interest expense on these financial liabilities for the

year-to-date in the appropriate interest income and inter-

est expense items on Schedule HI, not as part of the

reported change in fair value of these assets and liabilities

for the year-to-date. The holding company should mea-

sure the interest income or interest expense on a financial

asset or liability to which the fair value option has been

applied using either the contractual interest rate on the

asset or liability or the effective yield method based on

the amount at which the asset or liability was first

recognized on the balance sheet. Although the use of the

contractual interest rate is an acceptable method under

GAAP, when a financial asset or liability has a significant

premium or discount upon initial recognition, the mea-

surement of interest income or interest expense under the

effective yield method more accurately portrays the

economic substance of the transaction. In addition, in

some cases, GAAP requires a particular method of

interest income recognition when the fair value option is

elected. For example, when the fair value option has been

applied to a beneficial interest in securitized financial

assets within the scope of ASC Subtopic 325-40,

Investments-Other – Beneficial Interests in Securitized

Financial Assets, interest income should be measured in

accordance with the consensus in this issue. Similarly,

when the fair value option has been applied to a pur-

chased impaired loan or debt security accounted for

under ASC Subtopic 310-30, Receivables – Loans and

Debt Securities Acquired with Deteriorated Credit Qual-

ity, interest income on the loan or debt security should be

measured in accordance with this Subtopic when accrual

of income is appropriate. For holding companies that

have adopted Accounting Standards Update No. 2016-13

(ASU 2016-13), which governs the accounting for credit

losses, when the fair value option has been applied to an

acquired loan or debt security under ASC 326-20, “Finan-

cial Instruments-Credit Losses—Measured at Amortized

Cost,” interest income on the loan or debt security should

be measured in accordance with Subtopic 310-10,

“Receivables—Overall,” regardless of whether or not

management has determined the asset to be purchased

credit deteriorated (PCD).

Revaluation adjustments, excluding amounts reported as

interest income and interest expense, to the carrying

value of all assets and liabilities reported in Schedule HC

at fair value under a fair value option (excluding servic-

ing assets and liabilities reported in Schedule HC,

item 10, “Intangible assets,” and Schedule HC, item 20,

“Other liabilities,” respectively) resulting from the peri-

odic marking of such assets and liabilities to fair value

should be reported as “Other noninterest income” in

Schedule HI, item 5(l).

However, the holding company should report in Sched-

ule HI-A, item 12, “Other comprehensive income,” the

portion of the total change in the fair value of a liability

resulting from a change in the instrument-specific credit

risk (“own credit risk”) when the holding company has

elected to measure the liability at fair value in accordance

with the fair value option for financial instruments.

**Line Item 1 Interest income.**

**Line Item 1(a) Interest and fee income on loans.**

Report in the appropriate subitem all interest, fees, and

similar charges levied against or associated with all

assets reportable as loans in Schedule HC-C, items 1

through 9.

Deduct interest rebated to customers on loans paid before

maturity from gross interest earned on loans; do *not*

report as an expense.

Include as interest and fee income on loans:

(1) Interest on all assets reportable as loans extended

directly, purchased from others, sold under agree-

ments to repurchase, or pledged as collateral for any

purpose.

(2) Loan origination fees, direct loan origination costs,

and purchase premiums and discounts on loans held

for investment, all of which should be deferred and

recognized over the life of the related loan as an

adjustment of yield under ASC Subtopic 310-20,

Receivables – Nonrefundable Fees and Other Costs

(formerly FASB Statement No. 91, *Accounting for*

*Nonrefundable Fees and Costs Associated with Origi-*

*nating or Acquiring Loans and Initial Direct Costs of*

*Leases)* as described in the Glossary entry for “loan

fees.” See exclusion (3) below.

For holding companies that have adopted ASU 2016-

13, which governs the accounting for credit losses,

the purchase premiums and discounts on loans held

for investment that management has determined to

be PCD and are measured at amortized cost, should

be adjusted to exclude the acquisition date allowance

for credit loss from the amortized cost basis of the

loans. For further information, see the Glossary entry

Schedule HI

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“Purchased Credit Deteriorated (PCD) loans and

debt securities.”

(3) Loan commitment fees (net of direct loan origination

costs) that must be deferred over the commitment

period and recognized over the life of the related loan

as an adjustment of yield under ASC Subtopic 310-20

as described in the Glossary entry for “loan fees.”

(4) Investigation and service charges, fees representing a

reimbursement of loan processing costs, renewal and

past-due charges, prepayment penalties, and fees

charged for the execution of mortgages or agree-

ments securing the holding company’s loans.

(5) Charges levied against overdrawn accounts based on

the length of time the account has been overdrawn,

the magnitude of the overdrawn balance, or which

are otherwise equivalent to interest. See exclusion (6)

below.

(6) The contractual amount of interest income earned on

loans that are reported at fair value under a fair value

option.

Exclude from interest and fee income on loans:

(1) Fees for servicing real estate mortgages or other

loans that are not assets of the holding company

(report in Schedule HI, item 5(f), “Net servicing

fees”).

(2) Charges to merchants for the holding company’s

handling of credit card or charge sales when the

holding company does not carry the related loan

accounts on its books (report as “Other noninterest

income” in Schedule HI, item 5(l)). Holding compa-

nies may report this income net of the expenses

(except salaries) related to the handling of these

credit card or charge sales.

(3) Loan origination fees, direct loan origination costs,

and purchase premiums and discounts on loans held

for sale, all of which should be deferred until the loan

is sold (rather than amortized). The net fees or costs

and purchase premium or discount are part of the

recorded investment in the loan. When the loan is

sold, the difference between the sales price and the

recorded investment in the loan is the gain or loss on

the sale of the loan. See exclusion (4) below.

(4) Net gains (losses) from the sale of all assets report-

able as loans (report in Schedule HI, item 5(i), “Net

gains (losses) on sales of loans and leases”). Refer to

the Glossary entry for “transfers of financial assets.”

(5) Reimbursements for out-of-pocket expenditures (e.g.,

for the purchase of fire insurance on real estate

securing a loan) made by the holding company for

the account of its customers. If the holding com-

pany’s expense accounts were charged with the

amount of such expenditures, the reimbursements

should be credited to the same expense accounts.

(6) Transaction or per item charges levied against deposit

accounts for the processing of checks drawn against

insufficient funds that the holding company assesses

regardless of whether it decides to pay, return, or

hold the check, so-called “NSF check charges”

(report as “Service charges on deposit accounts (in

domestic offices),” in Schedule HI, item 5(b), or, if

levied against deposit accounts in foreign offices, as

“Other noninterest income” in Schedule HI, item

5(l)). See inclusion (5) above.

(7) Interchange fees earned from credit card transactions

(report as “Other noninterest income” in Schedule

HI, item 5(l)).

**Line Item 1(a)(1) Interest and fee income on loans**

**in domestic offices.**

Report all interest, fees, and similar charges levied

against or associated with all loans in domestic offices

reportable in Schedule HC-C, items 1 through 9, col-

umn B for holding companies with foreign offices and