



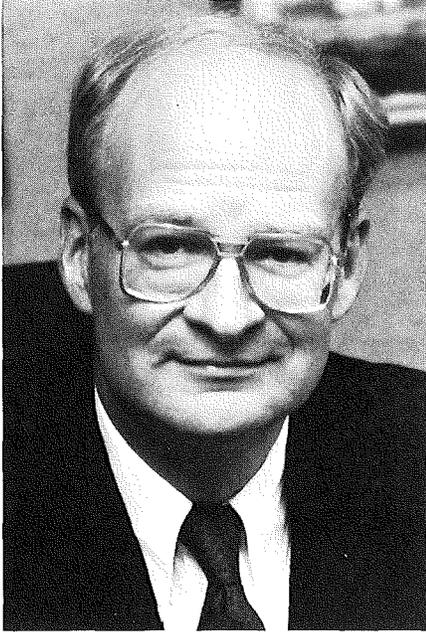
# ANNUAL REPORT 1990



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## MEMBERS OF THE COUNCIL

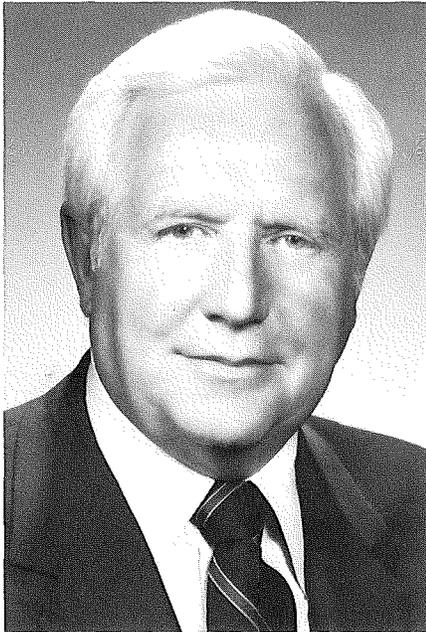
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Robert L. Clarke, *Chairman*  
Comptroller of the Currency  
Office of the Comptroller of the Currency



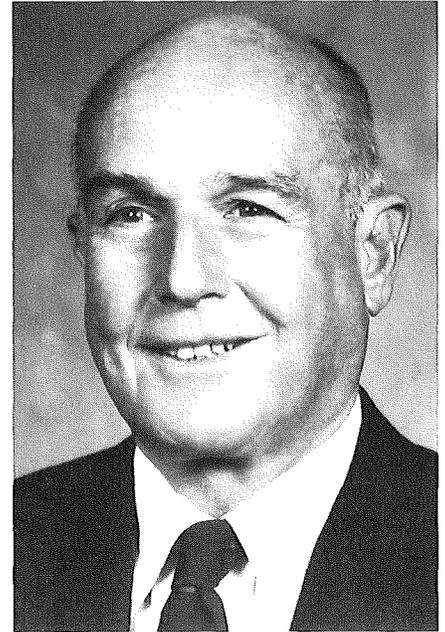
John P. LaWare, *Vice Chairman*  
Member  
Board of Governors of the  
Federal Reserve System



Roger W. Jepsen  
Chairman  
National Credit Union Administration



T. Timothy Ryan  
Director  
Office of Thrift Supervision



L. William Seidman  
Chairman  
Federal Deposit Insurance Corporation



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## LETTER OF TRANSMITTAL

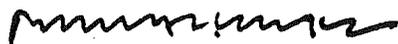
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Federal Financial Institutions  
Examination Council  
Washington, DC  
March 29, 1991

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 1990 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,



Robert L. Clarke  
*Chairman*



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## MESSAGE FROM THE CHAIRMAN

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Robert L. Clarke

The Federal Financial Institutions Examination Council proved itself to be an effective mechanism in 1990 for reaching interagency agreement on matters for which uniform positions among the financial regulatory agencies were highly desirable. A number of these related to the implementation of regulations and procedures stemming from the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

To implement FIRREA's amendment to the Community Reinvestment Act (CRA), the Council approved a standardized interagency CRA rating system, uniform guidelines for the disclosure of CRA written evaluations and a set of uniform amendments to the agencies' CRA regulations.

The Council also developed and approved a training program for agency staff in the preparation of the new CRA evaluations.

FIRREA substantially increased the Council's responsibilities under the Home Mortgage Disclosure Act (HMDA). Nondepository mortgage lenders became subject to HMDA reporting requirements, and all reporting entities were required to supply information on the race, gender and income of all loan applicants. To handle the substantial increase in total data submitted, the Council earlier approved a redesign of the HMDA data processing system. In 1991, this system will produce a new, expanded version of HMDA tables approved by the Council.

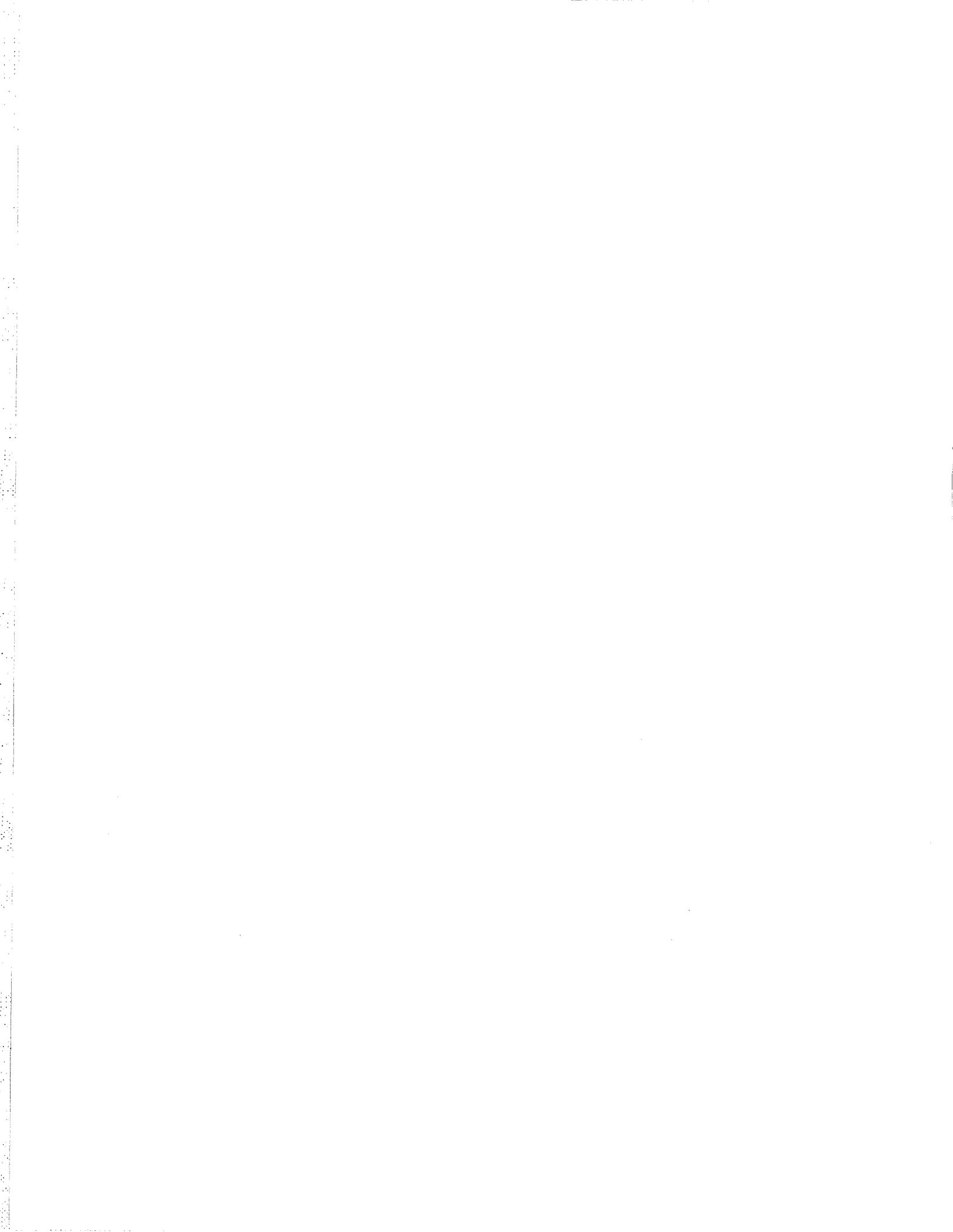
Under another provision of FIRREA, the Council developed a seminar on risk management planning for executives of depository institutions. The seminar was designed to provide a conceptual framework that will help depository institutions develop a systematic approach to managing risk for their institutions. The first seminar was offered to approximately 100 executives in December 1990. Additional seminars will be scheduled for 1991.

FIRREA mandated the establishment of the Appraisal Subcommittee of the Council. The Subcommittee assignments included monitoring state certification standards for

real estate appraisers, coordinating the development of appraisal standards for federally related transactions, and maintaining a national registry of certified and licensed appraisers. The Subcommittee developed draft appraisal regulations and each Council agency adopted substantially similar regulations. The Subcommittee staff developed administrative procedures, furnished timely reports to Congress, and put staffing plans in place during 1990.

At the direction of the Council, a task force studied how best to integrate thrift and bank data into the Uniform Bank Performance Report system. As a result of that study the Council directed the task force to explore the development of a new common core report for banks and thrifts. This effort will go forward in 1991.

Bank holding companies have banking subsidiaries, both National and State, operating in a number of states. Effective supervision of these entities requires good coordination among the various state and federal regulators. The Council has taken the lead in achieving this coordination. With the cooperation of the State Liaison Committee, a pilot program of interstate bank holding company examinations was conducted jointly by federal and state regulatory agencies. The Council has agreed to support an expanded program in 1991.



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# THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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The Federal Financial Institutions Examination Council ("Council") was established on March 10, 1979, pursuant to title X of Public Law 95-630, the 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, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the non-financial institution subsidiaries of those institutions and holding companies. It conducts schools for examiners employed by the five agencies represented on the Council and makes those schools available to employees of state financial-institution supervisory agencies. It was the overall intent of the legislation that the Council promote consistency in federal examinations and

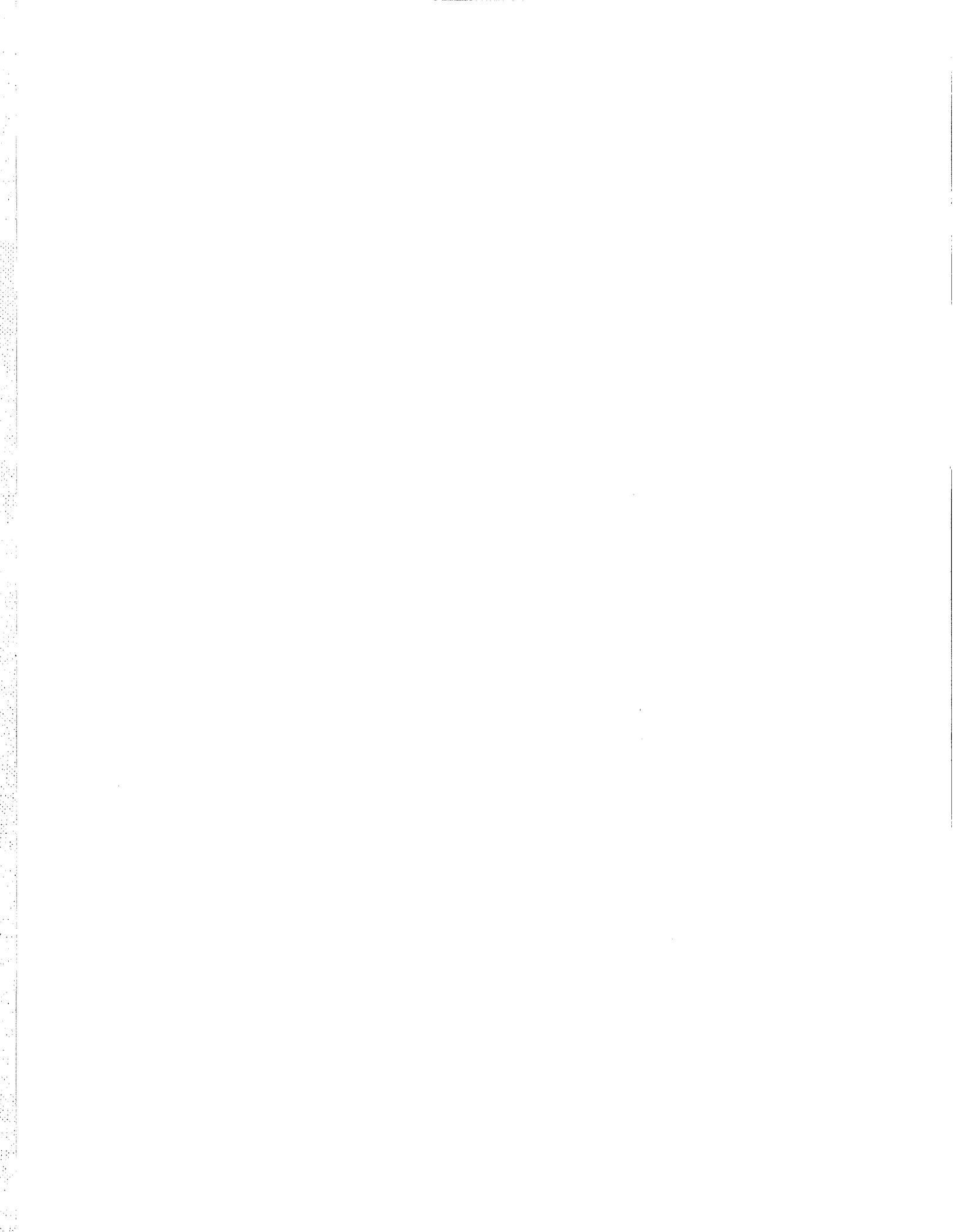
progressive and vigilant supervision. Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), the Council was authorized to develop and administer training seminars in risk management for the employees of the agencies represented on the Council and the employees of insured financial institutions.

The Council was given additional statutory responsibilities under the Housing and Community Development Act of 1980 (section 340 of Public Law 96-399, October 8, 1980). Among these responsibilities 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.

In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Examination Council. The functions of the subcommittee are (1) monitoring the requirements established by states for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related transactions, including a

code of professional responsibility; (2) monitoring the appraisal standards established by the federal financial institutions regulatory agencies and the Resolution Trust Corporation; (3) maintaining a national registry of state-certified and -licensed appraisers who are eligible to perform appraisals in federally related transactions; and (4) monitoring the practices, procedures, activities, and organizational structure of the Appraisal Foundation, a nonprofit educational corporation established by the appraisal industry in the United States.

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



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# RECORD OF ACTIONS OF THE COUNCIL

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*The Examination Council in Session, December 7, 1990.*

Following is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1990 pursuant to sections 1006, 1007, and 1009A of Public Law 95-630; section 340 of Public Law 96-399 (Housing and Community Development Act of 1980); and section 1104(a) of Public Law 101-73 (Financial Institutions Reform, Recovery and Enforcement Act of 1989).

## **February 16**

*Action.* Unanimously approved the 1989 annual report of the Council to the Congress.

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

## **March 30**

*Action.* Unanimously approved a confidentiality agreement that is designed to facilitate the transfer of confidential supervisory information from the five agencies represented on the Council to the Federal Home Loan Banks.

*Explanation.* The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) expanded eligibility for membership in the Federal Home Loan Banks (FHLBs) to include insured depository institutions, such as commercial banks, that had not previously been eligible for membership.

Section 719 of FIRREA requires the five agencies represented on the Council to make available to the FHLBs reports, records, or other information relating to the condition of any member of any FHLB. The Council believed, therefore, that an agreement between the

agencies and the FHLBs was needed to establish certain controls and conditions for the release of confidential information.

The agreement was signed by the five agencies and the twelve FHLBs. It describes the type of information that will be provided to the FHLBs and states that the FHLBs may not release the confidential information provided to them without the submitting agency's permission. The agreement also limits the FHLBs' use of the information to the following FHLB activities: (1) evaluating membership applications, (2) determining FHLB director eligibility, (3) making extensions of credit, and (4) valuing collateral.

## **April 20**

*Action.* Unanimously approved a recommendation to the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of

the Comptroller of the Currency, and Office of Thrift Supervision that they adopt (1) a revised Community Reinvestment Act (CRA) rating system and (2) guidelines for public disclosure of CRA examination ratings and written evaluations. (All four agencies approved the Council's recommendation).

*Explanation.* FIRREA amended the Community Reinvestment Act (CRA) to require that the federal regulatory agencies disclose an institution's CRA rating to the public and provide a written evaluation of an institution's CRA performance using a four-tiered descriptive rating system rather than the existing five-tiered numerical rating system.

On December 22, 1989, the Council issued for public comment its proposed CRA guidelines and rating system. After review of the public comments, the Council made two significant changes to the original proposal: (1) a financial institution will be required to place its CRA evaluations in the CRA public file at the head office and at one designated office in each local community in which it has offices (the original proposal called for disclosure only at the head office) and (2) a financial institution will be given 30 business days (instead of 30 calendar days) to place its evaluation in the CRA public file.

The new CRA rating system and disclosure procedures were implemented for all CRA examinations conducted by the agencies on or after July 1, 1990.

*Action.* Unanimously approved a recommendation to the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision that they amend their Community Reinvestment Act (CRA) regulations to provide for enforcement of the CRA disclosure procedures approved by the Council. (All four agencies approved the Council's recommendation).

*Explanation.* The amendments to CRA contained in FIRREA provide for the public disclosure of CRA examination ratings and written evaluations. The Council's recommended changes to the agencies' CRA regulations implement the decisions made by the Council regarding CRA disclosure procedures (see preceding Council action). The amendments are to become effective July 1, 1990.

*Action.* Unanimously approved the addition of a separate slipsheet in the Call Report to implement a requirement that banks give notice if their growth in assets exceeds certain levels.

*Explanation.* On April 3, 1990, the Federal Deposit Insurance Corporation (FDIC) adopted a rule under which banks must give the FDIC 30 days' advance notice when they plan to increase their assets by 7.5 percent or more over any three-month period through the solicitation of fully insured brokered deposits, fully insured out-of-territory deposits, or secured borrowings (including repurchase agreements). The notice can be provided to the FDIC through an affirmative response to a question on the Call Report.

## June 19

*Action.* Unanimously approved the issuance for public comment of a document that requests comments on issues related to recourse arrangements.

*Explanation.* The five agencies represented on the Council are considering issuing regulations or guidelines to address the regulatory capital treatment of recourse arrangements for depository institutions and bank holding companies. The agencies are also considering revising the regulatory reporting requirements applicable to asset transfers with recourse and revising the lending-limit treatment of recourse arrangements for national banks and savings associations.

The document now being issued for comment is an extension of the staff paper on asset sales with recourse that was released by the Council in December 1989. It is a continuation of the effort by the Council and the agencies to develop common definitions and treatments on recourse arrangements, where appropriate.

The term "recourse" refers to a financial institution's acceptance, assumption, or retention of some or all of the risk of loss associated with ownership of an asset, whether the institution owns or has ever owned the asset. Recourse arrangements are occurring with greater frequency, particularly in connection with asset-securitization programs. The Council and the agencies recognize that recourse arrangements involve risk and believe it is appropriate for financial institutions to report the existence of risk and for the agencies to consider risk when evaluating capital adequacy.

*Action.* Unanimously approved new formats for the Home Mortgage Disclosure Act (HMDA) disclosure statements for individual lenders and for the aggregate reports for the metropolitan statistical areas (MSAs). Also approved the public release of edited raw data from the loan/application registers.

*Explanation.* FIRREA amended the HMDA to (1) expand the coverage of the HMDA to include lenders that are not affiliated with financial institutions or their holding companies; (2) require covered institutions to report data on the disposition of applications for home-purchase and home-improvement loans and on the race or national origin, sex, and income of applicants and borrowers; (3) require the reporting of the type of purchaser of loans that are sold; and (4) permit optional reporting of the reasons for loan denials.

In December 1989, the Federal Reserve Board published final revisions to Regulation C, which implements HMDA, to reflect the FIRREA

amendments. Under revised Regulation C, lenders must use a prescribed loan/application register to record data for each loan application beginning January 1, 1990. By March 1, 1991, each institution must submit its 1990 registers to its supervisory agency.

The Council will take the data from the registers and produce disclosure statements that cross-tabulate the data for each institution. These statements will be sent to the institutions, which must make them available to the public, upon request, within 30 days of receipt. As required by HMDA, the Council will also prepare aggregate reports of all covered lenders in each MSA. These aggregate MSA reports will be identical in format to the disclosure statements for each financial institution. The aggregate reports, along with copies of the individual disclosure statements, will be made available to the public at central data depositories located in each MSA.

The HMDA aggregate reports and individual disclosure statements produced by the Council are used by community organizations, governmental agencies, and others to evaluate the performance of individual lending institutions in making housing-related loans available in the communities where they are located.

The Council also decided that it would make available to the public, in electronic form at cost, the raw data from the registers, with any information identifying individual loan applicants deleted. The Council believes that the release of the raw-data files is consistent with the statutory directive to maximize public disclosure of the HMDA data.

*Action.* Unanimously approved a report to Congress on the Council's plans to conduct risk-management training for industry executives and on the issue of developing a program for certification of risk-management analysts.

*Explanation.* Section 1218 of FIRREA stated that the Council shall "develop and administer training seminars in risk management for its employees and the employees of insured financial institutions" and "conduct a study on the feasibility and appropriateness of establishing a formalized risk management training program designed to lead to the certification of Risk Management Analysts."

In its report, the Council concluded that the current examiner-training programs of the Council and its member agencies provide a substantial amount of risk-management training for examiners. Although these programs currently appear to be adequate, the Council said it would continue to consider ways in which those programs can be augmented.

The Council said that it would offer seminars on risk management for the employees of insured financial institutions. The seminars will be aimed at executive management and will emphasize how to assess the risk-management system at an institution, structure a good risk-management system, and institute such a system. The first seminar was conducted on December 13 and 14, 1990, and three seminars are planned for 1991.

The Council indicated that it would not, at this time, institute a formal risk-management training program leading to the certification of risk-management analysts. Such certification programs are currently being considered in the private sector, and the Council is reluctant to duplicate those efforts. The Council intends to monitor these private-sector initiatives.

#### **August 20**

*Action.* Approved by a 4-0 vote a Supervisory Policy Statement on Interest-Rate Risk.

*Explanation.* Interest-rate risk is one of the most significant risks to which financial institutions are

exposed. The policy statement emphasizes the importance of managing and controlling interest-rate risk. It notes that boards of directors of financial institutions have certain responsibilities in this area and cites the major elements of a sound program for measuring and controlling risk.

Because some of the agencies represented on the Council already had policy statements on interest-rate risk in place, the Council decided that it would not formally recommend that the agencies adopt its statement. Rather, the Council said that each agency could use the statement in any manner it deemed appropriate.

#### **October 26**

*Action.* Unanimously approved the appointment of Fred Finke, Office of the Comptroller of the Currency, as Acting Chair of the Appraisal Subcommittee.

*Explanation.* Mr. Finke was appointed to replace Subcommittee Chair Kevin M. Blakely, who resigned from the Office of the Comptroller of the Currency. Mr. Finke is to serve until a permanent Subcommittee Chair is selected by the Council.

#### **December 7**

*Action.* Unanimously approved a recommendation that the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision prepare and make publicly available—at least quarterly—lists of institutions that have been examined under the post-July 1 Community Reinvestment Act (CRA) examination process. (All four agencies approved the Council's recommendation.)

*Explanation.* FIRREA mandated the public release of agency CRA examination ratings and written evalua-



*NCUA Chairman Jepsen, FDIC Director of Supervision Fritts, and OCC Senior Deputy Comptroller Krause at a Council meeting.*

tions for CRA examinations conducted after July 1, 1990. The Council approved the release of information on institutions that have been examined in order to minimize the agencies' costs of responding to Freedom of Information Act requests and to minimize the burden on the public of obtaining information about institutions that have had CRA examinations conducted by the agencies.

Under the policy approved by the Council, each agency will prepare a list, at least quarterly, of the institutions that have a CRA performance evaluation available for public review. The list would contain the names of the institutions and their city/state addresses, but would not contain the institutions' CRA performance ratings. Each agency would make its lists publicly available on a national or regional basis, in the manner that the agency determines is most expeditious.

*Action.* Unanimously approved sending a letter to the Federal Reserve Board expressing the Council's view that (1) financial institutions should not be required to

make the new Home Mortgage Disclosure Act (HMDA) registers available to the public, compiled by census tract, at the same time that the data are submitted to the supervisory agencies and (2) the elapsed time between the date a loan application is received by a financial institution and the date of final disposition of the application should not be included in the data tape to be released by the Council.

*Explanation.* On September 10, 1990, Federal Reserve Board staff hosted a meeting attended by representatives of community organizations, academicians, and other users of the HMDA data. At the meeting, the group members asked that the Federal Reserve Board require financial institutions to make their new HMDA loan/application registers available to the public and that the intervals between receipt and disposition of loan applications be included in the data tape to be released by the Council. (Both of these dates are reported on the institutions' loan registers.) In response to these requests, Federal Reserve Board staff agreed to seek the views of the Examination Coun-

cil because institutions supervised by four of the agencies represented on the Council would be affected by any Board decision in this area.

The Council believes that financial institutions should not be required to make their HMDA registers available to the public. The Council is concerned about the sizable additional burden that such a requirement would impose. Requiring institutions to group the data on their registers by census tract and type of loan would add considerably to the reporting burden. Moreover, many institutions maintain separate registers at each of their branches, and the data may be recorded in different departments of the institutions, e.g., mortgage, consumer, and commercial lending departments. If the data were to be made public as requested, institutions would have to combine all of their departmental registers into one and break out the data for each metropolitan statistical area. They would also have to remove any customer-identifying information and ensure that copies of the data were made publicly available in all of the required locations.

In general, the Council believes that the current approach of employing loan registers and providing for the institutions' HMDA disclosure statements to be prepared by the Council strikes an appropriate balance between increased public disclosure and limiting reporting burden. However, because users of HMDA data want to have access to the data as soon as possible, the Council has asked its staff to explore the feasibility of releasing edited, raw HMDA data by October 1 of each year, provided that this would not delay the availability of the Council's disclosure statements.

The Council said that it is opposed to including on its data tape the intervals between the loan application and disposition dates because such data could be very misleading. Even within an institution, the intervals may vary widely for reasons

other than unlawful discrimination. For example, extra information requests (such as multiple employment verifications) may have been necessary to complete the processing of an application or needed insurance approvals may have been delayed. Consequently, to identify possible discriminatory practices, a thorough analysis of specific loan files is necessary, and the public does not have access to those files. The Council understands that the agencies plan to have their examiners review the intervals data along with other relevant information in order to identify possible discriminatory practices.

*Action.* Unanimously agreed to support a joint effort by the federal and state supervisory agencies to implement coordinated examinations of interstate bank holding companies.

*Explanation.* Bank holding companies may have banking and non-banking subsidiaries operating in a number of states. As a result, parts or all of the holding company organization may be supervised by multiple state and federal regulators. It is important, therefore, to ensure effective planning and coordination of such examinations to ensure that federal and state agency resources are used most effectively.

In 1979, the Council approved a Policy Statement on Coordination of Bank Holding Company Inspections and Subsidiary Lead Bank Examinations, which applied to the three federal bank regulatory agencies. Under this policy, supervisory officials at each agency were to meet at least semiannually to schedule coordinated bank holding company inspections and subsidiary lead bank examinations for certain interstate holding companies.

At the December 13, 1988, Council meeting, the Council's State Liaison Committee invited the three federal bank regulatory agencies to join with the states in meetings to arrange scheduling of interstate examina-

tions of bank holding companies. During 1989, a pilot program of interstate bank holding company examinations was conducted jointly by federal and state regulatory agencies. At the December 7, 1990, Council meeting, the State Liaison Committee said the results of the pilot program were positive and suggested that an expanded program be conducted in 1991. The Council agreed to support the program, and the State Liaison Committee is to report to the Council at the end of 1991 on the effectiveness of the program.

*Action.* Unanimously approved issuing for public comment a Supervisory Policy Statement on Selection of Securities Dealers, Securities Portfolio Policies and Strategies, and Unsuitable Investment Practices, and Stripped Mortgage-Backed Securities, Certain CMO Tranches, Residuals, and Zero-Coupon Bonds.

*Explanation.* On March 11, 1988, the Council approved a Supervisory Policy Statement on Selection of Securities Dealers and Unsuitable Investment Practices and recommended its adoption by the agencies represented on the Council, except the Federal Home Loan Bank Board (FHLBB). The FHLBB was working toward a modified version of the policy for the institutions it supervises and in December 1988 issued guidance in this area through Thrift Bulletin 12, "Mortgage Derivative Products and Mortgage Swaps." The Office of Thrift Supervision issued further guidance in December 1989 through Thrift Bulletin 41, "Interim Guidelines for Securities Portfolio Policies and Strategies."

The supervisory policy statement being issued for comment updates the Council's 1988 statement and promotes uniform supervisory treatment by the five agencies represented on the Council. The new statement recommends procedures to be used by financial institutions in selecting securities dealers; requires the docu-

mentation of prudent securities policies and strategies; requires securities to be reported as held for investment, sale, or trading in a manner consistent with the documented policies and strategies; identifies specific trading or sales practices that are considered unsuitable when conducted in an investment portfolio; and identifies the types of securities containing volatile price or other high-risk characteristics that may be unsuitable investments for depository institutions.

*Action.* Unanimously approved issuing for public comment a proposal under which all banks would be required to submit their Call Reports electronically.

*Explanation.* In June 1987, the Examination Council approved the development of a system that permitted commercial and savings banks to submit their Call Reports electronically to the federal bank supervisory agencies. The new system became operational for the March 31, 1988, Call Reports.

Since banks were first permitted to file their Call Reports electronically, the number of banks doing so has increased from about 750 to about 3,000. This level of participation is considerably lower than had been anticipated when the Council authorized the program.

Given the current state of computer and communications technology and the reasonable costs of obtaining the equipment and software to participate in the program, the Council believes it is appropriate to require banks to submit their Call Reports electronically using software that they have purchased from a vendor or developed themselves. Under the proposal issued by the Council for comment, banks with assets of \$100 million or more would be required to file electronically by March 31, 1992; by March 31, 1993, the requirement would be extended to banks with assets of \$50 million or more; and all banks would be required to file electronically by March 31, 1994.

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## **Actions Taken by the Council's Task Forces under Delegated Authority**

### **Task Force on Consumer Compliance**

- January 11—Approved a one-time CRA training session to train examiners for new CRA requirements mandated by FIRREA.
- April 20—Approved revised Federal Reserve Regulation Z examination procedures.
- May 18—Approved revised Community Reinvestment Act examination procedures.
- May 18—Approved new supplements to Regulation Z examination procedures covering home equity loans and credit and charge cards.
- May 21—Approved a revised edition of *A Guide to HMDA Reporting: Getting It Right!*
- June 8—Approved revised Expedited Funds Availability Act examination procedures.

- September 19—Approved examination objectives and procedures for rate adjustments on variable-rate loans.
- October 26—Approved a community-contact form for agency use in exchanging information on community contacts made in connection with agency activities under the Community Reinvestment Act of 1977.

### **Task Force on Examiner Education**

- April 19—Approved the program for a Risk Management Seminar to be conducted for senior executives of financial institutions.
- December 20—Approved a new course entitled "Testifying" to help examiners prepare for required court appearances.

### **Task Force on Reports**

- February 15—Adopted instructions relating to the changes to

the bank Call Report effective March 31, 1990.

- June 19—Adopted Call Report instructions for foreign-debt-exchange transactions, including debt-for-development swaps.
- September 13—Adopted revisions to the reporting requirements for the Foreign Branch Report of Condition effective December 31, 1990.
- December 12—Adopted revisions to the reporting requirements for the bank Call Report to become effective in 1991.

### **Task Force on Supervision**

- January 11—Approved an Inter-agency Policy Statement on EDP Service Contracts.
- March 20—Approved an Inter-agency Policy Statement on Strategic Information Systems Planning for Financial Institutions.
- June 29—Approved the Shared Application Software Review Program.

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# STATE LIAISON COMMITTEE REPORT

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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 SLC believes that the Council can effectively coordinate activities among the federal agencies and between federal agencies and their state counterparts to economize on the combined state and federal resources devoted to the supervision and regulation of financial institutions.

The Council provides the SLC with a staff position. 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.

## Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for

an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as Chair for a period of 12 months. Of the five members, two are selected by the Council. The other three are individually designated by the American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the National Association of State Credit Union Supervisors (NASCUS). A list of the SLC members appears on page 12 of this report.

## Participation in Examination Council Activities

During 1990, the SLC made significant contributions toward the goals of fostering state and federal cooperation and reducing duplication of supervisory efforts. The SLC introduced several key proposals to the Council and completed projects affecting states.

In 1990, the SLC initiated a pilot project to coordinate examinations of multistate, multiclass institutions. The pilot program was an interstate effort involving the cooperation of federal and state regulators in 20 states supervising nine banking companies. Since the initial effort in early 1990, the states have initiated an information-sharing agreement among each of the 50 states. Because of the success of the pilot program, the Council, at the request of the SLC, agreed to expand the program in 1991.

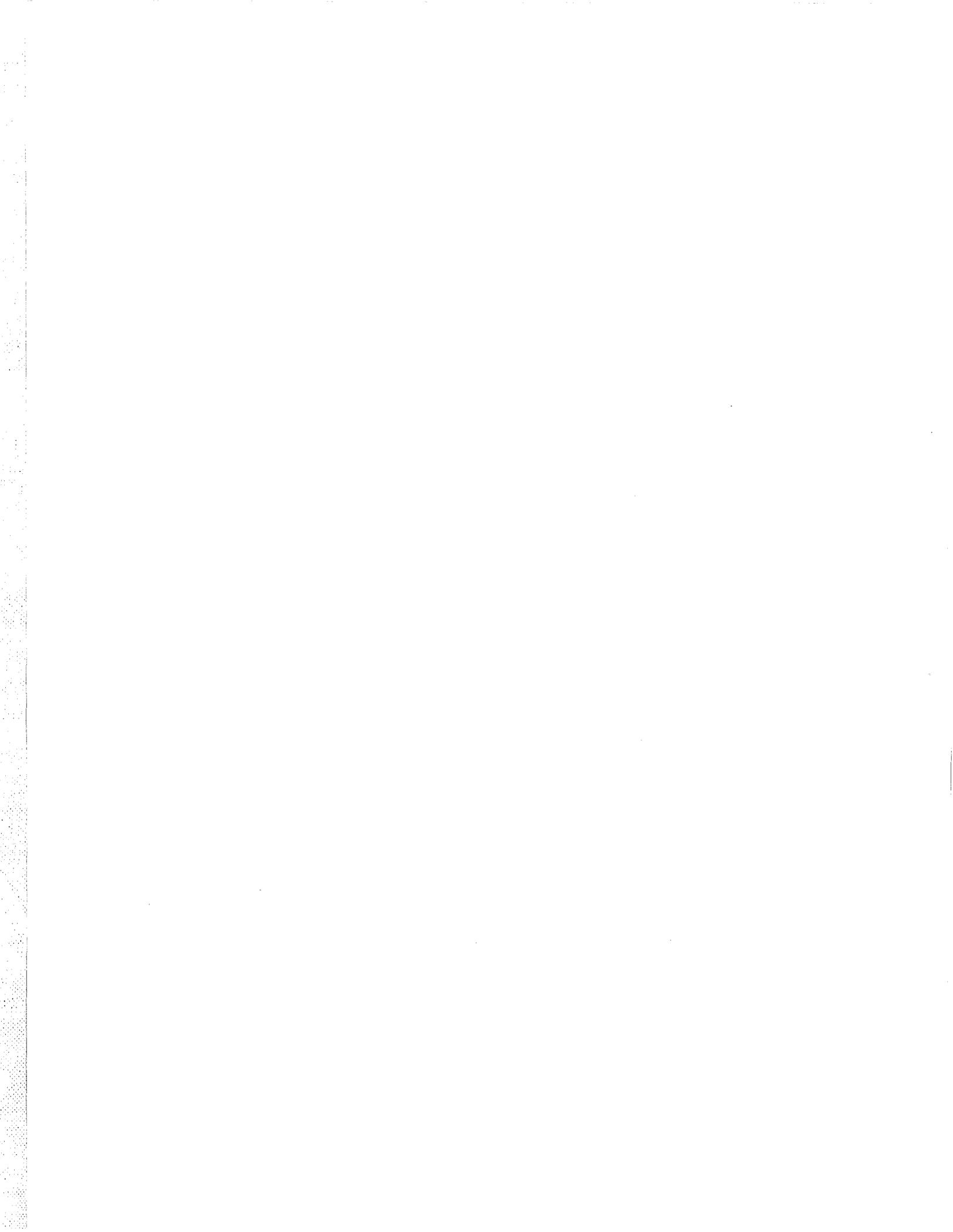
In early 1990, when a focus group was convened to determine the direction to be recommended to the

Council on the risk-management training mandated by FIRREA, a representative of the State Liaison Committee provided the state perspective. The recommendations made by the focus group played a key role in the initial risk-management training seminar that was conducted in December 1990.

In a discussion of the new regulatory requirements for the Community Reinvestment Act (CRA), the SLC provided state experiences in publishing lists of institutions examined for CRA and disclosing the CRA ratings. The SLC provided input in the discussion of the geographic analysis of lending by an institution, noting the concerns community bankers have for potential costs of the undertaking, and suggested that banks be approached for an estimate of the costs of such an analysis.

At the December Council meeting, the SLC proposed that the Council include the Interagency Country Exposure Review Committee (ICERC) as a Council function and expand the committee to allow state member participation. ICERC has been requested to consider the proposal in the near future.

The SLC also supported the recommendation of the Reports Task Force to have the Council phase in mandated electronic submission of Call Reports. Currently, a number of banking institutions provide the data electronically, and the SLC feels an increase in the number of electronic reporters will help both state and federal agencies obtain the information in a more timely fashion.



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## ADMINISTRATION OF THE COUNCIL

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*Council Chairman Clarke and Executive Secretary Lawrence.*

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. The Council also receives reimbursement for the services it provides in support of preparation of the quarterly Uniform Bank Performance Report, and tuition fees from nonagency attendees cover some of the costs associated with the Council's examiner-education program.

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 administrative staff in its operations office, and its examiner-education program is administered by Council

staff located at its Examiner Training Facility in Rosslyn, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council. All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are 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 activities 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; and
- manage the Council's examiner-education program.

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 1990 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 1990 would have been impossible.

### Organization, December 31, 1990

#### Members of the Council

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

John P. LaWare, *Vice Chairman*  
Member  
Board of Governors of the  
Federal Reserve System (FRB)

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

T. Timothy Ryan  
Director  
Office of Thrift Supervision (OTS)

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

#### State Liaison Committee

John R. Hale, *Chairman*  
Credit Union Commissioner  
Texas

Sidney A. Bailey  
Commissioner of Financial  
Institutions  
Virginia

Sandra K. Branson  
Director, Division of  
Credit Unions  
Missouri

Jill M. Considine  
Superintendent of Banks  
New York

L. Scott Walshaw  
Commissioner, Financial  
Institutions Division  
Nevada

#### Council Staff Officers

Robert J. Lawrence  
*Executive Secretary*

Keith J. Todd  
*SLC Coordinator and  
Assistant Executive Secretary*

#### Interagency Staff Groups

##### *Agency Liaison Group*

Joe M. Cleaver (FRB)  
Jonathan L. Fiechter (OTS)  
Paul G. Fritts (FDIC)  
Susan F. Krause (OCC)  
D. Michael Riley (NCUA)

##### *Legal Advisory Group*

Paul Allan Schott, *Chairman* (OCC)  
Robert M. Fenner (NCUA)  
Douglas H. Jones (FDIC)  
J. Virgil Mattingly (FRB)  
Harris Weinstein (OTS)

##### *Consumer Compliance Task Force*

Glenn E. Loney, *Chairman* (FRB)  
Jerauld C. Kluckman (OTS)  
John H. McDowell (OCC)  
William P. Ryan (NCUA)  
Janice M. Smith (FDIC)

##### *Examiner Education Task Force*

Joe M. Cleaver, *Chairman* (FRB)  
Gene Byrne (OTS)  
Martin F. Kushner (NCUA)  
Robert J. Ruff (FDIC)  
Elaine Waldstreicher (OCC)

##### *Reports Task Force*

Robert F. Storch, *Chairman* (FDIC)  
Karen Kelbly (NCUA)  
David C. Motter (OCC)  
Rhoger H. Pugh (FRB)  
John F. Robinson (OTS)

##### *Supervision Task Force*

Jonathan L. Fiechter, *Chairman* (OTS)  
Paul G. Fritts (FDIC)  
Susan F. Krause (OCC)  
David M. Marquis (NCUA)  
William Taylor (FRB)

##### *Surveillance Systems Task Force*

Kathleen M. Cahill, *Chairwoman*  
(OCC)  
Herbert A. Biern (FRB)  
Thomas A. Loeffler (OTS)  
Lita M. Stum (FDIC)  
Alonzo Swann (NCUA)

#### Members of the Appraisal Subcommittee

Fred Finke, *Acting Chairman* (OCC)  
Edward Baker (HUD)  
Roger T. Cole (FRB)  
Diana Garmus (OTS)  
Timothy P. Hornbrook (NCUA)  
Robert F. Mialovich (FDIC)



*The Appraisal Subcommittee in session*

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## ACTIVITIES OF THE INTERAGENCY STAFF GROUPS

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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.

In June 1989, the Council created an ad hoc interagency staff working group to examine all of the issues

associated with sales of assets with recourse within a risk-based capital framework. The study has since been broadened to include all recourse questions. The Council issued a Request for Comment on Recourse Arrangements in June 1990. It is expected that work on this project will be completed in 1991.

### **Task Force on Consumer Compliance**

During 1990, the task force engaged in various initiatives developed in response to 1989 legislation affecting consumer compliance and the Community Reinvestment Act.

In response to the amended provisions to the Community Reinvestment Act of 1977, mandated by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the task force's CRA Subcommittee completed the development of a standardized interagency rating system, uniform guidelines for the disclosure of written CRA evaluations, and a set of uniform amendments to the agencies' CRA regulations. The Council approved these measures at its April 20, 1990, meeting. At the June 29 meeting, the Council then approved the promulgation of an interim rule to implement the amendments to the Act. Other subcommittee efforts included the development of a training program to instruct staff at each agency in the preparation of the written evaluations. Training was administered in a series of sessions held in the second quarter of the year and was completed on June 1, 1990. In a related matter, the Council adopted a task force recommendation that each agency provide to the public a list, to be updated at least quarterly, of institutions with CRA performance evaluations

becoming publicly available during that quarter.

Further recommendations made by the task force included policy and procedural changes to the administration and enforcement of the Home Mortgage Disclosure Act as necessitated by the 1989 legislative amendments. Those amendments now require nondepository mortgage lenders that are not affiliates of depository institutions or their holding companies to report HMDA data, and expands the amount of information that must be reported to include the race, sex, and income of all applicants for loans covered by the law. The task force's HMDA Subcommittee completed work on new aggregation tables containing the reported information. The Council then approved the tables at its June 19 meeting and agreed to make edited raw HMDA data publicly available.

A considerable share of the task force's resources were committed to the review and revision of examination procedures. A subgroup is reviewing modifications to the HMDA examination procedures which will incorporate the changes required by FIRREA and, in addition, is updating examination procedures to accommodate recent amendments to the Expedited Funds Availability Act. Modifications were made to Regulation Z examination procedures to conform with recent legislative amendments regarding credit card disclosures and home equity loan protections. In addition, new examination procedures are being drafted to correspond to provisions of the National Affordable Housing Act of 1990, a portion of which amended the Real Estate Settlement Procedures Act.

Policy matters considered included a Council-endorsed proposal to share

community-contact information among the agencies, implemented as part of the agencies' efforts to ensure financial institutions' compliance with fair lending laws and the Community Reinvestment Act. Still under review is the extent and proper treatment of interest-rate-adjustment errors for adjustable-rate mortgages.

Two publications were issued in 1990: *HMDA Reporting, Getting It Right!*, a manual of instructions for completion of the new disclosure statements, and *Community Reinvestment Act Performance Evaluations*, designed to explain the new rating system and disclosure process.

### **Task Force on Examiner Education**

The Council develops and offers a wide variety of courses and conferences that are aimed at member-agency, financial-institution examiners and other agency staff. These programs are designed to enable examiners to understand better the banking innovations they encounter and to keep abreast of legal and regulatory changes. The programs are also open to state and foreign financial-institution examiners. State examiners generally register through a member agency but may register directly with the Council. Programs are also attended by staff from the Farm Credit Administration and occasionally the Secret Service and the Treasury Department.

Since its inception in 1979, the Council has provided training to 25,731 students. In recent years, the Council's training volume has ranged from 3,000 to 4,000 students per year. During 1990, a curriculum of 15 courses and conferences was available. The instructor cadre consists of examiners and other staff from the member agencies, the states, and other participating agencies. Industry specialists serve as guest speakers in many of the programs. Interagency course-

development groups provide guidance on selection of topics and guest speakers.

The goals of the training program are—

- to develop and offer high-quality courses, seminars, and conferences that meet the needs of financial-institution examiners;
- to provide training opportunities for state and foreign financial-institution supervisory agencies;
- to promote training efficiency by eliminating duplication where agencies' training needs coincide; and
- to foster uniformity of examiner education through joint sponsorship of interagency training.

Programs are of high quality and are devoted entirely to the needs of examiners. Because the pool of potential instructors is larger when many agencies are involved, it is easier to select the appropriate specialist and the quality of instruction is greatly enhanced. This also reduces the teaching burden on an individual agency.

### **Costs**

Another benefit of interagency training is that it is often less costly to offer one course on behalf of several agencies than to have each agency conduct courses on the same subject. An agency which has little expertise in a new specialized area can have quick and inexpensive access to the needed training.

Participating agencies and states provide most of the instructors, thus keeping costs low. Each agency provides financial support for the interagency school in proportion to planned utilization by the agency.

For 1990, the average cost per attendee at a course was approximately \$200 for each course attendee and \$300 per conference attendee. Attendees from agencies other

than federal and state financial institution supervisory agencies pay \$300 for course attendance and \$400 for conference attendance.

### **Facilities**

The Council leases approximately 9,250 square feet of training and office space in Rosslyn, Virginia, including two large classrooms and numerous break-out rooms. When additional classrooms are needed, they are borrowed from the FDIC, which has training facilities adjoining those of the Council. Conferences held in Washington are usually conducted in auditoriums provided without cost by the participating agencies. Regional programs are usually conducted at the regional or district offices of the member agencies.

Beginning in April 1991, the Council training staff will relocate its operations to the new FDIC facility at the Virginia Square Metro Station in Arlington, Virginia. This will provide convenient access to a new 100-seat auditorium and a lodging facility. The Council will lease its office and classroom space at market rates and will have a more up-to-date facility.

### **New Programs in 1990**

There were two new program initiatives during 1990: Risk Management Planning for banking and thrift industry executives and a Testifying workshop for examiners. In addition, the Council administered several seminars for the Task Force on Consumer Compliance.

#### *Risk Management Training for the Banking Industry*

In response to FIRREA section 1218, the Council developed and conducted a seminar, Risk Management Planning, aimed at the chief executive officer or other executive officers of financial institutions. The goals of the seminar were—

- to encourage top management to evaluate its present risk-management systems;
- to provide a conceptual framework that can guide financial institutions in developing a systematic approach to managing risk on a bank-wide basis; and
- to encourage full dialogue between executive management and outside directors regarding their institution's system of managing risks.

The first Risk-Management Planning seminar was conducted December 13 and 14 at the Board of Governors of the Federal Reserve System in Washington, D.C. In attendance were 100 executives from banks, savings and loans, savings banks, and credit unions, plus representatives of several trade associations that serve these segments of the industry.

The seminar was opened by U.S. Representative Jim Leach. Presentations were given by Examination Council Chairman Robert L. Clarke, Comptroller of the Currency, and Council Vice Chairman John P. LaWare, a member of the Federal Reserve Board. Leading bankers and consultants gave presentations on the following topics:

- The Risk-Management Process
- Risk Assessment and Risk Measurement
- Risk Control and Risk Financing
- Risk Financing and Capital Requirements
- Incorporating Risk in Product Evaluations
- Measuring and Reporting Interest-Rate Risk
- Case Study of One Bank's Risk-Management Systems
- Impact of the Risk-Management Culture

Other risk-management seminars are tentatively planned for 1991 and

will be held outside Washington, D.C. The content of the seminars is subject to change.

#### *Testifying Course*

This course was prepared in cooperation with the enforcement offices of the member agencies. It provides practice in organizing evidence and in giving testimony in a simulated deposition, hearing, or trial environment. The course stresses the skills necessary to give credible testimony at legal proceedings, and the target audience is examiners who are scheduled to give testimony in the near future. Through role playing, agency attorneys directly examine and cross-examine participants. These videotaped sessions are critiqued by U.S. Justice Department attorneys. Class lectures and discussions augment the skills training. One session is scheduled for each quarter of 1991.

#### *CRA Training for Examiners*

Under the aegis of the Task Force on Consumer Compliance, the Council training staff administered several regional seminars for examiners, bringing them up-to-date on the new examining and reporting requirements of the Community Reinvestment Act. Eight seminars were conducted in four cities, and 800 examiners were trained during a period of six weeks.

#### *Courses*

##### *Conducting Meetings with Management*

This one-week course gives participants practice and confidence in organizing and leading meetings with financial-institution management. Each attendee leads three meetings with small groups role-playing as officers of an institution. Difficult meeting circumstances and problem reports are the subjects of the exercises. Videotaped replays are used in post-presentation critiques. The target audience is com-

missioned examiners who are beginning to lead discussions with management and others who want to improve their meeting-leadership skills.

##### *EDP Symposium*

This is a week-long meeting of senior data processing examiners who address an emerging area of supervisory concern chosen by the EDP Subcommittee of the Task Force on Supervision. This is not a course in the usual sense. The flow of information is from the participants to the course leaders. During the week, the participants develop and refine a consensus report. The report is submitted to the Task Force on Supervision, which weighs its possible impact on examination policies and procedures. Attendance is limited to 16 leading EDP examiners per session. The session conducted in 1990 addressed mergers and acquisitions. This program is sponsored jointly with the Task Force on Supervision.

##### *Instructor Training*

Instructor Training is a one-week course that prepares participants for classroom teaching assignments. Attendees prepare lesson plans, give three classroom presentations, and critique videotaped replays of their presentations. They learn the techniques of lecturing, leading discussions, and integrating the use of audiovisual aids. Participants are experienced examiners and others who anticipate future teaching assignments in agency or Council courses.

##### *International Banking I*

In this one-week course, students learn the fundamental concepts, procedures, and terminology of international banking and the roles of the regulatory agencies in the international banking arena. Topics include country risk, international lending, trade finance, and foreign exchange. The prerequisite for attendance is a minimum of one

## FFIEC Actual Number of Attendees by Agency and by Course, 1990

Course	FDIC	FRB	OCC	OTS	NCUA	FCA	ACSSS	Other	Total	Number of Sessions
Management Workshop	185	41	149	32	9	20	4		440	19
Regionals	2	100		47					149	8
Instructor Training	69	39	66	9	2	25	1		211	13
Conducting Meetings		28		13	6		8		55	4
Regionals		180		4				36	220	19
International Banking I	57	38	37		2	2		2	138	5
International Banking II	41	34	31			3		2	111	4
International Capital Markets	14	29	26					1	70	2
Regionals	4	43	8						55	1
EDP Symposium	2	3	3	3					11	1
<b>Conferences</b>										
Off-Balance-Sheet Risk	212	81	93	19	11	2	4		422	7
Regionals	37	97	25						159	2
Payment Systems Risk	65	17	42	1	4			1	130	3
Trust	37	47	62	3				3	152	1
Information Systems & Technology	25	46	60	18	1	2	2	5	159	1
Income Property Lending	229	39	168	8	7		1		452	7
Regionals	20	46	10					2	78	1
White Collar Crime	192	98	91	93	10	31	27	1	543	8
Regionals	68	63	25	43	11				210	3
Testifying	4	3	4	4					15	1
<b>Totals</b>	<b>1,263</b>	<b>1,072</b>	<b>900</b>	<b>297</b>	<b>63</b>	<b>85</b>	<b>47</b>	<b>53</b>	<b>3,780</b>	<b>110</b>

year's experience as an examiner. It is also recommended that attendees have some prior international experience.

### *International Banking II*

The purpose of this four-day course is to build on the basic concepts learned in International Banking I and during on-the-job training. This course gives more advanced treatment to foreign exchange, international lending, country risk, and merchant banking. Case studies give the student analytical experience in these areas. Senior examiner specialists teach this course, aided in some sessions by an invited speaker from the banking industry. Participants must have completed the basic course, have one year of international examining experience, and have on-going professional responsibilities in international banking examination or supervision.

### *International Capital Markets*

The purpose of this one-week program is to focus on financial products currently used in interna-

tional banking. Topics may vary from session to session, but include currency and interest-rate swaps, stock and currency options, financial futures, and derivatives. Participants learn to analyze records of transactions, address regulatory concerns, and write any needed examination comments. Prerequisites include International Banking I and II, Off-Balance-Sheet Risk Conference, and ongoing professional responsibilities in capital-market activities.

### *Management Workshop*

This one-week course is a general skill-building course designed to strengthen and expand the practical application of basic management concepts. Attendees bring assessments of their skills completed by themselves and by colleagues or subordinates, administer self-assessment questionnaires, and participate in small-group discussion sessions. These assessments are scored and evaluated on scales that present a picture of one's management ability and style. Basic concepts are presented through lectures,

films, and videotapes. The desired results are an improved self-perception as a manager, greater knowledge of good management techniques, and improved management practices. As a prerequisite, participants should have between three and ten years' examining experience.

### Conferences

#### *Income-Property Lending*

This conference presents analytical techniques to equip examiners with the skills to assess the assumptions built into real estate market studies, feasibility studies, and appraisals. The course emphasizes appraisal analysis, construction lending, and construction-loan disbursement. Special consideration is given to the many apparently legitimate methods used by developers to appropriate loan proceeds for personal use. Additional topics vary from time to time but have included real estate law, workouts, and environmental issues. This conference is open only to commissioned examiners who have

considerable involvement with commercial real estate lending. Conference length may vary but is generally three and a half days.

#### *Information Systems and Technology*

The Information Systems and Technology Conference is designed to update senior data processing examiners on current developments in data processing, software, systems development, security controls, telecommunications, networks, auditing, computer fraud, switches, data center operations, and many other topics. The conference features guest speakers who are recognized authorities in their fields. Topics vary from session to session. One 4½-day session was conducted in 1990, as will be the case in 1991.

#### *International Banking*

The International Banking Conference is a three-day, advanced program dealing with international credit, legislative and regulatory issues, and recent international banking innovations. Speakers are leading international bankers and senior staff of the bank regulatory agencies. The conference is designed for those examiners who have ongoing responsibilities in the international banking or financial arenas. This conference is conducted as needed.

#### *Off-Balance-Sheet Risk*

The purpose of this conference is to improve examiners' understanding of the incentives for and implications of financial institutions' off-balance-sheet activities. Risk assessment of standby letters of credit, loan commitments, financial futures and options, foreign exchange, interest-rate swaps, and a wide range of other capital-market products is emphasized. This 3½-day conference is aimed at senior field examiners who need to learn more about the risks associated with off-balance-sheet activities.

#### *Payment-Systems Risk*

This conference improves examiners' understanding of the risks involved in payment systems, the methods used to minimize these risks, and the means of evaluating these risks in the examination process. Topics include functions of payment/settlement/message systems, risks associated with wire transfers, risks associated with daylight overdrafts, legal considerations, and potential insurance risks. The program is designed for field examiners who need a greater understanding of the risks associated with payment systems. In 1990, to facilitate attendance at both conferences, two sessions of Payment-Systems Risk were conducted immediately following Off-Balance-Sheet Risk conferences.

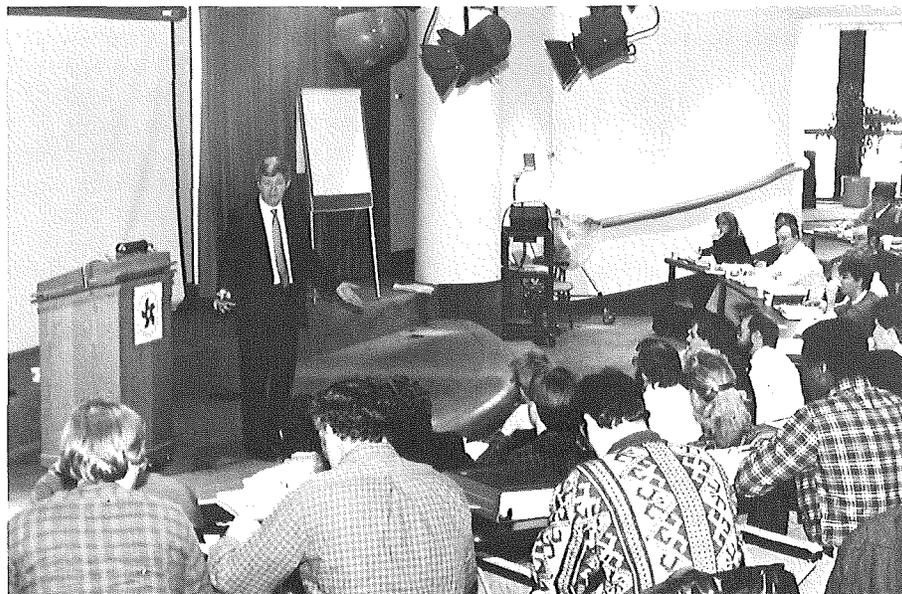
#### *Trust*

The Trust Conference emphasizes new initiatives affecting trust banking. Topics vary from session to session and feature guest speakers who are recognized leaders in the trust industry. Attendance is limited to senior examination personnel who examine fiduciary activities. Topics covered in the 1990 sessions were corporate trust, fiduciary liability, tax prob-

lems confronting trustees, global custody, mutual funds, and guaranteed investment contracts.

#### *White Collar Crime*

This conference became an inter-agency project as a result of the agencies' increased emphasis on detection of fraud and insider abuse. The conference is generally attended by senior examiners, although it is open to any examiner with at least two years' examining experience. This one-week conference covers major types of fraudulent activity and insider abuse, including real estate fraud, investment-securities fraud, computer fraud, and money laundering and the Bank Secrecy Act. Detection and investigation techniques are stressed. Red flags signaling institutional as well as individual types of fraud are discussed. Each attendee gains familiarity with the relevant criminal statutes as well as the preservation of evidence, interviewing, testifying, and working with the FBI. Cooperation between outside auditors and examiners and the prevention of fraud are also important considerations. Numerous sessions are conducted each year, and three regional sessions were conducted in 1990.



*FFIEC White Collar Crime Conference*

## Course Catalogue and Schedule

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

FFIEC Examiner Education  
3501 North Fairfax Drive, Room 3086  
Arlington, Virginia 22201

## 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 the 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. To help it carry out its responsibilities, the task force has established a subcommittee on instructions and accounting standards and another on edits for the Reports of Condition and Income (Call Reports). Working groups are also organized as needed to handle reporting, instructional, and processing matters of a specialized or technical nature.

## Activities of the Task Force

During 1990, the task force focused on the Call Reports filed by com-

mercial banks and FDIC-supervised savings banks and the Foreign Branch Report of Condition. With respect to the Call Reports, the task force completed the implementation of reporting requirements primarily related to risk-based capital and off-balance sheet items that became effective in the first quarter of 1990, approved revised reporting requirements for 1991 that are designed to improve the banking agencies' off-site analysis of real estate lending and related exposures and to track other indicators of asset quality, received Council approval for three measures pertaining to electronic submission, adopted instructions governing foreign-debt-exchange transactions, and continued its discussions on interest-rate-swap reporting standards.

Following approval from the Office of Management and Budget, reporting requirements approved by the Council in November 1989 took effect with the Call Reports for March 31, 1990. The principal feature of these changes was a new schedule (Schedule RC-R) to facilitate the measurement and monitoring of banks' risk-based capital levels that also achieved the banking agencies' stated goal of limiting the reporting burden that the risk-based capital framework imposes on banks, especially smaller banks. A central element of this new schedule is a simplified capital test for banks with less than \$1 billion in total assets, the outcome of which determines whether such banks are exempt from providing complete breakdowns of their assets and off-balance-sheet items by risk-weight category. Over 81 percent of these banks qualified for this exemption during 1990. In addition, the information reported in the risk-based capital schedule during the first three quarters of 1990 was accorded confidential treatment. Data from this schedule for individual banks became publicly available beginning with the reports for December 31, 1990, the date when banks were first required to achieve a specified

minimum capital ratio under the risk-based capital standards.

The first-quarter 1990 Call Report changes also involved the collection of additional data considered necessary for bank supervisory purposes, including a revised version of an existing off-balance-sheet schedule (Schedule RC-L) in order to more clearly identify the nature and extent of banks' off-balance-sheet activities. The remaining changes consisted of more detailed breakdowns in the securities schedule (Schedule RC-B) of bank holdings of U.S. government agency and corporation obligations and state and local government securities and modifications of existing items or the addition of new items in four other Call Report schedules. To provide banks with time to understand and prepare for all of these reporting requirements, the task force distributed samples of the new and revised Call Report schedules and the related instructions to banks on February 16, 1990.

During the third and fourth quarters of 1990, the task force distilled a variety of recommendations from Call Report users within the three banking agencies into a set of proposed changes to these reports for implementation in 1991. The proposals were then forwarded to the members of the Inter-Association Committee on Banking Accounting (which is composed of bankers from both large and small banks in different parts of the United States who serve on the accounting and/or reporting committees of several bank trade groups) for their review and comment in early November 1990. After considering the responses received from members of the Inter-Association Committee, the task force adopted various Call Report changes in December 1990. Subject to approval by the Office of Management and Budget, these changes generally become effective as of the March 31, 1991, report date. The reporting revisions largely address real estate lending and

related exposures as well as other asset-quality information, particularly in the area of highly leveraged transactions. Other changes are designed to enhance the banking agencies' understanding of banks' sources of noninterest income and expense, to permit more timely estimation of insured deposits within the banking system, and to provide data for use in economic analyses.

Approaching the expiration of its three-year contract with CompuServe, Inc., for electronic Call Report collection services, the Council in April 1990 approved the task force's recommendation to extend the contract for one year beginning in June 1990. During the remainder of the year, the task force considered the future direction of the electronic-submission program. Based on information received from the banking agencies' data processing staffs on their agencies' ability to take over the electronic-collection function from CompuServe, the task force concluded that the Council should continue to use a private-sector vendor as the collection agent for electronically submitted Call Reports. The Council concurred at its December 7, 1990, meeting, approving the issuance of a Request for Proposal (RFP) for electronic-collection services for a three-year period (with three one-year renewal options) beginning in June 1991. The RFP was issued in early January 1991, and the task force expects to make its recommendations on the awarding of a contract to the Council by the end of the first quarter of 1991.

In addition, the task force completed an evaluation of bank access to computer equipment and usage of Call Report preparation software, bank participation in the Council's electronic-submission program, and the program's costs and benefits to banks and the banking agencies. In doing so, the task force considered the results obtained by the staff of the Office of the Comptroller of the Currency from surveys

of national banks that use and do not use Call Report preparation software. Based on its evaluation, the task force recommended that the Council issue a request for public comment on a proposed timetable under which all banks would be required to submit their Call Reports electronically. The timetable calls for all banks with assets of more than \$100 million to submit their Call Reports electronically beginning March 31, 1992; all banks with assets of \$50 million or more, one year later; and all remaining banks, by March 31, 1994. At its December 7, 1990, meeting, the Council authorized the task force to draft for its review a *Federal Register* notice seeking comment on the proposed timetable. The task force expects to prepare this notice during the first quarter of 1991.

In response to the requirements of section 531 of the International Trade and Development Act of 1989, the task force adopted uniform guidelines concerning the bank regulatory accounting treatment of debt-for-development swaps involving repayment in local currency at the free-market rate. The uniform guidelines took the form of a new entry in the glossary of the Call Report instructions. This entry, approved by the task force in June 1991, describes the reporting treatment for foreign-debt-for-development swaps within the context of foreign-debt-exchange transactions and the generally accepted accounting principles applicable to them.

In November 1988, the Council approved the solicitation of public comment on proposed regulatory reporting standards for interest-rate swaps which, among other provisions, would preclude the recognition by swap dealers of arrangement fees and spread income at the inception of a swap. The task force continues to consider possible directions that regulatory reporting standards for swaps could take in light of both the 33 comment letters received and the supervisory concerns about the accounting practices

prevalent among swap-market participants. The task force discussed the proposed standards with the Council at its April 1990 meeting and with staff members from the Financial Accounting Standards Board in September 1990. Resolution of this proposal remains pending.

During the third quarter of 1990, a task force working group developed a proposed revision of the Foreign Branch Report of Condition (FFIEC 030). This report has in the past been prepared by the foreign branches of U.S. banks annually as of December 31. As approved by the task force in September 1990, modest changes were made to the information collected on the report form effective December 31, 1990—primarily a slight increase in data on off-balance-sheet activity because this activity has grown significantly since the report was last revised in 1984. In addition, foreign branches with at least \$2 billion in total assets or at least \$5 billion in commitments to purchase foreign currencies and U.S. dollar exchange were required to begin reporting quarterly instead of annually. This change in reporting frequency will assist in the monitoring of the growth and risk exposure of large foreign branches and in examination scheduling. Smaller foreign branches continue to submit this report only at year-end.

At its December 7, 1990, meeting, the Council received a report from the Task Force on Surveillance Systems advising that the current Thrift Financial Report could not be used to readily prepare a performance report for thrift institutions that would be comparable to the Uniform Bank Performance Report. The Council then directed the Task Force on Reports to begin the development of a proposed core financial report that would permit the Council to produce a uniform performance report for banks and thrifts. The task force will embark on this project in 1991.

## Task Force on Supervision

The jurisdiction of the Task Force on Supervision includes all matters relating to the supervision and examination of depository institutions. The goal of the task force is to improve the quality and effectiveness of all aspects of the supervisory process. Significant issues are referred, with recommendations, to the Council for action. The Council has delegated authority to the task force to make other decisions, provided all members of the task force are in agreement.

Task force members are the senior supervisory officials of the constituent agencies. Meetings are held periodically to address and resolve common supervisory issues. The task force has standing electronic data processing, investments, and securities fraud subcommittees. Ad hoc working groups are created to handle particular projects and assignments as needed.

### Activities of the Task Force

During 1990, the task force and its working groups were involved in a number of projects. The three standing subcommittees produced several products, and the ad hoc subcommittees, which are formed to deal with a specific issue, were also active.

The working group on investments was established in 1984 and evaluates certain major securities issues widely held by financial institutions. The 1938 Interagency Accord is the framework for the group's decisions and the task force has delegated the classification decisions to this group.

In 1986, the working group on securities fraud was established. This working group monitors financial institutions' and securities dealers' trading practices and develops appropriate uniform supervisory approaches as necessary. In addition, the securities fraud working group serves as a clearinghouse for

information on these trading practices and any related enforcement actions.

The electronic data processing (EDP) working group was officially established in 1979. It sponsors symposiums, coordinates examination of multiregional data processing servicers, and maintains the *FFIEC EDP Examination Handbook*. In May 1990, this working group held a symposium on the effects of acquisitions on EDP. Each year, the group sponsors an Information Systems and Technology Conference. The July 1990 conference focused on current developments in EDP and featured nationally recognized experts as speakers. During 1990, the working group developed an Interagency Statement on EDP Service Contracts, an Interagency Policy on Strategic Information Systems Planning, and the Shared Application Software Review Program. The three documents were approved by the task force. In September, the annual update to the *FFIEC EDP Examination Handbook* was published.

In 1990, several projects that were initiated earlier were completed. In June, the TFS approved a general interest-rate risk policy which provided the basic elements of a sound interest-rate risk-management program for a depository institution. The Trading vs. Investment working group, formed in 1989, developed a proposed Supervisory Policy Statement on Selection of Securities Dealers, Securities Portfolio Policies and Strategies and Unsuitable Investment Practices, and Stripped Mortgage-Backed Securities, Certain CMO Tranches, Residuals, and Zero-Coupon Bonds. This policy statement, designed to promote uniform treatment by the five agencies represented on the task force, was published for public comment on December 31. In order to implement the provisions of section 719 of FIRREA, which provided for sharing of supervisory information with the Federal Home Loan Banks, the task force

approved a confidentiality agreement and a uniform fee structure for use by the agencies when releasing information.

Work continues in a number of other areas. A subcommittee was formed in 1990 to develop policies and procedures for referring work done by accountants for financial institutions that is considered less than satisfactory to the appropriate professional societies or licensing agents. The task force, with the concurrence of the Council, also initiated a project to provide examiners and depository institutions with more explicit guidance on the determination of adequate allowances for loan and lease losses. This effort is considered particularly important in light of the current depressed real estate markets in many areas of the country. Another working group was formed to address the feasibility of developing a joint policy on the appropriate level of fidelity-bond coverage for financial institutions.

## Task Force on Surveillance Systems

The Task Force on Surveillance Systems deliberates, at an interagency level, on matters concerning surveillance and monitoring systems. Its main functions include formulating goals, setting objectives, and establishing priorities of relevant tasks. Historically, its primary objective has been to develop and produce the Uniform Bank Performance Report (UBPR) to monitor the performance of financial institutions and to identify potential or emerging financial problems in those institutions. This task force is also responsible for the implementation and oversight of Council-approved surveillance systems.

### Activities of the Task Force

During 1990, the task force completed four projects in addition to the ongoing work performed in

maintaining and enhancing the UBPR.

- FDIC-insured savings banks were added to the UBPR. This addition of over 400 institutions makes the UBPR a common analytical tool for savings banks and commercial banks and significantly enhances the interagency database.
- Risk-based capital (RBC) standards became effective for banks with the December 1990 call report. A new page to reflect RBC analysis was added to the UBPR beginning with the June 1990 report. The majority of institutions are not required to report all risk-based-capital data. As a consequence, significant time was spent developing a method to estimate RBC for nonreporting banks.
- Peer group averaging process in the UBPR was changed to a new analytical method. This change had two benefits: (1) the resulting peer average is more representative of the group and (2) processing costs are reduced by one-third.
- Prices were reviewed for the UBPR and related products. Although prices were increased for all products, they remain significantly below those for comparable reports

available in the industry. The result is projected to be an annual reduction of \$90,000 in the net operating expense of the FFIEC.

Several projects are planned for 1991 that will provide significant enhancements to the UBPR.

- Review of current tax-equivalency calculation,
- Review of current peer groupings, some redefinition of asset groupings, and addition of line-of-business grouping,
- Development of additional analytical tools for the UBPR such as a rolling-earnings analysis and enhanced interest-sensitivity analysis,
- Expansion of the number of statistical reports available to both the banking regulators as well as the public,
- Rewrite of the UBPR User's Guide,
- Review and consolidation of the UBPR and Call Report data-distribution process between the agencies, and
- Continuing review of thrift institution financial information to determine the best method of providing analytical data comparable to that in the UBPR

The task force will continue to ensure the timely production and distribution of UBPRs and related data. The following distribution policy continues.

- Each insured bank receives one copy of the current UBPR per quarter.
- UBPR data are provided to each federal banking agency each quarter.
- Two copies of the UBPRs are made available to state bank supervisors for banks in their state.
- UBPRs and Call Report data are available to the public for a fee.

Copies of UBPRs may be obtained for \$40 per report. A User's Guide, which describes the content of the report, is available for \$25. Peer Group Report, showing average ratios for all peer groups, is available for \$60. The State Average Report is available for \$40. Standardized UBPR quarterly data on magnetic tape are available for \$400 per disclosure tape. Information on ordering items may be obtained by calling (202) 357-0111 or writing to:

Federal Financial Institutions  
Examination Council  
1776 G Street, NW  
Suite 850B  
Washington, DC 20006



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# THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

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The five federal financial-institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 29,000 domestically chartered banks, thrift institutions, and credit unions which, on June 30, 1990, held total assets of over \$5.4 trillion. The Federal Reserve Board and the Office of Thrift Supervision 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 mem-

bers to serve 4-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 changes in control by state member banks and bank holding companies;
- 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 and is headed by a five-member board of directors. After February 28, 1993 not more than three of the members may be of the same political party. Three of the directors are appointed by the President, with the advice and consent of the Senate, for six-year terms. One of these persons is designated by the President as Chairman for a term of five years and another person is designated by the President as Vice Chairman. The other two board members are the Comptroller of the Currency and the Director of the Office of Thrift Supervision.

The FDIC's supervisory activity is organized into eight regions, each of which is headed by a regional director. Bank liquidation activities are divided among four regions, each of which is also headed by a regional director.

The FDIC directs two federal deposit insurance programs, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The basic insured amount for a depositor is \$100,000 at each insured financial institution. The BIF has built up an insurance fund through income from investments in U.S. government securities and from annual assessments paid by insured commercial banks, certain federal and state savings banks, and industrial banks. The SAIF, which was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), receives annual assessments from insured savings associations. Administration and supervisory

expenses of SAIF are to be paid by the FSLIC Resolution Fund through 1991. From 1992 through 1999, the Secretary of the Treasury will provide sufficient amounts for the SAIF to meet its obligations. In emergencies, the FDIC may borrow up to \$5 billion from the U.S. Treasury to be used for the needs of either fund.

National banks and state banks that are members of the Federal Reserve System are automatically insured by the FDIC. Insurance for state-chartered banks that are not members of the Federal Reserve System is voluntary under federal law but in practice is generally required by law or practice in most states. U.S. branches of foreign banks are eligible for FDIC insurance. Federal and state savings associations that were members of the former Federal Savings and Loan Insurance Corporation were automatically insured after the enactment of FIRREA.

The FDIC has authority to examine insured financial institutions either directly or in cooperation with state or other federal authorities. The FDIC also acts on applications for structural or corporate changes, and rules on applications for insurance. Its primary regulatory and supervisory authority is confined to insured state banks that are not members of the Federal Reserve System; however, the Corporation's authority has been extended to monitor certain activities of the thrift industry. Proposed savings associations may become insured only after approval by the FDIC. The FDIC's supervisory authority has been extended to savings associations in that the FDIC may prohibit activities that pose a serious threat to the SAIF and may limit powers of state-chartered savings associations to those permitted for a federal savings association.

In order to protect depositors of failed banks, promote stability, and maintain public confidence in the banking system, the Corporation may provide assistance in a number

of ways. These include making deposit payoffs, arranging purchase and assumption transactions, effecting insured-deposit transfers, providing open-bank assistance, creating bridge banks, and utilizing its conservatorship powers.

In addition to its responsibilities in dealing with failing banks, the FDIC is the exclusive manager of the Resolution Trust Corporation (RTC). The primary purposes of the RTC are (1) to resolve cases involving institutions that were once insured by the Federal Savings and Loan Insurance Corporation and that are placed in a conservatorship or receivership between January 1, 1989, and August 8, 1992; (2) to liquidate the Federal Asset Disposition Association; and (3) to conduct its operations so as to maximize recovery on assets it acquires, minimize the impact of its activities on local markets, make efficient use of its funds, minimize losses incurred in resolving cases, and maximize preservation of affordable housing. In fulfilling its responsibilities as manager of the RTC, the board of directors of the FDIC is the board of directors of the RTC and the Chairman of the FDIC board of directors is the Chairman of the RTC board of directors.

Overall goals and strategies of the RTC are under the direction of an oversight board composed of the Secretary of the Treasury (who serves as Chairman), the Secretary of Housing and Urban Development, the Chairman of the Board of Governors of the Federal Reserve System and two independent persons chosen by the President and confirmed by the Senate. The independent members cannot hold any other appointed position and may be from the private sector.

In dealing with institutions in its custody, the RTC will exercise the FDIC's conservatorship and receivership powers. These include the power to operate an institution as a going concern, to facilitate its acquisition, or to liquidate it. The

RTC also is able to create federal savings associations and bridge banks under its FDIC powers during the course of its resolution activities. The RTC is organized into four regions, each of which is headed by a regional director.

Under FIRREA, the RTC will exist until December 31, 1996.

### **The National Credit Union Administration (NCUA)**

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

The NCUA—

- charters, examines, and supervises nearly 9,000 federal credit unions nationwide;
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures 95 percent of member share accounts in nearly 14,000 of the country's federal and state-chartered credit unions; and
- manages the Central Liquidity Facility, a central bank for credit unions that provides financial stability to the credit union system.

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

NCUA has six regional offices across the country that administer its responsibility to charter and supervise credit unions. NCUA examiners conduct annual on-site examinations of each federal credit union.

Tax dollars do not fund NCUA. The agency is supported by the credit unions it regulates and insures.

## 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 Comptroller also serves on the boards of the Federal Deposit Insurance Corporation and the Resolution Trust Corporation and is director of the Neighborhood Reinvestment Corporation.

The OCC is the regulator and supervisor of the national banking system. There are currently about 4,000 national banks, with about \$2.0 trillion total assets, representing about 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 applications for new bank charters, for the establishment of branches, and for mergers of national banks.

The national interest requires that there be a safe and stable financial system that preserves public confidence and makes available a wide variety of financial services in a competitive marketplace. The Office of the Comptroller of the Currency serves this interest by maintaining and promoting a system of bank supervision and regulation that—

- promotes safety and soundness by requiring that national banks adhere to sound management principles and comply with the law and
- encourages banks to satisfy customer and community needs while remaining efficient competitors in the financial-services markets.

The principal supervisory tools of the OCC are on-site examination activities and ongoing 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.

## Office of Thrift Supervision (OTS)

OTS was established as a bureau of the Treasury Department in August 1989 and became operational in October 1989 as part of a major reorganization of the thrift regulatory structure mandated by the Financial Institutions Reform, Recovery and Enforcement Act. In that Act, Congress gave OTS authority to charter federal thrift institutions and serve as the primary regulator of the approximately 2,600 federal and state-chartered thrifts belonging to the Savings Association Insurance Fund (SAIF). OTS carries out this responsibility by adopting regulations governing the savings and loan industry, by examining and supervising thrift institutions and their affiliates, and by taking whatever action is necessary to enforce their compliance with federal law and regulations. In addition to overseeing thrift institutions, OTS also regulates, examines, and supervises companies that own thrifts, and controls the acquisition of thrifts by such holding companies.

OTS is headed by a Director appointed by the President and confirmed by the Senate to serve a five-year term. The OTS Director also serves on the boards of the Federal Deposit Insurance Corporation and the Resolution Trust Corporation and, in addition, is a

Director of the Neighborhood Reinvestment Corporation.

To carry out its mission, OTS is organized into five main divisions:

- *Washington Operations* includes supervisory operations, policy, information resources management, and the administration program areas of OTS. This division develops national policy guidelines to enhance statutes and regulations, establishes programs to implement new policies and laws, develops and maintains surveillance systems that monitor the condition of the industry and assist in identifying emerging supervisory problem areas, develops and maintains financial management and information systems, maintains human resources programs; processes thrift institution applications, provides special supervision of selected thrift institutions, and performs other related functions.
- *Regional Operations* conducts the examination and supervision of thrift institutions in the five OTS regions to ensure the safety and soundness of the industry. It also oversees the training and development of federal thrift regulators through accredited programs. The regional offices are headquartered in Jersey City, Atlanta, Chicago, Dallas, and San Francisco.
- *Chief Counsel* provides a full range of legal services to the agency, including drafting regulations, representing the agency in court, and taking enforcement actions against savings institutions that violate laws or regulations. This office also processes corporate filings required by the Securities and Exchange Act of 1934.
- *Congressional Affairs* interacts with members of Congress, congressional staff, and committee members on behalf of OTS as well as executive-level personnel at other federal agencies in order to accomplish the legislative objectives of the agency. This division disseminates information

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to the Congress pertaining to supervisory, regulatory, and enforcement activities and policies of the OTS and manages congressional-liaison programs.

- *Public Affairs* oversees the release of information concerning OTS regulations, policies, and key developments within the agency. It convenes press conferences and distributes news releases to the public. It communicates and explains policy directives, objec-

tives, and actions of the agency by establishing and maintaining effective liaisons with the media, the general public, the thrift industry, all government agencies, and other key constituencies.

This division provides a full range of audiovisual services, including creation of original designs for agency publications, graphics, desktop publishing, and editorial and production assistance. The division also maintains an archive

of business records and documented actions of OTS and its predecessor, the Federal Home Loan Bank Board; responds to Freedom of Information requests; and maintains a public reference room for viewing securities filing and other public documents.

The OTS is a nonappropriated agency and thus uses no tax money to fund its operations. Its expenses are met by fees and assessments on the thrift institutions it regulates.

ASSETS, LIABILITIES AND NET WORTH of U.S. Commercial Banks and Thrift Institutions<sup>1</sup> as of June 30, 1990  
Billions of dollars

	Total	U.S. Commercial Banks <sup>2</sup>			U.S. Branches and Agencies of Foreign Banks	BIF-Insured Savings Banks	SAIF-Insured Institutions			Credit Unions <sup>3</sup>	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
<b>Total Assets</b>	<b>5,427</b>	<b>1,983</b>	<b>566</b>	<b>809</b>	<b>580</b>	<b>232</b>	<b>311</b>	<b>216</b>	<b>535</b>	<b>128</b>	<b>67</b>
Total loans and lease receivables (net)	3,458	1,267	312	491	270	163	246	170	416	80	43
Loans secured by real estate <sup>4</sup>	1,790	490	87	226	39	141	236	157	372	28	14
Consumer loans <sup>5</sup>	529	235	44	113	†	9	10	9	29	52	28
Commercial and industrial loans	801	390	117	117	140	10	2	5	18	1	1
All other loans and lease receivables <sup>6</sup>	396	182	75	43	93	3	*	*	*	‡	‡
LESS: Allowance for possible loan and lease losses	60	30	11	8	2	2	2	1	3	1	*
Federal funds sold and securities purchased under agreements to resell	171	87	26	37	16	5	†	†	†	*	*
Cash and due from depository institutions <sup>7</sup>	475	190	62	64	134	5	4	3	8	3	2
Securities and other obligations <sup>8</sup>	859	308	97	182	44	47	34	25	60	41	21
U.S. Gov't obligations <sup>9</sup>	520	221	57	135	16	29	12	7	25	12	6
Obligations of state and local gov'ts <sup>10</sup>	88	45	15	27	†	1	*	*	*	‡	‡
Other securities	253	42	25	20	29	17	23	18	35	29	15
Other assets <sup>11</sup>	464	131	69	35	116	13	27	17	50	4	2
<b>Total Liabilities</b>	<b>5,128</b>	<b>1,864</b>	<b>534</b>	<b>745</b>	<b>580</b>	<b>215</b>	<b>293</b>	<b>206</b>	<b>508</b>	<b>120</b>	<b>63</b>
Total deposits and shares <sup>12</sup>	3,990	1,521	401	665	245	189	230	174	386	117	62
Federal funds purchased and securities sold under agreements to repurchase	408	170	57	42	79	7	14	9	29	1	*
Other borrowings <sup>13</sup>	462	105	39	26	133	16	42	19	81	1	*
Other liabilities <sup>14</sup>	266	68	37	12	120	3	9	4	11	1	1
<b>Net Worth<sup>15</sup></b>	<b>296</b>	<b>119</b>	<b>32</b>	<b>64</b>	<b>‡</b>	<b>17</b>	<b>15</b>	<b>10</b>	<b>27</b>	<b>8</b>	<b>4</b>
Memorandum: Number of institutions reporting	29,086	4,060	1,017	7,421	571	461	795	905	753	8,658	4,445

**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, 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 subsidi-

aries, branches in Puerto Rico and U.S. territories and possessions, 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 SAIF-insured institutions, also includes mortgage-backed securities.
5. Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.

6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.
7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. SAIF-insured institutions data are for cash and demand deposits only. Time deposits are included in "Other securities."
8. Government and corporate securities, including mortgage-backed securities and loans to states and political subdivisions and to U.S. government agencies and cor-

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions<sup>1</sup> for the 12 months ending June 30, 1990  
Billions of dollars

	Total	U.S. Commercial Banks <sup>2</sup>			U.S. Branches and Agencies of Foreign Banks <sup>16</sup>	BIF-Insured Savings Banks	SAIF-Insured Institutions			Credit Unions <sup>3</sup>	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Operating Income	528	232	61	78		23	40	24	50	13	7
Interest and fees on loans	359	149	34	54		17	32	19	40	9	5
Other interest and dividend income	92	44	16	10		5	4	3	5	3	2
All other operating income	75	39	11	14		1	4	1	4	1	*
Operating Expenses	506	219	57	70		23	40	27	52	12	6
Salaries and benefits	64	30	9	11		2	3	2	4	2	1
Interest on deposits and shares	250	96	26	39		14	22	15	27	7	4
Interest on other borrowed money	70	34	8	5		2	7	4	10	*	*
Provision for loan and lease losses	47	21	8	5		2	3	3	4	1	*
All other operating expenses	78	38	6	13		3	5	3	7	2	1
<b>Net Operating Income</b>	<b>21</b>	<b>13</b>	<b>4</b>	<b>8</b>		<b>*</b>	<b>0</b>	<b>(4)</b>	<b>(2)</b>	<b>1</b>	<b>1</b>
Securities Gains and Losses	*	*	*	*		*	*	*	*	*	*
Income Taxes	9	6	1	2		*	*	*	*	‡	‡
<b>Net Income</b>	<b>11</b>	<b>7</b>	<b>3</b>	<b>6</b>		<b>(1)</b>	<b>(1)</b>	<b>(3)</b>	<b>(2)</b>	<b>1</b>	<b>1</b>
Memorandum: Number of institutions reporting	28,515	4,060	1,017	7,421		461	795	905	753	8,658	4,445

porations. For SAIF-insured institutions, also includes time deposits and excludes mortgage-backed securities.

9. U.S. Treasury securities and securities of, and loans to, U.S. government agencies and corporations.
10. Securities issued by states and political subdivisions and public authorities, except for savings and loan associations and U.S. branches and agencies of foreign banks that do not report these securities separately. Loans to states and political subdivisions and public authorities are included in "All other loans and lease receivables."
11. Customers' liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes

net due from head office and other related institutions. For SAIF-insured institutions, also includes equity investment in service corporation subsidiaries.

12. Demand, savings, and time deposits, including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks, and 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, and share draft accounts. 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 for SAIF-insured institutions.
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.

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## APPENDIX A. RELEVANT STATUTES

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### Title X of Public Law 95-360

Title X which establishes the Federal Financial Institutions Examination Council, reads as follows:

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

#### Purpose

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

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

(3) the term "financial institution" means a commercial bank,

a savings bank, a trust company, a savings and loan association, a building and loan association, a homestead association, a cooperative bank, or a credit union.

#### Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

(b) The members of the Council shall select the first chairman of the Council. Thereafter the 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, includ-

ing 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 writ-

ten statement of the reasons the recommendation is unacceptable.

(c) The Council shall develop uniform reporting systems for Federally supervised financial institutions, their holding companies, and 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, memoranda, papers, things, and property belonging to or in use by Federal financial institutions regulatory agencies, including reports of examination of financial institutions or their holding companies from whatever source, together with workpapers and correspondence files related to such reports, whether or not a part of the report, and all without any deletions.

### Risk Management Training

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

(b) Study of Risk Management Training Program. Not later than end of the 1-year period beginning on the date of the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the Council shall—

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

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

### Audit by the Comptroller General

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

(1) redesignating clauses (A), (B), 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)."

### Establishment of Appraisal Subcommittee

*Sec. 1011.* There shall be within the Council a subcommittee to be known as the "Appraisal Subcommittee," which shall consist of the designees of the heads of the Federal financial institutions regulatory agencies. Each such designee

shall be a person who has demonstrated knowledge and competence concerning the appraisal profession.

### Excerpts From Title III of Public Law 94-200

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

#### Findings and Purpose

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

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

#### Maintenance of Records and Public Disclosure

*Sec. 304* (f) The Federal Financial Institutions Examination Council in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such system shall include arrangements for a central depository of data in each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas. Disclosure statements shall be made available to the public for inspection and

copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 306(b)) and which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas.

#### Compilation of Aggregate Data

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

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

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

### Excerpts from Title XI of Public Law 101-73

*Sec. 1103.* Functions of Appraisal Subcommittee.

(a) In General. The Appraisal Subcommittee shall—

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

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

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

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

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

(4) transmit an annual report to the Congress not later than January 31 of each year which describes the manner in which each function assigned to the Appraisal Subcommittee has been carried out during the preceding year.

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

*Sec. 1104.* Chairperson of Appraisal Subcommittee: Term of Chairperson; meetings.

(a) Chairperson. The Council shall select the Chairperson of the subcommittee. The term of the Chairperson shall be 2 years.



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## APPENDIX B. 1990 AUDIT REPORT

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To the Federal Financial Institutions  
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) at December 31, 1990 and 1989 and the related statements of revenues and expenses and fund (deficit) balance and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the *Government Auditing Standards* issued by

the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Financial Institutions Examination Council as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Coopers & Lybrand*

Coopers & Lybrand  
Washington, D.C.  
February 8, 1991

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
 Balance Sheets as of December 31, 1990 and 1989

ASSETS		<u>1990</u>	<u>1989</u>
<b>CURRENT ASSETS</b>			
Cash, held by Board of Governors of the Federal Reserve System		\$179,905	\$281,795
Accounts receivable from member organizations		141,679	185,057
Other accounts receivable		<u>142,574</u>	<u>45,812</u>
Total current assets		<u>464,158</u>	<u>512,664</u>
<b>FURNITURE AND EQUIPMENT</b>			
Furniture and equipment, at cost		101,323	100,923
Less accumulated depreciation		<u>77,646</u>	<u>69,233</u>
Total furniture and equipment		<u>23,677</u>	<u>31,690</u>
Total assets		<u>\$487,835</u>	<u>\$544,354</u>
<b>LIABILITIES AND FUND (DEFICIT) BALANCE</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable to member organizations		\$362,086	\$ 75,999
Other accounts payable and accrued liabilities		89,770	98,544
Accrued annual leave		<u>40,938</u>	<u>31,830</u>
Total current liabilities		<u>492,794</u>	<u>206,373</u>
<b>FUND (DEFICIT) BALANCE</b>			
Total liabilities and fund (deficit) balance		<u>(4,959)</u>	<u>337,981</u>
		<u>\$487,835</u>	<u>\$544,354</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
 Statements of Revenues and Expenses and Fund (Deficit) Balance for the Years Ended December 31, 1990 and 1989

	1990	1989*
<b>REVENUES</b>		
Assessments to member organizations	\$ 731,000	\$1,298,900
Tuition	956,097	330,804
Uniform Bank Performance Report reimbursement	150,761	143,678
Other revenue (Note 4)	157,596	3,769
Total revenues	<u>1,995,454</u>	<u>1,777,151</u>
<b>EXPENSES</b>		
Salaries and related benefits	838,559	639,599
Data processing	671,688	311,254
Rental of office space	298,202	243,518
Professional fees	104,294	32,726
Travel	99,241	53,687
Printing	55,395	47,702
Rental and maintenance of office equipment	55,046	35,930
Books and subscriptions	34,227	51,309
Administrative fees	34,029	30,349
Office and other supplies	33,321	11,464
Postage	25,541	14,351
Telephone	20,738	14,133
Depreciation	12,358	18,524
Miscellaneous	55,755	29,324
Total expenses	<u>2,338,394</u>	<u>1,533,870</u>
REVENUES (UNDER) OVER EXPENSES	(342,940)	243,281
FUND BALANCE, Beginning of year	337,981	94,700
FUND (DEFICIT) BALANCE, End of year	<u>\$ (4,959)</u>	<u>\$ 337,981</u>

\*Certain 1989 amounts have been reclassified for comparative purposes.  
 The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
 Statements of Cash Flows Increase (Decrease) in Cash for the Years Ended December 31, 1990 and 1989

	1990	1989
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Revenues (under) over expenses	\$(342,940)	\$ 243,281
Adjustments to reconcile revenues (under) over expenses to net cash provided by operating activities:		
Depreciation	12,358	18,524
Increase in accrued annual leave	9,108	9,069
(Increase) in accounts receivable	(53,384)	(6,425)
Increase (decrease) in accounts payable and accrued liabilities	277,313	(128,704)
Net cash (used in) provided by operating activities	<u>(97,545)</u>	<u>135,745</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposals of furniture and equipment	166	661
Capital expenditures	(4,511)	—
Net cash (used in) provided by investing activities	<u>(4,345)</u>	<u>661</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(101,890)</b>	<b>136,406</b>
CASH BALANCE, Beginning of year	<u>281,795</u>	<u>145,389</u>
CASH BALANCE, End of year	<u>\$ 179,905</u>	<u>\$ 281,795</u>

The accompanying notes are an integral part of these statements.

**Notes to Financial Statements**

(1) Organization and Purpose

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

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

(2) Significant Accounting Policies

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

**Furniture and Equipment**—Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

(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 \$146,200 in 1990 and \$259,780 in 1989.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$34,000 for 1990 and \$30,300 for 1989.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$892,100 in 1990 and \$585,700 in 1989 for these items.

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

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits 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.

(4) Other Revenue

	1990	1989
Housing and Urban Development	\$ 77,000	\$ —
Appraisal Subcommittee	67,976	—
Miscellaneous	12,620	3,769
	<u>\$157,596</u>	<u>\$3,769</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). In 1990, the Council received \$77,000 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project.

In 1990, the Council provided space and certain administrative support to the newly organized Appraisal Subcommittee. The Council received \$67,976 from the Appraisal Subcommittee for those services.

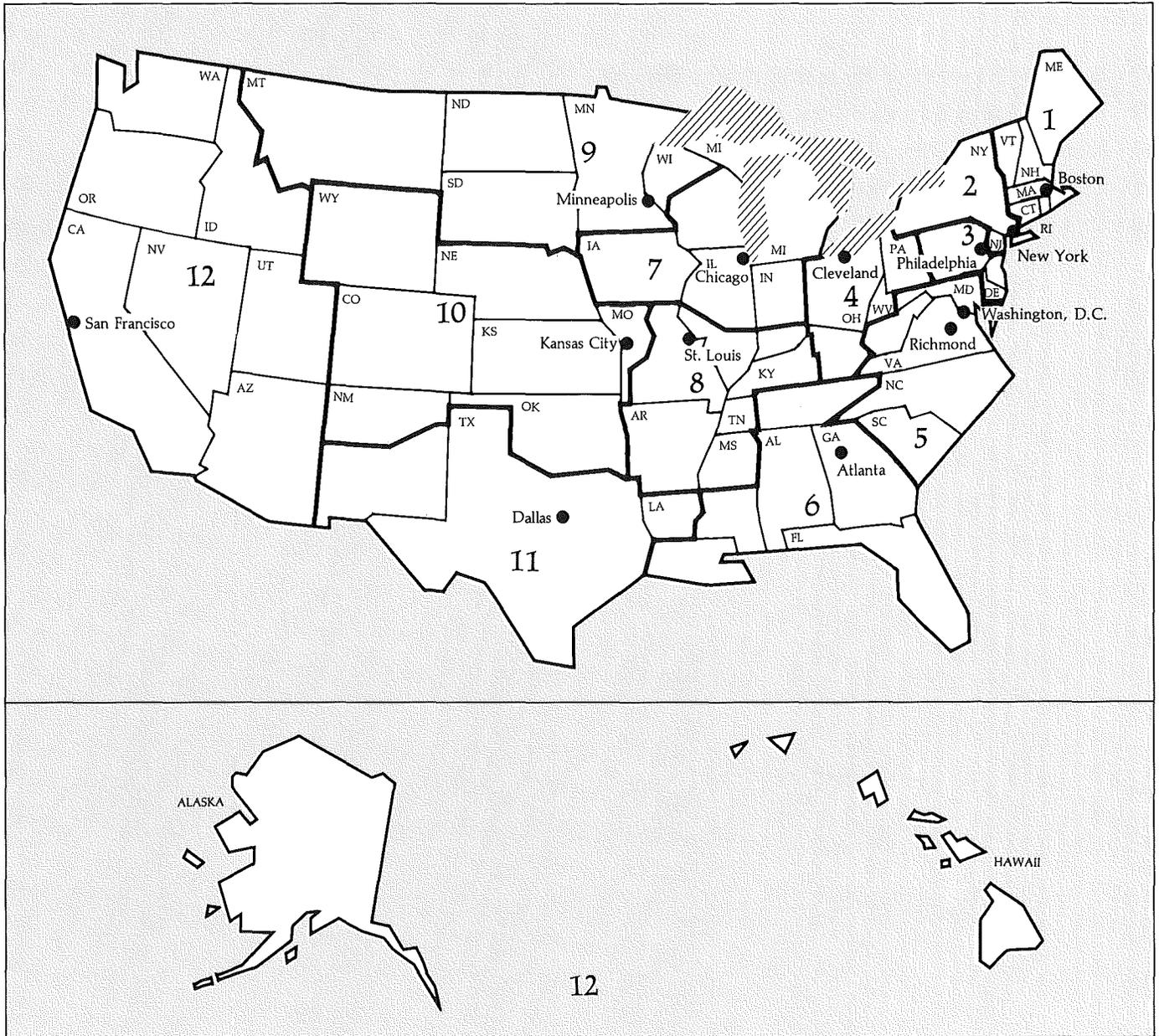
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## APPENDIX C. MAPS OF AGENCY REGIONS AND DISTRICTS

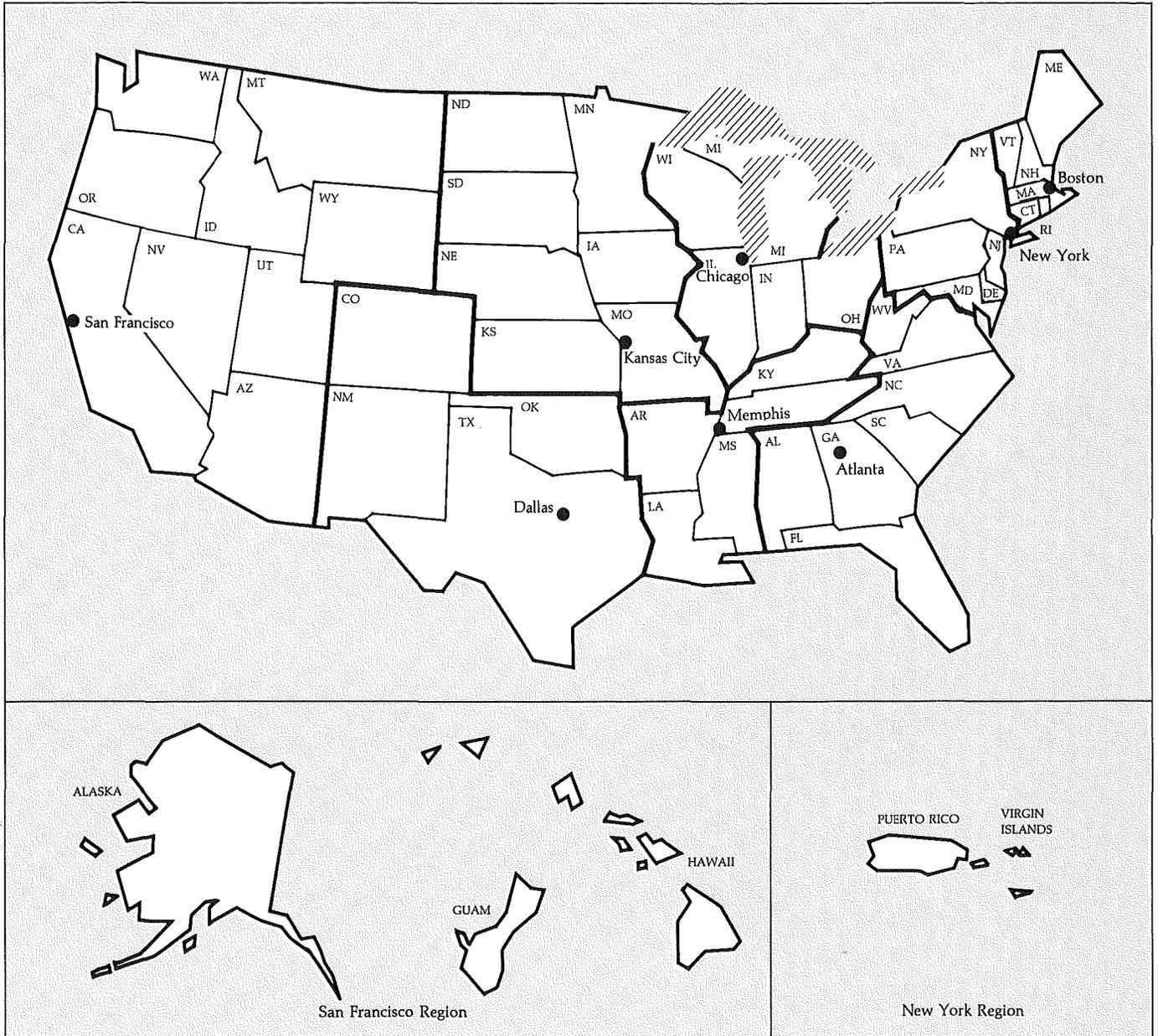
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- 38 Board of Governors of the Federal Reserve System
- 39 Federal Deposit Insurance Corporation
- 40 National Credit Union Administration
- 41 Office of the Comptroller of the Currency
- 42 Office of Thrift Supervision

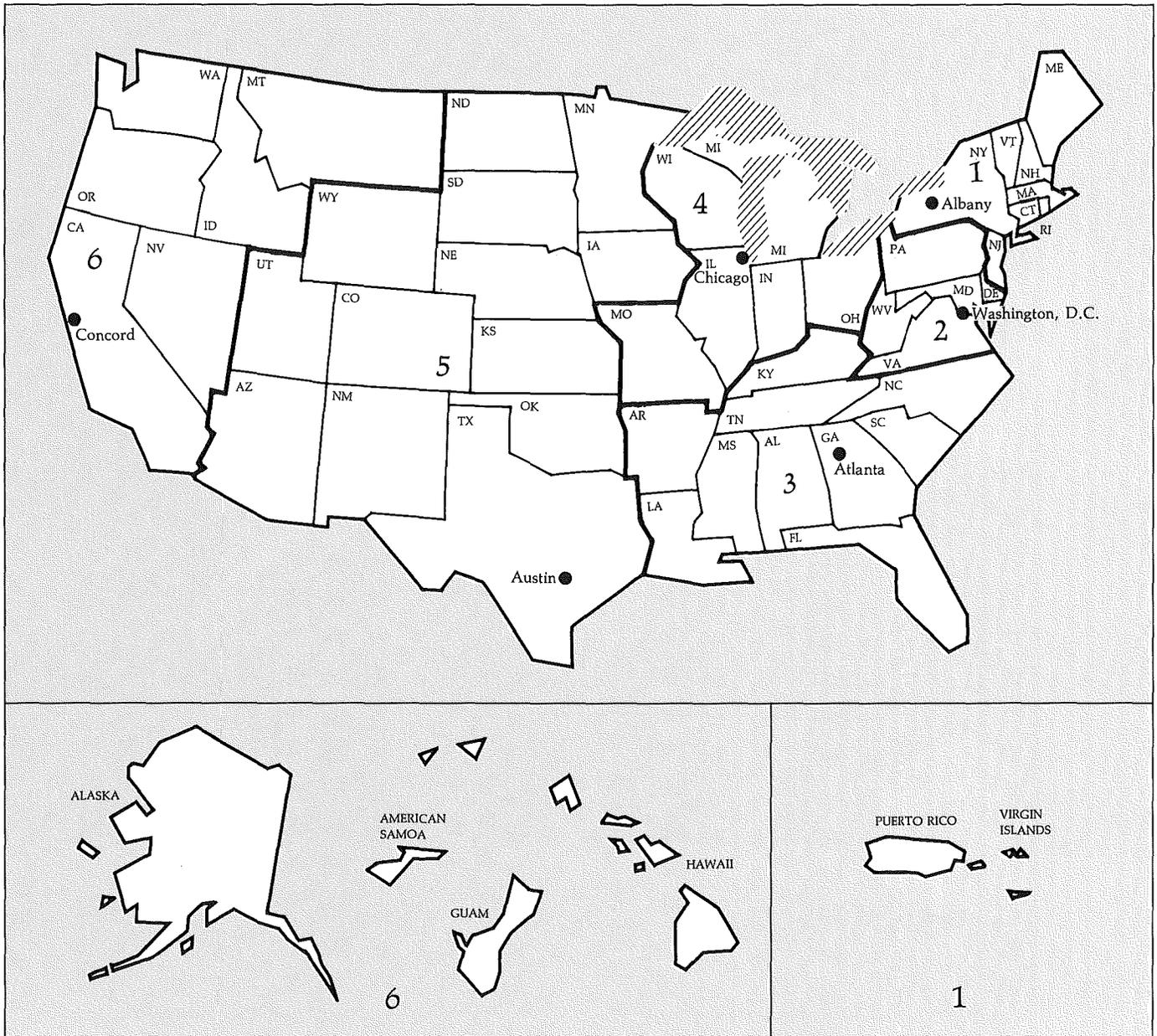
# THE FEDERAL RESERVE SYSTEM DISTRICTS



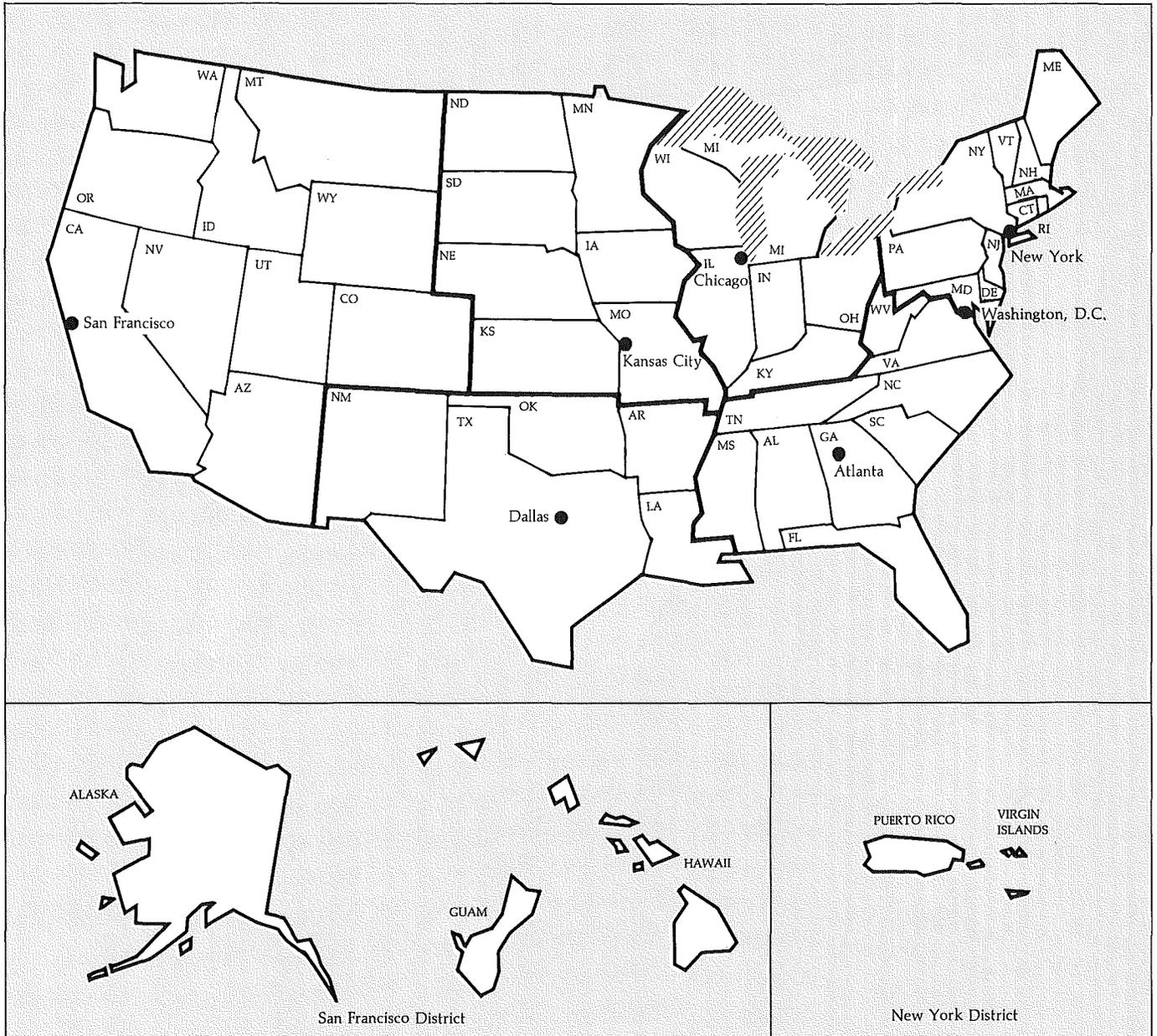
# FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION)



# NATIONAL CREDIT UNION ADMINISTRATION



# COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION



# OFFICE OF THRIFT SUPERVISION DISTRICTS

