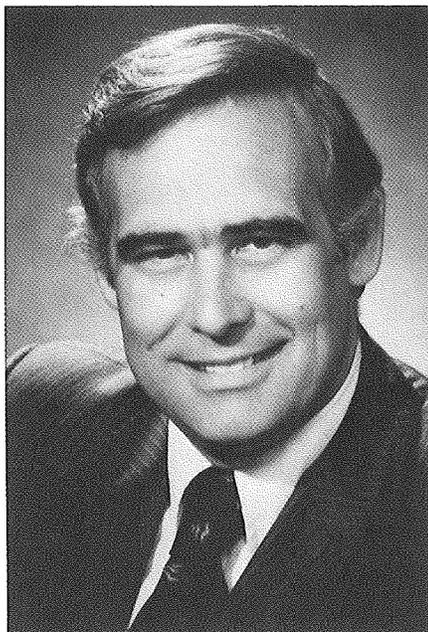




Annual Report 1985

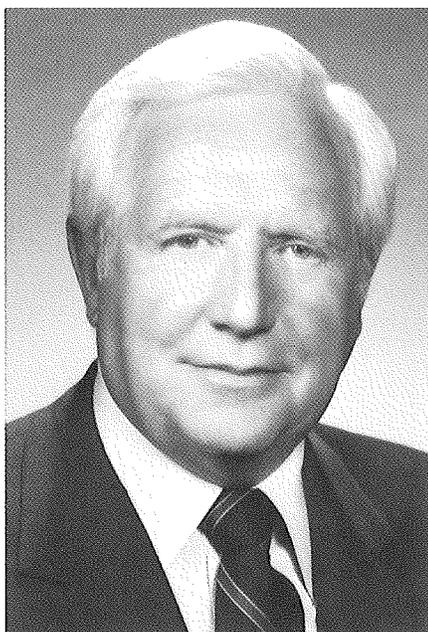
Members of the Council



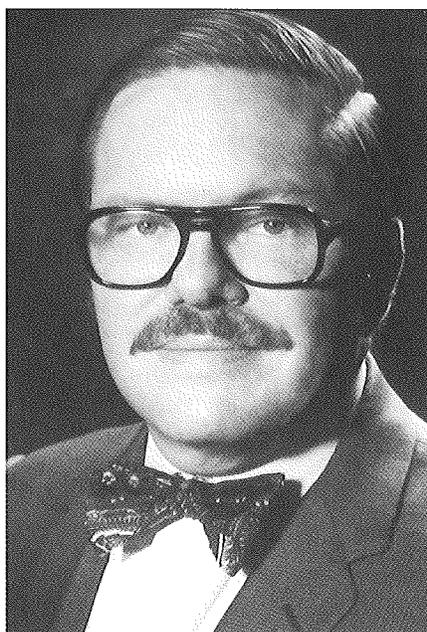
Edwin J. Gray, *Chairman*
Chairman
Federal Home Loan Bank Board



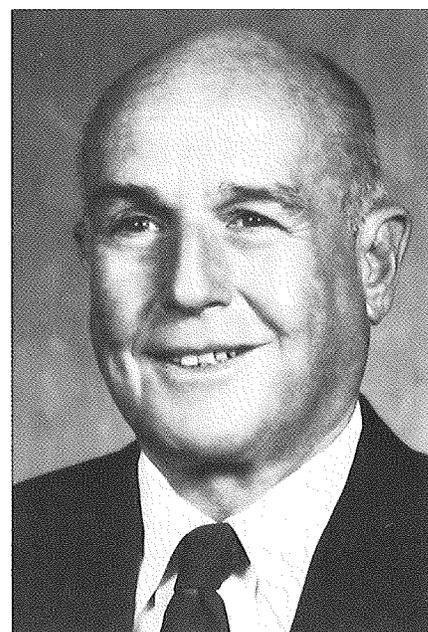
Robert L. Clarke, *Vice Chairman*
Comptroller of the Currency
Office of the Comptroller of the Currency



Roger W. Jepsen
Chairman
National Credit Union Administration



J. Charles Partee
Member
Board of Governors of the
Federal Reserve System



L. William Seidman
Chairman
Federal Deposit Insurance Corporation

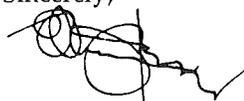
Letter of Transmittal

Federal Financial Institutions Examination Council
Washington, DC
April 1, 1986

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 1985 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin J. Gray". The signature is somewhat stylized and includes a checkmark at the end.

Edwin J. Gray
Chairman

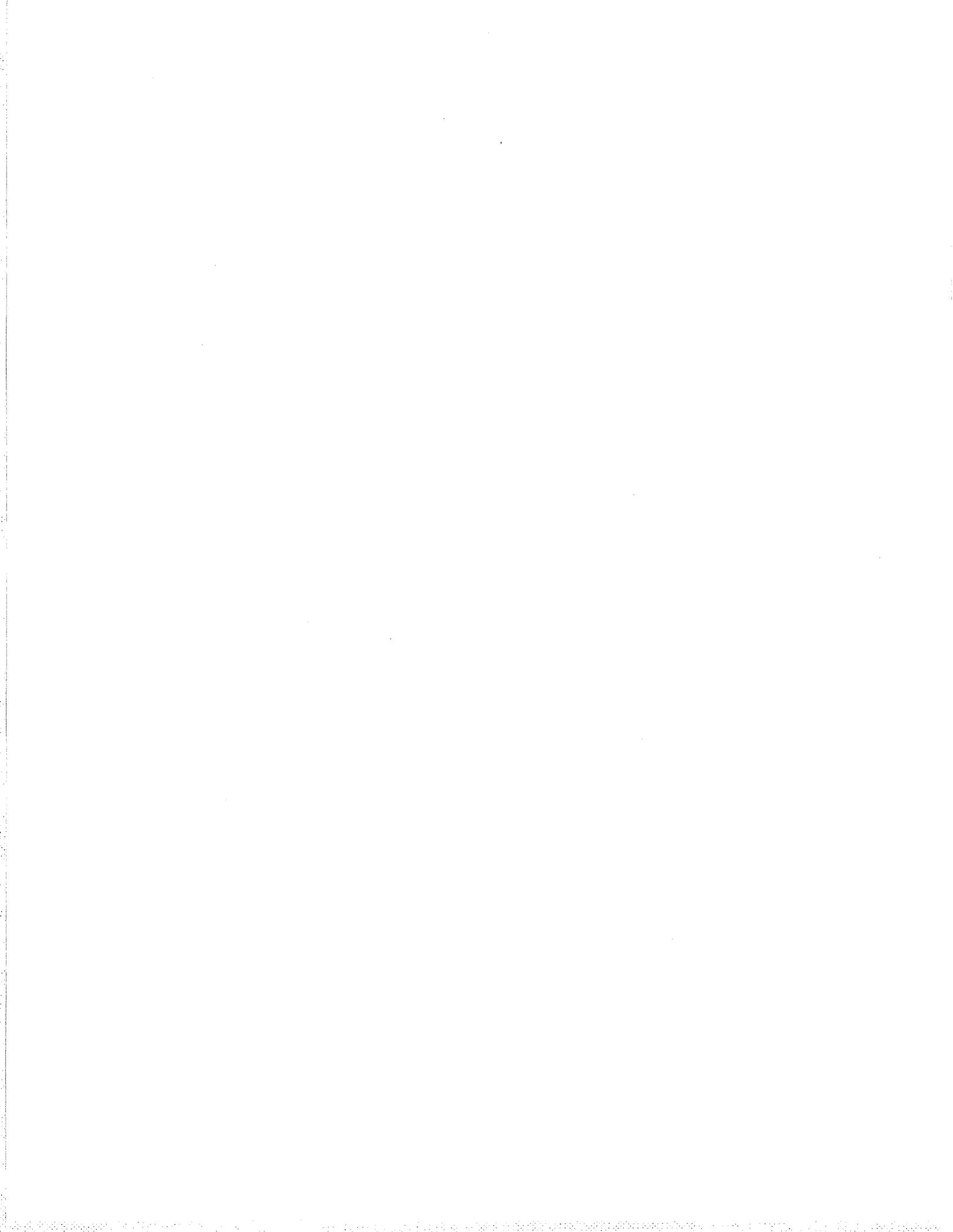
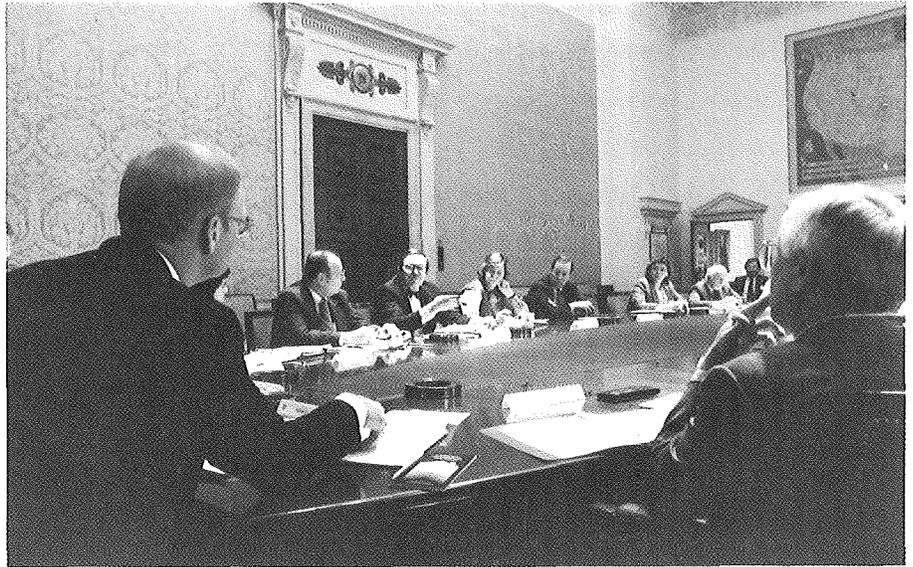


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Examination Council in session, 1985.

The Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council ("Council") was established on March 10, 1979, pursuant to Title X of Public Law 95-630, the Federal Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA). The purpose of Title X 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, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and Office of the Comptroller of the Currency, and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also to develop uniform reporting systems for federally supervised financial institutions, their holding companies, and the non-financial institution subsidiaries of such institutions and holding companies. It is to conduct schools for examiners employed by the five agencies represented on the Council and to make those schools available to employees of state financial institutions supervisory agencies. Overall, it is the intent of the legislation that the Council promote consistency in federal examinations and ensure progressive and vigilant supervision.

The Council was given additional statutory responsibilities under the Housing and Community Development Act of 1980 (section 340 of Public Law 96-399, October 8, 1980). Among the assignments are the implementation of a system to facilitate public access to data that depository institutions are required to 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.



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 Federal Home Loan Bank Board, and the Chairman of the National Credit Union Administration Board. 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.

The Chairman of the Council is elected by the Council members for a two-year period. Edwin J. Gray, the current Chairman, was elected to serve from April 1, 1985, to March 31, 1987. Chairman Gray has said that during his term the Council's emphasis should be on strengthening the examination, supervisory, and enforcement process to ensure that the supervisory agencies

effectively carry out their responsibilities under deregulation. To that end, Mr. Gray has initiated several projects. First, he wants to find ways to make working conditions for examiners of depository institutions more attractive. In addition to increasing pay, agencies can attempt to limit the number of geographical transfers for examiners, reduce the amount of travel, and lessen the risk of examiners' personal liability in connection with their work. Second, Chairman Gray would like to upgrade the status of examiners through expanded educational and development opportunities and through greater public awareness of professional examiners' contributions to the safety and soundness of the financial system. Third, he has called for expansion of the Examination Council's training program, particularly those courses devoted to advanced training for senior-level examiners. Finally, the Chairman wants to improve the level of communication and cooperation among the five federal supervisory agencies represented on the Council and between those agencies and state supervisory authorities.

Record of Actions of the Council

Following is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1985 pursuant to sections 1006 and 1007 of Public Law 95-630 and section 340 of Public Law 96-399 (Housing and Community Development Act of 1980).

January 2

Action. Approved by a 4-0-1 vote comments to the Treasury Department on the recommendations of the President's Commission on Organized Crime.

Explanation. At its November 20, 1984, meeting, John M. Walker, Jr., Assistant Secretary for Enforcement and Operations, Treasury Department, briefed the Council on recent legislation relating to organized crime and the *Report of the President's Commission on Organized Crime*, emphasizing those matters pertaining to financial institutions and the examination process. Following the discussion, the Council agreed to provide comments on the commission's report.

In its comments, the Council indicated that it concurred with the Commission's recommendations to improve enforcement of the Bank Secrecy Act. The Council placed particular emphasis on the need for communication and cooperation among all the agencies responsible for enforcement in this area. The Council also recommended that each financial institution establish guidelines to help its employees comply with the Act.

February 14

Action. Unanimously approved the reappointment of Sidney A. Bailey, Virginia Commissioner of Financial Institutions, and Elaine B. Weis, Utah Commissioner of Financial Institutions, to the State Liaison Committee.

Explanation. As required by statute, the Council has established a liaison committee of five representatives of state agencies that supervise financial institutions. Under the Council's Rules of Operation, committee members are appointed to two-year terms and may not be reappointed to a second consecutive full term. Mr. Bailey and Ms. Weis were eligible for reappointment because they had previously been appointed to less than a full, two-year term.

Action. Unanimously approved the 1984 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 prepare an annual report covering its activities during the preceding year.

March 12

Action. Unanimously approved a recommendation that the agencies adopt a supervisory policy on securities lending developed by the Council. (All five agencies approved the Council's recommendation.)

Explanation. The Council believed that a detailed supervisory policy on securities lending was needed because this type of lending activity has grown rapidly in recent years and can involve considerable risk to depository institutions. In some instances, a financial institution may lend its own investment or trading account securities. Increasingly, however, financial institutions are lending customers' securities held in custody, safekeeping, trust, or pension accounts. Inexperienced lenders may be tempted to ignore commonly recognized safeguards for such lending. Bankruptcies of broker-dealers have heightened regulatory sensitivity to the potential for problems in this area. The Council believes that the supervisory policy will provide guidance on this

type of lending activity both to depository institutions and to the agencies' supervisory staffs.

Action. Unanimously approved a recommendation that the agencies adopt a supervisory policy on the sale of U.S. government guaranteed loans and sale premiums developed by the Council. (All five agencies approved the Council's recommendation.)

Explanation. This supervisory policy amends one issued by the Council in 1979 and is designed to provide uniform and effective supervision of depository institutions participating in U.S. government loan-guarantee programs. Such programs provide lenders a partial guarantee of principal and interest (usually up to 90 percent of the loan amount) and allow the sale of guaranteed portions of the loans to third parties. Sales of the guaranteed portions of these loans to third parties are usually in the form of 100 percent-guaranteed certificates of participation. Participating depository institutions may be originators, sellers, servicers or even purchasers of guaranteed loans.

The supervisory policy emphasizes that any purchase premiums on such loans are not guaranteed and are not paid by the guaranteeing government agency when the loans are prepaid. Premiums that do not reasonably relate to the yield on the loan, therefore, can distort published financial reports by overstating the value of financial assets.

Action. Approved by a 3-0-2 vote revisions to the quarterly Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), effective with the September 30, 1985, report. Also decided by a 2-1-2 vote not to disclose to the public the information contained in Schedule M (allowance for loan losses) and Schedule N (past-due, nonaccrual, and renegotiated loans).

Explanation. The report was revised to make the reporting definitions and formats as consistent as possible with the quarterly Reports of Condition and Income filed by insured U.S. commercial banks. Disclosure to the public of information on Schedules M and N was believed to be of little value because the U.S. branches and agencies represent only a portion of the foreign-bank enterprise.

Action. Approved by a 4-0-1 vote the issuance for public comment of a proposed revision to the Annual Report of Trust Assets (FFIEC 001).

Explanation. The Council believes that the revised report will give the supervisory agencies better data upon which to base off-site analyses of trust departments and will, therefore, facilitate the scheduling and planning of examinations. New data to be collected in the revised report include information on nondiscretionary assets and accounts, certain details pertaining to corporate trust services, and information on investment advisory activities.

Action. Approved by a 3-0-2 vote a Uniform Report of Examination for Commercial Banks and prescribed its use by the three federal banking agencies. An implementation date of September 1, 1985, was set by the Council.

Explanation. The Council believes that the new uniform examination report will improve communication among the agencies and contribute to uniformity in the examination process. The new report is in two parts: (1) a mandatory core consisting of six schedules and (2) an appendix of optional supporting schedules. Each examination report prepared by the agencies must contain all of the core schedules in the sequence prescribed by the Council. The core schedules include the examiner's general comments and conclusions along with summaries of the examiner's findings concerning the bank's management and administration, asset quality, liquidity and funds management, earnings, and capital adequacy. The appendix includes a number of specific schedules whose use would be at the discretion of each agency. If an agency elects to include

these schedules, however, the format prescribed by the Council would have to be used, and the schedules would be placed in the report in the sequence approved by the Council.

August 15

Action. Approved by a 3-0-2 vote revisions to the Country Exposure Report (FFIEC 009) and asked for comments from the public on the revised report.

Explanation. This report is filed by insured commercial banks that have foreign offices or an international banking facility and have claims on foreign countries of more than \$30 million; certain bank holding companies; and other banks having large country exposures relative to their capital. The changes to the report provide information on trade financing and additional information on banks' net exposures to the various sectors (banks, public borrowers, and other borrowers) of a given country.

Action. Approved by a 3-0-2 vote a new report form, Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019).

Explanation. On November 20, 1984, the Council approved for issuance for public comment a new report to gather supervisory information relating to home-country and other significant country-risk exposures of U.S. branches and agencies of foreign banks. The report is to be filed by those branches and agencies, including any international banking facilities, authorized to conduct business in the United States that have direct claims on foreign residents in excess of \$30 million. The report is similar to the Country Exposure Report that U.S. banks are already required to file on their country exposures. The Council set December 31, 1985, as the implementation date for the new report.

Action. Approved by a 4-0-1 vote a revised Annual Report of Trust Assets (FFIEC 001). By a 3-1-1 vote, the Council disapproved a reduced reporting requirement for trust departments with assets of less than \$25 million.

Explanation. On March 18, 1985, the Council approved for issuance for public comment a proposed revision to the Annual Report of Trust Assets. Following a review of the comments received, the Council approved a revised report, to become effective December 31, 1985. Significant changes to the report include the addition of information on nondiscretionary accounts (including custodial accounts), corporate trust accounts, and affiliated investment advisors. Information from the report is used by the supervisory agencies for off-site monitoring of trust departments.

The Council determined that reduced reporting requirements for smaller trust departments were not justified. All of the data in the report are needed for effective monitoring of trust departments. Smaller trust departments typically are examined less frequently by the agencies, and many such departments tend to be relatively new. Therefore, the need for thorough off-site analyses of these departments is at least as great as for the larger departments.

August 28

Action. Approved by a 2-1-2 vote the public disclosure of certain information from the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019).

Explanation. At its August 15 meeting, the Council approved this new report in order to gather information on the home-country and other country-risk exposures of the U.S. branches and agencies of foreign banks. Following approval of the report, the Council asked staff to develop a proposal for public disclosure of certain information in the report. The Council decided on public disclosure of only one item from the new report, namely, the total combined exposure to the home country of all the U.S. branches and agencies of a given foreign bank. These data on total home-country exposure would indicate the extent to which funds raised in the United States by the U.S. branches and agencies of a foreign

bank are used to support activities in the parent bank's country. The Council believes that such data would indicate the degree to which the U.S. branches and agencies are linked to economic conditions in the home country.

October 10

Action. Unanimously approved a recommendation that the five agencies adopt a supervisory policy on repurchase agreements of depository institutions with securities dealers and others that was developed by the Council. (All five agencies approved the Council's recommendation.)

Explanation. Depository institutions and others involved with the purchase of U.S. government and agency obligations under agreements to resell have sometimes incurred significant losses. The most important factors causing such losses have been inadequate credit-risk management and the failure to exercise effective control over the securities used as collateral in the transactions. The Council's supervisory policy contains minimum guidelines for effective management of credit-risk exposure and for controlling the securities used as collateral in repurchase-agreement transactions.

November 27

Action. Approved by a 3-0-2 vote a new report to be used to conduct a special survey as of year-end, 1985 of the holdings of U.S. government-agency and corporation securities by insured commercial banks and FDIC-insured savings banks.

Explanation. The current bank Call Report makes no distinction between U.S. government obligations that are backed by the full faith and credit of the United States and obligations issued by other U.S. government enti-



ties. The survey will be used to identify the proportion of each type of obligation in banks' portfolios.

December 10

Action. Approved by a 3-0-2 vote a revised Country Exposure Report for U.S. banks (FFIEC 009).

Explanation. At its August 15 meeting, the Council approved a revised report and issued it for public comment. Further revisions were made to the report as a result of those comments. The Council set March 31, 1986, as the implementation date for the revised report.

Actions Taken Under Delegated Authority

June 10

The Task Force on Supervision approved revisions to the Uniform Re-

port of Examination for U.S. Branches and Agencies of Foreign Banks (FFIEC 005).

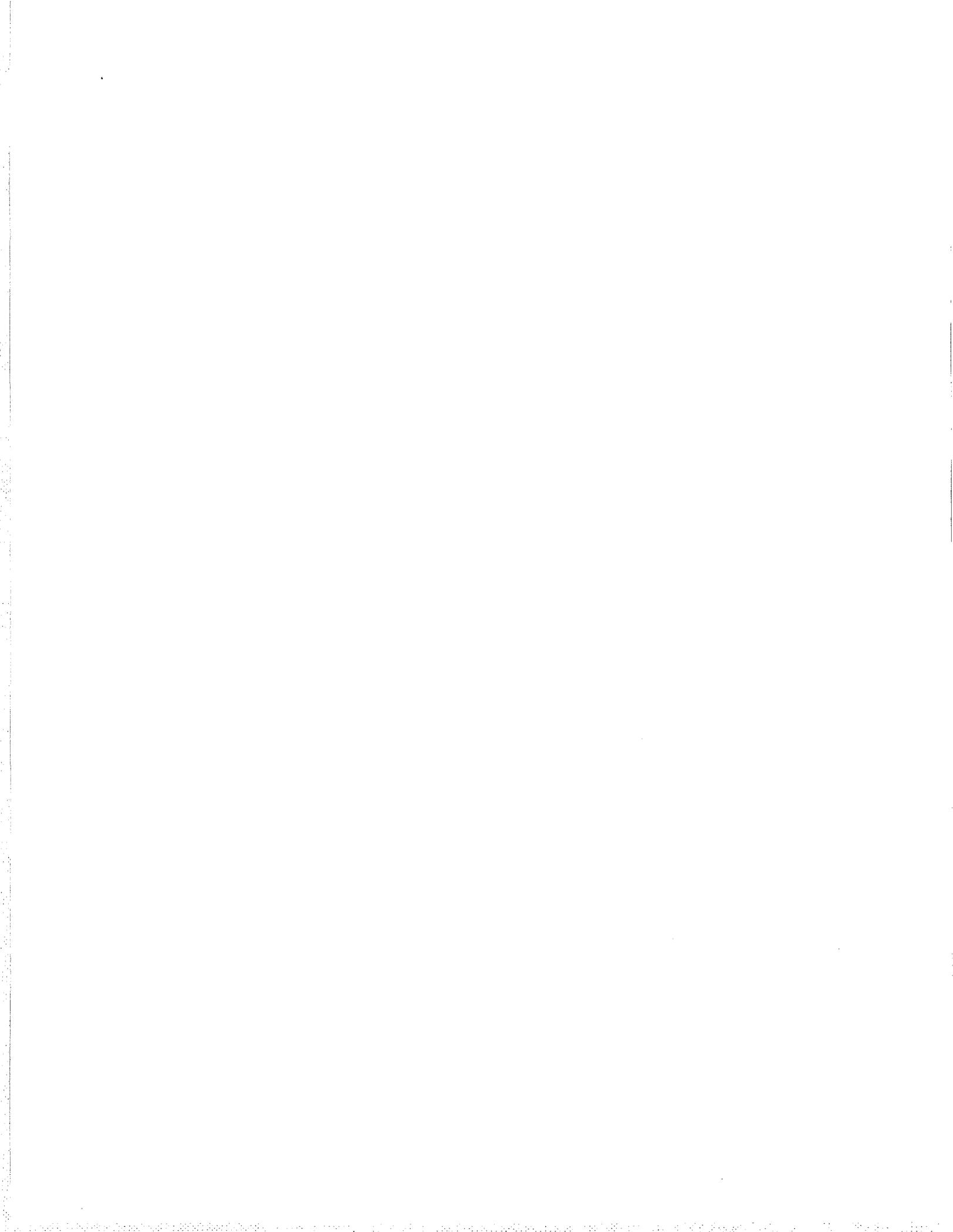
September 17

The Task Force on Consumer Compliance approved uniform examination procedures for the Credit Practices Rule.

October 8

The Task Force on Examiner Education approved the following five courses for inclusion in the Council's examiner education program:

- Large-Dollar Transfer Risk Seminar
- Conducting Meetings with Management
- Income-Property Lending Seminar
- Off-Balance-Sheet Risk Seminar
- Advanced International Banking Workshop



State Liaison Committee Report

In section 1007 of Public Law 95-630, Congress authorized the establishment of the State 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 Council provides the SLC with a staff position. This staff support allows the SLC members to be fully informed on Council matters and to participate in all Council activities, including task force assignments and other projects.

The SLC feels that greater progress toward supervisory uniformity could be achieved by expanding the Council's agenda to its full potential and allowing the Council to become the central forum for the development of new and improved approaches to financial institution examination and supervision. The SLC believes that the Council can effectively coordinate activities among the federal agencies and between federal agencies and their state counterparts so as to economize on the combined state and federal resources devoted to the supervision and regulation of financial institutions.

Recent Council accomplishments, such as the agreement on the exchange of supervisory information, the development of a bank screening system, and the adoption of a uniform examination report form, are examples of the types of projects the Council should pursue. The SLC continues to believe that the federal financial institution supervisory agencies would have much greater

confidence in one another's supervisory findings if their examinations were based upon common principles, uniformly documented, and carried out by examiners who have been through the same training programs.

Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for terms of two years. A member who has served a full two-year term may not be successively reappointed. Each year, the SLC elects one of its members to serve as chairman for a period of 12 months. Of the five members, two are selected by the Council. The other three are individually designated by the Conference of State Bank Supervisors, National Association of State Savings and Loan Supervisors, and the National Association of State Credit Union Supervisors. A list of the SLC members appears on page 10 of this report.

The National Association of State Savings and Loan Supervisors (NASSLS) did not fill the vacancy created by the expiration of the term of former SLC Member David L. Paul of Colorado on April 30, 1985. The SLC believes that recent management changes within NASSLS and the conditions which led to those changes were in large measure responsible for this omission. However, unless NASSLS undertakes to designate an SLC member for the regular term of office beginning May 1, 1986, the SLC will recommend to the Council an alternative means of filling this vacancy.

Participation in Examination Council Activities

The SLC participated in the development and testing of the Uniform Examination Report adopted by the

Council at its March 12 meeting. In support of the Council's efforts to achieve uniformity in this important area, the SLC recommended use of the uniform report to all state supervisors in a memorandum dated August 15, 1985. The SLC pointed out that the flexibility of the appendix section of the report, which allows the examiner or the agency to add whatever supplemental information is deemed appropriate, makes the report form particularly adaptable, and consequently useful for state bank supervisors.

During the development process and at Council meetings, the SLC members expressed the view that a more traditional examination format, such as that used by the FDIC, would have been preferable to the Uniform Report format adopted by the Council. Nonetheless, the SLC endorses the final product and recommends its use by all federal and state banking agencies. The SLC members believe that the major benefit to be gained is to improve communication between regulators and bank management as well as among the regulators themselves. With the rapid expansion of interstate banking, uniformity of presentation is especially crucial to effective supervision.

The SLC is actively participating in the Council's general efforts to improve and expand the exchange of supervisory information. All financial institution regulators have a vital interest in the routine and orderly exchange of supervisory data between themselves and their counterparts.

If families of related financial institutions that cross institution type, charter class, and state boundaries are to be effectively supervised, those agencies charged with the oversight of each part of the family must have reasonable access to information about the financial condition of every other significant part of that interrelated group of institutions as well as the group as

a whole. When, in 1983, the Council's Task Force on Supervision began to develop an agreement providing for the exchange of information, the SLC pressed for and obtained specific provisions in that agreement that permitted state supervisory authorities to participate as full partners with the federal supervisory agencies. The SLC will continue to press for similar status for state supervisors in any future agreements, policies, understandings or practices relating to exchanges of supervisory information among the federal agencies.

SLC Participation in Council Deliberations

At the March 12 meeting, the Council discussed and approved the uniform examination report. During that discussion, SLC Member Weis stated that although her own examiners preferred the existing examination report format used by the FDIC, there was a need for uniform guidelines and examiner training to facilitate implementation of the new uniform examination report.

At the same meeting, the Council also received a progress report on the study of Call Report requirements. SLC Chairman Bailey spoke in support of a zero-based effort to redesign the Call Report, particularly to reduce the burden it imposes on banks. He also stated that the SLC supports a uniform Call Report form for use by all agencies.

The next Council meeting was held on August 15. During that meeting the Council discussed several new projects. Three of these projects have particular significance for state supervisory authorities: improving communication among regulators, increasing the number of state examiners, and developing a uniform code of ethics for examiners. SLC Member Burge suggested that the Society of Financial Examiners might help with the development of a code of ethics because it had already done considerable work in this area.

When the Council met on October 24, it discussed the scope and extent of examiner training to be provided through the Council, referring particularly to the different types of financial institutions supervised by the five federal agencies. SLC Member Burge said that all examiners working for the State of Georgia are put through the same training program regardless of the type of institution they examine. He believes that this uniform training approach gives more strength and depth to their examinations.

Also at the October 24 meeting, the Council's Executive Secretary clarified the status of the implementation of the Uniform Examination Report. SLC Chairman Bailey said that there was a serious and growing problem attributable in part to lack of uniformity in examination reports and to the conflicting findings that they often contain. He noted that regulators expect the management of a financial institution to

take positive action based upon examination findings and that management officials of multibank holding companies are confused and uncertain about what is expected of them when they receive examination reports in different forms that often contain seemingly conflicting facts, conclusions, and recommendations. Mr. Burge felt that examiners must be given a reasonably detailed report form to guide them. He also noted that the states have expended a lot of money gearing up for the uniform report and are willing to adopt it for the sake of uniformity. The SLC was pleased to hear the repeated pledges of the OCC and FDIC representatives that their agencies would be implementing the uniform examination report adopted by the Council at its March 12 meeting.

The last Council meeting of 1985 was held on December 10. In response to a progress report from the Task Force on Supervision indicating a need to improve the exchange of supervisory information between state and federal agencies, SLC Member McEldowney (Idaho) urged quick action to develop some type of agreement in this area. SLC Member Weis (Utah) and Mr. Kyrus (Virginia) each presented the Council with examples of specific current problems in state-federal exchanges of information, which prompted Vice Chairman Clarke to say that this was the most urgent issue currently before the Council.

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 the five agencies represented on the Council, with each agency contributing one-fifth of the total assessment. The Council also derives revenues from sales of bank performance reports to the public, and tuition fees cover some of the costs associated with the Council's examiner education program. A residential facility for examiners attending Council classes in the Washington, DC, metropolitan area is being leased by the Council, and room charges paid by the agencies whose personnel use the facility cover the lease payments.

The Federal Reserve Board provides budget and accounting services to the Council, and the Federal Reserve's Controller serves as the Council's Controller. The Council is supported by a small, full-time staff in the Office of the Executive Secretary. Each member of the Council's staff is detailed from one of the five agencies represented on the Council but is considered a salaried employee of the Council. The major responsibilities of the Office of the Executive Secretary are to—

- schedule Council meetings, prepare agendas for Council meetings, prepare minutes of Council meetings, and review all material for Council consideration;
- monitor work of all interagency staff groups involved in the Council's operations and help staff groups set priorities and define key issues;
- undertake special projects and studies as requested by the Council;
- work closely with members of the State Liaison Committee to ensure

adequate communication between the members, the Council, and the interagency staff groups;

- coordinate public information activities, including preparation and distribution of Council press releases;
- maintain liaison with the Congress and with federal departments and agencies;
- prepare the Council's annual report to Congress;
- coordinate the production and distribution of the quarterly Uniform Bank Performance Report and related data;
- coordinate the collection, production, and distribution of Home Mortgage Disclosure Act data;
- manage the Council's examiner education program; and
- manage the Council's residential facility for examiners.

Most of the staff support in the substantive areas of concern to the Council is provided by the five interagency staff task forces and the Legal Advisory Group (LAG). The task forces and the LAG are responsible for the research and other investigative work done by agency staffs on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. Also, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agencies' staff efforts in support of the Council. The executive secretary of the Council is an *ex officio* member of each of the five interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1985 were provided by the five agencies without reimbursement and are not reflected in the Council budget. Without those contributions by the

agencies and the individual staff members, significant progress on Council projects during 1985 would have been impossible.

As provided for in its enabling legislation, the Council created a State Liaison Committee composed of five state supervisors of financial institutions. The Committee advises the Council in all areas of Council responsibility and helps to ensure effective federal-state communication on matters of financial institution supervision and examination. Under the Council's rules of operation, the Conference of State Bank Supervisors, the National Association of State Savings and Loan Supervisors, and the National Association of State Credit Union Supervisors each designates one state supervisor to serve on the State Liaison Committee. The remaining two positions on the Committee are filled by state officials selected by the Council.

Organization, December 31, 1985

Members of the Council

Edwin J. Gray, *Chairman*
Chairman
Federal Home Loan Bank
Board (FHLBB)

Robert L. Clarke, *Vice Chairman*
Comptroller of the Currency
Office of the Comptroller of
the Currency (OCC)

Roger W. Jepsen
Chairman
National Credit Union
Administration (NCUA)

J. Charles Partee
Member
Board of Governors of the
Federal Reserve System (FRB)

L. William Seidman
Chairman
Federal Deposit Insurance
Corporation (FDIC)

State Liaison Committee

Sidney A. Bailey, *Chairman*
Commissioner of Financial
Institutions
Virginia

Charles W. Burge
Deputy Commissioner of
Thrift Institutions
Georgia

Tom D. McEldowney
Director, Department of Finance
Idaho

Elaine B. Weis
Commissioner of Financial
Institutions
Utah

Council Office of the
Executive Secretary

Robert J. Lawrence
Executive Secretary

Rhoger H Pugh
*SLC Coordinator and Assistant
Executive Secretary*

Agency Liaison Group

Donald E. Johnson (NCUA)
Edward J. Taubert (FHLBB)
H. Joe Selby (OCC)
Robert V. Shumway (FDIC)
Frederick M. Struble (FRB)

Legal Advisory Group

Ralph W. Christy, *Chairman*
(FHLBB)
James J. Engel (NCUA)
Richard V. Fitzgerald (OCC)
J. Virgil Mattingly, Jr. (FRB)
John C. Murphy, Jr. (FDIC)

Interagency Staff Task Forces

Consumer Compliance

Rex J. Morthland, *Chairman*
(FDIC)
Jerauld C. Kluckman (FRB)
Peggy W. Spohn (FHLBB)
Wilmer Theard (NCUA)
Roland G. Ullrich (OCC)

Examiner Education

Robert J. Moore, *Chairman* (FHLBB)
Daniel E. Harrington (OCC)
Bill C. Houston (FDIC)
Martin F. Kushner (NCUA)
Rene W. Lacoste (FRB)

Reports

Stanley J. Sigel, *Chairman* (FRB)
William E. Dobrzykowski (FHLBB)
David C. Motter (OCC)
Donald Sorrels (NCUA)
Robert F. Storch (FDIC)

Supervision

William Taylor, *Chairman* (FRB)
Louis P. Acuna (NCUA)
John F. Downey (OCC)
John C. Price, Jr. (FHLBB)
Robert V. Shumway (FDIC)

Surveillance Systems

Bobby B. Winstead, *Chairman* (OCC)
Charles V. Collier (FDIC)
Parker H. Jayne (FHLBB)
Stephen C. Schemering (FRB)
Donald Sorrels (NCUA)

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—

- to establish uniform principles, standards, and report forms for the examination of financial institutions and make recommendations for uniformity in other supervisory matters;
- to develop uniform reporting systems for federally supervised institutions, their holding companies, and subsidiaries of those institutions and holding companies; and
- to 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 administer projects in all of those functional areas effectively, the Council established the following five interagency staff task forces:

- Task Force on Consumer Compliance
- Task Force on Examiner Education
- Task Force on Reports
- Task Force on Supervision
- Task Force on Surveillance Systems

Each task force includes one senior official from each agency. The Council also established a 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 the Council addresses.

Task Force on Consumer Compliance

The Task Force on Consumer Compli-

ance was created to promote uniform enforcement of consumer laws by the five agencies represented on the Council. It is composed of senior personnel who are knowledgeable in consumer compliance matters. The task force identifies and studies problems concerning consumer compliance and promotes uniformity in policies and procedures used by the member agencies.

The task force is responsible for those laws and regulations that protect consumers who conduct business with financial institutions: the Truth in Lending Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, the Consumer Leasing Act, the FTC Improvement Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfer Act, the Community Reinvestment Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, and Federal Reserve Regulation Q (Interest on Deposits). Other issues addressed by the task force are flood insurance and some advertising regulations, civil rights policies and regulations involving lending practices, and state consumer laws that have an impact on the agencies' examination programs.

Activities of the Task Force

In 1985 the task force developed and adopted uniform examination objectives and procedures and a checklist for the Credit Practices Rule of Federal Reserve Regulation AA. Under Section 1006(b) of FIRA, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Office of the Comptroller of the Currency adopted these guidelines in connection with enforcement of this rule.

The rule prohibits financial institutions from using certain provisions in their

consumer credit contracts, certain late-charge accounting practices, and deceptive cosigner practices. The rule also requires that a cosigner be given a disclosure notice before becoming obligated. Finally, the rule prohibits financial institutions from enforcing provisions in purchased contracts that the institutions are prohibited from including in their own consumer credit contracts.

Two pamphlets were published and distributed this year: a revised edition of the "Citizens Guide to CRA" and an interagency consumer information pamphlet that provides information on the five Council agencies and the institutions they regulate and lists agency personnel to contact for inquiries or complaints.

The task force is continuing to work on an agreement regarding uniform disclosure of terms of adjustable rate mortgages (ARMs). It will provide consumers with general information about the more important provisions of ARM contracts and generic examples of the effect of changes in interest rates and other variables reflected in the loan. A memorandum was submitted to the Council for consideration. In early 1985, the Federal Reserve and the Federal Home Loan Bank Board, published a brochure entitled "Consumer Handbook on Adjustable Rate Mortgages," which gives consumers general information about ARMs.

The task force anticipates developing a consumer pamphlet on the Home Mortgage Disclosure Act (HMDA) in 1986. The pamphlet will include information on residential mortgage data by census tract available under HMDA, where to get it, and how it can be used beneficially by banks, consumers, and their organizations.

Another 1985 project was a memorandum on the organization, staffing, and operations of the compliance offices of the five financial institutions regula-

tory agencies that are represented on the Council.

Two ad hoc subcommittees were established late in the year and will present their recommendations in 1986. The Subcommittee on Microcomputer Applications in Consumer Compliance Activities is reviewing the programs used by each of the five agencies in their compliance supervisory work and is evaluating their effectiveness in saving personnel resources and improving the quality of compliance work. They will consider also the possible value of individual programs to agencies not using them and suggest further investigations or applications that they believe to be worth pursuing.

The Subcommittee on Banking Services (1) prepared a list of financial services that should be considered basic, (2) developed and evaluated the pros and cons of issuing a policy statement on the subject, (3) drafted a proposed joint policy statement, and (4) will present an interim report and recommendations to the task force in early 1986.

Task Force on Examiner Education

Since 1979, the Council has been sponsoring a training program for financial institution examiners. Programs are open to state and foreign financial institutions supervisory agencies. A curriculum of 14 courses and seminars was offered during the year. The goals of the training program are—

- to foster uniformity of examination methods by developing and offering interagency training;
- to review training curricula and instructor standards to provide high-quality programs;
- to develop and offer high-quality courses, seminars, and conferences that meet financial institution examiner needs; and
- to provide assistance in developing training opportunities for state and foreign financial institution supervisory agencies.

The interagency training effort has been quite successful for a number of

reasons. When an agency participates in a Council course, it assigns instructors in the same manner as if it were the agency's own course. Since the pool of potential instructors is greater when five agencies are involved, it can result in instructors' being better suited to the teaching assignment. Larger numbers of instructors from which to choose helps spread the teaching burden among more examiners and also spreads the personal benefits among more individuals.

It is ideal when the course needed by an examiner is available at the proper time in his or her development. Cooperating to offer courses jointly means that more course sessions will be available throughout the year. For example, 22 sessions of Management Workshop and 22 sessions of Instructor Training were offered in 1985.

Recently, the Council has been expanding its offerings of specialized conferences and seminars. A single agency often finds it costly to sponsor specialized conferences for a few examiners. However, the combined needs of five agencies and the states make such conferences economical. The cost has usually been about \$80 for a three-day conference. Eight such conferences were held during the year, and a larger number is planned for next year.

Activities of the Task Force

Since the inception of its program, the Council has trained 10,231 examiners. During 1985, a curriculum of 14 courses and seminars was offered. The agencies that constitute the Council provide instructors, and industry members served as guest speakers. Interagency course-development groups meet occasionally to give advice on topics and speakers for specialized seminars. Thus the programs are truly eclectic, drawing talent from all member agencies and using guest speakers from a wide array of industries.

In 1985, training was provided for 1,842 examiners and other staff members. In addition, the member agencies conducted numerous sessions of Fundamentals of Data Processing, Basic

Trust, and Consumer Compliance, based in part on lesson plans developed under Council auspices. Following are courses conducted and the enrollment in each course:

Course	No. of Sessions	No. Trained
Bank Securities Dealer/MSRB Conducting Meetings with Management	6	137
Instructor Training	1	15
Management Workshop	22	185
Fundamentals of Data Processing*	22	469
EDP Work Program	2	39
Basic Entry Level Trust*	4	69
Basic International Banking*	1	18
Intermediate International Banking	7	168
8	169	
<i>Conferences/Seminars</i>		
EDP Technology Seminar	2	155
Income-Property Lending Seminar	1	51
International Banking Conference	1	158
Large-Dollar Transfer Risk Seminar	2	97
Trust Seminar	2	112
Total	81	1,842

*In addition to these sessions, the member agencies conducted additional sessions to meet their particular scheduling needs.

The above list includes two new programs, Conducting Meetings with Management and Income-Property Lending Seminar. Conducting Meetings gives examiners instruction in organizing meetings. The practice meetings are videotaped and replayed for critical analysis. These simulate meetings with financial officers where significant problems exist.

The Income-Property Lending Seminar provides current techniques of analyzing income property and commercial real estate. Examiners must be able to identify bad real estate loans and to challenge the assumptions built into market studies and appraisals. It is hoped that additional courses will be developed in real estate credits.

Plans for 1986

Training has been planned for nearly 3,000 examiners in 1986. The increased

importance of the Bank Secrecy Act and white collar crime has stimulated the task force to approve the development of an interagency White Collar Crime School. This will be modeled after the existing school offered by the Comptroller of the Currency.

Off-Balance-Sheet Risk is a new seminar to be offered in early 1986. It will feature industry specialists on the theory of risk analysis, accounting, and regulatory aspects of off-balance-sheet transactions. Included will be detailed assessments of specific risk elements of guarantees, letters of credit, sales of assets, futures and forwards, and interest-rate swaps.

Advanced International Banking Workshop will provide in-depth training on three international finance instruments. One day will be spent on each type of transaction with a well-known industry authority serving as instructor for the day, together with an examiner of recognized expertise.

The Council has placed new emphasis on the training program, particularly advanced seminars for senior level examiners. Two new courses and two new seminars have recently been developed. Delivery of the specialized seminars will be enhanced by offering them in regional sessions around the country. A continuing effort will be made to develop additional training opportunities for senior level examiners. In addition, the task force is working on a proposal whereby an examiner could earn a master's degree.

It is hoped that the increased training opportunities will have a significant impact on examination quality and the professionalism of examiners. These efforts and the availability of a master's program should enhance the position of the examiner and have a positive impact on the recruitment of new examiners.

Course Descriptions for 1986

A course description booklet and schedule are available from the Council training office:

FFIEC Training Center
Lobby Level
1701 N. Ft. Meyer Drive
Arlington, Virginia 22209

General Development Courses

Instructor Training

Instructor Training is a one-week course that prepares examiners for classroom teaching assignments. Students prepare lesson plans, give three classroom presentations, and critique videotaped replays of the presentations. They learn the techniques of lecturing, leading discussions, and integrating the use of audio-visual aids. Attendees should be experienced examiners who anticipate teaching assignments in their agency or in Council courses. Twenty-seven sessions are planned for 1986.

Management Workshop

The one-week Management Workshop emphasizes the managerial skills needed by examiners. Attendees bring survey instruments completed by themselves and by colleagues or subordinates, administer self-assessment questionnaires, and participate in small-group discussion sessions. The basic concepts are presented through lectures, films, videotapes, and slides. The desired results are an improved self-perception as a manager and greater knowledge of good management techniques. Participants should have a minimum of five years' examining experience and some previous training in management. Twenty-two sessions are planned for 1986.

Conducting Meetings (New in 1986)

This course will give participants practice and confidence in organizing and leading meetings with financial institution management. Each attendee leads three meetings with small groups role-playing officers of an institution. Difficult meeting circumstances and problem reports are the subjects of the exercises. Videotaped replays will augment post-presentation critiques.

The target audience is commissioned examiners who are beginning to lead discussions with management, and others who want to improve their meeting leadership skills. Twelve one-week sessions are planned.

EDP Courses

Fundamentals of Data Processing

Fundamentals of Data Processing, an entry-level course, deals with basic computer language and systems, and the creation, use, and storage of programs and data. Emphasis is on internal controls necessary from a supervisory standpoint. Although not designed to produce overall expertise in electronic data processing, this one-week course allows examiners to become familiar with key terminology and concepts necessary to operate effectively in today's increasingly automated world of finance. Candidates for attendance should have approximately one year of examination experience. During 1986, this course will also be conducted by individual agencies using Council course materials.

EDP Workshop

The two-week EDP Workshop instructs EDP examiners in the techniques of examination of a data processing center, using the Interagency EDP Work Program and the *Interagency EDP Handbook*. The examiner learns to write technical comments for examination reports and, upon completion of the course, is able to complete the EDP work program in its entirety. Attendees should have completed a basic course equivalent to the Council's Fundamentals of Data Processing, participated in a minimum of two EDP examinations, and met other requirements determined by their agency. Examiners who have worked with the EDP work program and EDP examination procedures satisfactorily for 12 months or more are not encouraged to attend.

EDP Technology Seminar

The EDP Technology Seminar is designed to update senior EDP examiners on current developments in data processing. The seminar features guest speakers who are nationally recognized authorities in their fields. Topics vary from session to session, as does the duration of the sessions. Two sessions will be conducted in 1986. The registration fee for this seminar may differ from the regular tuition fee.

Trust Courses

Basic Entry-Level Trust

This course, conducted primarily by the individual agencies using Council-developed materials, introduces students to the functions and organization of a trust department, the duties and responsibilities of a fiduciary, and the supervisory role of the regulatory agencies. This two-week course incorporates lectures, group discussion, and case studies. Participants are expected to have either 3 to 6 months of experience as a trust examiner or 18 to 24 months of commercial examining experience. In 1986, one session will be conducted by the Council.

Trust Seminar

The Trust Seminar emphasizes current events in the fiduciary field. Topics vary from session to session, and the seminar features guest speakers from the trust industry. Senior trust examination personnel are designated as attendees at this conference. Two sessions will be conducted in 1986. The registration fee for this seminar may differ from the regular tuition fee.

International Courses

Basic International Banking

Students learn the fundamental concepts, procedures, and terminology of international banking, as well as the roles of the regulatory agencies. Topics include country risk, international lending, trade finance, and foreign exchange. Prerequisites for attendance

are a minimum of one year's experience as an examiner. No previous experience in international examinations is required. Candidates with over one year of recent international experience are encouraged to avoid the basic course and enroll in the intermediate course.

Intermediate International Banking

The purpose of this course is to raise attendees' international banking expertise to a higher level. The course gives more advanced treatment to many of the topics introduced in the basic course, emphasizing foreign exchange, international lending, and country risk. Case studies give the student analytical experience in these areas. Only senior examiner specialists teach in this course, aided in some sessions by an invited speaker from the banking industry. Agencies should carefully review the qualifications of attendees, making sure they have a minimum of 24 months' examining experience and have either completed the basic course or recently had over three months' international examination experience.

International Banking Workshop (New in 1986)

This new workshop is available only to those whose primary activities are in international banking. The 15 to 20 attendees will be carefully screened before registration. One day will be spent on each topic during this 3½-day workshop. Topics for 1986 are—

- foreign currency futures and options
- interest-rate/multicurrency swaps
- international lending and backup facilities

Prerequisites for the workshop are attendance at Intermediate International Banking and the recommendations of the agency's international banking development group representative in Washington.

International Banking Conference

The International Banking Conference is a two-day program dealing with the international credit situation. The con-

ference includes a legislative and regulatory update and a country-by-country evaluation of country risk. One session is planned for early 1986. Speakers at this program will be leading international bankers and senior staff of the bank regulatory agencies. Attendance is limited to senior international examiners and senior examiners in charge. The registration fee for this conference may differ from the regular tuition fee.

Other Courses

Bank Municipal Dealer/ MSRB Seminar

The Bank Municipal Dealer/MSRB Seminar was approved as a Council offering in 1982. Topics include municipal securities dealer organization, regulatory structure, professional qualifications, securities processing and clearance, underwriting, industry practices, and fair-practice rules related to trading and sales. Those who may attend this five-day seminar are senior assistant examiners, newly commissioned examiners, and individuals who examine or are expected to examine bank municipal securities dealer departments. This seminar is not designed for senior examiners who function solely in a supervisory capacity. Six sessions are planned for 1986.

Large-Dollar Transfer Risk Seminar

This seminar was developed during 1984 and two sessions are scheduled for 1986. Attendees will learn how to examine a financial institution's large-dollar wire transfer system, using the *FFIEC Funds Transfer Activities Uniform Examination Procedures Manual*. Attendees will learn the risks involved in such transfers and will be able to recommend procedures to minimize these risks. Attendees will be those identified by each agency as likely to examine wire transfer systems and examiners-in-charge who will be responsible for such examinations. This is a two-day seminar and tuition may differ from the regular rate for courses.

*Income-Property Lending Seminar
(New in 1986)*

This seminar will present analytical techniques to equip examiners to challenge the assumptions built into market studies, feasibility studies, and appraisals. A full day will be devoted to criticizing appraisals. Acquisition, development, and construction loans will receive considerable attention, as well as managing construction disbursements.

While topics will vary from time to time, additional topics now include real estate syndication, equity participations, R41B, and a panel of agency officials presenting a "regulatory roundup."

This seminar is open only to commissioned examiners who have considerable involvement with income-property and commercial real estate lending. The seminar lasts about 3½ days.

*Off-Balance-Sheet Risk Seminar
(New in 1986)*

The purpose of this seminar is to improve examiners' understanding of the incentives for and implications of off-balance-sheet activities. Emphasis will be on risk-assessment theory as applied to standby letters of credit, loan commitments, financial futures and options, and interest-rate swaps.

This seminar is aimed at senior field examiners with at least 10 years' experience. The seminars last about three days.

Task Force on Reports

Section 1006(c) of Public Law 95-630 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 been given other responsibilities related to the development of interagency uniformity in the reporting of periodic information needed for effective supervision.

The task force is thus concerned with such issues as development and interpretation of reporting instructions; application of accounting standards to specific transactions; publication and distribution of reports; development and application of processing standards; monitoring of data quality; assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign.

During 1985, the task force revised four major reports, issued a revised version of a major reporting standard, published standards to permit the filing of Reports of Condition and Income (Call Reports) using automated report formats rather than printed forms, moved toward developing means of receiving Call Report filings electronically, authorized a special year-end survey of obligations of U.S. government agencies and corporations held by banks, and continued its long-range study of the Call Report process.

Early in 1984, the task force completed its work on the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002). The report was approved by the Council on March 12 for implementation on December 31, 1985. The Council determined that all of the information contained in the report should be made available to the public upon request, with the exception of Schedules M and N. These schedules contain information on amounts due to and from related institutions and on past-due, nonaccrual, and renegotiated loans, respectively. In making this determination, the Council concluded that disclosure of information on amounts due to and from related institutions should not be made public because such information reflects funding strategies and other proprietary actions that could be unfairly used by competing institutions. The Council believes that information on past-due, nonaccrual, and

renegotiated loans for a single branch or agency was not meaningful and could be misleading.

Also in 1985, the task force completed a revision of the Annual Report of Trust Assets (FFIEC 001). The revised report was issued for comment in March, was adopted in final form by the Council at its August 15 meeting, and became effective December 31, 1985. The revised report provides more information to the agencies to enhance off-site analysis and oversight of fiduciary activities, and for the first time collects information on nondiscretionary assets and accounts, corporate trust activities, and affiliated investment advisors that provide advice to reporting institutions. The report is filed by all trust departments, banks, and savings and loan associations regardless of size.

The Country Exposure Report, prepared by U.S. banks with large exposures to foreign borrowers, was revised by the task force to provide more information on guarantees and trade financing. The Council approved the report at its August 15 meeting but also issued the revised report for comment at the same time. As a result of those comments, some modifications were presented to the Council at its December 10 meeting and were approved. The revised report will become effective in 1986.

In January the Council published a new report for public comment: the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019). Comments were reviewed and evaluated by the task force during the first half of 1985 and some changes were incorporated as a result of the comments received. The final report was adopted by the Council on August 15, 1985. The most controversial issue connected with this report involved the Council's request for comments on whether to make available to the public that part of the proposed report presenting information for each reported country on adjusted claims on nonrelated foreign residents, by type of borrower and maturity. The Council decided not to make this in-

formation public on the grounds that such information presented for a single branch or agency of a foreign bank could be misleading. However, the Council subsequently decided to release information taken from these reports presenting, as a single figure, the total adjusted exposure to the branch or agency's home country (including claims on related offices abroad), by family (rather than by individual branch or agency basis). Consequently, further comments on this second public disclosure proposal were solicited. This question is expected to be resolved early in 1986.

The treatment of sales of assets for purposes of the Call Reports was also reviewed in 1985 by the Reports Task Force. As a result of that review, some revisions in the reporting requirement and instructions for sales of assets were made. These changes took into account some of the specific problems raised by the industry. The revised reporting standard is applicable to all insured U.S. commercial banks and became effective with the December 31, 1985, report date. Previously, the Call Report used two criteria to differentiate between transactions to be reported as sales and transactions to be reported as borrowings: (1) whether the seller retained any risk in connection with the asset sold and (2) whether the terms of the instrument sold were identical to the terms of the underlying asset. If any risk were retained, or if the terms were not identical, the transaction had to be treated as a borrowing in the Call Report.

The revised Call Report instructions retain the first criterion (that retention of risk by the seller requires that the transaction be reported as a borrowing) but eliminate the second criterion concerning identical terms. However, there are some circumstances in which a lack of identity of terms in itself entails retention of risk by the seller and therefore requires that the transaction be reported as a borrowing. The dropping of the identity-of-terms criterion was advocated by the industry.

The review of the Call Report instructions that led to this revision was un-

dertaken in light of the December, 1983 issuance of Statement No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse" by the Financial Accounting Standards Board (FASB 77); requests by some banks and banking groups that the Call Report instructions for sales of assets be reviewed; the banking agencies realization that the Call Report instructions needed to be reexamined in view of changing financial market practices; and the adoption by the federal bank supervisory agencies of formal capital adequacy guidelines. FASB 77 was not adopted as the Call Report standard for reporting sales of assets.

On June 3 the Council issued standards to permit banks to use computer-generated alternative report forms for submission of the quarterly Call Report. These standards were developed by the task force as a result of a number of inquiries received by the banking agencies on whether it would be acceptable to file the Call Report in a computer format rather than on printed forms. The task force continues to study the feasibility of on-line transmission of Call Reports. A pilot project may be undertaken in 1986.

At its November, 1984 meeting, the Council directed the Task Force on Reports, with assistance from the Task Forces on Supervision and Surveillance Systems, to perform a study of the commercial bank Call Report data-collection system. This study is to examine the existing Call Report and how it might be altered to provide the agencies with improved supervisory data while reducing the burden on respondents. Work will continue on this project in 1986.

In 1986, the task force will consider, among other things, a revision of Schedule RC-J of the Call Report, "Repricing Opportunities for Selected Balance Sheet Categories."

The task force also developed, and obtained Council approval for, one special survey in 1985. This survey of bank holdings of U.S. government-agency and corporation securities was to be undertaken as of December 31, 1985. However, the survey must be ap-

proved by the Office of Management and Budget before it can be conducted, and approval had not yet been received by year-end.

Task Force on Supervision

The Task Force on Supervision makes recommendations to the Council on matters relating directly to the examination and supervision of depository institutions. Its goal is to improve the quality of depository institutions' supervision. The task force is made up of the senior supervisory officials of the constituent agencies of the Council, who meet regularly to address and resolve supervisory issues. The Task Force has standing subcommittees on electronic data processing examinations and on securities issues and accounting, as well as ad hoc working groups created to handle particular projects and assignments.

Activities of the Task Force

The task force completed several projects in 1985. The task force recommended, and the Council adopted, a new Uniform Report of Examination for Commercial Banks for use by the three federal banking agencies. The Federal Reserve has implemented the report in accordance with the Council's action. The new uniform examination report is designed to improve communication among the agencies and contribute to uniformity in the examination process. The report has two parts: (1) a mandatory core consisting of six schedules and (2) an appendix of optional supporting schedules. Each examination report prepared by the agencies must contain all of the core schedules in the sequence prescribed by the Council. The core schedules include the examiner's general comments and conclusions along with the summaries of the examiner's findings concerning the bank's management and administration, asset quality, liquidity and funds management, earnings, and capital adequacy. The appendix includes a number of specific schedules whose use is discretionary. If an

agency uses those schedules, however, it must do so in the form and manner prescribed by the Council.

The task force also recommended a policy statement on securities lending practices, which was adopted by the constituent agencies on May 6, 1985. The statement is intended to provide prudential standards of safety and soundness for financial institutions that may engage in securities lending activities. The statement covers the securities lending of a bank or trust company for its own account, as well as the lending of customers' securities held in custody or trust accounts. Matters addressed include the need for full collateralization and daily mark-to-market procedures, formal approvals and credit analyses in selecting borrowers, written agreements with borrowers and lending customers, and written internal safeguards and review procedures. Recordkeeping guidelines were also provided.

The task force recommended a policy statement on repurchase agreements which was approved by the Council. The statement provides financial institutions with minimum safety and soundness guidelines for managing credit-risk exposure. It also provides guidance related to the possession or control of securities involved in repurchase-agreement transactions. In addition, the policy points out the need for full collateralization, maintenance of agreed-upon collateralization margins, and frequent mark-to-market procedures.

The task force also recommended revisions to the Report on Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, which were adopted on March 12, 1985.

In 1985 the task force initiated projects on the following topics:

- *Improving Interagency Communication.* Council members believe that communication among their agencies, as well as communication between their agencies and state regulators, can be improved. A working group consisting of staff members from each of the Council's constitu-

ent agencies was formed and will recommend ways in which inter-agency communication can be improved.

- *Attracting and Retaining Examiners.* A working group was formed to make recommendations on new ways in which the agencies could attract and retain examiners. The group (Working Group on Human Resources) will examine ways in which examiners' working conditions can be improved and suggest methods of enhancing the professional status of examiners.
- *Blanket Bond Insurance.* The recent increase in cancellations of blanket bond insurance for banking organizations led to the formation of a group that will outline the impact of those cancellations, including the regulatory issues involved.
- Other subcommittees of the task force are outlining regulatory issues involved in chain banking and off-balance-sheet banking.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems was created to deliberate, at an interagency level, on matters concerning surveillance and monitoring systems. Its primary function is to formulate goals, set objectives, and establish priorities for tasks relating to the development, updating, and evaluation of effective computer-based systems and other surveillance procedures. The specific objective since its inception has been the development of uniform early warning systems to monitor the performance of financial institutions and identify potential or emerging financial problems. The task force is also responsible for the implementation and oversight of Council-approved surveillance systems and procedures.

Activities of the Task Force

In 1985, the task force further revised the Uniform Bank Performance Report (UBPR) as a result of changes in the

commercial banks' Reports of Condition and Income, ensured the timely production and distribution of UBPRs, and continued to develop and refine common surveillance screening systems. Similar activities and further modifications and evaluation of surveillance procedures will constitute the bulk of task force activities in 1986.

Computer Surveillance Systems of the Federal Financial Regulatory Agencies

The federal financial regulatory agencies employ surveillance systems that generally consist of computer-generated screens used to isolate institutions that fail specific ratio benchmarks, computer-based analytical or performance reports that enable analysts or examiners to perform detailed analyses of financial organizations, and follow-up procedures for dealing with problems identified through the screening and analytical processes. Computer surveillance systems have proved essential as an adjunct to the examination process. These systems systematically order financial organizations on the basis of several historical statistical indicators of financial soundness. The periodic availability of these data between examinations can help identify those depository institutions whose financial condition or performance either improved or deteriorated since the last examination. This information helps to achieve a more efficient allocation of examination resources by allowing supervisory agencies to concentrate on those institutions whose problems warrant more immediate attention and to conduct less frequent examinations of those with good or improved financial performance.

The UBPR is the most widely used tool in the performance of the supervisory and regulatory functions. Supervisory officials and field examiners regard these performance reports as the primary source of information for the analysis of institutions that have been identified as exceptions. In fact, the reports have evolved into an integral part of the pre-examination reviews,

helping examiners focus on the more critical areas of a bank's financial performance.

Uniform Bank Performance Report (UBPR)

The UBPR is a report of historical and analytical financial information produced quarterly for each insured commercial bank. These financial data are derived from the quarterly Reports of Condition and Income (Call Report) submitted by each bank and include the latest quarterly data and annual data for several years back. The UBPR is designed to enable the user to evaluate a bank's current condition, analyze trends in its financial performance, and compare its performance with that of peer banks.

The report provides data on individual banks consisting of dollar items, ratios and percentile rankings; and bank peer groups consisting of ratio averages. Each bank's UBPR is approximately 20 pages and is divided into four major sections: (1) summary ratios, (2) income and expense data, (3) balance-sheet data, and (4) specific analysis of areas such as capital, repricing opportunities, or liquidity.

UBPR Distribution. In 1982 the Council adopted the following policy for distributing UBPRs and related data.

- Insured commercial banks receive one copy of the current UBPR per quarter.
- UBPR data are provided to each federal banking agency quarterly.
- UBPRs are made available to state bank supervisors with all states currently receiving them.
- UBPRs and Call Report data are available to the public for a fee.

Copies of UBPRs may be obtained for \$25 per report, with quantity discounts available. A *User's Guide*, which describes the content of the reports, is available for \$6. A Peer Group Report showing average ratios for all 25 peer groups and certain statewide averages for all states is also available for \$25. Information on ordering UBPR items may be obtained by calling (202) 357-0111 or writing to—

Federal Financial Institutions
Examination Council
1776 G Street, NW
Suite 701
Washington, DC 20006

UBPR Changes in 1985. The UBPR is modified when necessary to reflect new or changing data collected on the Call Reports and to cover new areas of regulatory concern. Changes to the UBPR occurred in three major areas during 1985:

- Amendments to the definition of "capital" by the three banking agencies that affected the components of primary and secondary capital resulted in new and revised capital ratios in the UBPR.
- New detail on nonperforming-loan categories for smaller banks allowed calculation in the UBPR of information previously available only for large banks.
- Revisions to the presentations relating to the analysis of repricing opportunities allowed consolidation of pages 10P and 10A of the UBPR; the format has been revised to a maturity-gap analysis; and assets and liabilities are shown as "interest bearing" rather than "selected."

The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 33,000 domestically chartered banks and thrift institutions, which, on June 30, 1985, held total assets of over \$4.1 trillion. The Federal Reserve Board and the Federal Home Loan Bank Board also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

In addition, the three banking agencies have authority to oversee the operations of U.S. branches and agencies of foreign banks. The International Banking Act of 1978 authorizes the Office of the Comptroller of the Currency (OCC) to license federal branches and agencies of foreign banks and permits U.S. branches to apply for insurance with the FDIC. It also subjects those U.S. offices to many provisions of the Federal Reserve and Bank Holding Company Acts. The Act gives primary examining authority to the OCC, the FDIC, and the various state authorities for the offices within their jurisdictions and gives residual examining authority over all U.S. banking operations of foreign banks to the Board of Governors of the Federal Reserve System.

The 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 is appointed by the President, with the advice and consent of the Senate, for a 14-year term. Subject to confirmation by the Senate, the President selects two Board members to serve four-year terms as Chairman and Vice Chairman. In activities most relevant to the work of the Council, the FRB—

- examines, supervises, and regulates state member banks, bank holding

companies, and Edge and agreement corporations; approves or denies applications for mergers, acquisitions and change in control by state member banks and bank holding companies; and

- approves or denies applications for foreign operations of member banks and has residual supervisory responsibility for U.S. offices of foreign banks.

Implementation of policy decisions is carried out by the FRB and by 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 and employs a staff of bank examiners who examine state member banks and inspect bank holding companies located within the Reserve Bank's district. All national banks must be members of the Federal Reserve System. State-chartered banks may apply and be accepted for membership.

Funding for the Reserve Banks is derived from interest received on Treasury and federal agency securities held as assets by the Reserve Banks. The funds for these investments are derived partially from non-interest-earning reserves that member banks and other depository institutions are required to hold at the Reserve Banks and partially from non-interest-bearing Federal Reserve notes (currency) issued by the Reserve Banks. The Reserve Banks pay assessments, which are used to meet the FRB's expenses.

The Federal Deposit Insurance Corporation (FDIC)

The FDIC was created in 1933 as the third federal bank regulatory agency. It is headed by a three-member board of directors, no more than two of whom may be of the same political

party. Two of the directors are appointed by the President, with the advice and consent of the Senate, for six-year terms, and one of those is elected by the board to be Chairman. The Comptroller of the Currency is the third Board member and serves on the Board during his or her tenure as Comptroller.

The FDIC—

- provides deposit insurance for commercial banks, certain federal savings banks, and state-chartered savings banks;
- supervises FDIC-insured, state-chartered commercial and savings banks that are not members of the Federal Reserve System; and
- serves as receiver or liquidator of all closed national banks and as receiver of closed insured state-chartered banks.

The bank supervision functions of the FDIC are shared with state and other federal authorities. All national banks and state banks that are members of the Federal Reserve System must be insured by the FDIC. Nonmember state banks may apply for FDIC deposit insurance. The FDIC examines and supervises those banks under its purview, approves or denies applications for structural or corporate changes, and rules on applications for insurance.

The FDIC is organized geographically into 10 regions, each of which is headed by a regional director. The Corporation is funded by assessments on average total deposits of insured banks and interest income from its investment portfolio.

The Federal Home Loan Bank Board (FHLBB)

The FHLBB was established in 1932. It is headed by a bipartisan three-

member Board appointed by the President, with the advice and consent of the Senate. Full-term appointments are for four years, although uncompleted terms are filled only to completion. The Board is headed by a Chairman, named by the President. The FHLBB supervises the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation (FSLIC) and regulates federally chartered savings and loan associations. Supervision of FSLIC-insured, state-chartered savings and loan associations is shared between the FHLBB and the chartering state. In addition, title XII of Public Law 95-630 provided for a new, limited class of federal institution, the federal mutual savings bank. Such institutions are chartered and regulated by the FHLBB, and their deposits are insured by the FSLIC.

The Federal Home Loan Bank System is composed of 12 geographical districts, each of which has a district Federal Home Loan Bank. In addition to federally chartered and FSLIC-insured, state-chartered savings and loan associations, all of which must be members of the Federal Home Loan Bank System, a number of state mutual savings banks, uninsured state savings and loan associations, and life insurance companies have been accepted as members of the System. Federal savings and loan examiners, assigned to district offices located in the 12 Bank System districts, are employees of the Federal Home Loan Banks. Supervisory agents, the enforcement personnel of the agency, are employed by the district Federal Home Loan Banks.

The Federal Home Loan Bank Board regulates the savings and loan associations and federally chartered mutual savings banks through a combination of—

- bank system, federal, and FSLIC insurance regulations;
- approval authority over new charters, branches and mergers of federal savings and loan associations and federal mutual savings banks;
- approval of FSLIC insurance for federally and state-chartered savings

and loan associations and federal mutual savings banks;

- supervision of savings and loan holding companies; and
- examination of federally- and FSLIC-insured, state-chartered savings and loan associations and federal mutual savings banks.

The FSLIC, under supervision of the FHLBB, insures individual accounts. All federally chartered savings and loan associations and mutual savings banks must be insured, and state-chartered institutions may apply and be accepted for insurance.

The FHLBB is funded by assessments on the district Federal Home Loan Banks and the FSLIC and by fees charged to the institutions it examines.

The National Credit Union Administration (NCUA)

The NCUA was created in 1970 as the successor to the Bureau of Federal Credit Unions, which was established in 1934. The purpose of the NCUA is to charter, examine, supervise, and provide share insurance for all federal credit unions. In addition, NCUA also provides insurance for those state-chartered credit unions that apply and are accepted. Title XVIII of Public Law 95-630 created, within the agency, a National Credit Union Central Liquidity Facility (CLF) to improve the general financial stability of member credit unions by helping them meet their liquidity and stabilization needs. Membership in the CLF is voluntary and is open to all federal and state credit unions.

The NCUA is headed by a three-member bipartisan board appointed by the President, with the advice and consent of the Senate. The President designates one of the Board members as Chairman. All Board members serve six-year terms.

Major responsibilities of the NCUA are—

- chartering federal credit unions;
- supervising federal credit unions;

- examining federal credit unions;
- administering the National Credit Union Share Insurance Fund (NCUSIF); and
- managing the Central Liquidity Facility.

In addition, the NCUA has statutory authority to examine and supervise NCUSIF-insured, state-chartered credit unions, which it does in coordination with state agencies.

The NCUA is financed by operating fees assessed against federal credit unions and by the investment income from the capital (1 percent of insured shares) that federally insured credit unions have deposited with the NCUSIF.

The Office of the Comptroller of the Currency (OCC)

The OCC is the oldest federal 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, who is appointed to a five-year term by the President, with the advice and consent of the Senate.

The OCC is the regulator and supervisor of the national banking system. There are currently over 4,900 national banks, with over \$1.5 trillion in total assets, representing almost 60 percent of the total assets of U.S. commercial banks. The OCC is 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 new bank applications, branch applications, and merger applications.

The principal supervisory goals of the OCC are to promote the safety, soundness, and competitiveness of the national banking system and to ensure compliance with law and regulation. The principal supervisory tools of the OCC are on-site examinations and detailed off-site analysis of national bank operations. As appropriate, the OCC issues rules and regulations

concerning bank lending, bank investment, and other aspects of bank operations.

The OCC is organized geographically into six districts, each headed by a Deputy Comptroller. The agency is

funded through assessments on the assets of national banks and by fees charged for corporate applications.

ASSETS, LIABILITIES AND NET WORTH of U.S. Commercial Banks and Thrift Institutions¹ as of June 30, 1985
Billions of dollars

	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Savings Banks	FSLIC-Insured Institutions			Credit Unions ³	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Total Assets	4,123	1,528	469	574	289	141	538	360	115	74	35
Total loans and lease receivables (net)	2,645	948	279	326	148	86	428	270	86	50	24
Loans secured by real estate ⁴	1,218	244	45	119	5	71	401	252	77	2	2
Consumer loans ⁵	402	178	34	73	*	8	21	12	6	48	22
Commercial and industrial loans	659	358	119	94	68	6	6	5	3	†	†
All other loans and lease receivables ⁶	366	169	81	40	74	1	*	1	*	†	†
LESS: Allowance for possible loan and lease losses	25	13	4	4	‡	*	1	2	1	*	*
Federal funds sold and securities purchased under agreements to resell	123	66	20	26	8	3	†	†	†	†	†
Cash and due from depository institutions ⁷	408	199	66	57	66	4	7	5	1	2	1
Securities and other obligations ⁸	608	205	55	142	13	41	60	43	18	21	10
U.S. Gov't obligations ⁹	328	128	31	96	4	21	21	13	5	6	3
Obligations of state and local gov'ts ¹⁰	122	62	18	40	*	2	†	†	†	‡	†
Other securities	158	15	0	6	9	18	39	30	13	15	7
Other assets ¹¹	363	123	52	26	54	7	44	44	11	1	1
Total Liabilities	3,905	1,436	443	531	289	134	515	346	110	69	32
Total deposits and shares ¹²	3,199	1,168	332	499	157	126	434	291	92	68	32
Federal funds purchased and securities sold under agreements to repurchase	266	133	47	16	30	3	19	14	4	†	†
Other borrowings ¹³	213	47	24	5	38	4	51	33	11	*	*
Other liabilities ¹⁴	225	87	39	11	64	1	11	8	3	1	*
Net Worth¹⁵	218	92	26	43	‡	7	23	14	5	5	3
Memorandum: Number of institutions reporting	33,276	4,962	1,070	8,411	470	267	1,445	1,474	261	10,320	4,596

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 FDIC, FSLIC, or NCUSIF. 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 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 Edge and agreement subsidiaries—and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excluding 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 savings and loan associations, 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. Savings and loan association data are for cash and demand deposits only. Time deposits are included in "Other securities."

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for the 12 months ending June 30, 1985
Billions of dollars

	Total	U.S. Commercial Banks			U.S. Branches and Agencies of Foreign Banks ¹⁶	Savings Banks	FSLIC-Insured Institutions			Credit Unions	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Operating Income	420	171	49	62		14	60	40	12	8	4
Interest and fees on loans	296	115	32	39		9	50	32	10	6	3
Other interest and dividend income	87	36	12	19		4	6	5	2	2	1
All other operating income	40	20	5	5		1	4	4	1	*	*
Operating Expenses	392	158	44	56		13	58	40	12	7	4
Salaries and benefits	48	23	6	9		1	4	3	1	1	*
Interest on deposits and shares	231	82	23	33		11	40	27	8	4	3
Interest on other borrowed money	41	18	7	2		*	7	5	2	*	*
Provision for loan and lease losses	18	10	2	3		*	1	2	*	*	*
All other operating expenses	54	25	6	9		1	5	4	1	2	1
Net Operating Income	27	13	5	6		*	1	*	*	*	*
Securities Gains and Losses	1	*	*	*		*	*	1	*	*	*
Income Taxes	6	3	1	1		*	1	*	*	‡	‡
Net Income	20	10	4	5		*	1	*	*	*	*
Memorandum: Number of institutions reporting	32,806	4,962	1,070	8,411		267	1,445	1,474	261	10,320	4,596

8. Government and corporate securities, including mortgage-backed securities and loans to states and political subdivisions and to U.S. government agencies and corporations. For savings and loan associations, 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 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 savings and loan associations, 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 mutual 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, share draft accounts, etc. For U.S. commercial banks, includes deposits in foreign offices, branches in U.S. territories and possessions, and Edge and agreement subsidiaries.

13. Interest-bearing demand notes issued to the

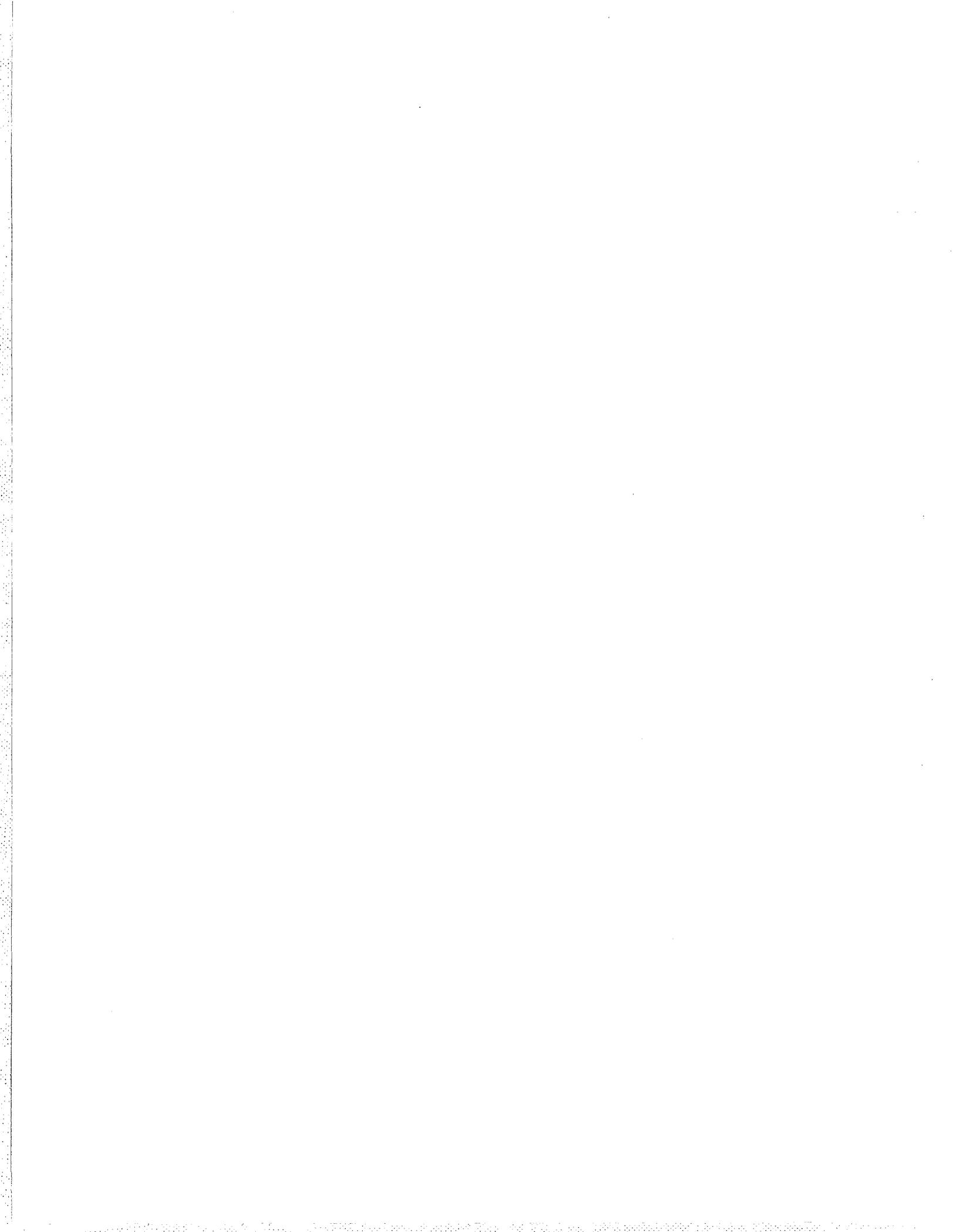
U.S. Treasury, borrowing from Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-life preferred stock, and other non-deposit borrowing.

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 due to head office and other related institutions.

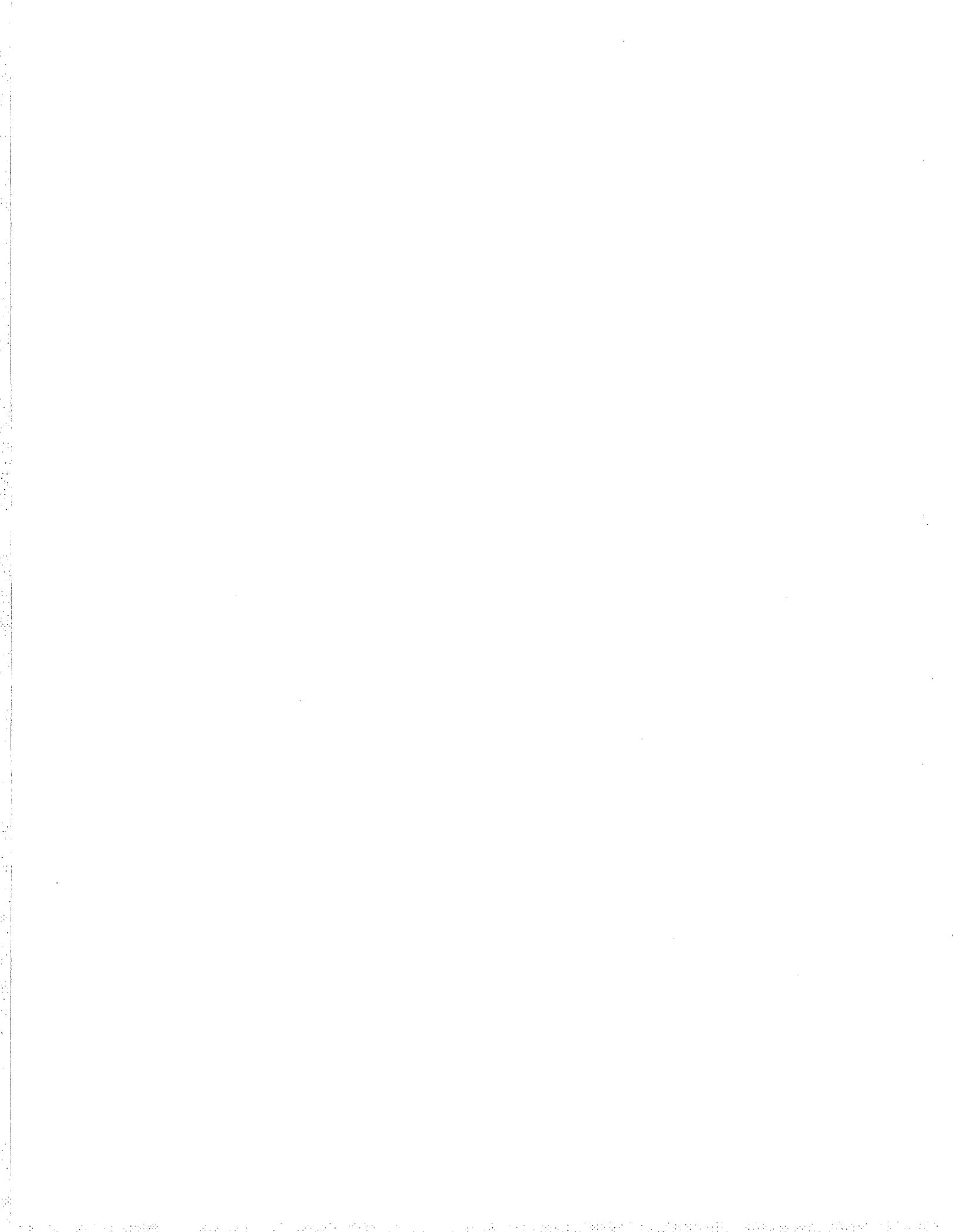
15. Capital stock, surplus, capital reserves and undivided profits.

16. U.S. branches and agencies of foreign banks are not required to file reports of income.

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



Appendixes



A. Title X of Public Law 95-360

Title X establishing the Federal Financial Institutions Examination Council is 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 Federal Home Loan Bank Board, 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 examination 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 Federal Home Loan Bank Board, 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 Chairman of the Federal Home Loan Bank Board, 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 chairmanship 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 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.

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

form reporting systems for Federally supervised financial institutions, their holding companies, and non-financial 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 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, memorandums, 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.

Audits 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), and (C) 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)."

B. 1985 Audit Report

To the Federal Financial Institutions
Examination Council:

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses, fund balance and of changes in financial position present fairly the financial position of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL at December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for the

years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for capital assets as described in Note 2 to the financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accord

ingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.



Washington, D.C.
February 21, 1986

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheets as of December 31, 1985 and 1984

ASSETS		
	<u>1985</u>	<u>1984</u>
CURRENT ASSETS		
Cash, held by Board of Governors of the Federal Reserve System	\$192,630	\$ 44,097
Accounts receivable from member organizations	255,708	219,171
Other accounts receivable	4,689	6,745
Total current assets	<u>453,027</u>	<u>270,013</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	79,821	73,609
Less accumulated depreciation	36,783	27,193
Total furniture and equipment	<u>43,038</u>	<u>46,416</u>
LEASEHOLD IMPROVEMENTS, net of amortization	14,256	—
Total assets	<u>\$510,321</u>	<u>316,429</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable to member organizations	\$436,562	\$283,603
Other accounts payable and accrued liabilities	22,379	34,433
Accrued annual leave	28,318	17,612
Total liabilities	<u>487,259</u>	<u>335,648</u>
FUND BALANCE	23,062	(19,219)
Total liabilities and fund balance	<u>\$510,321</u>	<u>\$316,429</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Changes in Fund Balances for the Years Ended December 31, 1985 and 1984

	1985	1984
REVENUES		
Lodging facility rental	\$1,096,381	\$ 990,447
Assessments to member organizations	655,000	571,000
Tuition	105,500	106,675
Total revenues	<u>1,856,881</u>	<u>1,668,122</u>
EXPENSES		
Lodging facility rental	1,047,918	962,226
Salaries and related benefits	366,348	339,592
Rental of office space	130,946	127,520
Data processing	58,449	96,397
Printing	54,657	55,738
Books and subscriptions	31,860	33,462
Administrative fees	30,000	30,000
Travel	20,094	19,328
Office and other supplies	18,559	10,442
Depreciation and amortization	13,154	8,424
Telephone	9,341	8,488
Professional fees	8,304	9,660
Rental and maintenance of office equipment	7,937	8,187
Postage	5,319	10,689
Miscellaneous	11,714	7,522
Total expenses	<u>1,814,600</u>	<u>1,727,675</u>
REVENUES OVER (UNDER) EXPENSES	42,281	(59,553)
FUND BALANCE, Beginning of year	(19,219)	87,641
Less: Cumulative effect on prior years (to December 31, 1983) of change in accounting (Note 2)	—	(47,307)
ADJUSTED FUND BALANCE, Beginning of year	<u>(19,219)</u>	<u>40,334</u>
FUND BALANCE, End of year	<u>\$ 23,062</u>	<u>\$ (19,219)</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Changes in Financial Position for the Years Ended December 31, 1985 and 1984

	1985	1984
SOURCES OF CASH		
Revenues over (under) expenses	\$ 42,281	\$ (59,553)
Add (deduct) items not requiring outlays of cash		
Depreciation and amortization	13,154	8,424
Accrued annual leave	10,706	372
(Increase) in accounts receivable	(34,481)	(115,643)
Increase in accounts payable	140,905	113,140
(Decrease) in advances	—	(17,260)
Total sources	<u>172,565</u>	<u>(70,520)</u>
USES OF CASH		
Purchase of furniture and equipment	6,212	10,971
Leasehold improvements	17,820	—
Total uses	<u>24,032</u>	<u>10,971</u>
INCREASE (DECREASE) IN CASH	148,533	(81,491)
CASH BALANCE, Beginning of year	<u>44,097</u>	<u>125,588</u>
CASH BALANCE, End of year	<u>\$192,630</u>	<u>\$ 44,097</u>

The accompanying notes are an integral part of these statements.

**Notes to Financial Statements as of
 December 31, 1985 and 1984**

(1) 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 3 to 10 years.

Leasehold Improvements—Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the related lease or the estimated useful life of the improvements.

(2) Changes in Accounting for Capital Assets
 Beginning January 1, 1985, the Council adopted depreciation accounting for its capital assets (furniture and equipment), and concurrently changed its basis of reporting from a multi-fund approach to a commercial approach. In prior years the Council recognized the full cost of capital asset additions as an expense at the time of acquisition and maintained the full historic cost in a separate property fund. Under the Council's new policy, furniture and equipment items having a cost of \$1,000 or more are capitalized and the cost is depreciated over estimated useful lives using the straight-line method. This change was

made to more accurately distribute capital asset expenses to the periods in which use actually occurs.

The effect of this accounting change on net revenues under expenses for 1984 as previously reported is \$2,547. The January 1, 1984, operating and property funds have been combined and adjusted for the cumulative effect of the change as though the new basis of accounting was followed in prior years.

(3) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$131,000 in 1985 and \$114,200 in 1984.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost to the Council of \$30,000 per year for 1985 and 1984.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$228,000 in 1985 and \$272,000 in 1984 for these items.

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). Revenues from the sale of the publication in excess of direct operating costs are remitted to the Council by the FDIC. Of the \$224,000 and \$195,000 received in

1985 and 1984, respectively, \$68,000 and \$51,000 were offset by related compensation costs incurred by the Council. The net balance is refundable to the UBPR's three sponsoring agencies (the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System).

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits disbursed on behalf of the Council are reimbursed in full to these 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.

The Council subleases office space from the National Credit Union Administration under an operating lease which expires in 1990. The lease contains a renewal option for 58 months. Future minimum lease payments under this lease are \$43,700 in each of the four years ended December 31, 1989 and \$3,640 in 1990.

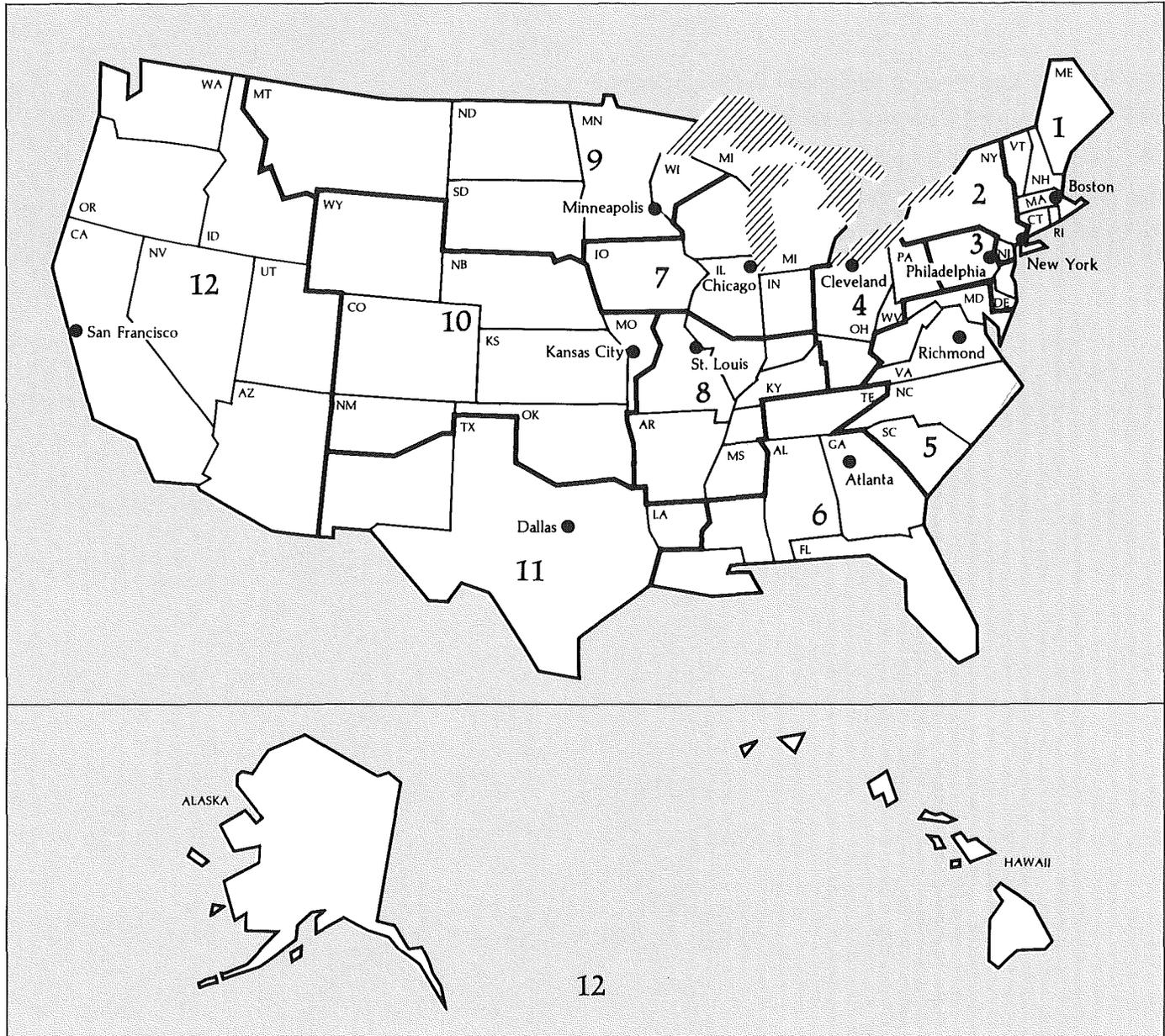
(4) Commitments

The Council leases efficiency units for participant lodging and is reimbursed by the member organizations in proportion to their usage of the facility. The lease agreement may be renewed semi-annually through December 1988.

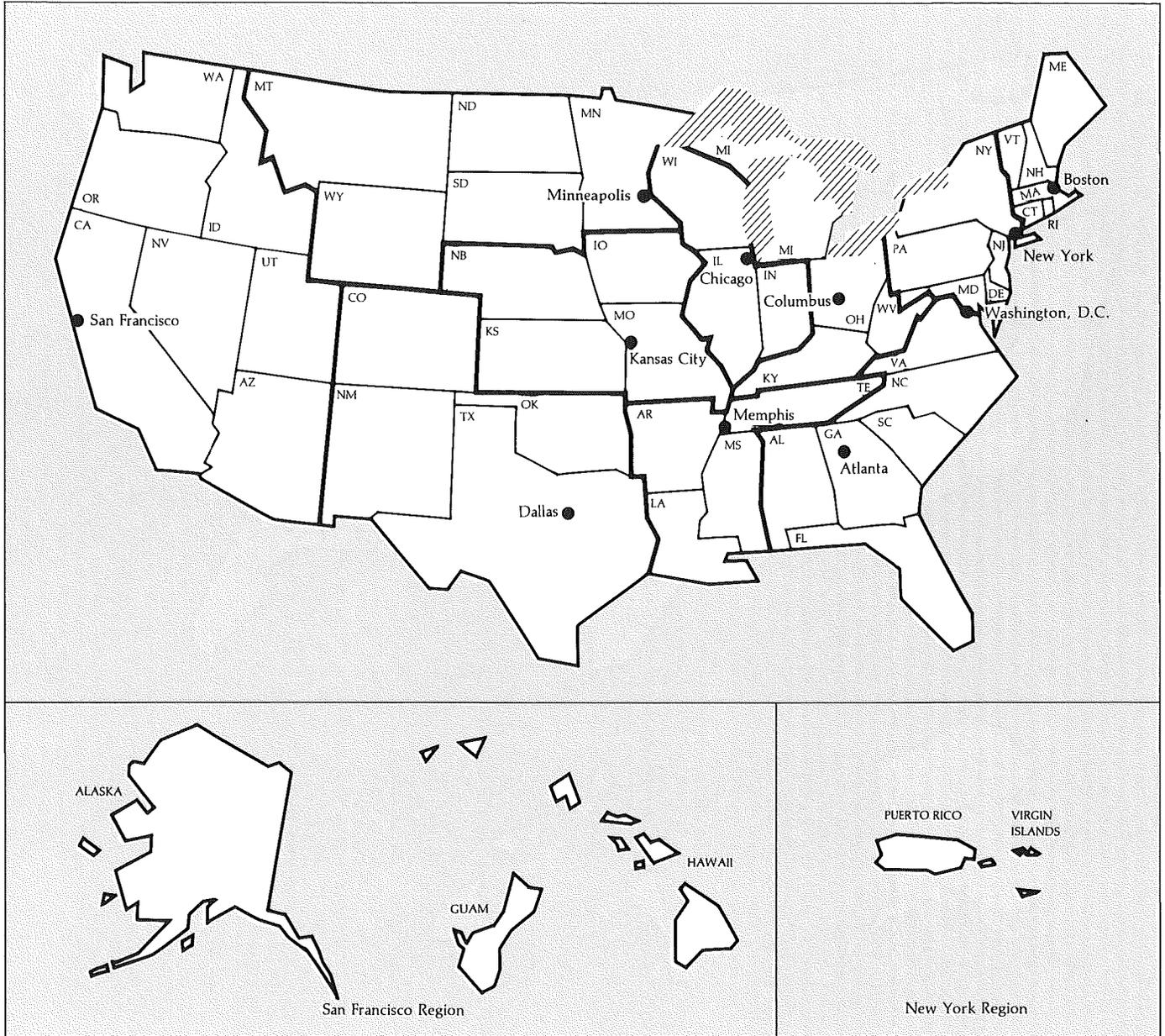
C. Maps of Agency Regions and Districts

- 34 Board of Governors of the Federal Reserve System
- 35 Federal Deposit Insurance Corporation
- 36 Federal Home Loan Bank Board
- 37 National Credit Union Administration
- 38 Office of the Comptroller of the Currency

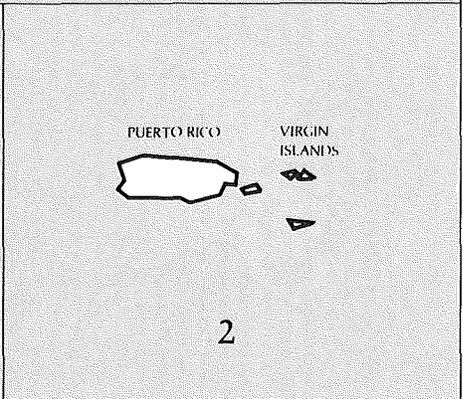
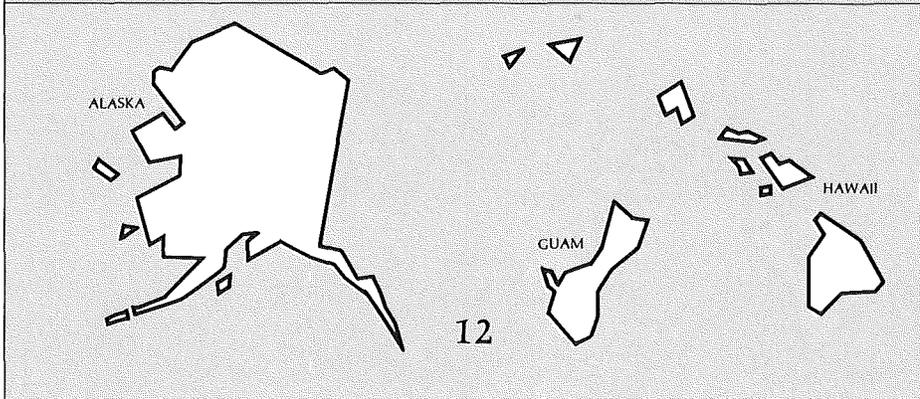
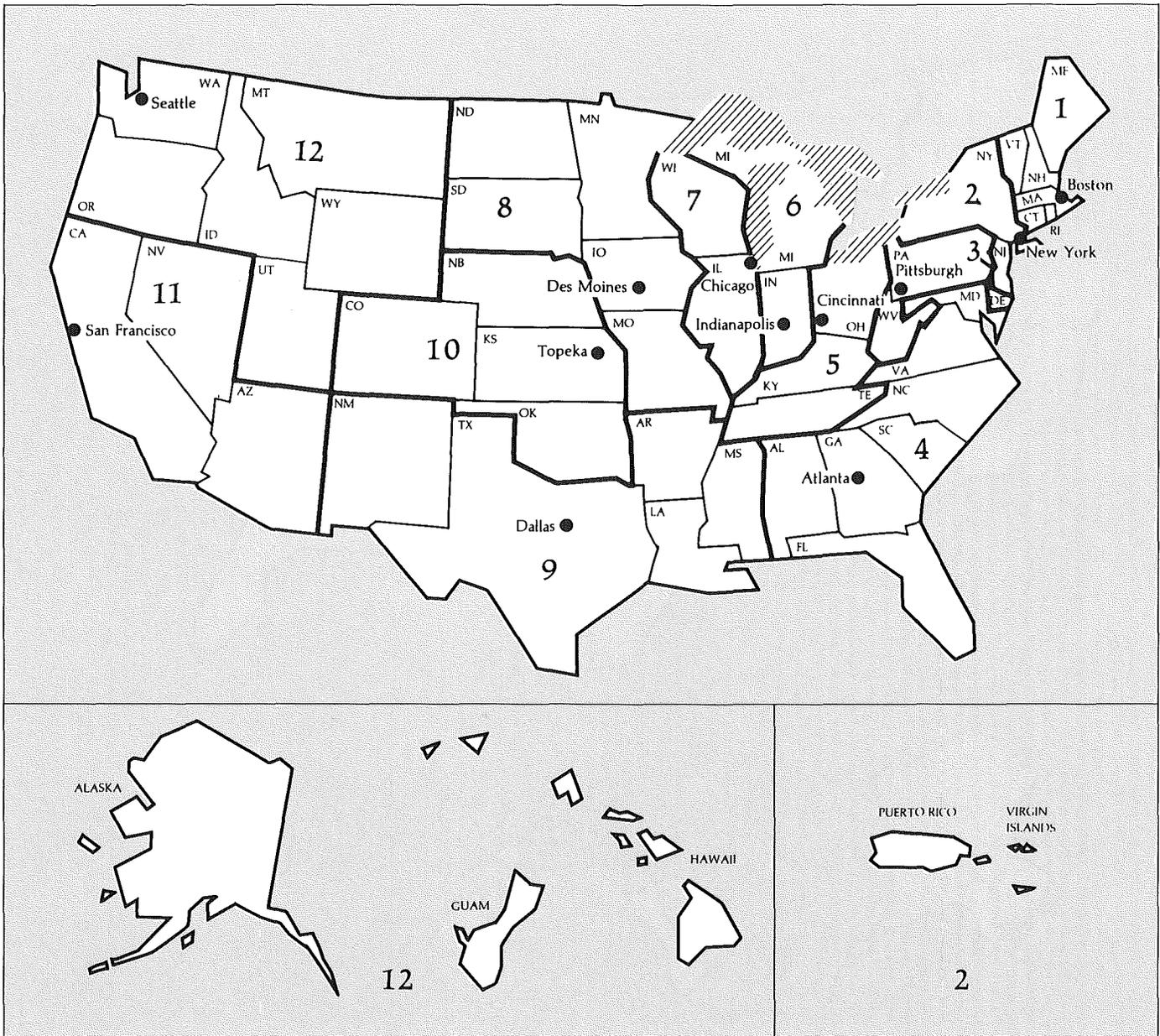
The Federal Reserve System Districts



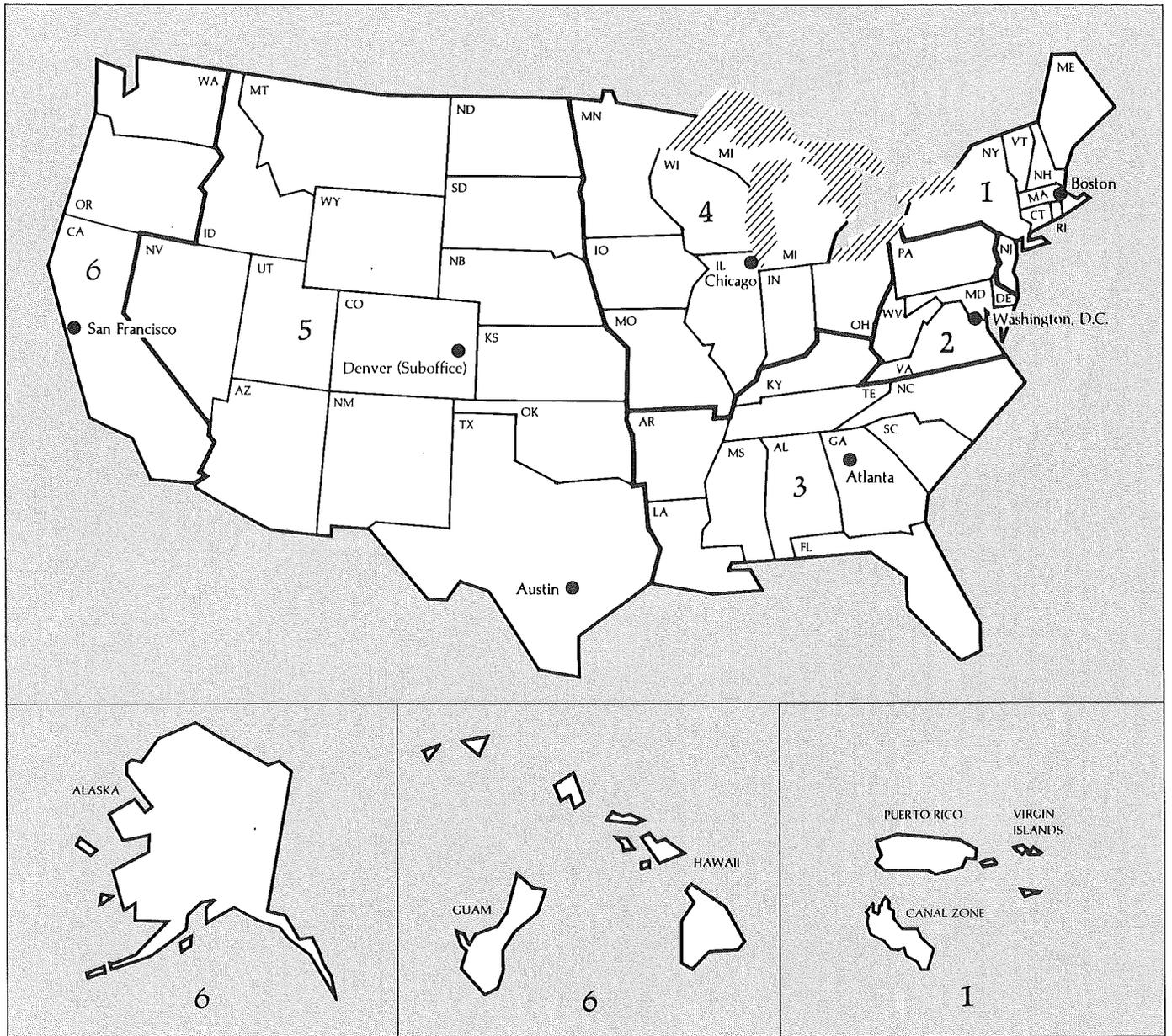
Federal Deposit Insurance Corporation Regions



Federal Home Loan Bank Districts



National Credit Union Administration Regions



Comptroller of the Currency District Organization

