



Contents

| | |
|---|-------------|
| Preface | ix |
| Acknowledgments | xvii |
| | |
| CHAPTER 1 | |
| Financial Instruments and Institutions | 1 |
| <hr/> | |
| Main Ingredients of the Analysis of Financial Instruments | 4 |
| Activities and Risks of Financial Institutions | 11 |
| Valuation of Financial Institutions in Practice | 16 |
| | |
| CHAPTER 2 | |
| Nature and Regulation of Depository Institutions | 19 |
| <hr/> | |
| Activities of Depository Institutions | 19 |
| Bank Regulation | 22 |
| Bank Subtypes | 35 |
| Recent Trends | 38 |
| | |
| CHAPTER 3 | |
| Thrifts | 45 |
| <hr/> | |
| Financial Statement Structure | 46 |
| Main Risk-Return Trade-Offs and Financial Analysis Issues | 56 |
| | |
| CHAPTER 4 | |
| Interest Rate Risk and Net Interest Earnings | 63 |
| <hr/> | |
| Views of Interest Rate Risk | 64 |
| Interest Rate Risk Concepts | 66 |
| | iii |

| | |
|-----------------------------------|----|
| Analysis of Net Interest Earnings | 78 |
| Rate-Volume Analysis | 81 |
| Repricing Gap Disclosures | 84 |

CHAPTER 5

Credit Risk and Losses 93

| | |
|---|-----|
| Economics of Credit Risk | 95 |
| Accounts for Loans and Loan Losses | 97 |
| Accounting and Disclosure Rules for Unimpaired Loans | 100 |
| Accounting and Disclosure Rules for Impaired Loans | 107 |
| Loan Portfolio Quality and Loan Loss Reserve Adequacy | 110 |
| Research on Banks' Loan Loss Reserves | 118 |
| Appendix 5A: SunTrust Banks—After the Restatement | 119 |

CHAPTER 6

Fair Value Accounting for Financial Instruments: Concepts, Disclosures, and Investment Securities 131

| | |
|--|-----|
| Fair Value Accounting for Financial Instruments | 133 |
| Disclosures of the Fair Value of Financial Instruments | 141 |
| Investment Securities | 149 |
| Appendix 6A: Washington Federal's Big Gap | 158 |

CHAPTER 7

Mortgage Banks 161

| | |
|---|-----|
| Mortgage Banking Industry, Major Players, and Activities | 162 |
| Financial Statement Structure | 167 |
| Main Risk-Return Trade-Offs and Financial Analysis Issues | 174 |
| Accounting for Fees and Costs | 186 |

CHAPTER 8

Securitizations 189

| | |
|---------------------------|-----|
| Why and What? | 192 |
| Securitization Structures | 196 |
| SFAS No. 140 | 204 |

| | |
|--|-----|
| Financial Analysis Issues | 216 |
| Empirical Research on Securitizations | 221 |
| Servicing Rights and Prepayment-Sensitive Securities | 222 |
| Appendix 8A: Doral Financial's Interesting Interest-Only Strips | 224 |

CHAPTER 9**Elements of Structured Finance Transactions 235**

| | |
|---|-----|
| Special-Purpose/Variable-Interest Entities | 236 |
| Related Transactions | 244 |
| Hybrid Financial Instruments | 248 |
| Financial Guarantees | 251 |
| Recent SEC Decisions Regarding Structured Finance Transactions | 253 |

CHAPTER 10**Commercial Banks 255**

| | |
|---------------------|-----|
| Balance Sheet | 257 |
| Income Statement | 261 |
| Cash Flow Statement | 265 |

CHAPTER 11**Derivatives and Hedging 289**

| | |
|--|-----|
| Derivatives | 272 |
| Hedging | 282 |
| SFAS No. 133 (1998), as Amended | 285 |
| Framework for Assessing Financial Institutions' Derivatives and Hedging | 308 |

CHAPTER 12**Market Risk Disclosures 311**

| | |
|-------------------------------|-----|
| Overview of FRR No. 48 (1997) | 312 |
| Tabular Format | 315 |
| Sensitivity Approach | 322 |

| | |
|--|-----|
| Value-at-Risk Approach | 326 |
| Comparison of Disclosure Approaches | 331 |
| Effect of SunTrust's Derivatives and Hedging on Its Market Risk | 332 |
| Research | 337 |
| Appendix 12A: Bank of America's Derivatives, Hedging, and Market Risk | 337 |

CHAPTER 13

Lessors and Lease Accounting 347

| | |
|--|-----|
| Competitive Advantages of Leasing | 350 |
| Lease Structures and Contractual Terms | 352 |
| Lessors' Risks | 355 |
| Lease Accounting Methods | 357 |
| Analysis Issues Regarding Lease Accounting Methods | 366 |
| Special Lease Transactions | 369 |
| Lessors' Financial Statements | 374 |
| Lease Disclosures | 379 |
| Possible Future Changes in Lease Accounting | 387 |

CHAPTER 14

Insurers and Insurance Accounting 389

| | |
|---|-----|
| Products | 391 |
| Risk-Return Trade-Offs | 396 |
| Regulation | 403 |
| Primary Insurance Accounting Standards | 405 |
| Accounting Standards Governing Embedded Derivatives and Other Life Insurance Policy Features | 421 |
| Financial Statements | 423 |
| Line of Business Disclosures | 428 |
| Other Insurance Accounting Systems | 429 |

CHAPTER 15

Property-Casualty Insurers' Loss Reserve Disclosures 435

| | |
|-----------------------|-----|
| Loss Reserve Footnote | 438 |
|-----------------------|-----|

| | |
|--|-----|
| Loss Reserve Development Disclosures | 440 |
| Calculating Loss Reserves by Accident Year | 444 |
| Calculating Loss Reserve Revisions by Accident Year | 446 |
| Calculating Claim Payments by Accident Year and Tail | 448 |
| Constructing Accident Year Loss Reserve T Accounts | 452 |
| Property-Casualty Expense Ratios | 453 |

CHAPTER 16**Reinsurance Accounting and Disclosure** **457**

| | |
|--|-----|
| Accounting and Analysis Issues | 459 |
| Reinsurance Contracts | 462 |
| Accounting for Reinsurance Contracts | 472 |
| Reinsurance Disclosures and Analysis | 487 |
| Evolution of Financial Reporting for Reinsurance | 493 |

Index **497**