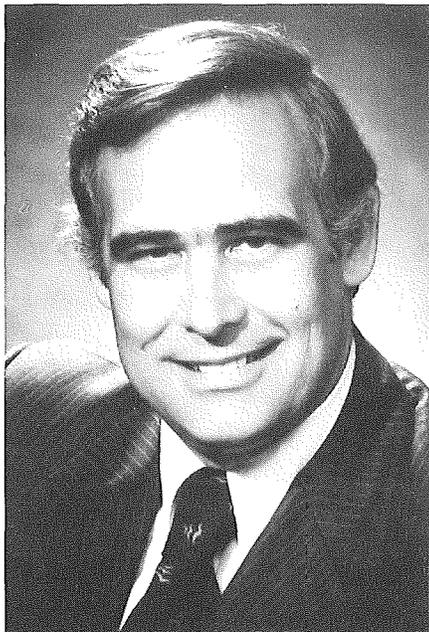




Annual Report 1986

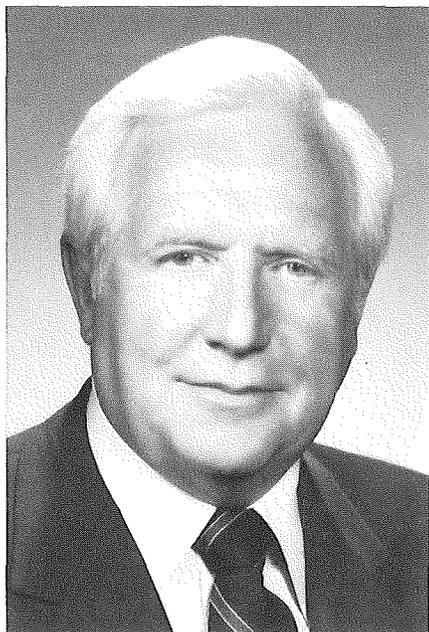
Members of the Council



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



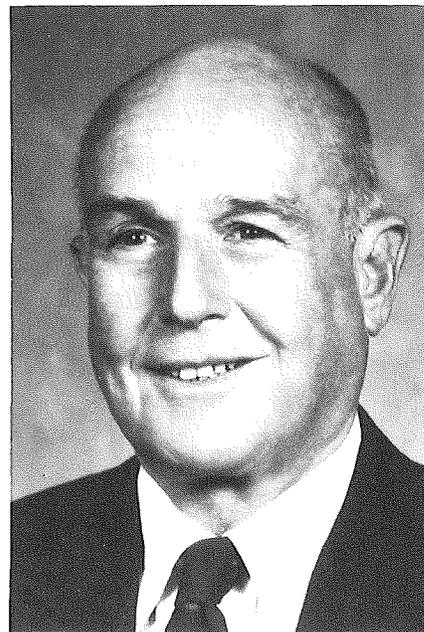
Robert L. Clarke, *Vice Chairman*
Comptroller of the Currency
Office of the Comptroller of the Currency



Roger W. Jepsen
Chairman
National Credit Union Administration



Manuel H. Johnson
Vice Chairman
Board of Governors of the
Federal Reserve System



L. William Seidman
Chairman
Federal Deposit Insurance Corporation

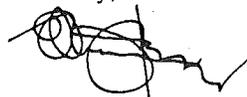
Letter of Transmittal

Federal Financial Institutions Examination Council
Washington, DC
March 31, 1987

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 1986 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink, appearing to read 'Edwin J. Gray', with a stylized flourish at the end.

Edwin J. Gray
Chairman

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Examination Council in session, 1986.

The Federal Financial Institutions Examination Council

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

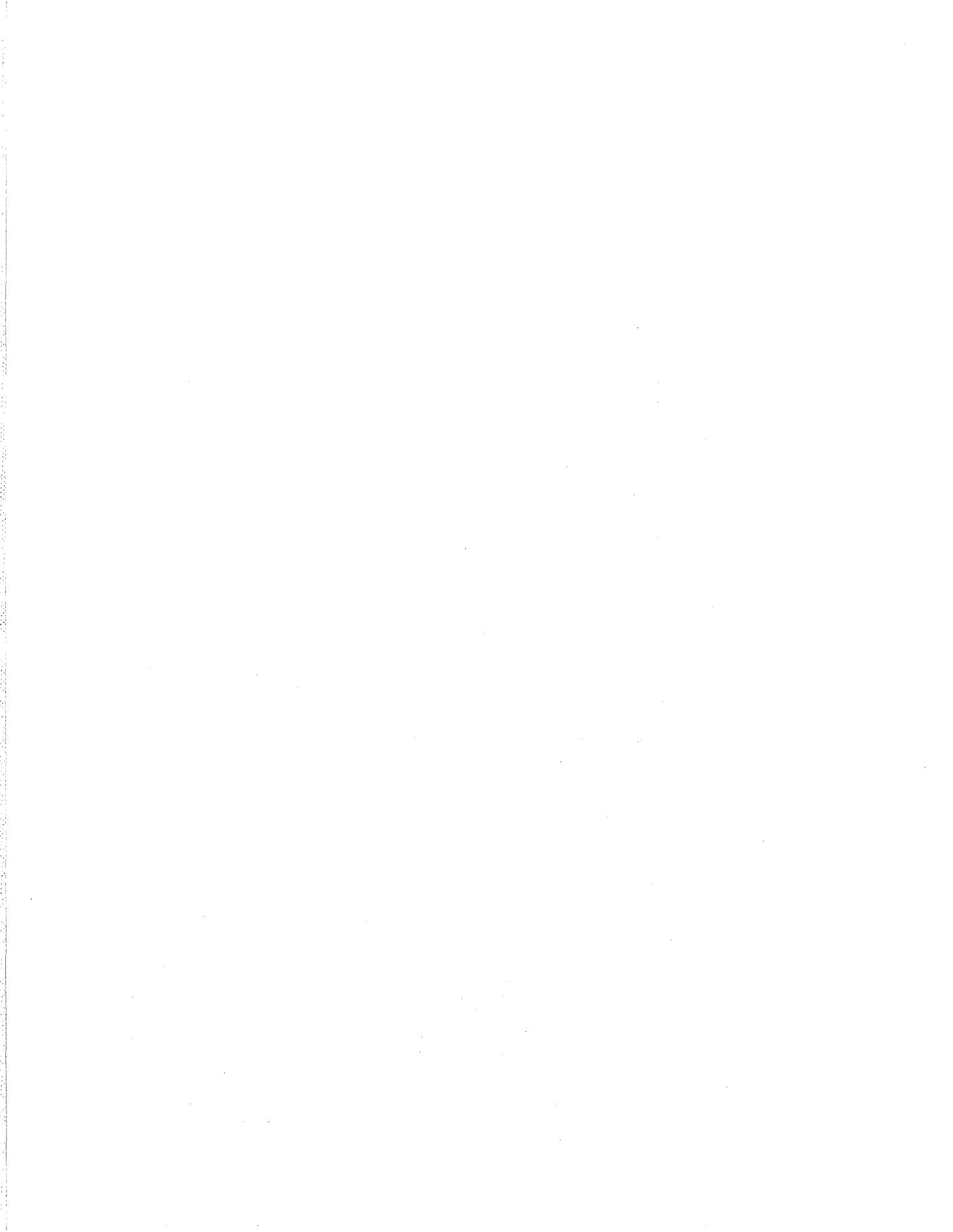
The Council was given additional statutory responsibilities under the Housing and Community Development Act of 1980 (section 340 of Public Law 96-399, October 8, 1980). Among the assignments are the implementation of a system to facilitate public access to data that depository institutions are required to disclose under the Home Mortgage Disclosure Act of 1975 (HMDA), and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.



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

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

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



Record of Actions of the Council

Following is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1986 pursuant to sections 1006 and 1007 of Public Law 95-630 and section 340 of the Public Law 96-399 (Housing and Community Development Act of 1980).

February 11

Action. Unanimously approved the 1986 annual report of the Council to the Congress.

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

March 14

Action. Unanimously approved a recommendation that the agencies adopt the Council's General Policy for Sharing Confidential Supervisory Information with State Banking and Thrift Regulatory Agencies. (All five agencies approved the Council's recommendation—See related action of October 2 involving approval of a model agreement on sharing of confidential supervisory information.)

Explanation. This policy was developed by the Council because of the expansion of interstate banking activities and the growing need for federal and state agencies to cooperate in their supervisory efforts. The Council believes that the recommended policy will provide a framework for developing detailed information-sharing agreements between federal and state financial institution regulatory agencies.

The confidential supervisory information covered by the Council's policy includes both examination-report information and confidential information included in applications for holding

company acquisitions, mergers, and other corporate applications. The policy establishes two general conditions under which such information would be shared: the state agency should have a need for the data and be able to protect the confidentiality of any information it receives. In approving the policy, the Council noted that several states have already entered into regional, interstate agreements to share confidential supervisory information. The Council also encouraged state authorities to agree to share their confidential supervisory information with the federal agencies.

Action. Approved by a 3-0-2 vote modifications to the Reports of Condition and Income (Call Reports) to become effective on the June 30, 1986 report date.

Explanation. These changes to the Call Report were made to reflect the reporting-related aspects of the Joint Statement of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency on Regulatory Policies Toward Agricultural Lenders.

Two changes will affect all insured commercial banks. First, a summary of Financial Accounting Standards Board Statement No. 15 (FASB 15), "Accounting by Debtors and Creditors for Troubled Debt Restructurings," will require banks to treat renegotiated debt in accordance with FASB 15, the Council believes that many banks, particularly smaller ones, may not be fully aware of how FASB 15 may be applied. The FASB 15 summary to be included in the new instructions should make its application clear. Second, renegotiated loans meeting the criteria specified in FASB 15 will be reported, by loan type, in a special memorandum section to be added to Schedule RC-C, "Loans and Lease Financing Receivables," if those loans are per-

forming in accordance with their modified terms. Previously, such loans were reported in Column D of Schedule RC-N, "Renegotiated 'Troubled' Debt," a reporting arrangement that included these loans with all past-due and nonaccrual loans and leases. However, renegotiated loans that are past due or in nonaccrual status will be reported in Schedule RC-N together with all other past-due and nonaccrual loans. In addition—for supervisory purposes only—memorandum items presenting the amounts of renegotiated loans that are 30 to 89 days past due or 90 days or more past due and still accruing, or are in nonaccrual status, will be added to Schedule RC-N; these memorandum items will, however, be considered confidential.

One change to the Call Report will affect only national banks: memorandum items will be added to Schedule RI-B, part 1, in which all national banks will report their cumulative net charge-offs on agriculture- and energy-related loans during a specified time period. These data will be used by the Office of the Comptroller of the Currency in determining the lending limits of national banks.

August 12

Action. Unanimously approved a recommendation that the agencies adopt uniform disclosures for adjustable-rate mortgages (ARMs). (The Council's recommendation would be implemented through amendments to regulations of the Federal Reserve Board, the Federal Home Loan Bank Board, and the Office of the Comptroller of the Currency.)

Explanation. The Council's objectives in developing the uniform disclosures were: (1) to inform borrowers of the potential risks and benefits of ARMs and (2) to increase the efficiency of the secondary markets for these mortgage loans.

Creditors offering ARMs would be required to provide two types of disclosures to prospective borrowers: (1) *The Consumer Handbook on Adjustable-Rate Mortgages* (published by the Federal Reserve Board and Federal Home Loan Bank Board) or a suitable substitute and (2) disclosures describing how each particular ARM loan program offered by a creditor would be affected by changes in the interest rates, including specific examples of how changes in the index or formula values used to compute interest rates would affect borrower's mortgage interest rates and payments. Initially, a 10-year history of the index or formula values would be used in the example, and over the next 5 years the example would be expanded to include a 15-year history. After that, the creditor would update the historical values annually to present the most recent 15 years of index or formula values.

This Council action on ARMs disclosures supersedes the Council's action of November 20, 1984, on the same subject.

October 2

Action. Unanimously approved a recommendation that the agencies adopt the Council's Joint Policy Statement on Basic Financial Services. (All five agencies approved the Council's recommendation.)

Explanation. There has been considerable concern that strains on depository institution profitability and regulatory changes, such as the elimination of Regulation Q, may have the effect of denying or reducing many individual's convenient access to the payments system and to safe depositories for small savings.

The policy statement approved by the Council supports the efforts of trade associations and individual depository institutions to provide basic financial services that are affordable to low- and moderate-income consumers. It does not identify any particular accounts or services that institutions should offer. Instead, it identifies in broad terms the basic financial needs that should be

considered: a safe place to keep money, a way to get cash, and a way to make third-party payments. The statement also states that any programs offered should be consistent with safe and sound business practices.

On the recommendation of the Examination Council's State Liaison Committee, the policy statement was endorsed by the Conference of State Bank Supervisors, the National Association of State Credit Union Supervisors, and the National Association of State Savings and Loan Supervisors.

Action. Approved by a 4-0-1 vote a new interagency agreement on the production of the Uniform Bank Performance Report.

Explanation. The quarterly Uniform Bank Performance Report (UBPR) is prepared from Call Report data and is designed for use by bank examiners, financial analysts, and bank managers. The UBPR can be used for both summary and in-depth analyses of a commercial bank's financial performance and trends.

On August 7, 1980, the Council approved the development of the UBPR, and in 1982 a five-year production agreement between the Council and the three bank regulatory agencies became effective. Under that agreement, the FDIC assumed responsibility for the production of the UBPR. The new agreement covers 1987, 1988, and 1989, with the FDIC continuing its role as producer of the UBPR. The new agreement differs from the old one in that the three banking agencies will now share the FDIC's actual production costs equally, rather than having the FDIC charge a fixed fee. The new agreement—an attempt to cover all interagency UBPR matters—establishes an annual UBPR planning and budgeting process and provides that all proceeds derived from the public sale of UBPRs will be shared equally by the three agencies.

Action. Approved by a 3-0-2 vote the issuance of a Request for Proposal for an electronic data-transmission system as an alternative to the submission of hard-copy Call Report forms. Also ap-

proved a policy that no changes to the Call Report be made less than 60 days before the date on which banks are expected to file the amended report.

Explanation. The technology now exists for the electronic transmission of Call Report data from commercial banks to the regulatory agencies. The Council's action should foster the development of an effective, efficient system for the electronic transmission of Call Report data. Providing banks with such an option should improve the efficiency of the data-collection process.

Action. Unanimously approved the development of a proposal for a Council Examiner Training Facility to be discussed at a future meeting.

Explanation. Since 1980, the Council has conducted its examiner training program at the FDIC's examiner training facility in Rosslyn, Virginia. However, the growth of both the Council's and FDIC's training programs has caused overcrowding at Rosslyn. The Council established a special staff committee to consider alternative locations. (The Council subsequently expressed a willingness to have the Council training programs in the proposed new FDIC training facility.)

November 21

Action. Approved by a 3-0-2 vote a clarification of the Call Report instructions allowing banks to report as sales those transfers of loans without recourse in which the bank retains a residual interest in an escrow account established to absorb losses.

Explanation. The Council believes that, for a bank selling loans without recourse, the retention of a residual interest in an escrow account established to absorb losses on the transferred loans does not in and of itself constitute a risk of loss or obligation to pay. Because the operation of the escrow account does not expose the selling bank to any possible charge to earnings or capital (including the allowance for loan losses) during the period the loans that were sold remain outstanding, the

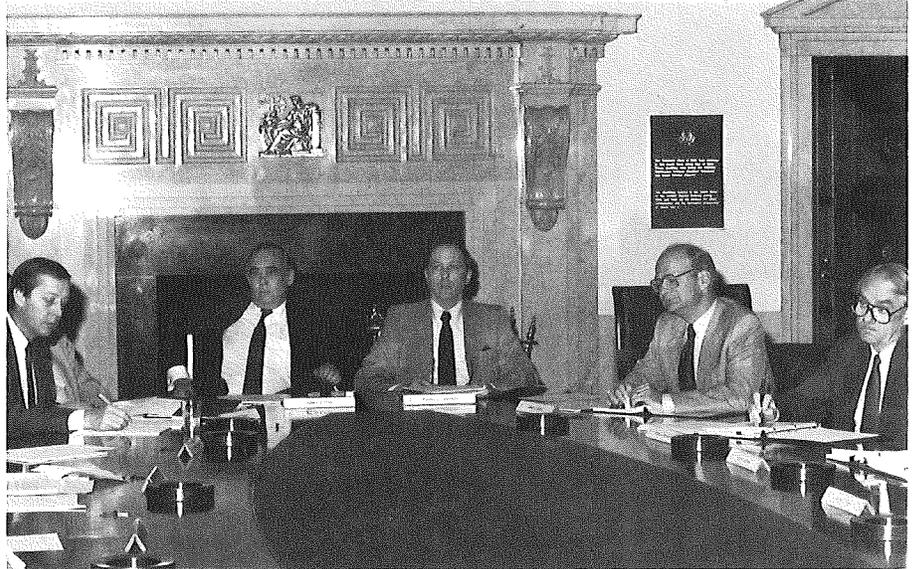
Council is taking the position that the requirement in the bank Call Report Glossary that the selling institute "retain *no* risk of loss . . . from any cause" is satisfied.

December 29

Action. Unanimously approved a model agreement on sharing of confidential supervisory information.

Explanation. The Council developed the model agreement because of the increased importance of interstate banking and thrift operations and the growing need for federal and state agencies to cooperate in their supervisory efforts. The model agreement is an extension of the General Policy Statement on the Exchange of Information Among the Federal and State Supervisory Agencies that was adopted by the Council on March 14, 1986.

The Council is asking the five agencies to consider this model agreement when they develop their own agreements for the exchange of confidential supervi-



sory information with state supervisory agencies. Also, the Council's State Liaison Committee plans to ask the states to consider the model agreement when developing agreements with the federal supervisory agencies and the supervisory agencies of other states.

Such agreements between federal and state supervisory agencies should help prevent extensive delays in the exchange of confidential supervisory information, delays that can be particularly damaging when critical supervisory problems surface.

State Liaison Committee Report

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

The Council provides the SLC with a staff position. This staff support allows the SLC members to be fully informed on Council matters and to participate in all Council activities, including task force assignments and other projects.

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

Organization

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

Participation in Examination Council Activities

During 1986, the SLC continued to participate actively in the development of uniform supervisory procedures and policies. The General Policy for Sharing Confidential Supervisory Information with State Banking and Thrift Regulatory Agencies adopted by the Council at the March 14 meeting is a continuation of the SLC's efforts to maintain equal status in all state/federal arrangements. The approval of this policy paved the way for the model agreement for exchange of confidential supervisory information, which the SLC brought before the Council in October. The SLC wanted an equitable, two-way agreement to share information on financial institutions seeking interstate acquisitions,

changes of charter, or branching, and to review reports of examination. The model agreement was approved by notation vote December 29, 1986. Widespread use of the agreement, which establishes guidelines for the use and confidentiality of that information, will minimize delays in the exchange of information.

At the October 2 Council meeting, the SLC supported disclosing to each commercial bank its uniform financial institutions rating system (CAMEL) composite rating. The SLC believes that the composite rating should be provided to directors of financial institutions in order to help clarify the regulators' evaluation of the institution. Currently, more than 80 percent of the state regulatory agencies have already implemented disclosure of the ratings in various formats centered primarily on the composite rating.

The SLC also took the initiative to have the Council policy statement concerning basic financial services endorsed by the Conference of State Bank Supervisors, National Association of State Credit Union Supervisors, and the National Association of State Savings and Loan Supervisors. The policy statement supports the efforts of trade associations and individual depository institutions to provide basic financial services that are affordable to low- and moderate-income consumers. The SLC believes that this issue should be addressed at the state level. These efforts reflect the SLC's commitment to be influential in Council policy deliberations and to participate actively in Council affairs.

Administration of the Council

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

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

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

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

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

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

Most of the staff support in the substantive areas of concern to the Council is provided by the five interagency staff task forces and the Legal Advisory Group (LAG). The task forces and the LAG are responsible for the research and other investigative work done by agency staffs on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. Also, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agencies' staff efforts in support of the Council. The executive secretary of the Council is an *ex officio* member of each of the five interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1986 were provided by the five agencies without reimbursement and are not reflected in the Council budget. Without those contributions by the

agencies and the individual staff members, significant progress on Council projects during 1986 would have been impossible.

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

Organization, December 31, 1986

Members of the Council

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

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

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

Manuel H. Johnson
Vice Chairman
Board of Governors of the
Federal Reserve System (FRB)

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

State Liaison Committee

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

Linton Bowman III
Commissioner of Savings
& Loans
Texas

Michael N. Fitzgerald
Director, Credit Union
Division
Michigan

Tom D. McEldowney
Director, Department of Finance
Idaho

Elaine B. Weis
Commissioner of Financial
Institutions
Utah

Council Office of the
Executive Secretary

Robert J. Lawrence
Executive Secretary

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

Agency Liaison Group

Joe M. Cleaver (FRB)
Paul G. Fritts (FDIC)
Robert J. Herrmann (OCC)
Donald E. Johnson (NCUA)
Edward J. Taubert (FHLBB)

Legal Advisory Group

Harry W. Quillian, *Chairman*
(FHLBB)
Robert M. Fenner (NCUA)
Richard V. Fitzgerald (OCC)
J. Virgil Mattingly, Jr. (FRB)
John C. Murphy, Jr. (FDIC)

Interagency Staff Task Forces

Consumer Compliance

Peggy W. Spohn, *Chairwoman*
(FHLBB)
James O. Foster (FDIC)
Karen Fulton (NCUA)
Glenn E. Loney (FRB)
John H. McDowell (OCC)

Examiner Education

Robert J. Moore, *Chairman* (FHLBB)
Charles R. Denesia (FDIC)
Gerry B. Hagar (OCC)
Martin F. Kushner (NCUA)
Rene W. Lacoste (FRB)

Reports

Robert F. Storch, *Chairman* (FDIC)
William E. Dobrzykowski (FHLBB)
Karen Fulton (NCUA)
David C. Motter (OCC)
Rogier H Pugh (FRB)

Supervision

William Taylor, *Chairman* (FRB)
Paul G. Fritts (FDIC)
Robert J. Herrmann (OCC)
John C. Price, Jr. (FHLBB)
Nicholas Veghts (NCUA)

Surveillance Systems

Bobby B. Winstead, *Chairman* (OCC)
Charles V. Collier (FDIC)
Ed Dupcak (NCUA)
James I. Garner (FRB)
Parker H. Jayne (FHLBB)

Activities of the Interagency Staff Groups

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

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

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

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

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

Task Force on Consumer Compliance

The Task Force on Consumer Compli-

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

The task force is responsible for those laws and regulations that protect consumers who conduct business with financial institutions: the Truth in Lending Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, the Consumer Leasing Act, the FTC Improvement Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfer Act, the Community Reinvestment Act, the Fair Debt Collection Practices Act, the Flood Disaster Protection Act, and agency regulations on savings and time deposits. The task force also addresses other legislation, regulations, or policies, at the state and federal level, that have a potential impact on the agencies' consumer compliance responsibilities.

Activities of the Task Force

During 1986, major action was taken on several consumer issues that the task force had studied. The Ad Hoc Subcommittee on Basic Financial Services presented its final report in February 1986, and in March 1986 the task force recommended that the Council adopt a joint policy statement encouraging the provision of basic financial services. The task force recommendation identified in broad terms the basic financial needs that financial institutions should consider: a safe place to keep money, a way to get cash, and a way to make third-party payments.

Although the council deferred immediate action, it adopted a revised policy statement on basic financial services later in 1986.

The task force's previous work on uniform ARMs disclosure also came to fruition in 1986. After the Council established basic principles for a uniform ARMS disclosure, the Federal Reserve Board staff continued to work with task force members to coordinate implementation of the Council action.

The task force also reviewed a new area, the legal and policy implications of mortgage-processing delays that resulted, at least in part, from a rapid decline in mortgage interest rates early in 1986. The interest rate decline created a heavy volume of applications for new mortgages and refinancing of existing mortgages. This problem was eventually addressed by individual agency policies, rather than task force action.

The task force gave special attention, during 1986, to the resources and technology utilized by each member agency in carrying out its consumer compliance responsibilities. A memorandum on the organization, staffing, and operations of each agency's customer-related functions was completed and distributed to all task force members.

In a parallel effort, the Ad Hoc Subcommittee on Microcomputer Applications in Consumer Compliance Activities held five meetings during the year. The subcommittee had been charged with reviewing the microcomputer applications used by each of the member agencies to evaluate their effectiveness in saving personnel resources and/or improving the quality of compliance work, consider their value to agencies not using them, and consider possible recommendations to the task force.

Each subcommittee member arranged a presentation to brief other members

on their agency's computer applications. These briefings covered telecommunications, word processing, automated examination templates, institution financial data, examination data files, complaint-handling systems, examiner ECOA spread sheets and fair housing data systems, and APR and restitution software programs and management reports for Truth in Lending enforcement. The subcommittee recommended that it continue to meet at least semiannually to continue the beneficial exchange of information.

The task force also continued to focus on keeping the public informed of consumer protection legislation and administration procedures available for consumer assistance. Because of the great demand for the revised "Citizens Guide to CRA," the task force authorized an additional printing. At the end of the year, it also updated and expanded its basic pamphlet "Important Consumer Information."

During 1987, the task force will—

- follow through on 1986 Council actions on basic financial services and uniform ARMs disclosure;
- coordinate with the Federal Reserve Board, the Federal Home Loan Bank Board and appropriate trade associations on a projected brochure about the mortgage application process (This brochure was requested during 1986 by members of Congress, and was on the drawing board at the end of 1986.);
- review dissemination plans for the updated brochure "Important Consumer Information" (Wide dissemination of this brochure will be responsive to U.S. General Accounting Office recommendations for more public information on proper administrative channels for customer complaints.);
- consult on financial consumer issues that develop in the 100th Congress;
- consider the possibility of requiring disclosure for consumer-related information such as fees, service charges, and check holds;

- review existing interagency procedures for consumer compliance examinations.

Task Force on Examiner Education

Examiner training is one of the areas that has received increased emphasis during the tenure of Chairman Gray. As competition among financial services firms increases, and as the number and intricacy of financial products expands, the role of the examiner becomes more important. The Council training program emphasis on specialized and advanced topics has provided senior examiners with much-needed training. Programs are also open to state examiners and examiners from foreign countries.

The goals of the training program are—

- to foster uniformity of examination methods through interagency training;
- to develop and offer high-quality courses, seminars, and conferences that meet financial institution examiner needs; and
- to provide assistance in developing training opportunities for state supervisory agencies and personnel from regulatory entities in foreign countries.

The interagency training effort has been quite successful for a number of reasons. It is less costly to offer one course on behalf of the five member agencies than five courses on the same subject. Also, when an agency participates in a Council course, it assigns instructors as if it were the agency's own course. Since the pool of potential instructors is greater when five agencies are involved, it can result in instructors' being better suited to the teaching assignment. Larger numbers of instructors from which to choose helps spread the teaching burden among more examiners and also spreads the personal benefits among more instructors.

It is ideal when the course needed by an examiner is available at the proper

time in his or her development. Cooperating to offer courses jointly means that more course sessions will be available throughout the year. For example, 21 sessions of Management Workshop and 24 sessions of Instructor Training were offered in 1986.

Recently, the Council has been expanding its offerings of specialized conferences and seminars. A single agency often finds it costly to sponsor such conferences for a few examiners. However, the combined needs of five agencies and the states make such conferences economical. The out-of-pocket tuition cost averaged \$80 per attendee for a three-day conference. Including eight large sessions of White Collar Crime, twenty-four specialized conferences are planned for 1987.

Activities of the Task Force

Since the inception of its program, the Council has provided training to 12,527 examiners. During 1986, a curriculum of 16 courses and seminars was offered. The agencies that constitute the Council provided instructors, and industry members served as guest speakers. Interagency course-development groups provide guidance on topics and speakers. The programs are, therefore, truly eclectic, drawing talent from all member agencies and guest speakers from a wide array of industries. Programs have a reputation of being on target for examiners.

Two new courses were added to the curriculum in 1986. Advanced International Banking Workshop is a high-level treatment of three types of financial market contracts. One full day is dedicated to each topic with a nationally recognized expert on that instrument. White Collar Crime is a course that was created and conducted by the OCC for many years. The member-agency interest in fraud and insider abuse has now made this an important interagency school. Piloted in November, nearly 400 examiners will attend next year.

Off-Balance Sheet Risk was added as a conference to improve examiners' un-

derstanding of the incentives and implications of financial institutions' moving certain fee-generating activities off their balance sheets. Evaluation of the degree of risk is emphasized throughout this program, which is intended for senior examiners.

Course	No. of Sessions	No. Trained
Bank Securities Dealer/MSRB Conducting Meetings with Management	3	57
Instructor Training	17	202
Management Workshop	24	237
Fundamentals of Data Processing	21	407
EDP Work Program	2	34
Basic Entry-Level Trust	4	64
Basic International Banking	0	0
Intermediate International Banking	7	153
Advanced International Banking Workshop	6	125
White Collar Crime	3	53
1	58	
<i>Conferences</i>		
EDP Technology	2	131
Income-Property Lending Seminar	3	191
International Banking	1	128
Large-Dollar Transfer Risk	3	110
Off-Balance-Sheet Risk	3	224
Trust	2	122
Total	102	2,296

Plans for 1987

Training has been planned for nearly 4,300 examiners in 1987, an increase of 117 percent over 1986. The growth in the training program is attributable to an increased number of examiners and new workshops and conferences added to the curriculum.

It is hoped that the increased training opportunities for senior examiners will have a significant impact on examination quality and the professionalism of examiners. Examiners must be trained to identify adverse patterns and practices and to bring them to a halt before they endanger the soundness of an institution. The Council's emphasis would be on providing training for examiners that would prepare them to deal with problems with a depository institution, a broad spectrum of supervisory concerns, and provide for continuation of certain kinds of inter-agency-directed training.

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

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

General Development Courses

Instructor Training

Instructor training is a one-week course that prepares examiners for classroom teaching assignments. Students prepare lesson plans, give three classroom presentations, and critique videotaped replays of the presentations. They learn the techniques of lecturing, leading discussions, and integrating the use of audio-visual aids. Attendees should be experienced examiners who anticipate teaching assignments in their agency or in Council courses. Nineteen sessions are planned for 1987.

Management Workshop

The one-week Management Workshop emphasizes the managerial skills needed by examiners. Attendees bring survey instruments completed by themselves and by colleagues or subordinates, administer self-assessment questionnaires, and participate in small-group discussion sessions. The basic concepts are presented through lectures, films, videotapes, and slides. The desired results are an improved self-perception as a manager and greater knowledge of good management techniques. Participants should have a minimum of five years' examining experience and some previous training in management. Twenty-two sessions are planned for 1987.

Conducting Meetings with Management

This course gives participants practice and confidence in organizing and leading meetings with financial institution management. Each attendee leads three meetings with small groups role-playing officers of an institution. Difficult meeting circumstances and prob-

lem reports are the subjects of the exercises. Videotaped replays will augment post-presentation critiques.

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

EDP Courses

Fundamentals of Data Processing

This one-week course, revised and updated in 1986, is designed to provide a basic understanding of terminology and systems in use. It is aimed at those who have been examiners for two years or less, but there are not prerequisites for attendance. Emphasis is on controls necessary from a supervisory standpoint. Topics include: operations, security, data base management, teleprocessing, microcomputer systems, wire transfer, serviced institutions, and EDP audit and examination. These topics are dealt with on an introductory level.

EDP Work Program

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

EDP Technology Conference

The EDP Technology Conference is designed to update senior EDP ex-

aminers on current developments in data processing, software, systems development, security controls, telecommunications, auditing, computer fraud, and many other issues. The conference features guest speakers who are nationally recognized authorities in their fields. Topics and duration vary from session to session.

Trust Courses

Basic Entry-Level Trust

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

Trust Conference

The Trust Conference emphasizes current events in the fiduciary field. Topics vary from session to session, and the conference features guest speakers from the trust industry. Senior trust examination personnel are designated as attendees at this conference. Two sessions will be conducted in 1987.

International Courses

Basic International Banking

In this course, students learn the fundamental concepts, procedures, and terminology of international banking, as well as the roles of the regulatory agencies. Topics include country risk, international lending, trade finance, and foreign exchange. Prerequisites for attendance are a minimum of one year's experience as an examiner. No previous experience in international examinations is required. Candidates with over one year of recent interna-

tional experience are encouraged to enroll instead in the intermediate course.

Intermediate International Banking

The purpose of this course is to build on the knowledge gained in the basic course. This course gives more advanced treatment to many of the topics introduced in the basic course, emphasizing foreign exchange, international lending, and country risk. Case studies give the student analytical experience in these areas. Only senior examiner specialists teach in this course, aided in some sessions by an invited speaker from the banking industry. Agencies should carefully review the qualifications of attendees, making sure they have a minimum of 24 months' examining experience and have either completed the basic course or recently had over three months' international examination experience. Prerequisites for attendance are being upgraded for 1987.

International Banking Conference

The International Banking Conference is a two-day program dealing with the international credit and regulatory situation. The conference includes an update on legislation and regulations. One session is planned for early 1987. Speakers at this program will be leading international bankers and senior staff of the bank regulatory agencies. Attendance is limited to senior international examiners and senior examiners-in-charge.

Advanced International Banking Workshop

The purpose of this new program is to focus on a few financial products currently in vogue in international banking. The following topics will each receive one day of discussion: foreign currency futures and options, interest-rate and multicurrency swaps, and international lending and back-up facilities. Participants will be able to analyze records of transactions, address regulatory concerns, and write any needed examination comments. Prerequisites include completion of Intermediate International Banking and

the recommendation of one's agency course development group representative in Washington. This course is aimed at advanced international examiners who will examine such activities in the immediate future.

Other Courses

Bank Municipal Securities Dealer/MSRB Seminar

The Bank Municipal Securities Dealer/Municipal Securities Rulemaking Board course was approved as a Council offering in 1982. Topics include municipal securities dealer organization, regulatory structure, professional qualifications, securities processing and clearance, underwriting, industry practices, and fair-practice rules related to trading and sales. Those who may attend this five-day seminar are senior assistant examiners, newly commissioned examiners, and individuals who examine or are expected to examine bank municipal securities dealer departments. This course is not designed for senior examiners who function solely in a supervisory capacity. Seven sessions are planned for 1987.

Large-Dollar Wire Transfer Risk Conference

This conference was developed during 1984, and three sessions are scheduled for 1987. Attendees will learn how to examine a financial institution's large-dollar wire transfer system, using the *FFIEC Funds Transfer Activities Uniform Examination Procedures Manual*. They will learn the risks involved in such transfers and will be able to recommend procedures to minimize these risks. Attendees will be those identified by each agency as likely to examine wire transfer systems and examiners-in-charge who will be responsible for such examinations. This is a two-day conference.

Income-Property Lending Conference

This conference will present analytical techniques to equip examiners to challenge the assumptions built into mar-

ket studies, feasibility studies, and appraisals. Nearly a full day will be devoted to analyzing appraisals. Acquisition, development, and construction loans will receive considerable attention, as well as managing construction disbursements. While topics will vary from time to time, additional topics now include real estate syndication, equity participations, R41C, and a panel of agency officials presenting a "regulatory roundup." This conference is open only to commissioned examiners who have considerable involvement with income-property and commercial real estate lending. The conference lasts about 3½ days.

Off-Balance-Sheet Risk Conference

The purpose of this conference is to improve examiners' understanding of the incentives for and implications of off-balance-sheet activities. Emphasis will be on risk-assessment theory as applied to standby letters of credit, loan commitments, financial futures and options, and interest-rate swaps. This three-day conference is aimed at senior field examiners with at least 10 years' experience.

White Collar Crime

This new course, formerly the OCC Fraud Seminar, became an interagency project as a result of the agencies' increased emphasis on fraud and insider abuse. Open to any commissioned examiner with five years' experience, this one-week course instructs attendees in detection, investigation, and reporting techniques. Topics include the Bank Secrecy Act, real estate fraud, computer fraud, investment securities fraud, right to financial privacy, and documentation of evidence. Considerable emphasis is being placed on this course by the chairman of the member agencies, and 400 examiners are expected to be trained in 1987.

New Courses Proposed for 1987

Five new courses have been proposed for 1987:

Foreign Exchange and International Treasury Operations

This new course, formerly an OCC course, will be piloted in March. It will emphasize analysis of financial records to determine whether foreign exchange trading and Treasury securities trading could endanger the safety and soundness of the institution. Evaluation of policies and practices will be central to the analysis. Attendees must meet high standards to be eligible to attend.

Advanced Asset/Liability Management Workshop

This case study workshop will provide theory and practice in analyzing asset/liability management strategies and techniques. The impact of the business cycle and the financial institution's deposit structure will be studied. To qualify for attendance, examiners must have attended an agency's basic training on this subject and have a minimum of five years' experience as an examiner.

EDP Symposium

This program has a different goal than all the others. Its purpose is to bring together the most experienced EDP examiners to discuss an important new issue identified by the EDP development group. The issue should be one made important by technological change that may have left examination practices behind. The participants will discuss the causes of concern regarding the issue and develop a recommended plan of action to deal with the matter. The recommendation will receive the attention of the EDP Subcommittee of the Task Force on Supervision.

Advanced Futures, Forwards, and Options Workshop

Upon completion of this case-study workshop, attendees will be able to review the records of an institution and determine the appropriateness of its policies in limiting its risks to acceptable levels. The workshop would be open to commissioned examiners who frequently review futures, forwards, and options activity. It is not certain whether this course will be offered in 1987.

Real Estate Appraisal Review

The Manager for Examiner Education has proposed an intensive case-study workshop on the basics of income property and commercial real estate finance, with emphasis on analysis of appraisals. This course would provide attendees with enough case-study practice to give them confidence that they can review appraisals and identify red-flag cases. The goal of the course would be to train examiners to identify bad patterns of real estate lending before they damage the soundness of an institution.

Tuition and Fees

For 1987, course tuition will be \$14 and conference fees will range from \$70 to \$110. This fee structure is designed to encourage member agencies and the states to utilize the school fully.

Task Force on Reports

Section 1006(c) of Public Law 95-630 requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports, which has also been given other responsibilities related to the development of interagency uniformity in the reporting of periodic information needed for effective supervision. The task force is thus concerned with such issues as development and interpretation of reporting instructions; application of accounting standards to specific transactions; publication and distribution of reports; development and application of processing standards; monitoring of data quality; assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign.

During 1986, the task force made a number of revisions to the commercial bank Reports of Condition and Income (Call Reports), issued the Council's interpretation of the Call Report standard for determining whether an asset transfer is to be reported as a sale or as a borrowing, issued a Request for Proposal for the establishment of a system to receive electronically transmitted Call Reports, and continued its study of the Call Report process. In addition, a disclosure issue concerning a new report adopted in 1985 was resolved and final approval to collect a special survey developed in late 1985 was received. The task force also began a review of the processing and publication of data from one report.

In a March 11, 1986 joint statement to the Senate Committee on Banking, Housing, and Urban Affairs on regulatory policies toward agricultural lenders, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency proposed "to modify regulatory reporting and disclosure requirements for restructured debt" for all banks. At its March 14 meeting, the Council approved changes to the commercial bank Call Reports designed to implement this provision of the joint statement. Thus, effective as of the June 30, 1986 report date, the separate reporting of restructured loans and leases in the Call Report schedule for past-due and nonaccrual loans (Schedule RC-N) was discontinued. Instead, banks began to report restructured loans and leases that were in compliance with their modified terms in a new memorandum item to the Call Report loan schedule (Schedule RC-C) and to include their past-due and nonaccrual restructured loans and leases in the past-due and nonaccrual categories of Schedule RC-N. To Schedule RC-N was added a new confidential memorandum item in which to report the amounts of restructured loans and leases in the past-due and nonaccrual category totals. Other changes beginning with the June 30 Call Report involved the addition of an item applicable to state nonmember banks for the amount of real estate

acquired and held for investment purposes and the deletion of one income tax item.

The passage of the Tax Reform Act of 1986 prompted the task force to consider the need for revisions to the Call Reports in 1987 during the final months of 1986. Accordingly, the task force agreed on several changes relating to bank holdings of tax-exempt obligations of states and political subdivisions in the U.S. and the interest derived from such instruments. The task force also decided that it would be appropriate to revise the reporting of certain information pertaining to deposit interest expense and quarterly averages as a consequence of the completion of deposit interest rate deregulation earlier in 1986 and to modify the loan categories for which larger banks report past-due, nonaccrual, and restructured loans and leases to achieve greater consistency between the Call Report schedules in which such loans are reported and the schedule for loan charge-offs and recoveries as well as between the Call Reports and the bank holding company reports filed with the Federal Reserve in this area. The banking agencies are awaiting approval for these and certain other Call Report changes from the Office of Management and Budget.

In conjunction with the Call Report revisions relating to the reporting of restructured loans, the task force issued expanded instructions on accounting for troubled debt restructurings as part of the June 30, 1986 Call Report packages sent to all commercial banks. Prior to that, the instructions had simply referred banks to Financial Accounting Standards Board Statement No. 15 (FASB 15) for guidance on the accounting for such transactions. Since many banks, particularly smaller institutions, did not appear to have been fully aware of how FASB 15 applies to troubled loans where terms are renegotiated or whose collateral is foreclosed on or repossessed, the task force prepared instructions summarizing the provisions of FASB 15.

Following the issuance of revised instructions on the treatment of sales of

assets for purposes of the Call Reports in the fourth quarter of 1985, the task force received several requests from banks during 1986 for determinations as to the Call Report treatment of proposed asset securitization transactions involving sales of participations in pools of consumer loans. The proposals all generally attempted to satisfy the Call Report requirement that a bank transferring loans to another party must retain no risk of loss from the transferred loans in order for the transaction to be treated as a sale rather than a borrowing by establishing an escrow account to insulate both seller and purchaser from risk of loss. The escrow account would be funded out of the difference between the interest payments the selling bank passes through to the purchaser of the transferred loans. The purchaser would be reimbursed for losses from the escrow account, with any balance remaining in the account after all loans have been repaid reverting to the selling bank. After consideration of the policy issues involved in these securitization transactions, the Council announced in November that such an escrow arrangement does not in and of itself constitute a risk of loss. Therefore, loan transfers using this escrow structure qualify to be reported as sales in the bank Call Reports, if, once they have been recorded as such in accordance with generally accepted accounting principles, there is no further possible charge to earnings or capital (including the allowance for loan losses) thereafter during the period the loans sold remain outstanding.

The task force continued to study the feasibility of electronic transmission of Call Reports as an alternative to the submission of hard-copy report forms to the banking agencies. At its October 2, 1986 meeting, the Council approved the joint request of the Task Forces on Reports and Surveillance Systems that the Council solicit proposals from interested parties for the establishment and operation of a system by which banks, at their option, could telecommunicate their quarterly Call Report data to the banking agencies or their collection agent. The Council issued a

Request for Proposal on December 3, 1986, and set a January 26, 1987 deadline for submission of proposals. In 1987, the task forces will evaluate the proposals that are received and submit to the Council their recommendations on whether and how to proceed.

At its November 1984 meeting, the Council directed the Task Force on Reports, with assistance from the Task Force on Supervision and Surveillance Systems, to study the commercial bank Call Report data-collection system. This long-range study will examine the existing Call Report and how it might be altered to provide the agencies with improved supervisory data while reducing the burden on respondents. The initial area of review has been Call Report Schedule RC-J, Repricing Opportunities for Selected Balance Sheet Categories. During 1986, the task force monitored reporting standards for rate sensitivity data being developed by the Banking Committee of the American Institute of Certified Public Accountants, the staff of the Financial Accounting Standards Board, and the staff of the Securities and Exchange Commission. In 1987, the task force will consider specific proposals for a revised Schedule RC-J format and may solicit comment on such a proposal from the banking industry.

The controversial issue of whether to make available to the public certain information from the quarterly Country-Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019) was resolved in early 1986 by the Office of Management and Budget (OMB). This new report was adopted by the Council in August 1985, at which time the Council decided against the disclosure of individual branch and agency country-exposure data on the grounds that such information, when presented for a single branch or agency of a foreign bank, could be misleading. The Council then solicited public comment on whether to release a single figure showing the total adjusted exposure to the home country (including claims on related offices abroad) of all reporting U.S. branches and agencies of a foreign bank, on a combined "family" basis. As a result of the pub-

lic comments on the single-figure disclosure proposal, the task force received notification from OMB in early 1986 that the collection of this country-exposure report had been approved for collection beginning June 30, 1986, but that no data from the report should be disclosed to the public.

In November 1985, the Council approved a special one-time survey of bank holdings of U.S. government agency securities to be undertaken as of December 21, 1985. OMB did not approve the collection of this survey until after year-end 1985, causing the banking agencies to defer the report date until March 31, 1986. Submitted by banks with their Call Reports for that date, the survey was designed to permit the agencies to assess the degree of diversification in their holdings of agency securities.

As a result of concerns expressed during 1986 about the need for more timely completion of the processing and publication of the data collected in the Annual Report of Trust Assets (FFIEC 001), the Council requested at its October 2, 1986 meeting that the task force explore various options for collecting, editing, and publishing these trust data and the costs associated with the various options. The task force has been considering possible alternatives and aspects to submit its recommendations to the Council in 1987.

Task Force on Supervision

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

Activities of the Task Force

During 1986, the task force completed several projects recommended during the previous year. In June, the task force presented to the Council its recommendations on ways to attract and retain examiners. A study of the actions taken by the different agencies on how to improve the pay, benefits, and working conditions of examiners was sent to the Council. Among the areas reviewed were total compensation, relocation allowances, insurance benefits, examiner development, and travel requirements. A comparison of all examiner activities undertaken by the constituent agencies was included. This provided each agency with a large choice of measures it could adopt in its efforts to cultivate and strengthen its examination force. The results of this study were forwarded to the House Subcommittee on Financial Institutions Supervision, Regulation, and Insurance.

The task force also recommended a policy statement on the sharing of confidential supervisory information by federal and state regulatory agencies. The use of a formal agreement was adopted by the Council to ensure uniform treatment among the sharing agencies as well as increased security of the confidential information. This project was coordinated with the Council's State Liaison Committee.

Other subcommittees of the task force are continuing their review of regulatory issues involved in chain banking and off-balance-sheet activities.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems deliberates, at an interagency level, on matters concerning surveillance and monitoring systems. Its main functions are to formulate goals, set objectives, and establish priorities for relevant tasks. Those tasks relate to developing, updating, and evaluating effective computer-based systems and other surveillance procedures. Historically, the primary objective has been to develop uniform early-warning systems to monitor the performance of

financial institutions, and to identify potential or emerging financial problems in those institutions. This task force is also responsible for the implementation and oversight of Council-approved surveillance systems and procedures.

Activities of the Task Force

In 1986, the task force recommended, and the Council adopted, a new contract for the production of the Uniform Bank Performance Report (UBPR). The new agreement provides for a sharing of all costs by the banking agencies and an improved planning and budgetary process with related cost-accounting practices and reports. The new agreement also incorporates several other related UBPR matters that were addressed in other agreements, working arrangements, and informal practices. As part of the contract negotiations, the task force

revised pricing structures for public sales and reallocated that income.

The task force further revised the UBPR to reflect changes in the commercial banks' Reports of Condition and Income.

At the request of other task forces, this group reviewed and recommended a revised Schedule RC-C, Loans and Lease Financing Receivables. The revision would provide an improved means of collecting information on loan concentrations.

In 1987, this task force will complete an analysis of the UBPR content and format with the intent of reducing the size of the report and making it a more useful and efficient document. The banking agencies have resolved that this reduction will be implemented for the December 1987 UBPR.

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

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

Copies of UBPRs may be obtained for \$30 per report. A *User's Guide*, which describes the content of the reports, is available for \$15. A Peer Group Report, showing average ratios for all 25 peer groups, is available for \$50. The State Average Report is available for \$30. Information on ordering items may be obtained by calling (202) 357-0111 or writing to—

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

The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 33,000 domestically chartered banks and thrift institutions, which, on June 30, 1986, held total assets of over \$4.5 trillion. The Federal Reserve Board and the Federal Home Loan Bank Board also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

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

The FRB was established in 1913. It is headed by a seven-member Board of Governors. Each member is appointed by the President, with the advice and consent of the Senate, for a 14-year term. Subject to confirmation by the Senate, the President selects two Board members to serve four-year terms as Chairman and Vice Chairman. In activities most relevant to the work of the Council, the FRB—

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

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

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

Implementation of policy decisions is carried out by the FRB and by the 12 Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. Each Reserve Bank has a president and other officers and employs a staff of bank examiners who examine state member banks and inspect bank holding companies located within the Reserve Bank's district. All national banks must be members of the Federal Reserve System. State-chartered banks may apply and be accepted for membership.

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

The Federal Deposit Insurance Corporation (FDIC)

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

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

The FDIC—

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

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

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

The Federal Home Loan Bank Board (FHLBB)

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

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

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

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

- Bank System, federal, and FSLIC insurance regulations;

- approval authority over new charters, branches, and mergers of federal savings and loan associations and federal mutual savings banks;
- approval of FSLIC insurance for federally and state-chartered savings and loan associations and federal mutual savings banks;
- supervision of savings and loan holding companies; and
- examination of federally chartered savings and loan associations, FSLIC-insured, state-chartered savings and loan associations, and federal mutual savings banks.

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

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

The National Credit Union Administration (NCUA)

The NCUA was created in 1970 as the successor to the Bureau of Federal Credit Unions, which was established in 1934 by an Act of Congress. The purpose of the NCUA is to charter, examine, supervise, and insure the nation's nearly 10,000 federal credit unions. In addition, NCUA also provides insurance for member accounts at 4,980 state-chartered credit unions. Title XVIII of Public Law 95-630 created, within the agency, the National Credit Union Central Liquidity Facility (CLF) to improve the general financial stability of member credit unions by helping them meet their liquidity and stabilization needs. Membership in the CLF is voluntary and is open to all federal and state credit unions. Through direct and agent membership, approximately 96 percent of all credit unions are members of the CLF.

The NCUA is headed by a three-member bipartisan board appointed by

the President, with the advice and consent of the Senate. The President designates one of the Board members as Chairman and each serves a six-year term.

Major responsibilities of the NCUA are:

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

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

Congress does not fund NCUA. The agency is financed by the credit unions it regulates and insures.

The Office of the Comptroller of the Currency (OCC)

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

The OCC is the regulator and supervisor of the national banking system. There are currently over 4,900 national banks, with over \$1.7 trillion in total assets, representing almost 60 percent of the total assets of U.S. commercial banks. The OCC is the only federal banking agency with authority to charter commercial banks. The OCC shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters, the establishment of branches, and mergers of national banks.

The national interest requires that there be a safe and stable financial system that preserves public confidence and makes available a wide variety

of financial services in a competitive marketplace. The Office of the Comptroller of the Currency serves this interest by maintaining and promoting a system of bank supervision and regulation that:

- promotes safety and soundness by requiring that national banks adhere to sound management principles and comply with the law;

- encourages banks to satisfy customer and community needs while remaining efficient competitors in the financial services markets.

The principal supervisory tools of the OCC are on-site supervisory activities and detailed off-site analysis of national bank operations. As appropriate, the OCC issues rules and regulations concerning bank lending, bank

investment, and other aspects of bank operations.

The OCC is organized geographically into six districts, each headed by a Deputy Comptroller. The agency is funded through assessments on the assets of national banks and by fees charged for corporate applications.

ASSETS, LIABILITIES AND NET WORTH of U.S. Commercial Banks and Thrift Institutions¹ as of June 30, 1986
Billions of dollars

	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Savings Banks	FSLIC-Insured Institutions			Credit Unions ³	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Total Assets	4,536	1,649	504	619	333	171	540	404	180	88	48
Total loans and lease receivables (net)	2,871	1,024	291	347	164	107	420	301	138	51	28
Loans secured by real estate ⁴	1,373	281	51	134	7	88	394	282	122	9	5
Consumer loans ⁵	442	202	39	76	1	10	22	15	12	42	23
Commercial and industrial loans	682	365	113	100	78	7	7	7	5	*	*
All other loans and lease receivables ⁶	410	193	93	42	80	2	*	*	*	†	†
LESS: Allowance for possible loan and lease losses	36	17	5	5	2	*	3	3	1	*	*
Federal funds sold and securities purchased under agreements to resell	155	79	21	35	13	7	†	†	†	†	†
Cash and due from depository institutions ⁷	448	207	76	64	78	5	6	6	3	2	1
Securities and other obligations ⁸	644	193	57	145	22	45	66	47	22	31	16
U.S. Gov't obligations ⁹	315	107	31	94	7	23	20	15	6	8	4
Obligations of state and local gov'ts ¹⁰	147	77	24	44	*	2	†	†	†	†	†
Other securities	181	9	2	7	15	19	46	32	16	23	12
Other assets ¹¹	419	146	59	28	56	8	48	50	17	4	3
Total Liabilities	4,290	1,550	475	571	333	159	516	388	171	83	44
Total deposits and shares ¹²	3,445	1,256	354	536	153	148	420	315	138	82	43
Federal funds purchased and securities sold under agreements to repurchase	323	152	56	18	39	3	23	24	8	*	*
Other borrowings ¹³	305	71	36	7	63	6	61	40	21	*	*
Other liabilities ¹⁴	217	71	29	10	78	2	12	9	4	1	1
Net Worth¹⁵	246	99	29	48	‡	12	24	16	9	5	4
Memorandum: Number of institutions reporting	33,274	4,917	1,088	8,261	489	440	1,375	1,508	366	9,928	4,902

Symbols Appearing in Tables

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

Footnotes to Tables

1. The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the FDIC, FSLIC, or NCUSIF. All branches and agencies of foreign banks in the United States, but excluding any in Puerto Rico and U.S. territories and possessions, are covered whether or not insured. The table excludes Edge Act and agreement corporations that are not subsidiaries of U.S. commercial banks.
2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their

foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and Edge Act and agreement subsidiaries—and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excluding bank holding companies.

3. The credit union data are for federally-insured credit unions only. They do not include data for approximately 3,200 state-chartered credit unions with total assets of approximately \$14 billion. Of the latter group, all but about 150 are insured by their respective states.
4. Loans secured by residential property, commercial property, farmland (including improvements) and unimproved land, and construction loans secured by real estate. For savings and loan associations, also includes mortgage-backed securities.

5. Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.
6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.
7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. Savings and loan association data are for cash and demand deposits only. Time deposits are included in "Other securities."

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for the 12 months ending June 30, 1986
Billions of dollars

	Total	U.S. Commercial Banks			U.S. Branches and Agencies of Foreign Banks ¹⁶	Savings Banks	FSLIC-Insured Institutions			Credit Unions	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Operating Income	421	165	48	59		17	57	43	18	9	5
Interest and fees on loans	297	111	29	39		11	48	34	15	6	4
Other interest and dividend income	79	35	12	13		5	5	4	1	3	1
All other operating income	45	19	7	7		1	4	5	2	*	*
Operating Expenses	390	153	43	53		15	54	42	17	8	5
Salaries and benefits	56	25	7	10		1	5	4	2	1	1
Interest on deposits and shares	214	74	20	31		11	34	26	10	5	3
Interest on other borrowed money	37	13	7	2		1	7	5	2	*	*
Provision for loan and lease losses	25	13	3	4		*	2	2	1	*	*
All other operating expenses	58	28	6	6		2	6	5	2	2	1
Net Operating Income	31	12	5	6		2	3	1	1	1	*
Securities Gains and Losses	2	*	*	*		*	1	1	*	*	*
Income Taxes	9	3	1	1		1	2	1	*	‡	‡
Net Income	25	9	4	5		2	2	1	1	1	*
Memorandum: Number of institutions reporting	32,785	4,917	1,088	8,261		440	1,375	1,508	366	9,928	4,902

8. Government and corporate securities, including mortgage-backed securities and loans to states and political subdivisions and to U.S. government agencies and corporations. For savings and loan associations, also includes time deposits and excludes mortgage-backed securities.

9. U.S. Treasury securities and securities of, and loans to, U.S. government agencies and corporations.

10. Securities issued by states and political subdivisions and public authorities, except for savings and loan associations that do not report these securities separately. Loans to states and political subdivisions and public authorities are included in "All other loans and lease receivables."

11. Customers' liabilities on acceptances, real property owned, various accrual accounts,

and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For savings and loan associations, also includes equity investment in service corporation subsidiaries.

12. Demand, savings, and time deposits, including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks, and mutual savings banks; credit balances at U.S. agencies of foreign banks; and share balances at savings and loan associations and credit unions, including certificates of deposit, NOW accounts, share draft accounts, etc. For U.S. commercial banks, includes deposits in foreign offices, branches in U.S. territories and possessions, and Edge and agreement subsidiaries.

13. Interest-bearing demand notes issued to the

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

14. Depository institutions' own mortgage borrowing, liability for capitalized leases, liability on acceptances executed, various accrual accounts, and miscellaneous liabilities. For U.S. branches and agencies of foreign banks, also includes net due to head office and other related institutions.

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

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

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

Appendixes



A. Title X of Public Law 95-360

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

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

Purpose

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

Definitions

Sec 1003. As used in this title—

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

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

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

association, a homestead association, a cooperative bank, or a credit union.

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

Sec 1005. One-fifth of the costs and expenses of the Council, including the salaries of its employees, shall be paid

by each of the Federal financial institutions regulatory agencies. Annual assessments for such share shall be levied by the Council based upon its projected budget for the year, and additional assessments may be made during the year if necessary.

Functions of the Council

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

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

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

(c) The Council shall develop uni-

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

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

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

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

State Liaison

Sec 1007. To encourage the application of uniform examination principles and standards by State and Federal supervisory agencies, the Council shall establish a liaison committee composed of five representatives of State agencies

which supervise financial institutions which shall meet at least twice a year with the Council. Members of the liaison committee shall receive a reasonable allowance for necessary expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may—

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

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

Access to Information by the Council

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

Audits by the Comptroller General

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

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

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

B. 1986 Audit Report

To the Federal Financial Institutions
Examination Council

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses and fund balance and of changes in financial position present fairly the financial position of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL at December 31, 1986 and 1985, and the results of its operations

and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were 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.

Prisc Waterhouse

Washington, D.C.
February 27, 1987

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheets as of December 31, 1986 and 1985

ASSETS		<u>1986</u>	<u>1985</u>
CURRENT ASSETS			
Cash, held by Board of Governors of the Federal Reserve System		\$198,198	\$192,630
Accounts receivable from member organizations		268,300	255,708
Other accounts receivable		<u>12,787</u>	<u>4,689</u>
Total current assets		<u>479,285</u>	<u>453,027</u>
FURNITURE AND EQUIPMENT			
Furniture and equipment, at cost		92,311	79,821
Less accumulated depreciation		<u>50,246</u>	<u>36,783</u>
Total furniture and equipment		<u>42,065</u>	<u>43,038</u>
LEASEHOLD IMPROVEMENTS, net of amortization		10,692	14,256
Total assets		<u>\$532,042</u>	<u>\$510,321</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable to member organizations		\$425,322	\$436,562
Other accounts payable and accrued liabilities		16,011	22,379
Accrued annual leave		<u>26,817</u>	<u>28,318</u>
Total liabilities		<u>468,150</u>	<u>487,259</u>
FUND BALANCE		<u>63,892</u>	<u>23,062</u>
Total liabilities and fund balance		<u>\$532,042</u>	<u>\$510,321</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Fund Balances for the Years Ended December 31, 1986 and 1985

	1986	1985
REVENUES		
Lodging facility rental	\$1,121,605	\$1,096,381
Assessments to member organizations	685,000	655,000
Tuition	160,288	105,500
Total revenues	<u>1,966,893</u>	<u>1,856,881</u>
EXPENSES		
Lodging facility rental	1,071,258	1,047,918
Salaries and related benefits	373,868	366,348
Rental of office space	141,062	130,946
Data processing	97,406	58,449
Printing	45,369	54,657
Books and subscriptions	43,908	31,860
Administrative fees	30,000	30,000
Travel	22,399	20,094
Office and other supplies	20,401	18,559
Professional fees	17,241	8,304
Depreciation and amortization	17,027	13,154
Postage	14,977	5,319
Telephone	8,415	9,341
Rental and maintenance of office equipment	6,669	7,937
Miscellaneous	16,063	11,714
Total expenses	<u>1,926,063</u>	<u>1,814,600</u>
REVENUES OVER EXPENSES	40,830	42,281
FUND BALANCE, Beginning of year	<u>23,062</u>	<u>(19,219)</u>
FUND BALANCE, End of year	<u>\$ 63,892</u>	<u>\$ 23,062</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Changes in Financial Position for the Years Ended December 31, 1986 and 1985

	1986	1985
SOURCES OF CASH		
Revenues over expenses	\$ 40,830	\$ 42,281
Add (deduct) items not affecting cash		
Depreciation and amortization	17,027	13,154
Accrued annual leave	(1,501)	10,706
(Increase) in accounts receivable	(20,690)	(34,481)
(Decrease) increase in accounts payable	(17,608)	140,905
Total sources	<u>18,058</u>	<u>172,565</u>
USES OF CASH		
Purchase of furniture and equipment	12,490	6,212
Leasehold improvements	—	17,820
Total uses	<u>12,490</u>	<u>24,032</u>
INCREASE IN CASH	5,568	148,533
CASH BALANCE, Beginning of year	192,630	44,097
CASH BALANCE, End of year	<u>\$198,198</u>	<u>\$192,630</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements as of December 31, 1986 and 1985

(1) Significant Accounting Policies

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

Furniture and Equipment—Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years.

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

(2) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$137,000 in 1986 and \$131,000 in 1985.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost to the Council of \$30,000 per year for 1986 and 1985.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$267,000 in 1986 and \$228,000 in 1985 for these items.

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). Revenues from the sale of the publication in excess of direct operating costs are remitted to the Council by the FDIC. Of the \$202,000 and \$224,000 received in 1986 and 1985, respectively, \$73,600 and \$68,000 were offset by related compensation costs incurred by the Council. The net balance is refundable to the UBPR's three sponsoring agencies (the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System).

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

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

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

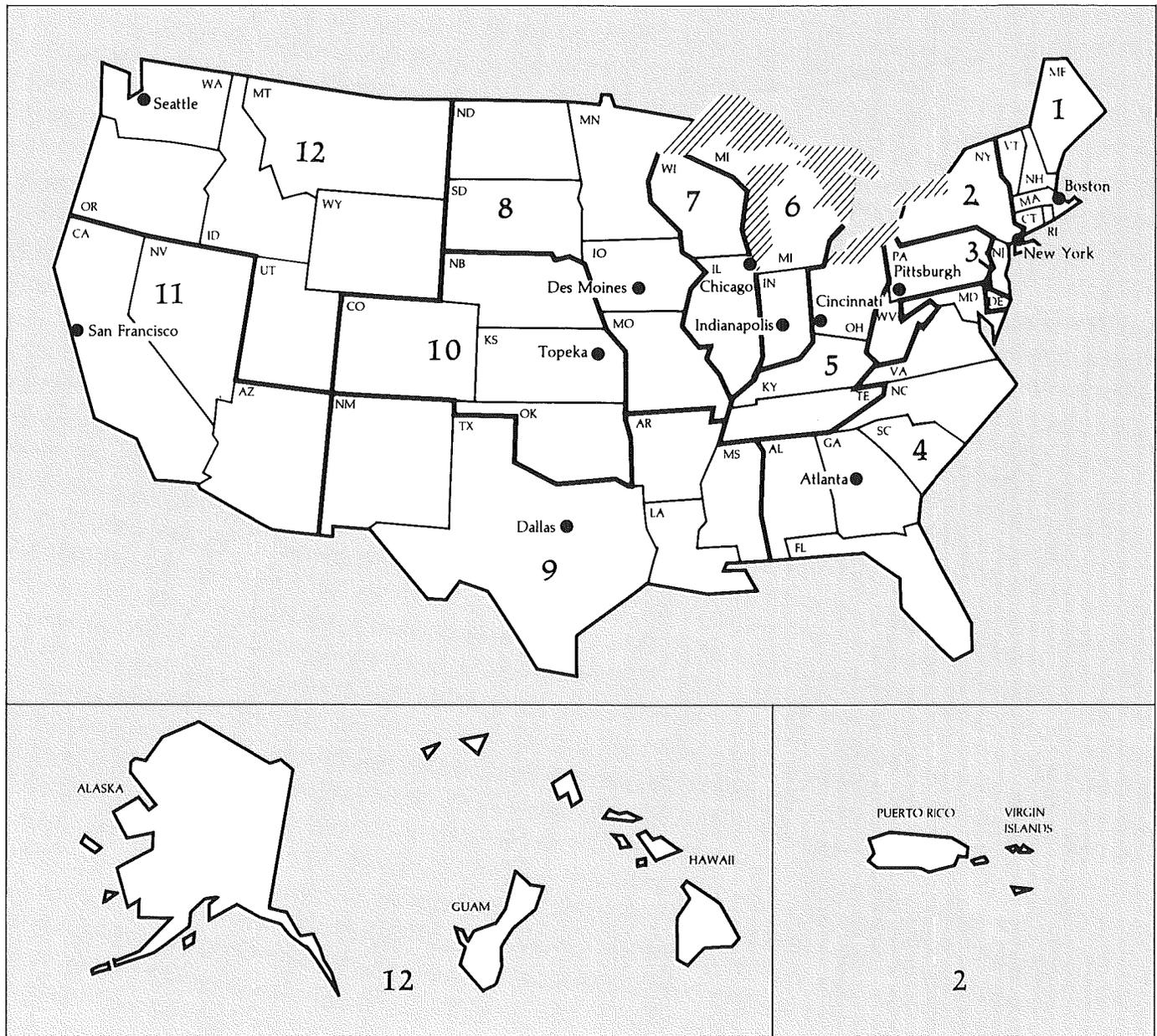
(3) Commitments

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

C. Maps of Agency Regions and Districts

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

Federal Home Loan Bank Districts



National Credit Union Administration Regions

