



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

January 14, 2005

Re: Call Report Schedule RC-T – Mineral Properties

Dear []:

I am writing in response to your inquiry regarding the proper valuation of mineral interests held in fiduciary accounts for the purposes of accurately reporting these interests in Call Report Schedule RC-T.

Background

[Bank] reported mineral interests on the FFIEC 001 Annual Report of Trust Assets (ARTA), through its December 31, 2000 filing, at a value determined by capitalizing annual income five times. Effective December 31, 2001, Call Report Schedule RC-T replaced the ARTA. Beginning with that filing, [Bank] began reporting mineral property interests at a nominal one dollar value.

As you noted, the instructions for ARTA Item 12 – Real Estate stated, “It is permissible to estimate market value of mineral interests of whatever type by capitalizing annual income five times, when appropriate.” The change in [Bank’s] valuation methodology arose following removal of the specific language related to valuation of mineral interests that was previously contained in the ARTA instructions.

Analysis

According to the current instructions for Call Report Schedule RC-T (page RC-T-2):

Institutions should generally report fiduciary and related assets using their market value.... If the methodology for determining market values is not set or governed by applicable law (including the terms of the prevailing fiduciary agreement), the institution may use any reasonable method to establish values for the purposes of this Schedule. Reasonable methods include appraised values, book values, or reliable estimates. Accordingly, institutions should report mineral interests, as well as other financial and physical assets, at market value as determined by a reasonable method.

We believe that the instructions for the former ARTA and the current Schedule RC-T are consistent. The intent of the FFIEC member agencies in removing the ARTA language

regarding capitalizing income was to give a bank the option to determine how best to estimate market value, not to eliminate the need to do so. This is consistent with the language "when appropriate" in the ARTA instructions. For RC-T purposes, a bank may elect to use a capitalization rate (of five times annual income or some other appropriate figure), appraisals, or some other approach the bank determines is appropriate to estimate market value. [Bank] should justify the reasonableness of its approach annually.

Conclusion

[Bank] should employ a reasonable approach for estimating and reporting the market value of mineral interests on Schedule RC-T.

In your letter, you suggested that the OCC issue guidance to all banks on this matter. Since Call Report instructions currently refer to the use of market value, we do not believe more detailed OCC guidance is necessary. Should you have additional questions, please contact National Bank Examiner Nanna Goodfellow at (202) 874-4755.

Sincerely,

Karen W. Swingler
Director for Asset Management
Office of the Comptroller of the Currency