Federal Financial Institutions Examination Council

ANNUAL REPORT 2000

Cover Photos:

Left to right, line one: Federal Financial Institutions Examination Council, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation

Line two: National Credit Union Administration, Office of Comptroller of the Currency

Line three; Office of Thrift Supervision

Federal Financial Institutions Examination Council, Washington, DC

ANNUAL REPORT 2000

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision

MEMBERS OF THE COUNCIL

Laurence H. Meyer, *Chairman*
Member
Board of Governors of the
Federal Reserve System

Donna Tanoue, *Vice Chairman*
Chairman
Federal Deposit Insurance Corporation

John D. Hawke, Jr.
Comptroller of the Currency
Office of the Comptroller of the Currency

Ellen Seidman
Director
Office of Thrift Supervision

Norman E. D'Amours
Chairman
National Credit Union Administration

LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC
March 23, 2001

The President of the Senate
The Speaker of the House of Representatives

Pursuant to the provisions of section 1006(f) of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (12 USC 3305), I am pleased to submit the 2000 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

Laurence H. Meyer, Jr.
Chairman

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MESSAGE FROM THE CHAIRMAN

Laurence H. Meyer

I am pleased to report on the activities of the Federal Financial Institutions Examination Council (FFIEC) (the Council) during the year 2000—a particularly busy and productive year for the Council and its member agencies. One of the most notable achievements was the significant role the Council and the agencies played in the financial industry's successful transition into the new century without serious disruption in the financial services provided to the industry and the public. The potential problems associated with the year 2000 changeover presented unique challenges to the Council and its member agencies, as well as to the banking and financial industries. The successful outcome demonstrated that the U.S. banking industry and the agencies that supervise it were well prepared for the event. Before turning its attention back to more conventional matters, the Council took advantage of the experience gained during the more than two-year process and issued "Year 2000 Lessons Learned" in March. This document presented valuable guidelines that banking organizations can apply to future project-management processes and technology risk-management efforts.

During 2000, the Council's key role in fostering communication, coordination, and cooperation among the member agencies was highlighted in the efforts to implement the Gramm-Leach-Bliley Financial Modernization Act of 1999—the most sweeping legislation affecting banks and other financial institutions since the Depression. The Council continues to play a vital role in ensuring that the rules and regulations implementing this legislation are as uniform as possible, and that supervision of the new types of financial institutions allowed under the legislation is carried out effectively and efficiently.

In addition, the Council and its interagency staff task forces and working groups undertook other important initiatives. The work of the Supervision Task Force included revising the interagency retail credit classification policy, initiating discussion of a possible simplified capital framework for noncomplex banks, and issuing proposed interagency capital rules on recourse obligations and direct credit substitutes, and retained interests. Proposed guidance on methodologies and documentation requirements pertaining to the allowance for loan and lease losses was also issued for comment. The Supervision Task Force also continued its important work on asset securitization.

The Reports Task Force completed significant revisions to the Call Report to make the content more relevant to today's evolving financial services environment. These extensive changes included eliminating items that are no longer relevant for safety-and-soundness purposes and adding line items designed to capture the financial characteristics of modern banking organizations, as well as restructuring the report itself to be more uniform.

The Information Sharing Task Force continued to make excellent progress in improving the efficiency of interagency data communication. High-speed communication lines linking the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) were installed in 1999 to allow the electronic transfer of large data files and to phase out use of

magnetic tapes or disks for this purpose. Early in 2000, a weekly transfer of structure, financial, and supervisory data files was under way between the Federal Reserve and the FDIC via these new communication links. By midyear, the automated transfer of data files between the FDIC and the OCC was established. At year-end, Uniform Bank Performance Report data were being transmitted between the OCC and FDIC via the high-speed lines. The staffs of the agencies showed their continuing dedication and commitment to our nation's financial system through their industrious and innovative work on a diverse supervisory agenda.

It has been my pleasure to have served as Chairman of the Council over the past two years. I feel confident the Council will continue its fine record of interagency cooperation and accomplishment that is so vital to the promotion of safety and soundness in our nation's financial system.

THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Federal Financial Institutions Examination Council (FFIEC) (the Council) was established on March 10, 1979, pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), Public Law 95-630. The purpose of title X, entitled the Federal Financial Institutions Examination Council Act of 1978, was to create a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the nonfinancial institution subsidiaries of those institutions and holding companies. It conducts schools for examiners employed by the five agencies represented on the Council and makes those schools available to employees of state agencies that supervise financial institutions. The overall intent of the legislation was that the Council promote consistency in federal examinations and progressive and vigilant supervision. Under the Financial Institutions Reform, Recovery, and Enforcement Act of l989 (FIRREA), the Council was also authorized to develop and administer training seminars in risk management for the employees of the agencies represented on the Council and the employees of insured financial institutions.

The Council was given additional statutory responsibilities by section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities are the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area (MSA).

In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Council. The functions of the subcommittee are (l) monitoring the requirements, including a code of professional responsibility, established by states for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related transactions; (2) monitoring the appraisal standards established by the federal financial institutions regulatory agencies and the former Resolution Trust Corporation; (3) maintaining a national registry of appraisers who are certified and licensed by a state and who are also eligible to perform appraisals in federally related transactions; and (4) monitoring the practices, procedures, activities, and organizational structure of the Appraisal Foundation, a nonprofit educational corporation established by the appraisal industry in the United States.

The Council has five members: the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, a member of the Board of Governors of the Federal Reserve System appointed by the Chairman of the Board, the Chairman of the Board of the National Credit Union Administration, and the Director of the Office of Thrift Supervision. In addition, to encourage the application of uniform examination principles and standards by the state and federal supervisory authorities, the Council has established, in accordance with the requirement of the statute, an advisory State Liaison Committee composed of five representatives of state supervisory agencies.

RECORD OF ACTIONS OF THE COUNCIL

The following section is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 2000 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978, Public Law 95-630; section 304 of the Home Mortgage Disclosure Act (HMDA), Public Law 94-200; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA), Public Law 103-325.

The Examination Council in Session.

January 1

Action. Issued a joint interagency press release following the century date change.

Explanation. The five member agencies of the Federal Financial Institutions Examination Council issued the joint press release to assure the public and others that financial institutions continued normal operations following the century date change.

January 12

Action. Unanimously approved the issuance of special Y2K awards to staff of the member agencies.

Explanation. The Council determined that appropriate recognition should be made to the individuals involved in the extraordinary interagency efforts to safeguard the nation's financial system leading up to the Y2K event.

March 13

Action. Unanimously approved the appointment of six task force chairs.

Explanation. The chairs for all six standing task forces are approved annually and are drawn from management or senior staff of the five member agencies.

March 13

Action. Unanimously approved the appointment of Mr. Thomas Watson, Office of the Comptroller of the Currency, to a two-year term as chairman of the Appraisal Subcommittee.

Explanation. The Council is directed by title XI of FIRREA to select a chairperson from among senior staff of the five member agencies and the Department of Housing and Urban Development (HUD) to serve a two-year term as chair of the Appraisal Subcommittee.

March 13

Action. Unanimously approved that all future interagency task force chairs be selected by the task forces and approved by the Council.

Explanation. To allow interagency task forces greater responsibility in selecting their chairs for a one-year term, and to streamline the existing practice, the Council authorized the new nomination process.

March 13

Action. Unanimously approved proposed revisions to improve the relevance of the Bank Call Report in March 2001.

Explanation. To improve overall financial institution reporting, the Council gave approval to the Task Force on Reports to move forward on its proposals and recommendations, and authorized the task force to prepare the *Federal Register* notice soliciting comment from the banking industry and the public on the 10 percent reduction in the

number of existing reportable data elements collected in the quarterly Bank Call Reports.

March 13

Action. The Council unanimously approved the appointments of New Jersey Bank Commissioner Nicholas J. Ketcha Jr., and Georgia Bank Commissioner Stephen D. Bridges to the Council's State Liaison Committee.

Explanation. The State Liaison Committee was established by FIRREA to ensure the participation of state financial institution regulators as advisors to the Council on matters of mutual concern. Each of the five members of the Committee serves two-year terms. Two are appointed by the Council, and the remaining three members are appointed by the Conference of State Bank Supervisors, the National Association of State Credit Union Supervisors, and the American Council of State Savings Supervisors.

March 21

Action. Approved the issuance of a joint interagency press release to discuss lessons learned from the century date change.

Explanation. The Council announced that bank, thrift, and credit union regulators issued a document discussing lessons learned from the preparation for the year 2000 date change, and urged financial institutions to incorporate the knowledge gained from the experience into future project and technology risk management.

March 24

Action. Unanimously approved the 1999 annual report of the Council to the Congress.

Explanation. The legislation establishing the Council requires that, not later than April 1 of each year, the Council publish an annual report covering its activities during the preceding year.

Chairman Meyer.

March 27

Action. Unanimously approved the issuance of the annual interagency awards.

Explanation. The Council has an established interagency awards program that recognizes individual staff members of the member agencies who have provided outstanding service to the Council on interagency projects and programs during the previous year.

June 7

Action. Unanimously approved the annual external audit report.

Explanation. The Council is audited by an outside accounting firm annually. The audit report includes a review of the Council's financial statements as well as a report on internal controls and compliance with government auditing standards.

June 12

Action. Unanimously approved the issuance of a press release on retail credit classifications.

Explanation. The Council announced that federal bank and thrift regulators had issued a revised policy to guide institutions in the classification and write-off of delinquent retail loans and lines of credit.

September 7

Action. Unanimously approved the press release announcing a proposed policy statement for loan and lease losses.

Explanation. The Council issued a request for comments from financial institutions and the public on a proposed interagency policy statement on allowance for loan and lease losses methodologies and documentation for banks and savings institutions.

September 13

Action. Unanimously approved the

elimination of certain interagency training courses.

Explanation. The Council approved the recommendation of the Task Force on Examiner Education to eliminate three interagency examiner training courses that, due to their obsolescence or continued irrelevance, no longer meet the interagency training requirements of the member agencies.

November 7

Action. Unanimously approved the request to produce nonpublic Community Reinvestment Act (CRA) data for the U.S. Department of Justice, Civil Rights Division.

Explanation. The Department of Justice, Civil Rights Division, requested that the Board of Governors of the Federal Reserve System provide access to all 1999 nonpublic CRA data. The Civil Rights Division is conducting inquiries into the fair lending practices of a variety of lending institutions for their compliance with the Equal Credit Opportunity Act relating to their business lending practices. The Board of Governors prepares the CRA data for the Council.

December 4

Action. Unanimously approved the Council's 2001 budget.

Explanation. The Council conducts a formal review of the proposed interagency annual budget based on funding requests from the Council's task forces and the Office of the Executive Secretary.

Actions Taken by the Council's Task Forces Under Delegated Authority

Task Force on Consumer Compliance

- *April 26*—Approved for interagency use examinations procedures for the Homeowners Protection Act.

Task Force on Reports

- *October 13*—Approved revisions to the proposed securitization schedule in the Reports of Condition and Income (Call Report). The revisions are effective June 30, 2001.
- *December 20*—Approved proposed revisions to the Report of Assets and Liabilities of U.S. Branches and Foreign Banks (form FFIEC 002) that take effect June 30 and December 31, 2001, and the publication of a Federal Register notice requesting comment on the proposal.

Task Force on Supervision

- *January 18*—Approved for issuance an advisory letter about the practice at some financial institutions of not reporting customer lines or high credit balances to credit bureaus.
- *February 17*—Issued a joint interagency proposal that amends the agencies' risk-based capital standards. The proposal addresses the regulatory capital treatment of recourse obligations and direct credit substitutes that expose banking organizations to credit risk.
- *June 12*—Issued a revised uniform retail-credit classification and account-management policy clarifying provisions regarding the re-aging of open-end accounts and extensions, deferrals, renewals, and rewrites of closed-end loans.
- *September 7*—Approved the issuance of a proposed policy statement on allowance for loan and lease losses methodologies and documentation practices.
- September 27—Issued an interagency proposal to amend the agencies' respective risk-based and leverage capital standards for the treatment of certain residual interests in asset securitization or other transfers of financial assets.
- *November 3*—Issued an interagency advance notice of proposed rulemaking on the possible development of a simplified capital framework for noncomplex banking organizations.
- *November 28*—Issued guidance on financial institutions' management of risk arising from technology services supplied by outside firms.

Task Force on Surveillance Systems

- *April 12*—Authorized the placement of all nonconfidential Uniform Bank Performance Report (UBPR) data, including five years of history, on the Council's public Internet web site.
- *June 15*—Established simplified earnings and profitability analysis of banks electing subchapter S treatment for income taxes.
- *June 15*—Revised the peer group analysis in the UBPR, resulting in statistics that represent the "bank in the middle" or median, as well as data that is stable over time.

STATE LIAISON COMMITTEE REPORT

In section 1007 of Public Law 95-630, the Congress authorized the establishment of the Stat1e Liaison Committee (SLC) "to encourage the application of uniform examination principles and standards by state and federal supervisory agencies." The SLC carries out this responsibility by assuming an active advisory role in all Council deliberations, especially when matters pertaining directly to joint state and federal regulatory concerns or jurisdictional overlaps are at issue. The primary objectives of the SLC are to foster communication and cooperation between state and federal supervisory authorities and to reduce redundant supervisory procedures.

The SLC believes that the Council can effectively coordinate activities among the federal agencies and between federal agencies and their state counterparts to economize on the combined state and federal resources devoted to the supervision and regulation of financial institutions. The Council provides the SLC with a staff position, which allows the SLC members to be fully informed of Council matters and to participate in all Council activities, including task force assignments and other projects.

Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as chair for 12 months. The Council selects two of the five members. The American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the National Association of State Credit Union Supervisors (NASCUS) designate the other three. A list of the SLC members appears on page __ of this report.

Participation in Council Activities

In 2000, the State Liaison Committee actively participated in several key projects with a long-term effect on the financial industry. The SLC continues to participate with the Supervision Task Force, as a nonvoting member. As a result, communications between state and federal supervisors on core policy issues are greatly enhanced. Members also support continued efforts to automate examination reports.

State supervisors also participate in the Task Force on Information Sharing. This task force is charged with facilitating the sharing of electronic information, ensuring that information quality meets the agencies' consistency requirements, and improving how the agencies collect and share information.

The combined Call Report project continues to benefit from the involvement of several states. An extensive proposal to reduce regulatory burden received detailed comments from state supervisors of financial institutions. The CSBS actively supported this effort.

In October, the SLC attended the FFIEC's Securitization Conference, a one-day interagency seminar intended to provide a forum for the discussion of current practices in the securitization markets and banks' roles in those markets. The active participation of outside speakers, banking representatives, and the regulatory agencies resulted in a successful conference.

The SLC looks forward to the continued cooperation of state and federal regulators and is interested in expanding state participation in other areas of joint financial industry supervision.

ADMINISTRATION OF THE COUNCIL

Regular meetings of the Council are held quarterly. Special meetings may be scheduled whenever matters of high priority must be considered without delay.

The Council's activities are funded in several ways. Most of the Council's funds are derived from semiannual assessments on its five constituent agencies. The Council also receives reimbursement for the services it provides to support preparation of the quarterly Uniform Bank Performance Report (UBPR). It receives tuition fees from nonagency attendees to cover some of the costs associated with its examiner-education program.

The Federal Reserve Board provides budget and accounting services to the Council, and the Federal Reserve's Associate Director for Management serves as the Council's Controller. The Council is supported by a small, full-time administrative staff in its operations office, and its examiner-education program is administered by Council staff at its examiner training facility in Arlington, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council. All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are the following:

- scheduling Council meetings, preparing agendas for Council meetings, preparing minutes of Council meetings, and reviewing all material for Council consideration
- monitoring the work of all interagency staff groups involved in the Council's activities and helping staff groups set priorities and define key issues
- undertaking special projects and studies as requested by the Council
- working closely with members of the State Liaison Committee to ensure adequate communication among the members, Council, and interagency staff groups
- coordinating public information activities, including preparation and distribution of Council press releases
- maintaining liaison with the Congress and with federal departments and agencies
- preparing the Council's annual report to the Congress
- coordinating the production and distribution of the quarterly UBPR and related data
- coordinating the collection, production, and distribution of Home Mortgage Disclosure Act data
- managing the Council's examiner-education program

Six interagency staff task forces and the Legal Advisory Group (LAG) provide most of the staff support in the substantive areas of concern to the Council. The task forces and the LAG are responsible for the research and other investigative work that agency staff members perform on behalf of the Council and for reports and policy recommendations prepared for Council consideration. In addition, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for coordinating the efforts of their respective agencies' staff members in support of the Council. The Executive Secretary of the Council is an ex officio member of the six interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 2000 were provided by the five agencies without reimbursement and are not reflected in the Council budget. Without those contributions by the agencies and individual staff members, significant progress on Council projects during 2000 would have been impossible.

Organization, December 31, 2000

Members of the Council

Laurence H. Meyer, *Chairman*
Member
Board of Governors of the Federal Reserve System (FRB)

Donna Tanoue, *Vice Chairman*
Chairman
Federal Deposit Insurance Corporation (FDIC)

Norman E. D'Amours
Chairman
National Credit Union Administration (NCUA)

John D. Hawke, Jr.
Comptroller of the Currency
Office of the Comptroller of the Currency (OCC)

Ellen M. Seidman
Director
Office of Thrift Supervision (OTS)

State Liaison Committee

G. Edward Leary, *Chairman*
Commissioner of Financial Institutions
Utah

Steven D. Bridges
Commissioner/Department of Banking & Finance
Georgia

James E. Forney
Superintendent of Credit Unions
Iowa

Nicholas J. Ketcha, Jr.
Director/Department of Banking and Insurance
New Jersey

James L. Pledger
Commissioner of Savings & Loan Department
Texas

Examiner Education Task Force

William R. Casey, *Chairman* (OTS)
Simona L. Frank (FDIC)
Jennifer Kelly (OCC)
Marcia Sarrazin (NCUA)
Sidney M. Sussan (FRB)

Council Staff Officers

Keith J. Todd,
Executive Secretary

Joanne M. Giese,
SLC Coordinator and Assistant Executive Secretary

Interagency Staff Groups

Agency Liaison Group

Roger T. Cole (FRB)
David M. Marquis (NCUA)
John C. Price (OTS)
Emory W. Rushton (OCC)
Michael Zamorski (FDIC)

Legal Advisory Group

J. Virgil Mattingly, *Chairman* (FRB)
Carolyn B. Buck (OTS)
Robert M. Fenner (NCUA)
Douglas H. Jones (FDIC)
Julie L. Williams (OCC)

Consumer Compliance Task Force

Ralph Sharpe, *Chairman* (OCC)
Stephen M. Cross (FDIC)
Glenn E. Loney, (FRB)
Richard Riese (OTS)
Tracy Bombarger (NCUA)

Information Sharing Task Force

William Shively, *Chairman* (OTS)
Roger Blake (NCUA)
Jim Dudine (FDIC)
William Schneider (FRB)
Nancy Wentzler (OCC)

Reports Task Force

Robert F. Storch, *Chairman* (FDIC)
Patrick G. Berbakos (OTS)
Zane D. Blackburn (OCC)
Gerald A. Edwards, Jr. (FRB)
Polly Kennedy (NCUA)

Supervision Task Force

Richard Spillenkothen, *Chairman* (FRB)
Richard M. Riccobono (OTS)
Emory W. Rushton (OCC)
Marcia Sarrazin (NCUA)
Michael Zamorski (FDIC)

Surveillance Systems Task Force

Charles W. Collier, *Chairman* (FDIC)
Kevin M. Bertsch (FRB)
Polly Kennedy (NCUA)
William Shively (OTS)
Robin S. Stefan (OCC)

Members of the Appraisal Subcommittee

Thomas E. Watson, Jr., *Chairman* (OCC)
Virginia Gibbs (FRB)
Mark W. Holman (HUD)
John C. Price (OTS)
Jesse G. Snyder (FDIC)
Herbert S. Yolles (NCUA)

Appraisal Subcommittee meeting.

Activities of the Interagency Staff Groups

Section 1006 of Public Law 95-630 sets forth the functions of the Council. Briefly summarized, these functions are the following:

- establish uniform principles, standards, and report forms for the examination of financial institutions and make recommendations for uniformity in other supervisory matters
- develop uniform reporting systems for federally supervised institutions, their holding companies, and subsidiaries of those institutions and holding companies
- conduct schools for examiners employed by the federal supervisory agencies and make those schools available to employees of state supervisory agencies under conditions specified by the Council.

To effectively administer projects in all its functional areas, the Council established six interagency staff task forces, each of which includes one senior official from each agency:

- Consumer Compliance
- Examiner Education
- Information Sharing
- Reports
- Supervision
- Surveillance Systems

The Council also established the Legal Advisory Group, composed of a senior legal officer from each agency. The task forces and the Legal Advisory Group provide research and analytical papers and proposals on the issues that the Council addresses.

Task Force on Consumer Compliance

The Task Force on Consumer Compliance promotes policy coordination and uniform enforcement of consumer laws by the five agencies represented on the Council. It consists of senior personnel with knowledge of consumer compliance matters. The task force identifies and studies problems concerning consumer compliance and fosters uniformity in the policies and procedures used by member agencies. The task force is responsible for those laws and regulations that protect consumers who conduct business with insured depository institutions. The task force also addresses other legislation, regulations, or policies at the state and federal levels that could affect agencies consumer compliance responsibilities. During 2000, the task force had six standing subcommittees: Automation, Community Reinvestment Act, Electronic Banking, Examination Procedures, Home Mortgage Disclosure Act, and Fair Lending.

Automation Subcommittee

The Automation Subcommittee provides the task force with technical support by undertaking projects that require coordination with other automation groups and by developing applications for FFIEC benefit. In 2000, the subcommittee maintained the FFIEC CRA ratings database.

Community Reinvestment Act Subcommittee

The Community Reinvestment Act (CRA) Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with the agencies' implementation of the CRA. During 2000, the CRA Subcommittee focused on the interagency effort to foster con-

Task Force on Consumer Compliance meeting.

sistency in the public evaluations produced by the agencies. As a result, uniform core tables for presenting institutional performance in the public evaluations were adopted. The Subcommittee also developed an updated and consolidated list of CRA questions and answers for publication in the *Federal Register*. In 2001, the subcommittee will begin a complete review of the CRA regulations.

Electronic Banking Subcommittee

The Electronic Banking Subcommittee helps develop uniform policies, principles, and standards associated with member agencies' implementation of the consumer protection and fair lending laws and regulations as they relate to emerging electronic banking technology. The subcommittee serves as an ongoing interagency working group to conduct research and analysis, produce interagency reports and recommendations, and educate the industry and general public on developments in electronic banking technology and regulatory matters. In 2001, the subcommittee plans to respond to the passage of the Electronic Signatures in Global and National Commerce Act and any regulatory updates associated with electronic banking.

Examination Procedures Subcommittee

The Examination Procedures Subcommittee is responsible for maintaining updated interagency examination procedures for the compliance and consumer protection laws that the agencies enforce. In 2000, the subcommittee drafted, and the task force approved, examination procedures (1) for the Gramm-Leach-Bliley Act (GLB Act) changes to the Fair Credit Reporting Act (FCRA) and (2) for the Homeowners Protection Act (HPA). The subcommittee also began drafting examination procedures for the new privacy regulation and the Children's On-line Privacy Protection Act (COPPA); this work will continue into early 2001. Both the privacy and COPPA procedures are expected to be approved in early 2001. Upon their completion, the subcommittee plans to determine which of the other interagency examination procedures needs to be updated.

Home Mortgage Disclosure Act Subcommittee

The Home Mortgage Disclosure Act (HMDA) Subcommittee supervises the collection and dissemination of HMDA data reported to the agencies and aggregated by the Council. In 2000, the subcommittee focused on the transition to paperless HMDA submissions and products.

Fair Lending Subcommittee

The Fair Lending Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with fair housing and fair lending. In 2000, the subcommittee reported on the implementation of the interagency fair lending examination procedures. As a result of these monitoring efforts, the subcommittee submitted for review a set of alternative fair lending examination procedures. The alternative procedures are designed for use in certain noncomplex institutions that exhibit low discrimination risk. The subcommittee also worked on developing an enforcement policy statement for review by the agencies. In 2001, the subcommittee plans to expand examination guidance on analyzing the terms and conditions of loans and on analyzing commercial loans.

Task Force on Examiner Education

Charged with spearheading examiner education on behalf of the Council, the Task Force on Examiner Education promotes interagency education through timely, cost-efficient, state-of-the-art training programs for agency examiners.
The task force develops programs on its own initiative or in response to requests from the Council or from other Council task forces. Each fall, the task force develops a program calendar based on training demand from the five member agencies and state financial institution regulators, and then oversees the delivery and evaluation of programs throughout the year. During 2000, 3,494 regulatory staff attended training programs (see table on page 13 for details of participation by program and by agency).

Task Force on Examiner Education meeting.

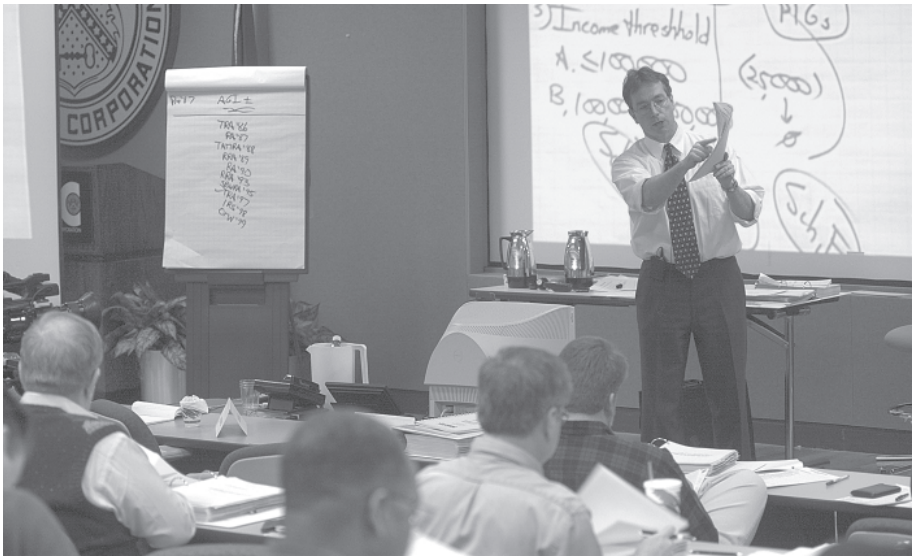
2000 Regulatory Attendance at FFIEC Courses by Agency—Actual

Courses/Conferences	Number of Sessions	FDIC	OTS	FRB	NCUA	OCC	FCA	Other	Total
Advanced Anti-Money Laundering	5	33	32	0	2	39	0	9	115
Advanced Credit Anaylsis	3	164	20	17	9	43	8	6	267
Advanced White Collar Crime	4	159	24	95	27	47	3	0	355
Capital Markets	3	148	10	62	29	30	0	1	280
Cash Flow "Tax Analysis"	5	175	8	33	4	223	0	0	443
Cyberbanking	1	20	10	21	6	20	4	0	81
Emerging Issues—Community	6	295	46	122	0	57	4	6	530
Emerging Issues—Multinational	2	46	0	94	0	38	1	0	179
Information Systems and Technology	1	95	26	101	7	98	12	1	340
Instructor Training	8	22	2	51	6	8	2	0	91
International Banking Conference	1	35	0	50	0	17	0	0	102
International Banking School	2	19	0	12	0	7	3	30	71
International Banking Self Study	0	49	4	18	0	16	3	8	98
Testifying	3	18	0	8	0	18	0	1	45
Trust Conference	1	57	28	53	0	34	0	2	174
Web Banking & Payment systems Risks	3	97	34	23	56	100	0	0	310
Subtotal	**48**	**1,432**	**244**	**760**	**146**	**795**	**40**	**64**	**3,481**
Risk Management Planning	1	. . .	. . .	6	. . .	. . .	3	**4**	**13**
Bankers	. . .	. . .	. . .	. . .	. . .	. . .	. . .	183	183
Total	**49**	**1,432**	**244**	**766**	**146**	**795**	**43**	**251**	**3,677**

2000 Initiatives

Early in 2000, the Council members appointed senior-level representatives to the task force and challenged them to pursue a more strategic approach to the design and delivery of programs particularly programs that would occur "just in time" for examiner application and that could be delivered through electronic technology. The task force responded on two fronts: completion of an electronic architecture (InfoBase) to produce training materials quickly in response to the issuance of interagency statements, and a comprehensive review of the entire examiner education curriculum and the development of a plan to improve or raise the bar on current and future programs.

With the new InfoBase in full operation, the task force can now produce training materials within 90 days of the Council's issuing an interagency policy or regulation. Following the success of an initial CD on subprime lending, the task force oversaw development of a second CD providing training and reference materials on privacy issues. An updated version of this CD should be completed shortly after publication of the interagency examination procedures on privacy. The task force also budgeted funds for additional InfoBase products in 2001.



"Cash Flow (Taxanalysis)" conference.

For its review of the current training programs, the task force relied on the perspectives of key stakeholders in each agency regarding the longer-term usefulness of the training rather than on participant evaluations completed at the conclusion of each training session. The task force developed criteria that every program must meet as well as other desirable criteria, then examined each program in light of them. As a result, all but two programs required some modification to warrant continued expenditure of agency resources. Late in 2000, staff completed revisions to the instructor training program by adding a segment on coaching skills. Work is under way on four other high-priority programs. Some modified programs will be tested in 2001 sessions while others will be modified during 2001 and delivered in 2002.

In another technological success, on January 31, 2000, an expert from the law firm of Silver, Freedman and Taff delivered a two-hour presentation on financial modernization simultaneously to a live audience and to two of the five Council agencies through their videoconference systems. Although this technology requires some adjustments by both the presenters and the participants, the task force confirmed its technical capability to simultaneously offer programs to multiple agencies in different locations, when appropriate.

In addition to its programs aimed at all examiners, the task force delivered or coordinated two unique programs: First, the statutorily mandated conference on risk management for industry representatives (bankers and other financial institution officials) was offered on June 1-2 in Chicago. The conference drew 196 participants, and response was very favorable. Next year, one session will be offered in San Francisco in October. The second program was a conference on securitization risk developed specifically for Council members and held on October 16, 2000, at the Seidman Center in Arlington, Virginia. OCC staff designed the program agenda, and the task force arranged for logistical support. Each Council member also brought up to 10 senior staff for a comprehensive examination of securitization risk issues with presentations by both industry and agency experts.

Costs

The task force attempts to keep costs as low as possible by holding its programs in facilities at member agencies when feasible and drawing on agency experts to present some or all of the program content. In addition, the task force expects to benefit from technological advances in delivering training (for example, CDs, videoconferencing) that will reduce agencies' costs over time.

Facilities

The Council training office and classrooms are located in the FDIC Seidman Center in Arlington, Virginia. Offices, classrooms, and lodging facilities are rented at approximately market rates from the FDIC. This facility offers convenient access to a 100-seat auditorium, numerous classrooms, and a lodging facility. Regional sessions are usually conducted in the cities in which district or Reserve Bank offices of the member agencies are located.

Examiner Education Office

The task force completes most of its work through a training office staff that coordinates design and delivery of training programs in conjunction with subject-matter experts in each of the member agencies.

Course Catalog and Schedule

The 2001 course catalog and schedule are available from the Council training office. To obtain a copy, contact:

Karen K. Smith, Acting Manager
FFIEC Examiner Education Office
3501 Fairfax Drive, Room 3086
Arlington, VA 22226-3550

Phone: (703) 516-5588
Fax: (703) 516-5487
Internet: KKSmith@fdic.gov

The training catalog, schedule, and other information are available on the Internet:

http://www.ffiec.gov

The Seidman Center in Arlington, Virginia.

Task Force on Information Sharing

The Task Force on Information Sharing facilitates the sharing of electronic information among the FFIEC agencies to support the supervision, regulation, or insuring of financial institutions. Created in 1997, the task force provides a forum for the financial institution regulatory agencies to promote quality, consistency, efficiency, and security of interagency information sharing. Significant issues are referred, with recommendations, to the Council for action, and the task force has delegated authority from the Council to take certain actions.

Task force members consist of representatives from the FFIEC agencies. Monthly meetings are held to address and resolve issues related to information sharing. The task force has established work groups to address technology-development issues and interagency reconciliations of data on financial institution structure.

Initiatives Addressed in 2000

Technology Issues

The chief initiative of the task force is to identify and implement technologies that improve efficiency in the sharing of interagency data. High-speed (1.544 megabits per second) T1 communication lines linking the FDIC, FRB, and OCC were installed in 1999 to allow the electronic transfer of large data files and to phase out use of magnetic tapes or disks for sharing electronic data among the agencies. Work commenced to automate bulk data transfers between the FDIC and the FRB. Early in 2000, a weekly T1 data transfer of structure, financial, and supervisory data files was under way between the FDIC and FRB. By midyear, the automated transfer of data files between the FDIC and the OCC was established. At year-end, Uniform Bank Performance Report data were being transmitted between the FDIC and OCC via the T1 lines.

In June, the technology work group was organized and began meeting monthly to develop technological solutions to common data-sharing issues among the agencies. The work group coordinates the automated transfer of data files among the agencies.

Structure Data Reconciliation

The structure data reconciliation work group reconciles structure data for financial institutions regulated by the FFIEC agencies to ensure they are reporting consistently and accurately. The group maintains a quarterly reconciliation process that identifies and resolves data discrepancies among the agencies. Process improvements the work group implemented over the past year enhanced the efficiency of the quarterly reconciliations and reduced the quarterly number of interagency data differences to be reconciled.

Data Exchange Inventory

The task force maintains tables showing all data files shared among the FFIEC agencies. Data maintained include file name, file description, security classification, technical and data content contacts, data frequency, and media form. The data are reviewed and updated semiannually and are sources of ideas for pursuing additional data-sharing efficiencies.

Initiatives to Be Addressed in 2001

The task force and technology work group will continue to explore opportunities to improve on the current information-sharing technologies. Work is under way to initiate a weekly transfer of bank call report data between the FDIC and OCC. Later in the year, the work group plans to explore data-sharing opportunities between OTS and the banking agencies, using an OTS extranet (a private network that uses the Internet and telecommunications to securely share part of a business information or operations with another entity) site that is under development.

The structure data reconciliation group plans to broaden its reconciliation process to include credit union data. The group would like to reconcile structural reporting differences back through time so that historical reporting is more accurate. Efforts to automate the entire reconciliation process also are planned.

Task Force on Reports

The law establishing the Council and defining its functions requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports, which has also received other responsibilities related to the development of interagency uniformity in the reporting of periodic information needed for effective supervision. The task force is concerned with issues such as the development and interpretation of reporting instructions, including responding to inquiries about the instructions from reporting institutions and the public; the application of accounting standards to specific transactions; the development and application of processing standards; the monitoring of data quality; the assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, Financial Accounting Standards Board, American Institute of Certified Public Accountants, and Independence Standards Board. The task force is responsible for any special projects related to these subjects that the Council may assign. To help carry out its responsibilities, the task force organizes working groups as

needed to handle specialized or technical accounting, reporting, instructional, and processing matters.

Activities

During 2000, the task force's principal activities involved the Reports of Condition and Income (Call Report) filed quarterly by insured commercial banks and FDIC-supervised savings banks. The effect of this work on the Call Report carried over to the quarterly regulatory report for U.S. branches and agencies of foreign banks. In addition, the task force addressed the Council's two Country Exposure Reports.

With respect to the Call Report, the task force continued its efforts to implement sections 307(b) and (c) of the Riegle Community Development and Regulatory Improvement Act of 1994 (the Riegle Act). These sections direct the banking agencies to work jointly toward more uniform reporting, review the infor-mation that institutions currently report, and eliminate existing reporting requirements that are not warranted for safety-and-soundness or other public purposes. Before 2000, the task force's reviews of existing bank reporting requirements had eliminated numerous items and reduced the detail in several areas of the Call Report. The task force also performed a comprehensive review of the uses of individual Call Report items after surveying the various user groups within the agencies and state banking authorities.

Based on the information obtained on the uses of Call Report items, statistical data on individual items, and comments about reporting burden previously received from bankers, the task force in 1999 developed an extensive proposal for streamlining the agencies' regulatory reports, thereby improving the relevance of the information the agencies currently collect from banks. During the fourth quarter of 1999, the task force consulted with the agencies' users concerning the merits of the proposal and sought their assistance in identifying the agencies' critical new supervisory information needs. To determine which new types of supervisory data the agencies should first pursue, the task force met with the Task Force on Supervision in February 2000 to learn its priorities for these data.

After considering the input of users at the agencies and the results of separate efforts to identify and narrow regulatory reporting differences among banks, savings associations, and bank holding companies, the task force devised a proposed framework for revising the existing bank regulatory reporting requirements, which it presented to the Council at its March 13, 2000, meeting. In addition to addressing aspects of the Riegle Act requirements, this framework was designed to complement the agencies' emphasis on risk-focused supervision and to make the content of the Call Report more relevant in today's evolving financial services environment. The task force recommended that these reporting changes be implemented in March 2001. The more significant elements of the proposed framework, which the Council approved, included

- a decrease of approximately 10 percent in the overall number of individual data items currently contained on the four existing versions of the Call Report forms (excluding items reported for regulatory capital purposes), the collection of which is no longer warranted;
- a revised regulatory capital reporting approach and schedule that uses step-by-step "building blocks" to compute the key elements of the capital ratios for all banks;
- adoption of uniform loan category definitions for all banks across all schedules that collect loan information based on the standard loan category definitions found in the Call Report loan schedule;
- a combining of the three separate report forms for banks of different sizes that have only domestic offices (the current FFIEC 032, 033, and 034 report forms) into a single form (designated the FFIEC 041), while retaining the separate form for banks with foreign offices (the FFIEC 031 report form);
- new information collections on nontraditional and higher-risk bank activities, that is, subprime lending, securitizations and asset sale activities, and categories of noninterest income for fee-generating activities and asset sales;
- replacement of the Council's two separate trust activities reports (the FFIEC 001, Annual Report of Trust Assets, and the FFIEC 006, Annual Report of International Fiduciary Activities) with a single, streamlined trust Call Report schedule; and
- elimination of the confidential treatment for loans, leases, and other assets that are reported as past due 30 through 89 days (and on the amount of restructured loans and leases that are past due 90 days or more and still accruing or in nonaccrual status) in Call Report Schedule RC-N.

In addition, the Riegle Act calls on the four federal banking and thrift agencies to work jointly to adopt a single form for the filing of core information by banks, savings associations, and bank holding companies. In 1999, the task force reviewed the regulatory reports for these institutions and completed a draft set of core schedules containing data items common to the reports for these three types of organizations. However, the draft core schedules and the separate sets of supplementary information for banks, savings associations, and bank holding companies, when

taken together, largely represented a reorganization of the data items these three types of organizations already report on their respective regulatory reports. Thus, the introduction of a new regulatory reporting scheme based on a common set of core schedules and three separate sets of supplemental schedules would likely cause these organizations, and the banking and thrift agencies themselves, to incur significant costs to revamp their reporting systems without any substantive change in the overall data being reported.

Based on the above considerations, the task force concluded that the most reasonable way to implement the spirit of the Riegle Act, at least for the immediate future, would be to view the "core report" as an alternative output of the regulatory reporting process and not as an input device for reporting to the agencies. This would mean that the agencies could identify on the existing input forms the individual items on the separate regulatory reports for banks, savings associations, and bank holding companies that are core items. An output or core report could then be generated from the identified core items on the input forms. The task force therefore recommended to the Council at its March 13, 2000, meeting that the agencies should initially view the "core report" as an alternative output. The Council concurred with this recommendation.

Following the March 2000 Council meeting, the task force prepared an initial Paperwork Reduction Act *Federal Register* notice describing in detail the proposed revisions to the Call Report that would take effect on March 31, 2001. It also developed samples of the proposed FFIEC 031 and 041 forms for that report date. The FDIC, FRB, and OCC jointly published this *Federal Register* notice on May 31, 2000, requesting comment on the proposed reporting changes in 60 days. On June 7, 2000, the Council sent a letter to all banks advising them of the proposal, and included the *Federal Register* notice and the sample report form that would be applicable to the bank in 2001. Both of the sample report forms were posted on the Council's web site.

The FDIC, FRB, and OCC collectively received approximately 110 comments on the Call Report proposal from various segments of the public, including banking organizations, banking trade groups, community groups, and state bank supervisors. In its evaluation of the comments, the task force consulted with the agencies' subject matter experts on various aspects of the proposal. In response to concerns raised by the comments received, the task force recommended several modifications to the proposal, which the Council approved at its September 13, 2000, meeting. The Council also assented to the task force's using its delegated authority to approve a limited number of open issues after the agencies resolved them. In addition, the Council requested that the task force, in concert with the agencies' staff experts, consider options for proceeding with the proposed collection of information on banks' involvement in subprime lending activities.

By the end of October 2000, the task force had resolved the proposal's open issues except for subprime lending, which remains under study. To provide banks and their service providers with information about the status of the Call Report revisions that had been proposed for implementation in March 2001, the task force prepared an announcement describing the decisions that had been reached on the proposed reporting changes. The Council issued this document on November 2, 2000, and sent copies of it to all banks to help them plan for 2001. The modifications made to the Call Report proposal included

- eliminating some of the proposed new items to the Call Report;
- deferring the implementation dates for the collection of new data on securitizations until June 30, 2001, and for the new trust activities schedule until December 31, 2001, respectively;
- permitting banks with domestic offices only and less than $300 million in assets to use their best efforts through December 31, 2001, to report information on loan income, loan averages, past-due and nonaccrual loans, and loan charge-offs and recoveries by loan category using the standard loan category definitions; and
- setting March 31, 2002, as the date when banks with less than $25 million in assets would begin reporting loan income and averages by loan category.

The Council's announcement also advised that the proposed reporting of subprime lending data had been delayed until further notice and would not be implemented as of the March 31, 2001, report date. Furthermore, banks would be notified of any Council decision to begin collecting information on subprime lending in advance of the scheduled effective date.

In mid-December 2000, revised samples of the FFIEC 031 and 041 report forms for March 31, 2001, which incorporated the modifications described in the Council's November 2, 2000, announcement, were placed on the Council's web site. On January 17, 2001, the Council issued detailed information on all of the revised Call Report requirements for 2001, along with the instructions for the new schedules on securitization and asset sale activities and on fiduciary and related services. These materials were made available on the Internet and, together with the revised sample report form applicable to each institution, were mailed to all banks.

On December 20, 2000, the task force, acting under delegated

authority, approved proposed revisions to the Report of Assets and Liabilities of U.S. Branches and Agencies for Foreign Banks (Form FFIEC 002). The revisions include changes that would streamline the existing reporting requirements of this Report, consistent with the elimination of items and reduction in detail that the Council has approved for the Call Report in 2001. The proposal endeavors to make the FFIEC 002 more relevant by adding information that will enable the agencies to monitor new activities and other recent developments that may expose institutions to new or different types of risk. For example, as on the Call Report, the banking agencies would introduce a new schedule that would comprehensively capture information on securitization and asset sale activities by U.S. branches and agencies. Branches and agencies that file the existing Annual Report of Trust Assets (Form FFIEC 001) would instead file a new annual schedule on fiduciary activities as part of the FFIEC 002. In addition, the proposal would eliminate the confidential treatment currently accorded to the information that branches and agencies report on the amounts of their loans, leases, and other assets that are past due, in nonaccrual status, or restructured and in compliance with modified terms.

The agencies would implement these proposed changes for U.S. branches and agencies, except for the fiduciary activities schedule, as of the June 30, 2001, report date. The reporting of the proposed new fiduciary information would take effect on December 31, 2001. The Federal Reserve Board published an initial Paperwork Reduction Act *Federal Register* notice on behalf of the three banking agencies on December 28, 2000, requesting comment on the proposed changes to the FFIEC 002 in 60 days.

Finally, the task force clarified the instructions for the Country Exposure Report and the Country Exposure Information Report (Forms FFIEC 009 and 009a) as they relate to credit derivatives effective June 30, 2000. The same instructional clarification was made to the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (Form FFIEC 019) as of the September 30, 2000, report date.

Task Force on Supervision

The Task Force on Supervision has oversight responsibility for matters relating to the supervision and examination of depository institutions. It provides a forum for the agencies that supervise banks, thrifts, and credit unions to promote quality, consistency, and effectiveness of examination and supervisory practices and to minimize regulatory burden. While significant issues are referred, with recommendations, to the Council for action, the Council has delegated to the task force the authority to make certain decisions and recommendations, provided all task force members agree. Task force members are the senior supervisory officials of the constituent agencies. Meetings are held regularly to address and resolve common supervisory issues.

The task force has a standing subcommittee to address information system and technology issues as they relate to financial institution supervision. Another task force subcommittee reviews issues pertaining to regulatory capital. In addition, ad hoc working groups are created to handle particular projects and assignments.

Activities

Following two-and-a-half years of preparation, the year 2000 century date change passed without serious disruption in the banking industry or the banking regulatory agencies. Lessons learned from the year 2000 preparation process were passed on to the industry. After the year 2000 efforts were completed, the task force and its various ad hoc working groups and subcommittees focused attention on a number of other projects and activities.

Year 2000 Century Date Change

The year 2000 project was one of the most expensive and resource-intensive information technology challenges ever faced by the financial services industry. The project

Task Force on Supervision meeting.

posed a technology-based problem that had to be managed on an enterprise-wide basis. It transcended corporate boundaries and required organizations to work together to review information technology systems and business practices and develop a comprehensive strategy to address technology-related risks and business-continuity plans.

The extensive final phase of the FFIEC's year 2000 supervisory program included the issuance of policy guidance, the conduct of on-site examinations, intensive monitoring of financial institutions and markets, contingency planning to respond to disruptions or potential problems, and event management for the year-end rollover period. The program focused on promoting industry and consumer awareness; establishing targets for the completion of testing, implementation, and contingency plans; and providing feedback to institutions, in part through examinations, about their progress and identifying any outstanding issues to them.

The year 2000 project provided many valuable lessons that financial institutions can use in future project-management processes and technology risk management. Guidance issued by the FFIEC in March 2000 highlighted the characteristics of the best-prepared institutions as lessons for the industry as a whole. These characteristics included

- involvement of senior management and directors to ensure that project plans were clearly defined, supported, and monitored;
- consolidation, elimination or integration of technology on an enterprise-wide basis accomplished, by developing current inventories of information technology systems and applications;
- improved oversight of service providers, software vendors, and consultants;
- more formalized and effective strategies and standards for testing information technology systems;
- detailed contingency plans that analyzed the effect of potential system failures on core business processes (for example, deposit-taking, lending, or fiduciary services);
- better safeguards to detect fraudulent, malicious, and negligent acts from both internal and external sources;
- internal auditor review of testing and contingency planning processes;
- open information sharing for developing strategies and responding to media reports or perceptions that could reduce public confidence in the financial services industry;
- improved public relations with customers; and
- thorough legal review to assist in vendor management, documentation retention, and legal defense.

Revisions to Capital Regulations

Although each of the four federal banking supervisory agencies has its own capital regulations, the task force and several of its working groups coordinate efforts among the agencies to promote the joint issuance of capital rules, thereby minimizing interagency differences and reducing the potential burden on the banking industry. During 2000, capital-related initiatives included the following.

Capital adequacy standards. The federal banking agencies issued an interim final rule that amended their capital standards for cash collateral associated with securities-borrowing transactions. The agencies also issued three proposals to amend their capital standards for recourse and direct credit substitutes, residual interests, and claims on securities firms. In addition, the agencies issued an advance notice of proposed rulemaking (ANPR) on the possible development of a simplified capital framework for noncomplex banking organizations.

Recourse and direct credit substitutes. On February 17, the OCC, FRB, FDIC, and OTS issued a joint interagency proposal that would amend the agencies' risk-based capital standards to address the regulatory capital treatment of recourse obligations and direct credit substitutes that expose banking organizations to credit risk. The proposed revisions would use credit ratings to match the risk-based capital assessment more closely to an institution's relative risk of loss in certain asset securitizations. The Basel Committee on Banking Supervision has requested comment on making some of the same revisions to the Basel Accord. The comment period has ended on the U.S. proposal and the agencies are now discussing what future action should be taken. In addition to potential revisions to the capital standards, the agencies are considering whether additional supervisory guidance might be warranted.

Residual interests. On September 27, the OCC, FRB, FDIC, and OTS issued a proposed rule to amend their respective risk-based and leverage capital standards for the treatment of certain residual interests in asset securitizations or other transfers of financial assets. This proposed rule would require that a banking organization hold risk-based capital in an amount equal to the amount of the residual interest that is retained on the balance sheet in a securitization or other transfer of financial assets. The proposed rule also would restrict excessive concentrations in residual interests by limiting the amount, when aggregated with nonmortgage-servicing assets and purchased credit- card relationships, that may be included in capital to 25 percent of tier 1 capital.

Securities-borrowing transactions. On December 5, the OCC, FRB and FDIC issued an interim rule to revise the capital treatment of cash collateral that is posted in connection with securities-borrowing transactions. The effect of the rule is to more appropriately align the capital requirements for these transactions with the risk involved and to provide a capital treatment for U.S. banking organizations that is more in line with the capital treatment applied to their domestic and foreign competitors. Specifically, the rule permits banking organizations operating under the agencies' market-risk rules to exclude from risk-weighted assets receivables arising from the posting of cash collateral associated with securities-borrowing transactions, to the extent such receivables are collateralized by the market value of the securities borrowed, subject to certain conditions.

Claims on securities firms. On December 6, the OCC, FRB, FDIC, and OTS proposed to accord a 20 percent risk weight under the agencies' risk-based capital standards to claims on, and claims guaranteed by, qualifying securities firms in countries that are mem*bers* of the Organization for Economic Cooperation and Development (OECD). This interagency proposal would reduce the risk weight on these claims from 100 percent to 20 percent, consistent with a 1998 revision to the Basel Accord. Qualifying U.S. securities firms would be broker-dealers registered with the Securities and Exchange Commission (SEC). The firms must be subject to and comply with the SEC's net capital rules and be subject to the margin and other regulatory requirements applicable to registered broker-dealers. Qualifying securities firms incorporated in other OECD countries must be subject to consolidated supervision and regulation, including risk-based capital requirements, comparable to those applied to depository institutions under the Basel Accord. All qualifying securities firms, or their consolidated parents, must have an issuer or debt rating in one of the three highest investment-grade ratings from a nationally recognized statistical rating organization.

Simplified Capital Framework for Noncomplex Institutions

On November 3, the OCC, FRB, FDIC, and OTS issued an ANPR on the possible development of a simplified capital framework for noncomplex banking organizations. The options outlined in the proposal include a simplified risk-based framework, a leverage-ratio-only approach, and a modified leverage-ratio approach. The goal of such a framework would be to relieve potential regulatory burden associated with the existing capital rules for many noncomplex domestic banking institutions. The main objective of this ANPR is to obtain preliminary industry and public views regarding such a framework.

Other Areas of Coordination

Credit bureau reporting practices. On January 18, the federal banking agencies issued an advisory letter about the practice at some financial institutions of not reporting customer credit lines or high credit balances to credit bureaus. The agencies advised financial institutions that if they do not modify their credit-risk-management processes to compensate for omitted data in credit bureau reports they could inadvertently expose themselves to increased credit risk.

Uniform retail-credit classification and account-management policy. On June 12, the FFIEC issued a revised uniform retail-credit classification and account-management policy. Among other things, the revised policy clarifies provisions regarding the re-aging of open-end accounts and extensions, deferrals, renewals, and rewrites of closed-end loans. The revisions also include additional examiner guidance on the classification of retail portfolios and modifications to the treatment of specific categories of loans, such as loans with collateral, loans secured by residential real estate, and loans in bankruptcy.

Policy statement on allowance for loan and lease losses (ALLL). On September 7, the agencies issued a proposed policy statement on ALLL methodologies and documentation practices. The agencies continue to work toward a final policy statement. The proposed policy statement was developed in consultation with SEC staff. Specifically, the proposal

- clarifies that the board of directors of each institution is responsible for ensuring that controls are in place to determine the appropriate level of the ALLL;
- states that the ALLL process must be thorough, disciplined, and consistently applied and must incorporate management's current judgments about the credit quality of the loan portfolio;
- emphasizes the banking agencies' long-standing position that institutions should maintain and support the ALLL with documentation that is consistent with their stated policies and procedures, GAAP, and applicable supervisory guidance; and
- provides guidance on maintaining and documenting policies and procedures that are appropriately tailored to the size and complexity of the institution and its loan portfolio.

Guidance on technology outsourcing. On November 28, the FFIEC issued guidance on financial institutions management of risk arising from technology services supplied by outside firms. Institutions outsource a wide range of technology services that include aggregation, digital certification, security monitoring, and information- and transaction-processing and settlement activities to support banking functions. The guidance stresses the need for boards of directors and senior management of financial

institutions to oversee and manage outsourcing relationships. Financial institutions should institute an outsourcing process that includes

- a risk assessment to identify the institution's needs and requirements;
- proper due diligence to identify and select a provider;
- written contracts that clearly outline duties, obligations and responsibilities of the parties involved; and,
- ongoing oversight of outsourced technology services.

Asset securitization. The task force oversaw the development of and participated in the one-day asset securitization conference held in October for Council members and senior supervisory staffs. The conference explored various issues with securitization activities and structures, including emerging industry trends; incentives and risk transference of securitization structures; asset valuations, capital and accounting issues; and non-credit risk exposures associated with securitization activities.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems oversees the development and implementation of uniform interagency surveillance and monitoring systems. The task force's primary objective has been to develop and produce the Uniform Bank Performance Report (UBPR), an analytical tool created for supervisory purposes. The UBPR is used to monitor the condition and performance of banking institutions on a quarterly basis and to identify potential or emerging problems in those financial institutions. A UBPR is produced quarterly for each commercial bank and insured savings bank in the United States that is supervised by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, or the Office of the Comptroller of the Currency.

Activities

During 2000, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Simplified the earnings and profitability analysis of banks electing subchapter S treatment for income taxes.
- Revised the peer group analysis in the in the UBPR. Peer group average ratios will now be calculated using an adjusted mean process. The new process will result in statistics that represent the "bank in the middle" or median, as well as data that is stable over time.
- Hosted an interagency surveillance systems conference. Attendees included state and federal bank supervisors. The conference provided a forum to discuss and compare information systems and monitoring tools used in the supervision of financial institutions and was considered a success.
- Provided comments on the combined call report proposed by the Reports Task Force.
- Placed the UBPR on the FFIEC public web site (at www.ffiec.gov). Extensive financial information for any bank in the country is now available to the general public. All non-confidential UBPR data, including five years of history, is available for viewing, printing, and downloading. The web site version of the UBPR has proven to be successful.
- Produced and distributed four quarterly versions of the UBPR. The federal banking agencies each received UBPR data in electronic format. State banking agencies were provided two sets of printed UBPRs for banks in their respective states. In the future, some of the state banking agencies that are developing information systems may ultimately receive UBPR data from the web site or tape delivery instead of the printed copies they currently receive. Additionally, printed UBPR reports were sent to all banks. Several thousand copies of individual bank UBPRs were provided to the general public.
- Notified users of changes to the 2000 UBPR in a memo. The User's Guide for the UBPR will be reprinted again in 2001. The guide and related information are available on the FFIEC web site (www.ffiec.gov).

While the UBPR is primarily a supervisory tool for the three federal banking agencies, it is used by others. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below in the distribution policy. In addition to the numerous individuals who obtain UBPRs on-line and in printed form, several companies purchase UBPR data in bulk format. A major goal of the task force is to ensure timely production and distribution of UBPRs and related data, according to the following distribution policy.

- Each insured bank will receive one copy of the current UBPR per quarter.
- UBPR data will be provided to each federal banking agency each quarter.
- Two copies of the UBPRs for the banks in their states will be made available to state bank supervisors. Alternatively, the printed reports may be requested in tape form.
- State banking agencies may purchase UBPR data files in electronic form.
- UBPRs and call report data are available to the public in printed format for a fee.

- UBPRs, the User's Guide for the UBPR, and call report data are available to the public at no charge on the FFIEC web site (www.ffiec.gov).

The general public may purchase printed copies of UBPRs for $45. A User's Guide, which describes the content of the report and defines ratio calculations, is available for $25. The peer group report, showing average ratios for all peer groups, is available for $65. The state average report is available for $45. Peer group and state average percentile distribution reports are available for $65 and $45, respectively.

Standardized UBPR quarterly data on magnetic tape are available for $400. Information on ordering items may be obtained by calling

(202) 872-7500,

e-mailing

SMULLENJ@FRB.GOV,

or writing the Council:

Federal Financial Institutions Examination Council
2000 K Street, NW Suite 310
Washington, D.C. 20006

Planned Activities

Several projects planned for 2001 should provide further enhancements to the UBPR:

- Revise, produce, and distribute four versions of the UBPR.
- Re-evaluate the design of the UBPR in conjunction with changes resulting from the combined call report project.
- Review UBPR treatment of banks that have elected subchapter S status for taxes.
- Revise the UBPR User's Guide to incorporate changes planned for 2001. Distribute to banking regulators and banks.
- Implement the changes emanating from the 2001 call report. Revisions to the UBPR will occur in more than one quarter because the new call report will be phased in.
- Continue to develop the public UBPR web site as a substitute for paper-based copies. Possible enhancements for 2001 include improved peer group analysis, additional reports, and more printing options. The task force will consider limited on-line custom peer group analysis.
- Analyze and possibly revise current peer groupings in the UBPR. Possible new peer groups could include line of business (trust company, agricultural, real estate) as well as changed asset groupings. The task force will also consider the relevance of structural factors.
- Consider ways to begin reducing distribution of the UBPR in paper format.
- Adjust the UBPR to reflect changed regulatory capital definitions.
- Adjust UBPR data for the effects of push-down accounting.

THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 21,000 domestically chartered banks, thrift institutions, and credit unions. On June 30, 2000, these financial institutions held total assets of more than $8.5 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

The three banking agencies on the Council have authority to oversee the operations of U.S. branches and agencies of foreign banks. The International Banking Act of 1978 (IBA) authorizes the Office of the Comptroller of the Currency (OCC) to license federal branches and agencies of foreign banks and permits U.S. branches that accept only wholesale deposits to apply for insurance with the Federal Deposit Insurance Corporation (FDIC). According to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), foreign banks that wish to operate insured entities in the United States and accept retail deposits must organize under separate U.S. charters. Existing insured retail branches may continue to operate as branches. The IBA also subjects those U.S. offices of foreign banks to many provisions of the Federal Reserve Act and the Bank Holding Company Act. The IBA gives primary examining authority to the OCC, the FDIC, and various state authorities for the offices within their jurisdictions and gives the FRB residual examining authority over all U.S. banking operations of foreign banks.

Board of Governors of the Federal Reserve System (FRB)

The FRB was established in 1913. It is headed by a seven-member Board of Governors, each member of which is appointed by the President, with the advice and consent of the Senate, for a fourteen-year term. Subject to confirmation by the Senate, the President selects two Board members to serve four-year terms as Chairman and Vice Chairman. The FRB's activities that are most relevant to the work of the Council are

- examining, supervising, and regulating state member banks; bank holding companies; Edge Act and agreement corporations; and in conjunction with the licensing authorities, the U.S. offices of foreign banks and
- approving or denying applications for mergers, acquisitions, and changes in control by state member banks and bank holding companies, applications for foreign operations of member banks and Edge Act and agreement corporations, and applications by foreign banks to establish or acquire U.S. banks and to establish U.S. branches, agencies, or representative offices.

Policy decisions are implemented by the FRB and the 12 Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. Each Reserve Bank has a president and other officers. Among other responsibilities, a Reserve Bank employs a staff of bank examiners, who examine state member banks and Edge Act and agreement corporations, inspect bank holding companies, and examine the offices of foreign banks located within the Reserve Bank's District.

National banks, which must be members of the Federal Reserve System, are chartered, regulated, and supervised by the Office of the Comptroller of the Currency. State-chartered banks may apply to and be accepted for membership in the Federal Reserve System, after which they are subject to the supervision and regulation of the Federal Reserve. Insured state-chartered banks that are not members of the Federal Reserve System are regulated and supervised by the FDIC. The Federal Reserve has overall responsibility for foreign banking operations, including both U.S. banks operating abroad and foreign banks operating branches in the United States.

The Federal Reserve covers the expenses of its operations with revenue it generates principally from interest received on Treasury and federal-agency securities held as assets by the Reserve Banks. The funding for these investments is derived partially from noninterest-earning reserves that member banks and other depository institutions are required to hold at the Reserve Banks and partially from noninterest-bearing Federal Reserve notes (currency) issued by the Reserve Banks. The Reserve Banks pay assessments to the Federal Reserve Board, which are used to meet its expenses. Excess revenues are turned over to the Treasury general fund and categorized as interest on Federal Reserve notes.

Federal Deposit Insurance Corporation (FDIC)

The Congress created the FDIC in 1933 with a mission to insure bank deposits and reduce the economic disruptions caused by bank failures.

Management of the FDIC is vested in a five-member Board of Directors. Three of the directors are directly appointed by the President, with the advice and consent of the Senate, for six-year terms. One of the three directors is designated by the President as Chairman for a term of five years, and another is designated as Vice Chairman. The other two Board members are the Comptroller of the Currency and the Director of the Office of Thrift Supervision. No more than three Board members may be of the same political party.

The FDIC's supervisory activities are conducted by the Division of Supervision (DOS) and the Division of Compliance and Consumer Affairs (DCA). Each of these divisions is organized into eight regional offices headed by a DOS regional director and a DCA regional director. Bank liquidation activities are handled by the Division of Resolutions and Receiverships.

The FDIC administers two federal deposit insurance funds: the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The basic insured amount for a depositor is $100,000 at each insured depository institution. The BIF is funded through assessments paid by insured commercial banks, certain federal and state savings banks, and industrial banks, as well as through income from investments in U.S. government securities. The SAIF, which was created in 1989 as a successor to the former Federal Savings and Loan Insurance Corporation (FSLIC), receives assessment premiums from insured savings associations. SAIF assessment rates and BIF assessment rates are currently the same—ranging from zero to 27 cents for every $100 of assessable deposits, depending on the degree of risk to the respective deposit insurance fund.

Any depository institution that receives deposits may be insured by the FDIC after application to and examination and approval by the FDIC. After considering the applicant's financial history and condition, adequacy of the capital structure, future earnings prospects, general character of the management, risk presented to the insurance fund, convenience and needs of the community to be served, and consistency of corporate powers, the FDIC may approve or deny an application for insurance. FDICIA expanded the FDIC's approval authority to include national banks, all state-chartered banks that are members of the Federal Reserve System, and federal and state-chartered savings associations.

The FDIC has primary federal regulatory and supervisory authority over insured state-chartered banks that are not members of the Federal Reserve System, and it has the authority to examine for insurance purposes any insured financial institution, either directly or in cooperation with state or other federal supervisory authorities. FDICIA gives the FDIC back-up enforcement authority over all insured institutions; that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if deemed necessary.

In protecting insured deposits, the FDIC is charged with resolving the problems of insured depository institutions at the least possible cost to the deposit insurance fund. In carrying out this responsibility, the FDIC engages in several activities, including paying off deposits, arranging the purchase of assets and assumption of liabilities of failed institutions, effecting insured deposit transfers between institutions, creating and operating temporary bridge banks until a resolution can be accomplished, and using its conservatorship powers.

National Credit Union Administration (NCUA)

The NCUA, established by an act of Congress in 1934, is the agency that heads the nation's federal credit union system. A three-member bipartisan board appointed by the President for six-year terms manages the NCUA. The President also selects a member to serve as Chair of the board.

The main responsibilities of the NCUA are the following:

- charters, examines, and supervises more than 6,400 federal credit unions nationwide
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures member share accounts in nearly 10,300 U.S. federal and state-chartered credit unions
- manages the Central Liquidity Facility, a central bank for credit unions, which provides liquidity to the credit union system.

The NCUA also has statutory authority to examine and supervise NCUSIF-insured, state-chartered credit unions in coordination with state agencies.

The NCUA has six regional offices across the United States that administer its responsibility to charter and supervise credit unions. Its examiners conduct on-site examinations and supervision of each federal credit union and select state-chartered credit unions. The NCUA is funded by the credit unions it regulates and insures.

Office of the Comptroller of the Currency (OCC)

The OCC is the oldest federal bank regulatory agency, having been established as a bureau of the Treasury Department by the National Currency Act of 1863. It is headed by the Comptroller of the Currency, who is appointed to a five-year term by the President with the advice and consent of the Senate. The Comptroller also serves as a Director of the Federal Deposit Insurance Corporation and a Director of the Neighborhood Reinvestment Corporation.

The OCC is the charterer, regulator, and supervisor of the national banking system. As such, it currently regulates and supervises approximately 2,400 national banks and 59 federal branches and agencies of foreign banks in the United States, accounting for 57 percent of the nation's banking assets. As the only federal banking agency with authority to charter commercial banks, the OCC shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters and new bank activities, the establishment of branches, relocations of head offices, and mergers of national banks.

The national interest requires that the United States have a safe and stable financial system that preserves public confidence and makes available a wide variety of financial services in a competitive marketplace. The OCC serves this interest by maintaining and promoting a system of bank supervision and regulation through certain mission-critical core processes that include

- licensing national banks and their activities;
- establishing and communicating regulations, policies, and operating guidance applicable to national banks;
- supervising the national banking system through on-site examinations, off-site monitoring, and appropriate enforcement activities; and
- addressing systemic risks and market trends by identifying, analyzing, and responding to emerging risks that could have an impact on the safety and soundness of national banks or the national banking system.

To meet its objectives, the OCC is organized into eight main areas:

- Bank Supervision Operations oversees examinations and other supervision activities in the OCC's six districts; the Large Bank Supervision Department supervises the largest national banks and oversees operations in the OCC's London office; Compliance Operations; and OCC's Continuing Education and Supervision Support departments. Specific responsibilities include directing programs for the examination and regulation of national banks and overseeing supervision of national trust companies, federal branches and agencies of foreign banks, and the international activities of national banks with global operations.
- Bank Supervision Policy formulates and disseminates the OCC's supervision policies to promote safety and soundness and compliance with laws and regulations at national banks. Specific responsibilities include issuing policy, guidance, and examination procedures related to risk evaluation and to national bank operations, including credit, asset management, capital markets, bank technology and consumer compliance activities; and coordinating the OCC's participation in Federal Financial Institutions Examination Council activities.
- International and Economic Affairs oversees the OCC's international and economic research activities. Specific responsibilities include providing policy advice and technical expertise on issues related to international banking and the condition and trends in the financial industry; formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks; and serving as liaison with the international financial community and foreign supervisory organizations. This unit also provides on-site technical support to field examiners on the assessment of banks' risk-measurement methods and the use of statistical tools to assess fair lending compliance.
- Public Affairs manages the OCC's external relations with the general public, bank customers, community organizations, the Congress, the news media, and trade associations. It disseminates information about the OCC's initiatives, policies, and activities and works to increase public understanding of the OCC's mission.
- The First Senior Deputy Comptroller and Chief Counsel (Chief Counsel)advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. Specific responsibilities include drafting regulations, responding to requests for legal interpretations, and representing the OCC in all legal matters and proceedings. The Chief Counsel oversees corporate application activities, including establishing corporate policies and processing corporate applications from national banks. The Chief Counsel also oversees the community development activities of national banks and OCC's community affairs activities.
- Information Technology Services, through the Chief Information Officer, advises the Comptroller on technology matters and directs the development, administration, and readiness of the OCC's electronic systems and technological infrastructure. It also represents the OCC at the Department of Treasury and partners with other federal financial regulators on IT issues.
- The Office of Management is responsible for the efficient and effective administrative functioning of the OCC. Major units supervised by the office are Workforce Effectiveness, Management Services, and Deputy Chief Financial Officer. The Senior Deputy Comptroller for Management also serves as the OCC's Chief Financial Officer.

- The Ombudsman's office oversees the national bank appeals process and the Customer Assistance Group. The national bank appeals process resolves individual appeals from national banks and acts as a liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities. The Ombudsman functions independently and reports directly to the Comptroller. The Customer Assistance Group is a centralized function that handles all complaints from customers of national banks.

The OCC's six geographic districts are headquartered in New York, NY; Atlanta, GA; Chicago, IL; Kansas City, MO; Dallas, TX; and San Francisco, CA. The agency is funded through assessments on the assets of national banks.

Office of Thrift Supervision (OTS)

The OTS was established as a bureau of the Treasury Department on August 9, 1989. OTS has the authority to charter federal thrift institutions. It is the primary regulator of all federal and many state-chartered thrifts.

The mission of the OTS is to

- effectively and efficiently supervise thrift institutions,
- maintain the safety, soundness, and viability of the industry
- encourage a competitive industry to meet America's housing, community credit, and financial services needs and to provide access to financial services for all Americans.

OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, (3) taking appropriate action to enforce compliance with federal laws and regulations, and (4) acting on applications to charter or acquire a savings association. OTS also has the authority to regulate, examine, and supervise savings and loan holding companies.

OTS is headed by a Director appointed by the President, with the advice and consent of the Senate, to serve a five-year term. The Director determines policy for the OTS and makes final decisions on regulations governing the industry as a whole and on measures affecting individual institutions. The Director also serves as a member of the board of the FDIC and the NRC. The Office of the Director also includes the Office of Equality and Workplace Principles, Office of Internal Review, Office of the Ombudsman, and liaison with the FDIC.

The Deputy Director of OTS assists the Director in managing various agency programs. While the emphasis is on regulatory issues, the Deputy Director is responsible for the five regional offices, the Office of Supervision, the Office of Compliance Policy and Community Affairs, Research and Information Systems, Human Resources and Professional Development, Procurement and Administrative Services, and Planning, Budget and Finance. The Deputy Director is responsible for the supervisory and day-to-day operations of the Agency. Major responsibilities include the supervision and examination of OTS-regulated thrifts to ensure the safety and soundness of the industry, trust, information technology, compliance with consumer protection, Community Reinvestmen Act and fair lending requirements, the development of policies affecting those functions, applications of all types, and the agency's accounting policies. The Office of Research and Information Systems is responsible for both traditional information systems, and financial data and modeling systems.

The other major functions of OTS are

- the Chief Counsel, who oversees the legal activities of the agency. This responsibility includes representing OTS on pending litigation; preparing the record for final agency action in accordance with legal requirements; pursuing enforcement actions relating to thrift institutions; providing legal advice and opinions; and drafting support on regulatory projects, statutes, and regulations; and
- the External Affairs function, which manages congressional matters and press relations. It interacts with members of the Congress as well as with executives of other federal agencies to accomplish the legislative and regulatory objectives of the OTS. The office convenes press conferences; distributes news releases; and communicates and explains policy directives, objectives, and actions of the agency to the Congress, the press, the thrift industry, other government agencies, and employees.

The OTS's five geographic regional offices are located in Jersey City, NJ; Atlanta, GA; Chicago, IL; Dallas, TX; and San Francisco, CA.

The OTS uses no tax money to fund its operations. Its expenses are funded through fees and assessments levied on the institutions it regulates.

ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks and Thrift Institutions[1] as of June 30, 2000
Billions of dollars

Item	Total	U.S. Commercial Banks[2]			U.S. Branches and Agencies of Foreign Banks[16]	Thrift Institutions			Credit Unions[3]	
						OTS-Regulated[17]		Other FDIC-Insured		
		National	State Member	State Non-Member		Federal Charter	State Charter	State Savings Banks	Federal Charter	State Charter
Total assets	**8,491**	**3,343**	**1,540**	**1,079**	**923**	**857**	**31**	**291**	**244**	**183**
Total loans and lease receivables (net)	5,036	2,146	782	699	329	588	22	182	161	127
Loans secured by real estate[4]	2,456	889	336	400	18	521	20	161	61	50
Consumer loans[5]	788	335	89	131	*	48	1	12	98	74
Commercial and industrial loans	1,275	648	249	135	210	21	1	9	1	1
All other loans and lease receivables[6]	580	311	118	43	101	3	*	2	1	1
LESS: Allowance for possible loan and lease losses	71	38	12	11	*	5	*	2	2	1
Federal funds sold and securities purchased under agreements to resell	350	110	107	27	93	4	*	8	1	*
Cash and due from depository institutions[7]	507	192	101	46	83	17	1	7	35	25
Securities and other obligations[8]	1,489	515	280	250	111	190	7	82	34	20
U.S. government obligations[9]	618	127	91	107	64	163	6	55	3	2
Obligations of state and local governments[10]	94	40	19	31	*	2	*	2	‡	‡
Other securities	734	348	169	112	47	25	1	25	3	4
Other assets[11]	1,101	380	270	57	307	58	1	12	9	7
Total liabilities	**7,898**	**3,064**	**1,422**	**979**	**923**	**792**	**28**	**263**	**244**	**183**
Total deposits and shares[12]	5,557	2,197	965	811	498	495	23	198	212	158
Federal funds purchased and securities sold under agreements to repurchase	705	268	161	50	140	66	1	18	1	*
Other borrowings[13]	1,007	426	133	100	80	216	4	44	2	2
Other liabilities[14]	579	172	163	17	205	15	*	3	2	2
Net worth[15]	**668**	**279**	**118**	**100**	*	**65**	**3**	**28**	**44**	**31**
Memorandum: Number of institutions reporting	20,931	2,301	996	5,171	359	925	166	533	6,468	4,012

Symbols Appearing in Tables

* = Less than $500 million
† = Not available separately
‡ = Not applicable

Footnotes to Tables

1. The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the Federal Deposit Insurance Corporation or National Credit Union Savings Insurance Fund. All branches and agencies of foreign banks in the United States, but excluding any in Puerto Rico and U.S. territories and possessions, are covered whether or not insured. The table excludes Edge Act and agreement corporations that are not subsidiaries of U.S. commercial banks.
2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.
3. The credit union data are for federally-insured credit unions only.
4. Loans secured by residential property, commercial property, farmland (including improvements), and unimproved land; and construction loans secured by real estate. For SAIF-insured institutions, also includes mortgage-backed securities.
5. Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.
6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.
7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. SAIF-insured institutions data are for cash and

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions[1] for the Twelve Months Ending June 30, 2000
Billions of dollars

Item	Total	U.S. Commercial Banks[2]			Thrift Institutions			Credit Unions[3]	
					OTS-Regulated[17]		Other FDIC-Insured		
		National	State Member	State Non-Member	Federal Charter	State Charter	State Savings Banks	Federal Charter	State Charter
Operating income	650	318	124	95	56	3	20	19	15
Interest and fees on loans	371	174	56	60	42	2	14	13	10
Other interest and dividend income	124	50	31	16	14	1	5	4	3
All other operating income	155	94	37	19	*	*	1	2	2
Operating expenses	519	255	96	76	45	1	16	17	13
Salaries and benefits	105	49	22	16	8	*	3	4	3
Interest on deposits and shares	174	71	31	29	20	1	8	8	6
Interest on other borrowed money	79	40	16	7	14	*	2	*	*
Provision for loan and lease losses	27	17	3	4	1	*	*	1	1
All other operating expenses	134	78	24	20	2	*	3	4	3
Net operating income	**131**	**63**	**28**	**19**	**11**	**1**	**4**	**3**	**2**
Securities gains and losses	1	0	0	0	1	*	*	*	*
Income taxes	43	22	10	6	4	*	1	‡	†
Net income	**89**	**41**	**18**	**13**	**8**	**1**	**3**	**3**	**2**
Memorandum: Number of institutions reporting	20,572	2,301	996	5,171	925	166	533	6,468	4,012

demand deposits only; time deposits are included in "Other securities."

8. Government and corporate securities, including mortgage-backed securities and obligations of states and political subdivisions and of U.S. government agencies and corporations. For SAIF-insured institutions, also includes time deposits and excludes mortgage-backed securities.
9. U.S. Treasury securities and securities of, and loans to, U.S. government agencies and corporations.
10. Securities issued by states and political subdivisions and public authorities, except for savings and loan associations and U.S. branches and agencies of foreign banks that do not report these securities separately. Loans to states and political subdivisions and public authorities are included in "All other loans and lease receivables."
11. Customers' liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For SAIF-insured institutions, also includes equity investment in service corporation subsidiaries.
12. Demand, savings, and time deposits, including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks, and savings banks; credit balances at U.S. agencies of foreign banks; and share balances at savings and loan associations and credit unions, including certificates of deposit, NOW accounts, and share draft accounts. For U.S. commercial banks, includes deposits in foreign offices, branches in U.S. territories and possessions, and Edge act and agreement corporation subsidiaries.
13. Interest-bearing demand notes issued to the U.S. Treasury, borrowing from Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-life preferred stock, and other nondeposit borrowing.
14. Depository institutions' own mortgage borrowing, liability for capitalized leases, liability on acceptances executed, various accrual accounts, and miscellaneous liabilities. For U.S. branches and agencies of foreign banks, also includes net owed to head office and other related institutions.
15. Capital stock, surplus, capital reserves, and undivided profits for SAIF-insured institutions.
16. U.S. branches and agencies of foreign banks are not required to file reports of income.
17. Data for thrifts regulated by OTS are unconsolidated, except for operating and finance subsidiaries.

NOTE: Because of rounding, details may not add to totals.

APPENDIX A: RELEVANT STATUTES

Title X of Public Law 95–630

Title X of Public Law 95–630 establishes the Federal Financial Institutions Examination Council. As amended, it reads as follows:

Sec. 1001. This title may be cited as the "Federal Financial Institutions Examination Council Act of 1978."

Purpose

Sec. 1002. It is the purpose of this title to establish a Financial Institutions Examination Council which shall prescribe uniform principles and standards for the Federal examination of financial institutions by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and the National Credit Union Administration, and make recommendations to promote uniformity in the supervision of these financial institutions. The Council's actions shall be designed to promote consistency in such examinations to insure progressive and vigilant supervision.

Definitions

Sec. 1003. As used in this title—

(1) the term "federal financial institutions regulatory agencies" means the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration;

(2) the term "Council" means the "Financial Institutions Examination Council"; and

(3) the term "financial institution" means a commercial bank, a savings bank, a trust company, a savings and loan association, a building and loan association, a homestead association, a cooperative bank, or a credit union.

Establishment of the Council

Sec. 1004. (a) There is established the Financial Institutions Examination Council which shall consist of

(1) the Comptroller of the Currency,

(2) the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation,

(3) a Governor of the Board of Governors of the Federal Reserve System designated by the Chairman of the Board,

(4) the Director of the Office of Thrift Supervision and

(5) the Chairman of the National Credit Union Administration Board.

(b) The members of the Council shall select the first Chairman of the Council. Thereafter the chairman shall rotate among the members of the Council.

(c) The term of the Chairman of the Council shall be two years.

(d) The members of the Council may, from time to time, designate other officers or employees of their respective agencies to carry out their duties on the Council.

(e) Each member of the Council shall serve without additional compensation but shall be entitled to reasonable expenses incurred in carrying out his or her official duties as such a member.

Expenses of the Council

Sec. 1005. One-fifth of the costs and expenses of the Council, including the salaries of its employees, shall be paid by each of the federal financial institutions regulatory agencies. Annual assessments for such share shall be levied by the Council based upon its projected budget for the year, and additional assessments may be made during the year if necessary.

Functions of the Council

Sec. 1006. (a) The Council shall establish uniform principles and standards and report forms for the examination of financial institutions, which shall be applied by the federal financial institutions regulatory agencies.

(b)(1) The Council shall make recommendations for uniformity in other supervisory matters, such as, but not limited to, classifying loans subject to country risk, identifying financial institutions in need of special supervisory attention, and evaluating the soundness of large loans that are shared by two or more financial institutions. In addition, the Council shall make recommendations regarding the adequacy of supervisory tools for determining the impact of holding company operations on the financial institutions within the holding company and shall consider the ability of supervisory agencies to discover possible fraud or questionable and illegal payments and practices which might occur in the operation of financial institutions or their holding companies.

(b)(2) When a recommendation of the Council is found unacceptable by one or more of the appli-

cable federal financial institutions regulatory agencies, the agency or agencies shall submit to the Council, within a time period specified by the Council, a written statement of the reasons the recommendation is unacceptable.

(c) The Council shall develop uniform reporting systems for federally supervised financial institutions, their holding companies, and nonfinancial institution subsidiaries of such institutions or holding companies. The authority to develop uniform reporting systems shall not restrict or amend the requirements of section 12(I) of the Securities Exchange Act of 1934.

(d) The Council shall conduct schools for examiners and assistant examiners employed by the federal financial institutions regulatory agencies. Such schools shall be open to enrollment by employees of state financial institutions' supervisory agencies and employees of the Federal Housing Finance Board under conditions specified by the Council.

(e) Nothing in this title shall be construed to limit or discourage federal regulatory agency research and development of new financial institutions supervisory methods and tools, nor to preclude the field testing of any innovation devised by any federal regulatory agency.

(f) Not later than April 1 of each year, the Council shall prepare an annual report covering its activities during the preceding year.

State Liaison

Sec. 1007. To encourage the application of uniform examination principles and standards by state and federal supervisory agencies, the Council shall establish a liaison committee composed of five representatives of state agencies which supervise financial institutions which shall meet at least twice a year with the Council. Members of the liaison committee shall receive a reasonable allowance for necessary expenses incurred in attending meetings.

Administration

Sec. 1008. (a) The Chairman of the Council is authorized to carry out and to delegate the authority to carry out the internal administration of the Council, including the appointment and supervision of employees and the distribution of business among members, employees, and administrative units.

(b) In addition to any other authority conferred upon it by this title, in carrying out its functions under this title, the Council may utilize, with their consent and to the extent practical, the personnel, services, and facilities of the federal financial institutions regulatory agencies, Federal Reserve Banks, and Federal Home Loan Banks, with or without reimbursement therefor.

(c) In addition, the Council may

(1) subject to the provisions of Title 5, United States Code, relating to the competitive service, classification, and General Schedule pay rates, appoint and fix the compensation of such officers and employees as are necessary to carry out the provisions of this title, and to prescribe the authority and duties of such officers and employees; and

(2) obtain the services of such experts and consultants as are necessary to carry out the provisions of the title.

Access to Information by the Council

Sec. 1009. For the purpose of carrying out this title, the Council shall have access to all books, accounts, records, reports, files, memoranda, papers, things, and property belonging to or in use by federal financial institutions regulatory agencies, including reports of examination of financial institutions or their holding companies from whatever source, together with workpapers and correspondence files related to such reports, whether or not a part of the report, and all without any deletions.

Risk Management Training

Sec. 1009A. (a) *Seminars*. The Council shall develop and administer training seminars in risk management for its employees and the employees of insured financial institutions.

(b) *Study of Risk Management Training Program*. Not later than the end of the one-year period beginning on the date of the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of l989, the Council shall

(l) conduct a study on the feasibility and appropriateness of establishing a formalized risk management training program designed to lead to the certification of Risk Management Analysts; and

(2) report to the Congress the results of such study.

Audit by the Comptroller General

Sec. 1010. Section 117 of the Accounting and Auditing Act of 1950, as amended by the Federal Banking Agency Audit Act (Public Law 95–320), is further amended by

(1) redesignating clauses (A), (B), (C) and of subsection (e)(1) as (B), (C), and (D), respectively, and inserting in subsection (e)(1) the clause "(A) of the Financial Institutions Examination Council"; immediately following "audits"; and

(2) striking out in subsection (e)(2) "and (C)" and inserting in lieu thereof "(C), and (D)."

Sec. l0ll. Establishment of Appraisal Subcommittee

There shall be within the Council a subcommittee to be known as the "Appraisal Subcommittee," which shall consist of the designees of the heads of the federal financial institutions regulatory agencies. Each such designee shall be a person who has demonstrated knowledge and competence concerning the appraisal profession.

Excerpts from Title III of Public Law 94–200

Following are those sections of title III of Public Law 94–200, the Home Mortgage Disclosure Act, as amended, that affect the Federal Financial Institutions Examination Council.

Findings and Purpose

Sec.302. (a) The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions.

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are fulfilling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment.

Maintenance of Records and Public Disclosure

Sec.304. (f) The Federal Financial Institutions Examination Council in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such system shall include arrangements for a central depository of data in each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas. Disclosure statements shall be made available to the public for inspection and copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 306(b)) and which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas.

Compilation of Aggregate Data

Sec. 310. (a) Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate data by census tract for all depository institutions which are required to disclose under section 304 or which are exempt pursuant to section 306(b). The Council shall also produce tables indicating, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level and racial characteristics.

(b) The Board shall provide staff and data processing resources to the Council to enable it to carry out the provisions of subsection (a).

(c) The data and tables required pursuant to subsection (a) shall be made available to the public by no later than December 31 of the year following the calendar year on which the data is based.

Excerpts from Title XI of Public Law l0l–73

Sec. ll03. Functions of Appraisal Subcommittee.

(a) *In General*. The Appraisal Subcommittee shall

(l) monitor the requirements established by States for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally regulated transactions, including a code of professional responsibility;

(2) monitor the requirements established by the federal financial institutions regulatory agencies and the Resolution Trust Corporation with respect to

(A) appraisal standards for federally related transactions under their jurisdiction, and

(B) determinations as to which federally related transactions under their jurisdiction require the services of a State certified appraiser and which require the services of a State licensed appraiser.

(3) maintain a national registry of State certified and licensed appraisers who are eligible to perform appraisals in federally related transactions; and

(4) transmit an annual report to the Congress not later than January 3l of each year which describes the manner in which each function assigned to the Appraisal Subcommittee has been carried out during the preceding year.

(b) *Monitoring and Reviewing Foundation*. The Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

Sec. ll04. Chairperson of Appraisal Subcommittee: Term of Chairperson; meetings.

(a) Chairperson. The Council shall select the Chairperson of the subcommittee. The term of the Chairperson shall be two years.

APPENDIX B: 2000 AUDIT REPORT

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Independent Auditors' Report

To the Federal Financial Institutions Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2000 and 1999, and the related statements of revenues and expenses and changes in fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2001, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 20, 2001

Deloitte
Touche
Tohmatsu

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheets as of December 31, 2000 and 1999

ASSETS

	2000	1999
CURRENT ASSETS		
Cash	$ 821,155	$ 689,393
Accounts receivable from member organizations	507,042	431,539
Other accounts receivable	196,537	317,553
Total current assets	1,524,734	1,438,485
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	273,849	273,849
Less accumulated depreciation	261,494	253,624
Net furniture and equipment	12,355	20,225
Total assets	$ 1,537,089	$ 1,458,710

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
Accounts payable and accrued liabilities to member organizations	$ 743,939	$ 495,354
Other accounts payable and accrued liabilities	136,193	131,328
Accrued annual leave	40,104	48,684
Total current liabilities	920,236	675,366
DEFERRED RENT (Note 5)	135,572	114,036
FUND BALANCE	481,281	669,308
Total liabilities and fund balance	$ 1,537,089	$ 1,458,710

See notes to financial statements.

Notes to Financial Statements for the Years Ended December 31, 2000 and 1999

(1) Organization and Purpose

The Federal Financial Institutions Examination Council (the "Council") was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101–73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

(2) Significant Accounting Policies

Revenues and Expenses—Assessments made on member organizations for operating expenses and additions to property are calculated based on expected cash needs. Assessments, other revenues, and operating expenses are recorded on the accrual basis of accounting.

Furniture and Equipment—Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Transactions with Member Organizations

	2000	1999
The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Annual assessment for each member organization was	$ 256,000	$ 326,800
The Council provides seminars in the Washington area and at regional locations through out the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of	1,699,315	1,526,707
The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of	62,966	62,400

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statements of Revenues and Expenses and Changes in Fund Balance for the Years Ended December 31, 2000 and 1999

	2000	1999
REVENUES		
Assessments on member organizations	$ 1,280,000	$ 1,634,000
Tuition	1,811,065	1,657,257
Other revenue (Note 4)	2,993,150	2,809,341
Total revenues	6,084,215	6,100,598
EXPENSES		
Salaries and related benefits	1,419,587	1,339,517
Data processing	3,302,051	2,972,811
Rental of office space	589,821	586,705
Professional fees	270,105	258,375
Books and subscriptions	150,734	8,753
Travel	98,862	101,409
Other seminar expenses	94,916	53,111
Rental and maintenance of office equipment	93,436	77,209
Office and other supplies	70,596	47,001
Printing	69,643	71,738
Administrative fees	62,966	62,400
Postage	20,691	15,280
Telephone	15,843	5,481
Depreciation and amortization	7,870	16,154
Miscellaneous	5,121	10,990
Total expenses	6,272,242	5,626,934
REVENUES OVER (UNDER) EXPENSES	(188,027)	473,664
FUND BALANCE, Beginning of year	669,308	195,644
FUND BALANCE, End of year	$ 481,281	$ 669,308

See notes to financial statements.

	2000	1999
Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations	$ 3,593,793	$ 3,424,234

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

(4) Other Revenue

	2000	1999
Home Mortgage Disclosure Act	$1,776,137	$ 1,645,563
Uniform Bank Performance Report	264,948	267,656
Appraisal Subcommittee	213,537	190,155
Community Reinvestment Act	738,525	705,864
Miscellaneous	3	103
	$2,993,150	$ 2,809,341

Home Mortgage Disclosure Act (HMDA)

	2000	1999
The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received the following from member organizations	$1,227,613	$1,108,326
The Council received the following from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project	350,082	306,584
The Council received the following from the Mortgage Insurance Companies of America for performing HMDA related work for them	$ 168,809	$ 185,741
The balance of the HMDA revenue for 2000 and 1999 was received from sales to the public	29,633	44,912

Uniform Bank Performance Report (UBPR)

	2000	1999
The Council coordinated and provided certain administrative support to the UBPR project. The Council received the following for operating expenses incurred in support of the UBPR project	$ 264,948	$ 267,656

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statements of Cash Flows for the Years Ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	$ (188,027)	$ 473,664
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,870	16,154
(Increase) decrease in accounts receivable from member organizations	(75,503)	292,482
(Increase) decrease in other accounts receivable	121,016	(123,104)
(Increase) decrease in prepaid expenses	0	25,319
Increase (decrease) in accounts payable and accrued liabilities to member organizations	248,585	(405,949)
Increase (decrease) in other accounts payable and accrued liabilities	4,865	62,103
Increase (decrease) in accrued annual leave	(8,580)	59
Increase (decrease) in deferred rent	21,536	45,579
Net cash provided by (used in) operating activities	131,762	386,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	0	(16,758)
Net cash used in investing activities	0	(16,758)
NET INCREASE (DECREASE) IN CASH	131,762	369,549
CASH BALANCE, Beginning of year	689,393	319,844
CASH BALANCE, End of year	$ 821,155	$ 689,393

See notes to financial statements.

Appraisal Subcommittee

	2000	1999
The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received the following from the Appraisal Subcommittee for these services	$ 213,537	$ 190,155

Community Reinvestment Act

In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The Council received the following from participating member agencies for operating expenses incurred in support of the CRA project	738,525	705,864

(5) Deferred Rent

In 1992 and 1998, the Council entered into leases for office space. These leases contain rent abatements and scheduled rent increases, which, in accordance with accounting principles generally accepted in the United States of America, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) Commitments

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2000, are as follows:

2001	$ 313,281
2002	320,232
2003	330,555
2004	347,624
2005	354,575
After 2005	1,010,269
	$2,676,536

Rental expenses under these operating leases and the operating lease that expired in 1999 were $532,096 and $572,210 in 2000 and 1999, respectively.

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Independent Auditors' Report on Internal Control over Financial Reporting and Compliance Based upon the Audit Performed in Accordance with *Government Auditing Standards*

To the Federal Financial Institutions Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 2000, and have issued our report thereon dated February 20, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Council in a separate letter dated February 20, 2001.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Members and management of the Council and the Inspector General of the Board of Governors of the Federal Reserve System, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 20, 2001

Deloitte
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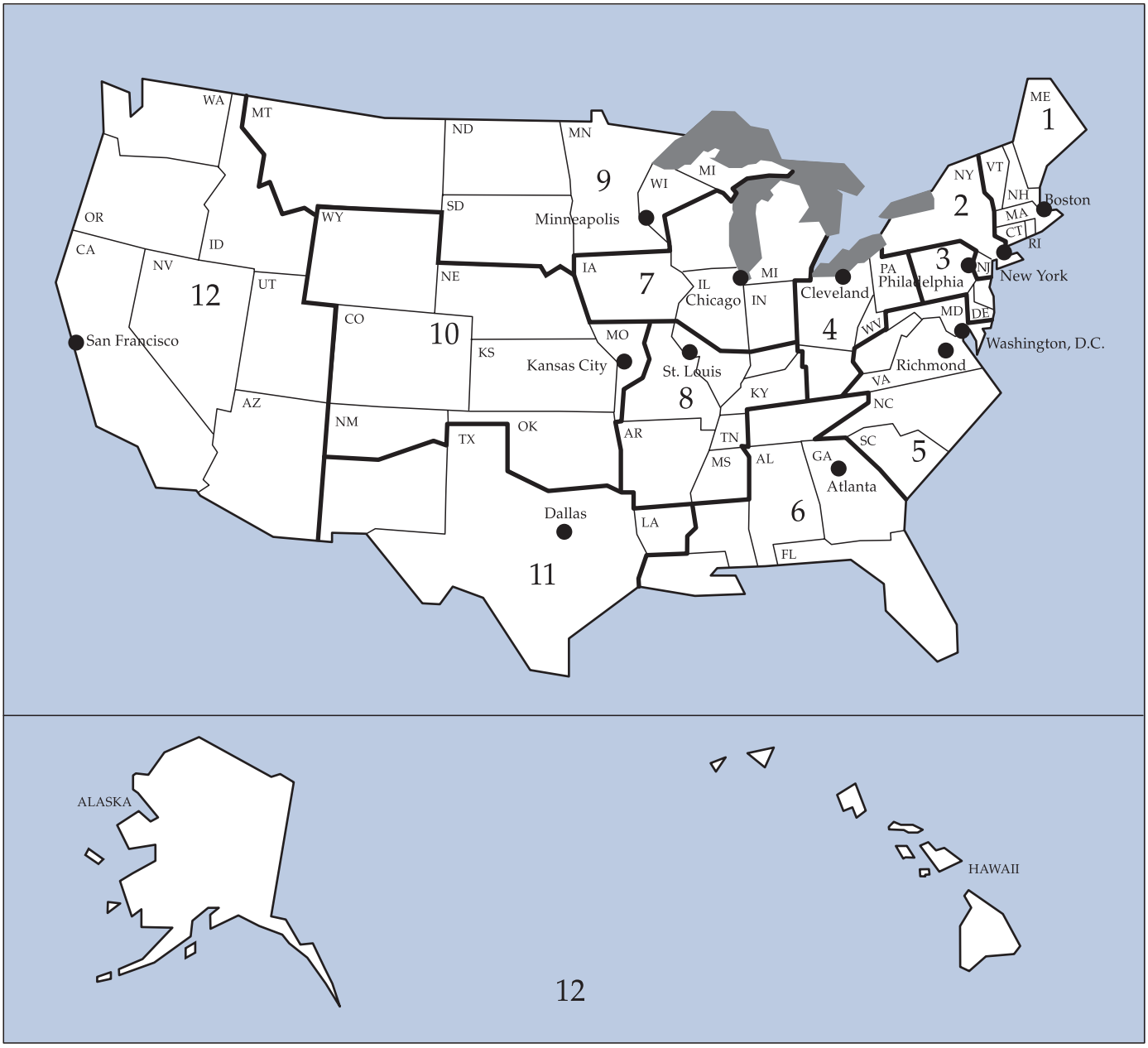
Appendix C: Maps of Agency Regions and Districts

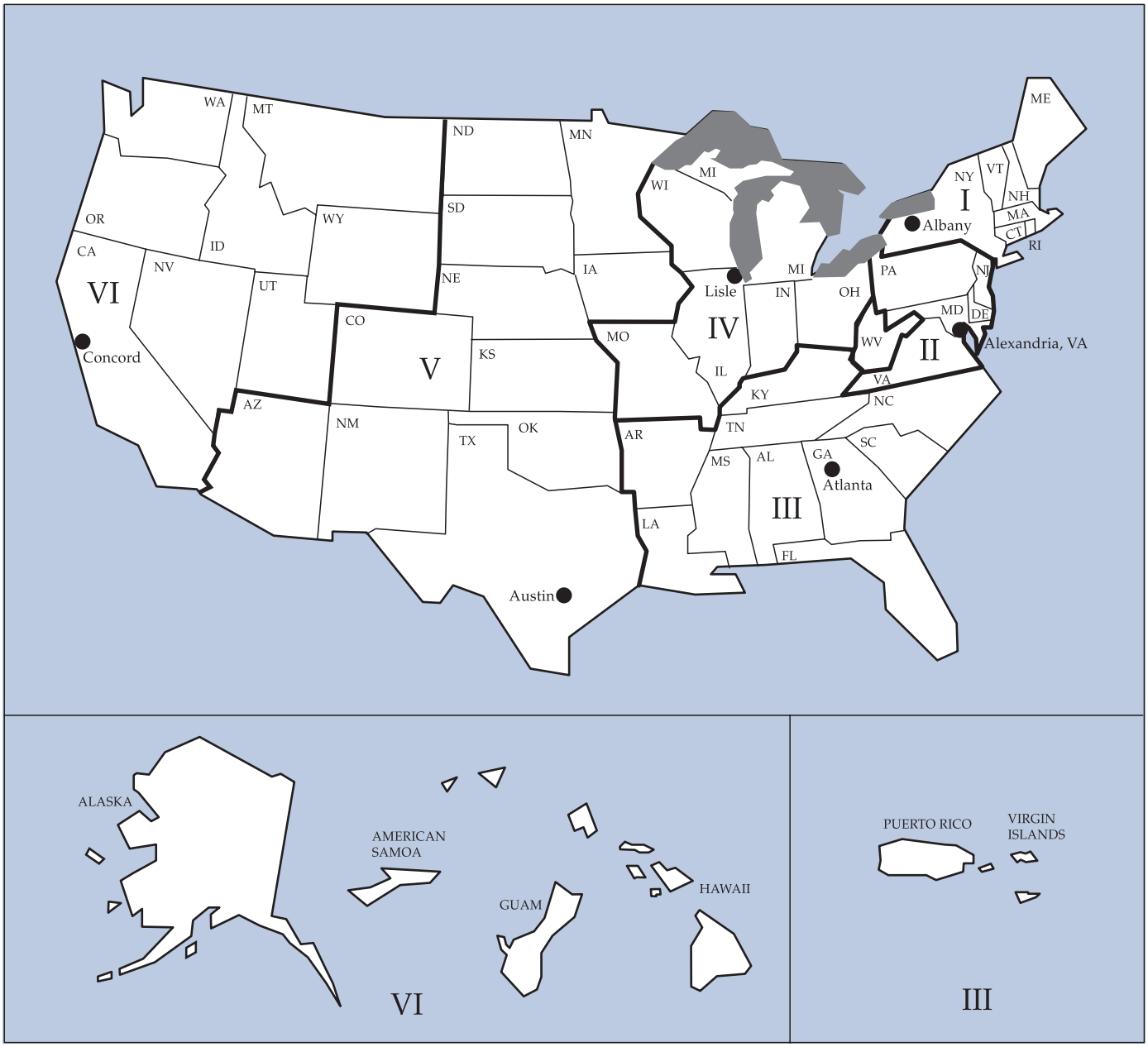
40 Board of Governors of the Federal Reserve System
41 Federal Deposit Insurance Corporation
42 National Credit Union Administration
43 Office of the Comptroller of the Currency
44 Office of Thrift Supervision

THE FEDERAL RESERVE SYSTEM DISTRICTS



Federal Deposit Insurance Corporation Regions (Supervision and Compliance)

NATIONAL CREDIT UNION ADMINISTRATION



Comptroller of the Currency District Organization

OFFICE OF THRIFT SUPERVISION