- Line 6- Consumer Loans- Individual, Family, and Personal Expenditures
  - Line 6a- Credit Cards
  - Line 6b- Other Revolving Consumer Loans
  - Line 6c- Other Automobile Loans
  - Line 6d- Other Closed End (personal loans, student loans, etc.)
- Line 9b(1)- Loans to Purchase or Carry Securities- the collateral need not be securities
- Line 9b(2)- All other loans- including overdrafts and any other loans that don't fall into any of the buckets above