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# Annual Report 1979



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# Letter of Transmittal

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Federal Financial Institutions Examination Council  
Washington, DC, March 31, 1980

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 1979 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

John G. Heimann  
*Chairman*



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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 Federal Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA). The purpose of Title X was to create a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and Office of the Comptroller of the Currency, and to make recommendations to promote uniformity in the super-

vision of financial institutions. The Council is also to develop uniform reporting systems for federally supervised financial institutions, their holding companies, and the nonfinancial institution subsidiaries of such institutions and holding companies. It is to conduct schools for examiners employed by the five agencies represented on the Council and to make such schools available to employees of state financial institutions supervisory agencies. Overall, it is the intent of the legislation that the Council's actions be designed to promote consistency in federal examination and to ensure progressive and vigilant supervision.

The Council has five members: the

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



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## Highlights of Council Actions in 1979

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The Federal Financial Institutions Examination Council held its organizational meeting on March 16, 1979. Significant actions by the Council during its 10 months of operation in 1979 are summarized below. More detailed statements of these and other actions by the Council are presented in *Record of Section 1006 Actions by the Council*.

- Approved a uniform rating system for financial institutions and recommended its adoption by the five agencies.
- Approved a policy statement on the disposition of credit life insurance income and recommended that the agencies request public comment on it.
- Approved a policy statement on coordination of formal corrective actions and recommended its adoption by the three banking agencies.
- Approved a policy statement on coordination of bank holding company inspections and subsidiary lead bank examinations and recommended its adoption by the three banking agencies.
- Approved a policy statement on discrimination and recommended its adoption by the agencies.
- Approved proposed amendments to the Uniform Truth in Lending Enforcement Guidelines and recommended that the agencies request public comment on them.
- Approved a policy statement on supervision of U.S. branches and agencies of foreign banks.
- Approved a uniform quarterly report of condition for U.S. branches and agencies of foreign banks.
- Approved a lease for a housing facility for agency examiners attending the Council's examiner education program and agency training courses.
- Approved the first course, "Instructor Training," to be offered in the Council's examiner education program.
- Approved a policy statement on uniform disclosure of statutory enforcement actions and recommended its adoption by the agencies.



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# Administration of the Council

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The Council holds its regular meetings at 2:00 p.m. on the first Thursday of each month. In addition, special meetings of the Council are scheduled when matters of high priority must be considered or when the level of Council activity indicates the need for additional meetings. Such special meetings of the Council are normally scheduled at 2:00 p.m. on the third Thursday of the month.

The Council's activities are funded through semiannual assessments on the five agencies represented on the Council, with each agency contributing one-fifth of the total cost of the Council's administration. The Council's budget is on a calendar year basis. Assessments occur on January 1 and July 1. The Federal Reserve Board provides budget and accounting services to the Council and the Federal Reserve's Controller serves as the Council's Controller.

The Council is supported by a small, full-time staff in the Office of the Executive Secretary. Each member of the Council's staff is detailed from one of the five agencies represented on the Council, but is considered a salaried employee of the Council. The major responsibilities of the Office of the Executive Secretary are to:

- Schedule Council meetings and meetings of the Agency Liaison Group, prepare agendas for Council meetings, prepare minutes of Council meetings, and review all material destined for Council consideration;
- Monitor work of all interagency staff groups involved in the Council's operations, and assist staff groups in setting priorities and in defining key issues;
- 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 ac-

tivities including, in cooperation with Federal Reserve Board staff, preparation and distribution of Council press releases;

- Coordinate, with Federal Reserve Board staff, development of the Council's budget and the monitoring of budget performance; and
- Prepare the Council's annual report to Congress.

Most of the staff support in the substantive areas of concern to the Council is provided by five interagency staff task forces and a 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 preparing reports and policy recommendations for consideration by the Council. The Council also established an Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agency's 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 and the Agency Liaison Group. The staff time and other resources expended by the task force members and other agency staff on behalf of Council-related projects in 1979 were provided by the five agencies without reimbursement and are not reflected in the Council budget. Without these contributions by the agencies and the individual staff members, the progress of Council projects would have been greatly impeded.

As provided for in its enabling legislation, the Council created a State Liaison Committee composed of five state supervisors of financial institutions. The Committee provides advice to the Council in all areas of Council responsibility and helps to ensure effective federal-state communication on matters of financial institution supervision and examination. Under the Council's

rules of operation, the Conference of State Bank Supervisors, the National Association of State Savings and Loan Supervisors and the National Association of State Credit Union Supervisors each designates one state supervisor to serve on the State Liaison Committee. The remaining two positions on the Committee are filled by state officials selected by the Council. The Committee currently meets as a group with the Council three times a year. In addition, the Committee is represented by one member at each meeting of the Council.

## Organization, December 31, 1979

### Members of the Council

John G. Heimann, *Chairman*  
Comptroller of the Currency  
Office of the Comptroller of the Currency (OCC)

Lawrence Connell, Jr., *Vice Chairman*  
Chairman  
National Credit Union Administration (NCUA)

Jay Janis  
Chairman  
Federal Home Loan Bank Board (FHLBB)

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

Irvine H. Sprague  
Chairman  
Federal Deposit Insurance Corporation (FDIC)

### State Liaison Committee

William L. Cole  
Administrator  
Office of Savings & Loans, North Carolina

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Charles W. Filson  
Supervisor  
Credit Union Division  
Department of Financial Institutions,  
Illinois

Walter C. Madsen  
Superintendent of Banks, Arizona

John B. Olin  
Superintendent of Banks, Oregon

Muriel F. Siebert  
Superintendent of Banks, New York

Council Office of the Executive  
Secretary

Robert J. Lawrence, *Executive  
Secretary*

David K. Schweitzer, *Deputy  
Executive Secretary*

Agency Liaison Group

Barry L. Jolette (NCUA)  
James W. McBride (FHLBB)  
Alan R. Miller (FDIC)

Lewis G. Odom, Jr. (OCC)  
Samuel H. Talley (FRB)

Legal Advisory Group

John E. Shockey, *Chairman* (OCC)  
Robert Fenner (NCUA)  
Robert Mannion (FRB)  
Milan Miskovsky (FHLBB)  
Frank L. Skillern, Jr. (FDIC)

Interagency Staff Task Forces

*Consumer Compliance*

Linda Cohen, *Chairwoman* (NCUA)  
Jo Ann Barefoot (OCC)  
Jerauld C. Kluckman (FRB)  
Henry S. Newport (FDIC)  
Louis V. Roy (FHLBB)

*Examiner Education*

James A. Davis, *Chairman* (FDIC)  
John M. Denkler (FRB)  
Martin Kushner (NCUA)

Robert J. Moore (FHLBB)  
H. Joe Selby (OCC)

*Reports*

Stanley J. Sigel, *Chairman* (FRB)  
Panos Konstas (FDIC)  
David C. Motter (OCC)  
Thomas Straslicka (NCUA)  
Edward J. Taubert (FHLBB)

*Supervision*

Paul M. Homan, *Chairman* (OCC)  
John J. Early (FDIC)  
Stephen Raver (NCUA)  
John E. Ryan (FRB)  
Thomas Timmins (FHLBB)

*Surveillance*

Robert A. Eisenbeis, *Chairman* (FRB)  
William E. Martin (OCC)  
Robert F. Mialovich (FDIC)  
Louis J. Oliver (FHLBB)  
Robert Schafer (NCUA)

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# The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

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## Introduction

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 36,000 domestically chartered banks and thrift institutions which, on June 30, 1979, held total assets of over \$2.3 trillion. Those figures are broken down by agency in the table at the end of this chapter.

In addition, the three banking agencies now have expanded authority to oversee the operations of U.S. branches and agencies of foreign banks. The International Banking Act of 1978 (IBA) authorizes the Office of the Comptroller of the Currency 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 IBA 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. On June 30, 1979, there were 277 U.S. offices of foreign banks on record, with aggregate assets for those offices reported in excess of \$90 billion.

The Federal Reserve and the Federal Home Loan Bank Board also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively. On June 30, 1979, the Federal Reserve reported 2,255 bank holding companies on record. At that time, those companies held 4,236 subsidiary banks, both national and state-chartered, with aggregate assets of approximately \$1.2 trillion. Savings and loan holding companies, although fewer in number than their commercial bank counter-

parts, are an important feature of that thrift industry. On June 30 the Federal Home Loan Bank Board was supervising approximately 100 savings and loan holding company systems nationwide.

Preliminary data from the five agencies reveal an aggregate expenditure on examination-related activities during fiscal year 1979 of approximately \$225 million. That figure is only an indicator because the fiscal years of the agencies do not coincide; however, it helps to illustrate the magnitude of the task undertaken by the agencies.

## The Board of Governors of the Federal Reserve System (FRB)

The FRB was established in 1913. It is headed by a seven-member Board of Governors. Each member is appointed by the President, with the advice and consent of the Senate, for a 14-year term. Subject to confirmation by the Senate, the President selects two board members to serve 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 and acquisitions by state member banks and bank holding companies; and
- Approves or denies applications for foreign operations of member banks and has residual supervisory responsibility for U.S. offices of foreign banks.

Implementation of policy decisions is carried out by the FRB and by the 12 Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. Each Reserve Bank has a president and other officers,

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

The 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 such investments are derived partially from non-interest earning reserves which member banks 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 to the FRB which are used to meet the agency's expenses.

## The Federal Deposit Insurance Corporation (FDIC)

The FDIC was created in 1933, as the third federal bank regulatory agency after the OCC and the FRB. It is headed by a three-member Board of Directors, no more than two of whom may be of the same political party. Two of the directors are appointed by the President, with the advice and consent of the Senate, for 6-year terms, and one of those is elected by the board to be Chairman. The Comptroller of the Currency is the third board member and serves on the board during his or her tenure as Comptroller. In the absence of the elected Chairman, the Comptroller also serves as Chairman of the FDIC Board of Directors.

The FDIC provides:

- Deposit insurance for commercial banks and state-chartered mutual savings banks;
- Ongoing supervision of FDIC-insured, state-chartered commercial

banks and mutual savings banks that are not members of the Federal Reserve System; and

- Services as trustee and receiver of all closed national banks, and as receiver of closed insured state-chartered banks.

The bank supervision functions of the FDIC are shared with state and other federal authorities. All national banks and state banks that are members of the Federal Reserve System must be insured by the FDIC. Nonmember state banks may apply for FDIC deposit insurance. The FDIC examines and supervises those banks under its purview that are not examined by the other federal regulators, approves or denies their applications for structural or corporate changes, and rules on applications for insurance.

The FDIC is organized geographically into 14 regions, each of which is headed by a regional director. The Corporation is funded by assessments on average total deposits of insured banks.

#### **The Federal Home Loan Bank Board (FHLBB)**

The FHLBB was established in 1932. It is headed by a bipartisan three-member Board appointed by the President, with the advice and consent of the Senate. Full term appointments are for 4 years, although uncompleted terms are filled only to completion. The Board is headed by a Chairman, named by the President. The FHLBB supervises the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation (FSLIC) and regulates federally-chartered savings and loan associations. Supervision of FSLIC-insured state-chartered savings and loan associations is shared between the FHLBB and the chartering state. In addition, Title XII of Public Law 95-630 provided for a limited, new class of federal institution, the federal mutual savings bank. Such institutions will be chartered and regulated by the FHLBB, and their deposits will be insured by the FSLIC. However, as of year-end 1979, no mutual savings bank conversions to federal charter had occurred.

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

The Federal Home Loan Bank Board regulates the savings and loan industry through a combination of:

- Bank System, Federal, and FSLIC-insurance regulations;
- Approval authority over new charters, branches and mergers of federal savings and loan associations and federal mutual savings banks;
- Approval of FSLIC insurance for federal- and state-chartered savings and loan associations;
- Supervision of savings and loan holding companies; and
- Examination of federal and FSLIC-insured state-chartered savings and loan associations and federal mutual savings banks.

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

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

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

The NCUA was created in 1970 as the successor to the Bureau of Federal

Credit Unions established in 1934. The purpose of the NCUA is to charter, examine, supervise and provide share insurance for all federal credit unions. The NCUA also provides insurance for those state-chartered credit unions which apply and are accepted. Additionally, Title XVIII of Public Law 95-630 created, within the agency, a National Credit Union Central Liquidity Facility to improve the general financial stability of member credit unions by assisting them to meet their liquidity needs. Membership in the facility is open to all federal and state credit unions that meet the membership requirements.

The NCUA is headed by a bipartisan three-member Board appointed by the President, with the advice and consent of the Senate. The Board is headed by a Chairman, named by the President. The Chairman and the Board Members serve terms of 6 years.

Major responsibilities of the NCUA are:

- Chartering federal credit unions;
- Supervising federal credit unions;
- Examining federal credit unions;
- Providing administrative services for federal credit unions;
- Administering the National Credit Union Share Insurance Fund (NCU-SIF); and
- Managing the Central Liquidity Facility.

In addition, the NCUA has statutory authority to examine and supervise federally-insured, state-chartered credit unions, although the current practice is to accept examination reports prepared by state supervisory authorities.

The NCUA is financed by operating fees assessed against federal credit unions which it examines and by share insurance premiums received from federally-insured credit unions.

#### **The Office of the Comptroller of the Currency (OCC)**

The OCC was established in 1863 as a bureau of the Treasury Department. It

is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term. The OCC regulates national banks through its powers to:

- Approve or deny applications for new charters, branches, mergers, or other changes in corporate or banking structure;
- Examine the national banks and their affiliates;

- Take various supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing bank practices, issuance of cease-and-desist orders, and assessment of civil money penalties; and
- Issue rules and regulations concerning banking operations, and govern-

ing bank lending and investment practices and corporate structure.

The OCC has divided the country into 14 geographical regions, each of which is headed by a regional administrator.

The Office is funded through assessments on the assets of national banks and by fees charged to national banks and other applicants for certain regulatory approvals.

### U.S. Commercial Banks<sup>1</sup> and Thrift Institutions Federally Supervised as of June 30, 1972<sup>2</sup>

Type of Institution	Agency with Primary Federal Jurisdiction	Number of Institutions	Aggregate Assets (In Billions)
National Banks	OCC	4,493	\$928.1
State Bank Members of Federal Reserve System	FRB	1,011	\$316.6
State Bank Non-members with FDIC Insurance	FDIC	8,918	\$327.7
State Mutual Savings Banks with FDIC Insurance	FDIC	322	\$145.5
Federal Savings and Loan Associations	FHLBB	1,997	\$312.8
State Savings and Loan Associations with FSLIC Insurance	FHLBB	2,044	\$230.1
Federal Credit Unions	NCUA	12,707	\$ 35.5
State Credit Unions with NCUSIF Insurance <sup>3</sup>	NCUA	4,684	\$ 18.3
Total U.S. Commercial Banks and Thrift Institutions Supervised	---	36,176	\$2,314.6

1. "Bank" includes trust companies and stock savings banks, if applicable. Bank asset figures reflect consolidated data for U.S. banks having both domestic and overseas operations.

2. Table listing does not include commercial bank holding companies or unaffiliated Edge Act and Agreement Corporations supervised by the FRB, savings and loan holding companies supervised by the FHLBB, or U.S. branches and agency offices of

foreign banks subject to federal supervision. Table also does not indicate the number of state-chartered non-federally-insured institutions not subject to federal supervision.

3. NCUA does not regularly exercise its authority to examine state-chartered, federally-insured credit unions, but accepts examinations performed by state supervisory agencies as provided in Section 204(d) of the Federal Credit Union Act.



ERRATA SHEET

TO PAGE 9

TITLE TO THE TABLE ON PAGE 9 SHOULD READ:

U.S. COMMERCIAL BANK<sup>1</sup> AND  
THRIFT INSTITUTIONS FEDERALLY  
SUPERVISED AS OF JUNE 30, 1979<sup>2</sup>



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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 such institutions and holding companies; and
- To conduct schools for examiners employed by the federal supervisory agencies and make such schools available to employees of state supervisory agencies under conditions specified by the Council.

In order to administer effectively projects in all of those functional areas, the Council established the following five interagency staff task forces:

- Supervision;
- Consumer Compliance;
- Reports;
- Examiner Education; and
- Surveillance.

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 provided research and analytical papers and proposals to the Council on the issues it addressed in 1979. This chapter describes the activities and objectives of the five task forces and the Legal Advisory Group.

## Task Force on Supervision

### Introduction

Section 1006(a) of Public Law 95-630

states, that "The Council shall establish uniform principles and standards and report forms for the examination of financial institutions." Additionally, Section 1006 (b)(1) provides that, "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." While the law addresses additional matters, the above are the most directly related to examination and supervision of financial institutions.

At its organizational meeting on March 16, 1979, the Council established the Task Force on Supervision to review and make recommendations to the Council on those matters which relate directly to the examination and supervision of financial institutions. The membership of this task force comprises the director of supervision at each of the agencies represented on the Council.

### Activities of the Task Force

On March 26, 1979, the Council identified three subjects for priority consideration by the task force at its organizational meeting on April 9, 1979. They were:

- Uniform identification of problem financial institutions;
- Integration of bank and bank holding company supervision; and
- International banking:
  - Supervision of international activities of U.S. banks and holding companies; and
  - Supervision of foreign banks operating in the U.S.

The Council also transferred those

matters previously under study by the Interagency Supervisory Committee (ISC) to the task force. The ISC was organized on March 4, 1977, by the Interagency Coordinating Committee (ICC) to provide a more formal framework in which the three federal banking agencies and the Federal Home Loan Bank Board could work to improve the financial institutions supervisory process and to resolve common problems. The National Credit Union Administration joined the ISC in October 1977. Most of the interagency staff subcommittees involved in ISC projects have remained intact under the new Task Force on Supervision.

By the end of 1979, the task force had completed work on nine assignments and forwarded its recommendations to the Council. These nine projects, all of which are described in more detail in *Record of Section 1006 Actions by the Council*, are:

- Uniform policy on supervision of U.S. branches and agencies of foreign banks;
- Minimum standards for documentation, accounting and auditing of foreign exchange operations by commercial banks to be published for public comment;
- Uniform rating system for financial institutions;
- Policy statement on the disposition of credit life insurance income to be published for public comment;
- Supervisory policy on purchase and sale of U.S. government guaranteed loans;
- Uniform examination report for U.S. branches and agencies of foreign banks;
- Policy on federal banking agency coordination of formal corrective actions;
- Policy on coordination of bank holding company inspections and

- subsidiary lead bank examinations; and
- Policy for uniform disclosure of statutory enforcement actions.

Including the former ISC subcommittees and ones formed in 1979, the task force at year-end had 15 active subcommittees studying specific areas of concern to the various financial institution regulators. These are described in the following paragraphs.

### *Capital Adequacy*

Since late 1977 and early 1978, each of the three federal banking agencies has been individually reviewing subordinated debt and capital adequacy. On August 3, 1978, a subcommittee of the ISC was formed to study specifically the agencies' positions on subordinated debt, i.e., minimum maturity, convertibility, sinking funds, purpose of debt, double leveraging and other issues. That assignment has now been assumed by the task force.

On June 13, 1979, the Council requested that the task force expand its investigation of subordinated debt into a more general review of the subject of capital adequacy, and asked the task force to give high priority to investigating how each agency approaches this subject.

At its October 4, 1979 meeting, the Council further directed the task force to prepare a background paper on the current situation regarding capital in financial institutions. At year-end the task force was proceeding with the paper and was addressing:

- The role of subordinated debt as capital, from an analytical standpoint;
- The weight financial ratios should be given in capital analysis and whether benchmarks or zones of acceptance can or should be established;
- The weight that should be given to subjective factors such as management, risk diversification, etc., in capital analysis;

- The necessity for and regulation of two-tier or multi-tier capital standards for various types of financial institutions; and
- The extent to which bank capital analysis can be applied to bank holding companies.

### *Definition of Capital*

On April 9, 1979, the task force formed a separate subcommittee to study the definition of bank capital for purposes of lending and investment limitations. The subcommittee's purpose is to develop a uniform legal definition of capital and its components, specifically addressing the status of capital notes. The subcommittee now is compiling the laws, regulations and rulings each federal bank regulatory agency applies to bank capital. Work toward a uniform definition of capital has begun, including an assessment of the effects of any definitional changes on commercial banks. The subcommittee will also review the ramifications of a uniform legal definition of capital for mutual savings banks and other institutions.

### *Interagency EDP Examination Manual*

The existing EDP Subcommittee was formed in June 1977 by the ISC to develop a uniform policy for the exchange of EDP service center examination/inspection reports among the five regulatory agencies. A joint policy statement on that subject was issued on May 31, 1978. The subcommittee next developed a uniform rating system for EDP centers which was adopted by the five agencies in October of 1978. The ISC then requested that the subcommittee develop an interagency EDP examination manual and report form to be utilized by all federal examiners.

The development of the *Interagency EDP Examination Handbook* ("manual") began on January 15, 1979. In April, the subcommittee was placed under the Task Force on Supervision and development of the EDP manual became a Council project. A draft of the manual was mailed on October 5,

1979, to 17 reviewers outside the agencies for comment. The responses have all been favorable. The subcommittee is working now to integrate the comments received into the text of the manual.

### *Study of Examination Philosophies, Concepts and Procedures*

There was general agreement among the members of the task force that an effort should be made to determine the similarities or differences among the agencies with respect to their examination procedures and their conceptual framework for conducting examinations. The task force, therefore, formed a subcommittee to identify and compare the procedures in use at each agency and determine where greater uniformity can be achieved.

The subcommittee has accumulated an inventory of each agency's materials dealing with the examination function and has developed a preliminary staff discussion paper entitled, "Rationale of Financial Institution Examination." Additional analytical work is continuing.

### *Civil Money Penalties*

A subcommittee was formed to achieve uniform implementation of civil money penalty authority by the three banking agencies. The subcommittee has identified the following areas for consideration:

- Legal and practical problems in establishing a predetermined or mechanistic system for assessing penalties;
- Development of general standards, in addition to those specified in relevant statutes, to determine the amount of civil penalty; and
- Development of general guidelines for determining when to institute a civil penalty proceeding.

### *Corporate Applications*

The task force formed a Corporate Applications Subcommittee to review

the agencies' policies and procedures for processing applications for mergers, branches, charters and other structural changes, and to make recommendations for increasing uniformity among the agencies. Among the topics being explored are:

- Delegation of application approval authority;
- Standard language for describing the effects of structural changes on competition; and
- Minimum capital requirements for approval of applications.

#### *Loan Review Selection Criteria*

A subcommittee was formed to explore criteria each agency uses to select loans for review during examinations. The NCUA and OCC examiners generally use various statistical sampling methods to select loans for review. The Federal Reserve Board, Federal Deposit Insurance Corporation and Federal Home Loan Bank Board examiners use statistical sampling in limited applications, but rely more heavily on judgmental sampling techniques. The subcommittee is exploring more extensive use of statistical sampling for loan selection.

#### *Bank Secrecy Act*

At the July 27, 1979 task force meeting, the Bank Secrecy Act Subcommittee was established to assess and implement the Treasury Department's expanded examination procedures under Section 103 of Part 31 of the Code of Federal Regulations. The subcommittee is preparing a proposal to the task force for improved examination procedures to verify financial institution compliance with the Bank Secrecy Act.

#### *Uniform Instalment Loan Classification*

A subcommittee was created to develop a uniform set of criteria for determining when federal examiners

should classify delinquent consumer instalment loans as "substandard" or "loss." That uniform examination policy will apply to the classification, in reports of examination, of open and closed-end credit extended to individuals for household, family and other personal expenditures. The project is expected to be completed in early 1980.

#### *The International Banking Act/ Uniform Examination Report*

The uniform report of examination for U.S. branches and agencies of foreign banks approved by the Council will be used by the federal bank regulators and state banking departments. Implementation of the report, to be accomplished by about January 1, 1980, will be monitored by this subcommittee. Other areas of interest for this group, involving the uniform examination report and the International Banking Act, are:

- Uniform statement of assets and liabilities;
- Treatment of insider transactions and transactions with related interests of the foreign bank or parent company;
- Enforcement of federal laws; and
- Transfer risk and shared national credits.

#### *International Banking—Supervision of Foreign Banks in the U.S.*

This subcommittee is responsible for reviewing foreign bank operations in the United States. At present it is investigating external information sources available to U.S. regulators to assist in appraising the condition of foreign banks operating in the United States.

#### *International Banking—Supervision of International Activities of U.S. Banks and Holding Companies*

This subcommittee has undertaken the

task of developing common approaches to international bank examinations by the Office of the Comptroller of the Currency, Federal Reserve Board, and Federal Deposit Insurance Corporation. It is currently seeking to create greater uniformity among the agencies by:

- Scheduling examination dates to facilitate sharing of resources, when feasible;
- Exchanging information concerning foreign EDP centers;
- Developing a common examination approach for foreign trust departments; and
- Exchanging merchant bank examination data and developing a common examination approach for merchant banks.

#### *Clearing House International Payments System (CHIPS)*

Because of the growing transactions risks in the clearing of international payments, representatives of the Federal Reserve Board requested that a subcommittee be formed to identify and study those risks and to recommend possible action by the banking agencies.

The CHIPS Subcommittee has determined that the following three activities should be accomplished:

- Develop a common regulatory approach to CHIPS for the three federal bank regulatory agencies;
- Develop a uniform examination checklist; and
- Prepare reports to the task force on the risks involved in CHIPS, application of standardized accounting procedures, and the possibility of examining CHIPS itself.

Because the Federal Reserve Bank of New York (FRBNY) is directly involved with CHIPS, and has an observer at most of its meetings, a FRBNY representative chairs this subcommittee.

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## Standards for Foreign Exchange Operations

A subcommittee was created to draft standards for documentation, accounting, and auditing of foreign exchange operations engaged in by commercial banks.

Comments received on the proposed statement of standards published in the *Federal Register* on July 27, 1979, are being studied and the Standards Subcommittee is working to prepare a final statement for Council review. The statement of standards will represent a consensus on certain minimum elements that should be included in a bank's system for documenting, controlling, and monitoring its foreign exchange activities.

## Credit Life and General Insurance Sales

The Council-recommended policy statement with respect to disposition of credit life insurance income has been published in the *Federal Register* for a 90-day comment period to end March 31, 1980. Although the agencies recognize that the acceptance of credit life insurance income by insiders is a long-standing practice in some areas of the country, the agencies believe that this diversion of income from credit life insurance sales to insiders rather than to their financial institutions may constitute an unsafe and unsound practice. A task force subcommittee on insurance sales will review the comments received on the proposed policy and will develop final recommendations to the Council. The subcommittee will also review a number of issues related to general insurance sales involving financial institutions.

## Task Force on Consumer Compliance

### Introduction

The Council's Task Force on Consumer Compliance was created to promote uniformity in the agencies' enforcement of consumer laws, and to identify and

resolve problems concerning consumer compliance policies or procedures that are common to several or all of the five agencies represented on the Council. The task force's focus on consumer laws and regulations complements the Task Force on Supervision's concentration on the more traditional safety and soundness issues.

The task force is responsible for promoting examination uniformity in enforcement of an impressive array of consumer laws and regulations, including the Truth in Lending Act, the Fair Credit Billing Act, the Consumer Leasing Act, the FTC Improvement Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfer Act, the Community Reinvestment Act, the Fair Debt Collection Practices Act, and the Right to Financial Privacy Act. Flood insurance regulations, advertising regulations, general civil rights policies and regulations dealing with lending and employment practices, and numerous state consumer laws also are addressed by this task force.

### Activities of the Task Force

The task force currently oversees two standing committees: the Community Reinvestment Act (CRA) Committee, and the Fair Lending Committee. The CRA Committee is involved in a number of interagency projects designed to improve and coordinate implementation of the Community Reinvestment Act. The committee is currently undertaking a comprehensive survey of CRA examination procedures and compliance programs operating at the four federal agencies charged with CRA enforcement. In addition, the committee is reviewing the effectiveness of the existing system for assigning CRA ratings, is studying the feasibility of developing an empirically valid method for measuring community loan demand, and has begun a project to create "plain English" explanations of each agency's procedures to be followed by

persons desiring to file CRA comments. Finally, during the next few months, the committee will be assessing the need to supplement or amend the agencies' CRA examination procedures and will be reviewing the CRA portion of the interagency examiner training program.

A special Data Subcommittee is addressing the CRA information needs of federal examiners and analysts. The subcommittee recently completed a test of the feasibility of updating 1970 census tract data and is currently checking the feasibility of mapping census data by SMSA. It is also studying the current definitions of "low income" and "moderate income" to determine if they accurately reflect community characteristics.

The Fair Lending Committee reviews issues related to implementation and enforcement of the Equal Credit Opportunity Act and the Fair Housing Act and related regulations. The committee is currently engaged in a major project to inventory and analyze all nondiscrimination enforcement policies and procedures at the five agencies. That project will form the basis for recommendations to the task force and the Council for increasing interagency uniformity and the overall effectiveness of such policies and procedures.

The task force also established a number of *ad hoc* interagency project groups to deal with particular issues such as development of uniform examination procedures for determining financial institution compliance with the Electronic Fund Transfer Act and the privacy provisions of the Financial Institutions Regulatory and Interest Rate Control Act. The task force has also been active in developing lesson plans for use in the planned interagency consumer compliance examiner training school. This work is being done in coordination with the Council's Task Force on Examiner Education.

In 1979, the Task Force on Consumer Compliance began addressing a substantial number of other issues on which work will continue in 1980. The more important of those issues are described below.

### *Truth in Lending Enforcement Guidelines*

A major area of activity for the task force involved the initial implementation of the uniform enforcement guidelines for Truth in Lending (Federal Reserve Regulation Z) and the subsequent development of proposed amendments to those guidelines. The enforcement guidelines, which became effective on January 4, 1979, provide for reimbursement to consumers when certain violations of Regulation Z are discovered. The agencies experienced significant difficulties in implementing the guidelines in their initial form. In July 1979, the task force issued 29 formal "Questions and Answers" on technical applications of the guidelines and, in the following months, dealt less formally with numerous other technical issues needing interagency coordination.

As a result of the enforcement difficulties encountered, and following a significant investment of agency staff hours devoted to analysis of the numerous technical issues raised, the Council recommended that the agencies propose for public comment three amendments to the guidelines as well as a number of general questions regarding appropriate application of the guidelines. The agencies agreed to the Council's recommendation and issued a joint request for public comment in October 1979. In response, the agencies received 768 letters commenting on the proposals. The task force and other agency staff members are presently analyzing these comments in preparation for making recommendations to the Council in early 1980.

### *Equal Credit Opportunity Enforcement Guidelines*

In 1978, the five agencies proposed for comment uniform guidelines for the enforcement of the more substantive provisions of the Equal Credit Opportunity Act (Federal Reserve Regulation B). The comments have been analyzed by the task force and a revised draft has been prepared and circulated to the agencies' field and district offices for additional analysis.

These analyses will be reviewed and necessary adjustments will be made before the draft guidelines are presented to the Council.

### *Community Reinvestment Act*

The task force has initiated a system for monitoring the individual agencies' efforts to enforce the Community Reinvestment Act (CRA). That system is intended to ensure substantial interagency uniformity in applying the CRA examination procedures (e.g., when contacts outside an institution should be made) and to provide a basis for improving existing examination techniques (e.g., determining what tools will help an examiner geocode loans).

### *Development of New Enforcement Procedures*

During 1979, the task force developed and the agencies implemented uniform examination procedures for enforcing the provisions of the Electronic Fund Transfer Act (Federal Reserve Regulation E) which became effective on February 8, 1979. In 1980, uniform procedures to determine compliance with those provisions of Regulation E which become effective in May 1980 will be developed and implemented.

Work has also been substantially completed on uniform examination procedures to implement the privacy provisions of the Financial Institutions Regulatory and Interest Rate Control Act. These procedures should be implemented in early 1980.

### *Revision of Existing Enforcement Procedures*

In an effort to begin revising existing examination procedures to gain substantial uniformity among the agencies, the task force has reviewed the five agencies' current procedures for determining compliance with Equal Credit Opportunity and Truth in Lending regulations. Forms and procedures used by examiners, frequency of examination, and loan sample sizes were reviewed to determine major similarities

and differences among the agencies. The next phase of this project will be to develop recommendations to the agencies aimed at achieving greater consistency in examination methodology.

## **Task Force on Reports**

### **Introduction**

Section 1006(c) of Public Law 95-630 requires the Council to "develop uniform reporting systems for federally supervised financial institutions, their holding companies and nonfinancial institution subsidiaries of such institutions or holding companies." To carry out that task with respect to reports within its purview, the Council established the Task Force on Reports.

The task force has also been assigned other report-related responsibilities where the issue of interagency uniformity is significant in providing periodic financial data fundamental to effective supervision by the agencies. Those responsibilities cover the areas of reporting instructions, questions of accounting and treatment of specific transactions, publication and availability of reports, report processing standards and data quality, assessment of reporting burden, and liaison with the Securities and Exchange Commission, the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. In addition, the task force is responsible for any special projects related to financial institution reporting that the Council may assign.

When the work of other Council task forces creates a need to change reporting requirements, the Task Force on Reports shares those responsibilities with the other groups as appropriate.

In much of its work relating to commercial banking, the task force incorporates and continues the work of the former interagency "Call Report Committee" that functioned under the Interagency Coordinating Committee. Many of the significant accomplishments of the task force are discussed in the next section.

## Activities of the Task Force

### *Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks*

The task force developed a uniform report form (Form FFIEC 002) and a set of comprehensive instructions for the quarterly report of condition that U.S. branches and agencies of foreign banks are required, under the International Banking Act of 1978, to file with their primary federal bank regulator. In developing the report, the task force reduced the total reporting requirement for many institutions by eliminating duplication and by reducing reporting frequency.

### *Annual Report of Trust Assets*

The task force, in conjunction with the Council's Task Force on Supervision, revised the form and the instructions for the annual report of trust assets that all trust companies and banks with fiduciary powers must submit to their federal bank regulator. The revisions produced a uniform reporting form (Form FFIEC 001) and instructions, consolidated a number of existing reports in the trust area, and reduced considerably the reporting burden on the banks and trust companies.

### *Report on Bank Ownership and Indebtedness of Officers and Shareholders*

The task force, in conjunction with the Task Force on Supervision, developed an annual report form (Form FFIEC 003) and instructions for banks to use in meeting the reporting requirements under Title VIII, "Correspondent Accounts," and Title IX, "Disclosure of Material Facts," of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. These two titles require all insured banks to file annual reports with their primary federal regulator, disclosing detailed information on bank ownership and on bank or correspondent bank loans to executive officers and principal shareholders. As it had with the annual report of trust assets and the condition report

for U.S. branches and agencies of foreign banks, the task force arranged for joint printing of Form FFIEC 003 and its instructions for all three agencies, thereby avoiding an unnecessary duplication of effort.

### *Survey of Foreign Fiduciary Activities of U.S. Banks*

The task force, in conjunction with the Task Force on Supervision, developed a uniform letter survey of the fiduciary activities of the foreign offices of U.S. banks and bank holding companies. That survey, which will gather data as of year-end 1979, will be used by the three federal bank regulators to determine the extent of foreign fiduciary operations and to provide a basis for the appropriate supervision of such activities.

### *Other Projects*

During 1979, the task force began a number of projects that will continue into 1980. These projects are described in the following paragraphs.

The task force is continuing work toward a uniform set of instructions for commercial bank reports of condition and income that will be used by the three bank supervisory agencies. Considerable progress has been made on this project. It is hoped that soon after the developmental stage is completed, the three banking agencies will be able to replace their existing separate instructions with the uniform set. The task force is also setting up procedures to ensure that uniformity will be maintained in all future changes to instructions and in treating definitional questions and issues.

The task force is identifying differences in the supervisory reporting requirements of the three bank supervisory agencies. Recommendations to eliminate these differences will be developed for the Council and the banking agencies.

The task force is developing new procedures and reporting format for joint

publication of aggregate data from quarterly bank reports of condition. Substantial agreement has been reached on the contents of a joint publication and work is continuing. The task force is also participating in a project to develop new procedures for the coordinated, systematic compiling and publication of information on foreign ownership of U.S. banking institutions.

An important part of the task force's ongoing responsibilities is dealing with problems of report item definition and accounting treatment, including maintaining liaison with the various accounting bodies. The task force must also deal with problems of maintaining and improving processing standards and data quality for the information collected on the reports. The task force conducts those continuing parts of its work through two permanent subcommittees. Other projects and issues are often assigned to special *ad hoc* project groups.

The first of the two permanent subcommittees of the task force, the Subcommittee on Processing Standards and Data Quality, was established as the working mechanism through which the task force carries out its responsibility for monitoring agency data processing standards, procedures and quality controls that affect reports under its jurisdiction. The subcommittee's assignments include developing long range recommendations for improving report processing, and problem solving for reporting and data quality issues that need immediate attention. The subcommittee also reports to the task force on any problems in data destined for agency use or public release that may necessitate emergency treatment, delayed publication or special explanations.

The second permanent subcommittee, the Subcommittee on Instructions and Accounting Standards, was set up to provide for consistent and timely handling of questions and issues relating to report instructions, item definitions, accounting matters, and liaison with various accounting bodies.

## Task Force on Examiner Education

### Introduction

Section 1006(d) of Public Law 95-630 provides that the Examination Council will conduct schools for examiners and assistant examiners. Over the years each of the five agencies represented on the Council has developed its own examiner training programs. Those programs reflect the agencies' individual philosophies with respect to examinations and training methods, and represent considerable investments of time and money. Although each agency's operations have some unique characteristics that may continue to be best addressed by individual programs, it seems clear that there are many areas of common interest that could benefit from a common approach to examiner training. That potential is recognized in Section 1006(d) and by the Council's special efforts in the area.

The Council's Task Force on Examiner Education was established to foster and supervise interagency training efforts in response to Council directives under Section 1006(d). Although interagency uniformity is the general objective of all Council activities, the Task Force on Examiner Education has established a primary goal of training examiners to attain the highest level of performance in carrying out their official duties and responsibilities.

### Activities of the Task Force

In moving toward the achievement of its primary goal, the task force has established a number of specific objectives which include:

- Standardization and consolidation of agency examiner training programs, when feasible, to promote efficiency and economy of operations;
- Identification of the need for, and the establishment of, appropriate facilities for examiner training;
- Long-range planning to identify future training requirements and to develop programs to meet those needs;

- Continuous review of existing training curricula, lesson plans and instructor qualifications to improve the administration of current training activities; and
- Assistance in developing training opportunities for employees of state and foreign financial institution supervisory agencies.

During 1979 development of lesson plans for a number of interagency training courses was begun. One such course, "Instructor Training," was fully developed and approved by the Council. A second course, "Interagency Trust Workshop," was approved by the task force and offered for the first time in November 1979. Eight other Council courses in the areas of management training, electronic data processing, consumer and civil rights, white collar crime, trust activities, and international banking are scheduled for delivery in 1980. The task force has also devised a student tuition plan for Council-approved courses to be offered in 1980 as a first step toward realization of a completely self-sustaining examiner training program.

Although the task force is focusing its major efforts on course design, it is also actively investigating ways of consolidating agency training facilities. The Council has approved a project to determine the economic feasibility of acquiring a single, large educational facility capable of accommodating the needs of all five agencies. In the meantime, the task force has negotiated, on behalf of the Council and the agencies, a lease on a common student housing facility in Rosslyn, Va. that will be used by persons attending Council-approved courses and other agency training in the Washington metropolitan area. That arrangement should substantially reduce total student housing expenses by avoiding the high cost of ordinary commercial lodging.

In connection with the overall objective of standardizing and consolidating agency training programs, the task force determined that full-time professional management would be required to administer effectively the joint pro-

gram being developed. The Council approved the addition of two professional positions on the Council staff: a Manager for Examiner Education and an Administrative Assistant for Examiner Education. The manager position was advertised in the last quarter of 1979 and, by year-end, the selection process was near completion. Final selection of the manager and hiring of an administrative assistant will be priority matters for early 1980.

## Task Force on Surveillance

### Introduction

The Examination Council established the Task Force on Surveillance as a special task force to deal with surveillance and monitoring systems utilized by the agencies. The basic function of the task force is to help formulate goals, objectives and priorities for facilitating the development and sharing among the agencies of computer-based and other surveillance procedures. Standardized, interagency systems will be used as early warning tools to detect emerging financial problems and to monitor the performance of financial institutions. Such activities would include surveillance of institution financial activities and, perhaps, of regulatory compliance activities as well. The task force will identify and recommend to the Council ways to achieve those objectives, initially emphasizing uniformity among the three federal agencies which regulate commercial banking activities. Council-approved systems will be implemented under the oversight of the task force, in coordination with other Council task forces as necessary.

### Activities of the Task Force

In 1979, the task force initiated a two-phase project. Phase one, planned for completion during the first part of 1980, is designed to review the various surveillance systems currently in place or being developed in the individual agencies. That review will consider how the agencies have integrated surveillance concepts into programs for super-

vising and regulating financial institutions and will describe the agencies' philosophies regarding the long-term role of surveillance. Phase two of the project, which will be undertaken upon completion of phase one, will include evaluating how well the existing systems perform, making recommendations for greater cooperation and saving of resources by sharing existing surveillance and support systems, and developing alternatives and recommendations for future surveillance efforts.

Information generated through the task force's initial project has already resulted in a specific effort regarding interagency surveillance techniques. In the course of phase one of the project, it was determined that the three banking agencies were, to varying degrees, employing balance sheet report generating systems as tools to perform financial analysis and were providing that performance information to the banks they supervised. There seemed to be considerable duplication of effort, particularly in providing information to banks. At the direction of the

Council, a project has been initiated to develop a single set of uniform bank and bank holding company performance reports for supervisory use. The task force created a special Subcommittee on Uniform Performance Reports to concentrate on this project and by year-end 1979 substantial work had been completed.

#### **Legal Advisory Group**

Legal representatives from the financial institutions regulatory agencies represented on the Council began assisting the formal organization of the Council as soon as the Financial Institutions Regulatory and Interest Rate Control Act of 1978 was signed into law. The representatives addressed various legal topics relating to the establishment and operation of the Council, including proper expense allocation among the agencies, voting requirements for actions of the Council, the Council's access to records of the agencies, and requirements for the purchase of supplies and services from

another agency. The legal representatives also drafted the rules of operation, delegations of authority, and other resolutions necessary for the Council to commence operations.

Shortly after the Council came into existence, its members acted to ensure the availability of a ready source of legal advice by creating the Legal Advisory Group. This group is composed of senior legal officers at the five agencies. The Chief Counsel, Office of the Comptroller of the Currency, was named the group's first chairman.

The Legal Advisory Group advises the Council on specific legal issues referred to it by the Council and provides legal assistance to Council task forces and the Office of the Executive Secretary. Since its formation, the Legal Advisory Group has provided legal opinions to the Council and Council task forces on a variety of issues. At year-end 1979 the group had begun developing, for Council consideration, a number of suggested amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

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# Record of Section 1006 Actions of the Council

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The following presentation is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council pursuant to Section 1006 of Public Law 95-630 during 1979.

June 7

*Action.* Approved for issuance for public comment a Statement of Standards for the Documentation, Accounting, and Auditing of Foreign Exchange and Money Market Activities of Commercial Banks.

*Explanation.* The proposed standards represent the minimum requirements for commercial banks' foreign exchange and money market operations. The standards will serve as a basis by which management, auditors, and supervisory authorities can measure and evaluate an individual bank's system for controlling and monitoring its foreign exchange activities.

July 5

*Action.* Approved new disclosure standards for credit life insurance premiums in connection with application of the Uniform Truth in Lending Enforcement Guidelines.

*Explanation.* The standard provides for a uniform reimbursement policy with respect to situations in which creditors omit credit life insurance premiums from the finance charge disclosed to the loan customer. It is designed to ensure that the customer is aware of the cost of the insurance and that such insurance is optional. The new standard was implemented through amendments to a staff question-and-answer paper which had been released to the public to explain the guidelines.

July 5

*Action.* Approved a new standard for application of the Uniform Truth in

Lending Enforcement Guidelines to situations involving obvious errors in disclosure.

*Explanation.* The standard provides relief for creditors from potentially large reimbursements when unintentional errors, which should be obvious to the customer, are made. An example would be disclosing a 10 percent annual percentage rate as .10 percent.

July 12

*Action.* Approved Policy Statement on Supervision of U.S. Branches and Agencies of Foreign Banks.

*Explanation.* The policy statement stems from the increased authority and responsibilities of the federal bank regulatory agencies under the International Banking Act. The statement informs the public and the banking industry that reports will be required from foreign banks' U.S. operations and from foreign parent institutions, that a special examination report will be developed for the examination of such operations, and that agency contacts with senior management of foreign banks will be increased in order to ensure the safe and sound operation of the U.S. operations of foreign banks.

July 12

*Action.* Approved a response to a General Accounting Office (GAO) request that GAO personnel accompany agency examiners on consumer examinations.

*Explanation.* The GAO expressed its intent to review the consumer affairs activities of the five agencies and requested permission for GAO personnel to accompany examiners during examinations for compliance with laws and regulations relating to community and consumer affairs. The Council ap-

proved the GAO request provided that: (1) the financial institution to be examined agreed; (2) the confidentiality of the examination process was maintained; and (3) GAO personnel were not present during the examiner's exit interview with management.

September 20

*Action.* Approved a training course entitled "Instructor Training" for the Council's Examiner Education Program. Also approved delegation of authority for approving additional courses to the Task Force on Examiner Education.

*Explanation.* Several of the agencies represented on the Council offer courses on instruction techniques to persons who teach in their examiner education programs. Combining the various instructor training efforts into a single Council-sponsored course should improve the quality of such training and lower training costs. Because the Task Force on Examiner Education will be developing many additional courses for use in the Council's examiner education program, the Council decided to delegate authority to approve such courses to the task force.

September 20

*Action.* Approved lease of a student housing facility in Rosslyn, Va. for persons attending Council-approved courses and other agency training in the Washington, D.C. area.

*Explanation.* The student housing facility should help the agencies achieve savings over the current costs of commercial lodging for examiners on training assignment in the Washington, D.C. area. The facility is convenient to the Council's temporary training facility and to the headquarters of the agencies.

## September 20

*Action.* Approved two Council staff positions for administering the Council's examiner education program and student housing facility. The positions are Manager for Examiner Education and Administrative Assistant to the Manager.

*Explanation.* Full-time administrative support is needed to operate the Council's examiner education program and the student housing facility. Those Council staff members will be responsible for managing the Council schools and housing facility, developing examiner training courses, and scheduling classes. It is anticipated that the cost of these two positions will be fully recovered through tuition and room charges beginning in 1981.

## September 25

*Action.* Approved a Policy Statement on Discrimination, including a statement discouraging financial institutions from paying for employee membership fees in private clubs that discriminate on the basis of sex, religion, race or national origin. Recommended adoption of the statement by the five agencies represented on the Council. (All of the agencies approved the Council's recommendation.)

*Explanation.* There is increasing concern that payment of membership fees for employees in private clubs that discriminate may adversely affect the career opportunities of financial institution employees who are not permitted to join such clubs because of their race, sex, religion or national origin. Because business contacts can be made and because business matters are frequently discussed at such clubs, exclusion of certain employees can impair their opportunities for career advancement.

## October 4

*Action.* Approved three proposed amendments to the Uniform Truth in Lending Enforcement Guidelines. Recommended that the agencies request public comment on the proposed

amendments as well as three other questions regarding the guidelines. (All of the agencies approved the Council's recommendation.)

*Explanation.* The guidelines, which became effective on January 4, 1979, provide for reimbursement to consumers when certain violations of the FRB's Truth in Lending Regulation Z are discovered. As a result of difficulties encountered by the agencies in implementing the guidelines, the Council proposed three amendments designed to ease the burdens of implementation. The amendments would: (1) increase the tolerance for disclosure of the annual percentage rate from one-eighth to one-fourth of a percentage point; (2) change the provisions regarding retroactive reimbursement; and (3) provide greater flexibility to the agencies to respond to unique circumstances or significant problems. The three questions dealt with: (1) the costs and benefits associated with implementation of the guidelines; (2) the desirability of special treatment for real estate loans; and (3) the desirability of requiring states that have been granted exemptions from the federal Truth in Lending requirements to adopt enforcement guidelines similar to the federal ones. The nearly 800 comments received by the agencies on those issues are currently under review.

## October 4

*Action.* Approved a uniform Annual Report of Trust Assets (Form FFIEC 001) to be used by the three federal bank regulatory agencies.

*Explanation.* Each of the three agencies required such a report from bank trust departments and trust companies. The Council, in approving a report for use by all three agencies, achieved uniformity in format and instructions for the report and considerably reduced the overall reporting burden for banks and trust companies.

## November 1

*Action.* Approved a uniform financial institution rating system and recom-

mended its adoption by the five agencies represented on the Council. (All five agencies approved the Council's recommendation.)

*Explanation.* Differences exist among the agencies regarding the system used for rating financial institutions. The Council believes that the Congress, the public and the Council itself would better understand the overall condition of financial institutions in the United States if each agency employed the same standards in arriving at the final, composite rating for a financial institution. Henceforth, in reports to the Congress, the public and the Council on the financial condition of institutions under their supervision, the five agencies will use the uniform rating system.

## November 1

*Action.* Approved a letter survey of foreign fiduciary activities of commercial banks and their affiliates and recommended that the three federal bank regulatory agencies conduct the survey. (All three agencies approved the Council's recommendation.)

*Explanation.* Evidence suggests that the foreign fiduciary activities of commercial banks and their affiliates have grown significantly in recent years. The purpose of the survey is to determine the scope of such activities so that informed judgments may be made about appropriate supervisory actions with respect to such activities.

## November 15

*Action.* Approved for issuance for public comment a Policy Statement on Disposition of Credit Life Insurance Income and recommended that the five agencies request public comment on it. (All five agencies approved the Council's recommendation.)

*Explanation.* The proposed policy would prohibit insiders of a financial institution from benefiting personally from income derived from the sale of credit life insurance in connection with loans granted by their institution. It would also require that such income

be credited to an institution's own income account or, in the case of a savings and loan association, to its service corporation. Because the policy could have a significant impact on the operations of some holding companies and individuals, the Council decided to provide for a 90-day public comment period.

#### **November 15**

*Action.* Approved a supervisory policy on the purchase and sale of U.S. government guaranteed loans by financial institutions and recommended implementation of the policy by the five agencies. (All five agencies approved the Council's recommendation.)

*Explanation.* The policy applies to financial institutions that participate as originators, sellers, servicers and purchasers in certain U.S. government guaranteed loan programs, such as those currently being administered by the Small Business Administration and the Farmers Home Administration. The policy is designed to help achieve uniform and effective supervision of such activities and to assure that they are carried on in a sound and prudent manner. It is not a criticism of the programs or of financial institution participation in them. The policy addresses three principal concerns: (1) the ability of the institution to service loans originated under such programs; (2) the accounting for income from fees for loan servicing; and (3) the effect of participation in such programs on the liquidity of financial institutions.

#### **November 15**

*Action.* Approved two report forms relating to the requirements of Titles VIII and IX of the Financial Institutions Regulatory and Interest Rate Control Act (FIRA): (1) a form to be used by insured commercial banks to meet all of the reporting requirements of the two Titles; and (2) a "model" form which is recommended for use by principal shareholders and executive officers of insured banks to meet their reporting requirements under Title VIII.

*Explanation.* Under Title VIII of FIRA, the principal shareholders and executive officers of an insured bank are to report to their bank the loans they have received from correspondent banks. The bank must then report this information to its primary federal regulator. Under Title IX, a bank is required to disclose publicly its principal shareholders and the aggregate amount of borrowings from it by certain insiders. The form approved for reporting by insured commercial banks (Form FFIEC 003) must be filed with the bank's primary federal regulator in order to meet the combined requirements of Titles VIII and IX. An optional model form (Form FFIEC 004) was also approved by the Council for use by the principal shareholders and executive officers of an insured commercial bank in reporting loans received from correspondent banks.

#### **November 15**

*Action.* Approved a report of condition for U.S. branches and agencies of foreign banks for use by the three federal bank regulatory agencies.

*Explanation.* Under the International Banking Act of 1978 each U.S. branch and agency of a foreign bank will be required to report to one of the three federal bank regulators. This Council-approved report (Form FFIEC 002) will be used by all three agencies.

#### **December 6**

*Action.* Approved the undertaking, by the Task Force on Examiner Education, of a feasibility and site selection study for a central training facility.

*Explanation.* Over time, the number of Council-sponsored courses offered to examiners of the five agencies represented on the Council and to examiners employed by state supervisory authorities will increase significantly. During 1980, the Council will use the FDIC's examiner training facility in Rosslyn, Va. Because of the expected size and scope of the Council's educational program in the years ahead, it is desirable to consider alternatives now

for the future site of the Council's examiner training facility.

#### **December 6**

*Action.* Approved a uniform Examination Report for U.S. Branches and Agencies of Foreign Banks.

*Explanation.* This examination report form will be used by the three federal bank regulators in carrying out their responsibilities under the International Banking Act of 1978.

#### **December 6**

*Action.* Approved a Policy Statement on Coordination of Formal Corrective Actions by the Federal Bank Regulatory Agencies and recommended its adoption by the three agencies. (All three agencies approved the Council's recommendation.)

*Explanation.* This policy pertains to formal administrative actions taken by the federal banking agencies pursuant to the Financial Institutions Supervisory Act of 1966, as amended. Under this policy, if one of the agencies initiates a formal enforcement action against a bank holding company or a commercial bank, that agency shall notify the other two federal bank regulatory agencies that such action is being taken. In the event that complementary action by two or more of the agencies is deemed appropriate, the implementation and follow-up of the corrective action shall be coordinated by the agencies directly involved.

#### **December 6**

*Action.* Approved a Policy Statement on Coordination of Bank Holding Company Inspections and Subsidiary Lead Bank Examinations among the three federal bank regulatory agencies and recommended its adoption by those agencies. (All three agencies approved the Council's recommendation.)

*Explanation.* Because responsibility for supervising bank holding company systems is divided among the three

agencies, effective coordination of their examination and supervisory activities with respect to bank holding companies and their subsidiary banks is important. Under this policy, supervisory officials at each of the federal bank regulatory agencies' regional or district offices will meet at least semiannually to schedule coordinated bank holding company inspections and subsidiary lead bank examinations. Coordinated inspections and examinations are required for large holding companies, holding companies or subsidiary lead banks that have a composite rating of 4 or 5, and holding companies or subsidiary lead banks with a composite rating of 3 whose financial condition appears to have worsened significantly since the last inspection or examination.

Coordination of other holding company inspections and subsidiary bank examinations will also be undertaken as the agencies' resources permit.

#### **December 6**

*Action.* Approved a Policy Statement on Uniform Disclosure of Statutory Enforcement Actions and recom-

mended its adoption by the five agencies represented on the Council. (All five agencies approved the Council's recommendation.)

*Explanation.* This action established a uniform public disclosure policy regarding statutory enforcement proceedings brought against financial institutions or persons subject to the agencies' enforcement authority. Under this policy each agency will prepare, at least semiannually, a written summary of each statutory enforcement action taken. Such summaries will describe the essential facts of each action taken by the reporting agency; however, no information that might lead to the identification of any persons or companies involved in an action will be disclosed.

#### **December 6**

*Action.* Approved a tuition fee schedule for the Council's examiner education program for 1980.

*Explanation.* This action reflects the Council's policy of operating its

examiner training program on a self-sustaining financial basis. Except for certain start-up costs which are to be recovered in future years, the fee schedule will recoup all of the anticipated costs of operating the Council's examiner education program in 1980.

#### **December 20**

*Action.* Determined not to participate at this time with the Department of Housing and Urban Development and the Ford Foundation in a proposed study of mortgage credit discrimination resulting from pre-screening of potential loan applicants.

*Explanation.* The Council believed that the abnormal conditions currently prevailing in the mortgage market, and likely to continue throughout most of 1980, would jeopardize the validity of any research study conducted at this time. The Council indicated, however, that it would be willing to reconsider its decision regarding participation in such a study when mortgage fund flows become more normal.

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## A. Title X of Public Law 95-630

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Title X establishing the Federal Financial Institutions Examination Council is as follows:

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

### Purpose

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

### Definitions

*Sec. 1003.* As used in this title—

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

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

(3) the term "financial institution" means a commercial bank, a savings bank, a trust company, a savings and loan association, a building and loan association, a homestead asso-

ciation, a cooperative bank, or a credit union.

### Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

(4) the Chairman of the Federal Home Loan Bank Board, and

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

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

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

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

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

### Expenses of the Council

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

### Functions of the Council

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

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

(2) When a recommendation of the Council is found unaccepted by one or more of the applicable Federal financial institutions regulatory agencies, the agency or agencies shall submit to the Council, within a time period specified by the Council, a written statement of the reasons the recommendation is unacceptable.

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

(d) The Council shall conduct schools for examiners and assistant examiners employed by the Federal financial institutions regulatory agencies. Such schools shall be open to

enrollment by employees of State financial institutions supervisory agencies 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 this title.

#### **Access to Information by the Council**

*Sec. 1009.* For the purpose of carrying out this title, the Council shall have access to all books, accounts, records,

reports, files, memorandums, papers, things, and property belonging to or in use by Federal financial institutions regulatory agencies, including reports of examination of financial institutions or their holding companies from whatever source, together with workpapers and correspondence files related to such reports, whether or not a part of the report, and all without any deletions.

#### **Audits by the Comptroller General**

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

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

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

## B. 1979 Report of Audit

To the Federal Financial Institutions Examination Council Members:

We have examined the balance sheet of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL as of December 31, 1979, and the related statements of assessments and expenses and changes in financial position for the period March 16, 1979 (date of organizational meeting) through December 31, 1979. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Financial Institutions Examination Council as of December 31, 1979, and its assessments and expenses and the changes in its financial position for the period then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Washington, D.C.,  
February 14, 1980.

### Balance Sheet December 31, 1979

ASSETS	
OPERATING FUND	
Cash, held by Board of Governors of the Federal Reserve System	\$238,513
PROPERTY FUND	
Office furniture and equipment, at cost (Note 2)	<u>33,376</u>
<b>TOTAL ASSETS</b>	<b><u>\$271,889</u></b>
LIABILITIES AND FUND BALANCES	
OPERATING FUND	
Liabilities	
Accounts payable and accrued liabilities	\$ 45,474
Rentals collected in advance (Note 4)	<u>78,255</u>
	123,729
Commitment (Note 4)	
Fund balance	<u>114,784</u>
Total operating fund	<u>238,513</u>
PROPERTY FUND	
Fund balance (Note 2)	<u>33,376</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$271,889</u></b>

### Statement of Assessments and Expenses for the Period March 16, 1979 (Date of Organizational Meeting) Through December 31, 1979.

ASSESSMENTS LEVIED ON MEMBERS OF THE COUNCIL (Note 3)	<u>\$237,322</u>
EXPENSES	
Salaries and related benefits (Note 3)	42,651
Travel	5,876
Postage	2,165
Telephone	885
Printing	8,215
Office supplies	1,664
Office space rental (Note 3)	7,638
Contractual professional services	2,648
Books and subscriptions	324
Administration fees (Note 3)	14,156
Accounting fees	575
Miscellaneous	<u>2,365</u>
Total operating expenses	89,162
Purchases of office furniture and equipment (Note 2)	<u>33,376</u>
Total expenses	<u>122,538</u>
ASSESSMENTS IN EXCESS OF EXPENSES (Operating Fund balance at December 31, 1979)	<u>\$114,784</u>

Statement of Changes in  
Financial Position for the Period  
March 16, 1979  
(Date of Organizational Meeting)  
Through December 31, 1979.

SOURCES OF FUNDS	
Assessments levied on members of the Council	\$237,322
Increase in accounts payable and accrued liabilities	45,474
Rentals collected in advance	<u>78,255</u>
Total sources	<u>361,051</u>
APPLICATIONS OF FUNDS	
Operating expenses	89,162
Purchases of office furniture and equipment	<u>33,376</u>
Total applications	<u>122,538</u>
CASH BALANCE, December 31, 1979	<u>\$238,513</u>

The accompanying notes are an integral part of this statement.

Notes to Financial Statements December 31, 1979

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 "Act"). 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 Federal agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

- o Office of the Comptroller of the Currency
- o Board of Governors of the Federal Reserve System (the "Board")
- o Federal Deposit Insurance Corporation ("FDIC")
- o Federal Home Loan Bank Board ("FHLBB")
- o National Credit Union Administration

The Council held its first meeting and began its operations on March 16, 1979.

2. Significant Accounting Policies

Property additions are recorded as an expense of the Operating Fund and an addition to the Property Fund in the year of acquisition. Depreciation expense is not recorded on property recorded in the Property Fund.

3. Transactions with Member Organizations

As provided by the Act, member organizations are assessed for one-fifth of the annual budgeted costs and expenses of the Council. Each member organization was assessed and paid approximately \$47,465 to the Council during 1979.

The Council has entered into an agreement with the Board of Governors of the Federal Reserve System under which the Board provides administrative and financial services to the Council on a cost-reimbursable basis. In 1979, the Board billed the Council \$14,156 for these services, which amount is included in administration fees in the accompanying statement of assessments and expenses.

The Council reimburses the Office of the Comptroller of the Currency for office space provided by the Comptroller. In 1979, the Council paid \$7,538 to the Comptroller for office space rental.

The Council reimburses member organizations for the cost of salaries and related benefits of personnel who are assigned to the Council on a full-time basis. In 1979, the Council paid or accrued \$32,218 to the Board, \$7,337 to the FHLBB and \$1,642 to the FDIC as reimbursement for personnel who had been assigned to the Council.

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. Commitment

The Council has entered into an agreement to lease 125 efficiency units in Arlington, Virginia, for the purpose of housing examiners who attend training courses in the Washington, D.C. area. The initial lease term covers the period from January 6, 1980 through December 20, 1980, and the Council can renew the lease for various periods through December 17, 1983. Fixed minimum rentals for the initial lease term are \$1,258,750. The Council expects to be reimbursed for these rentals by its member organizations based on their actual usage of the units. As of December 31, 1979, the Council had received advances of \$78,255 for January 1980 rentals from its member organizations.