



ANNUAL REPORT 1995



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Comptroller of the Currency
Office of the Comptroller of the Currency



LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC
March 25, 1996

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 1995 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,


Jonathan L. Fiechter
Chairman

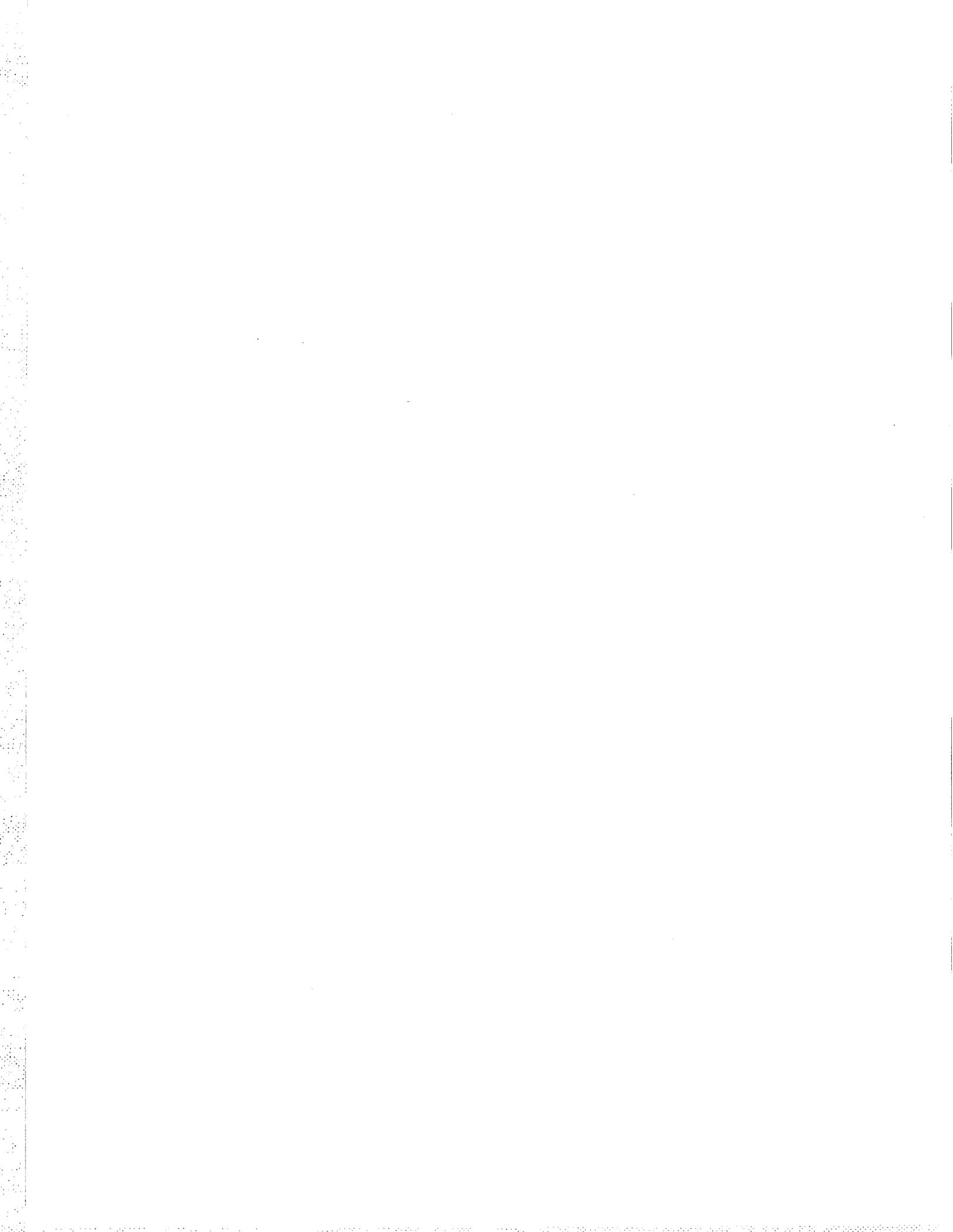
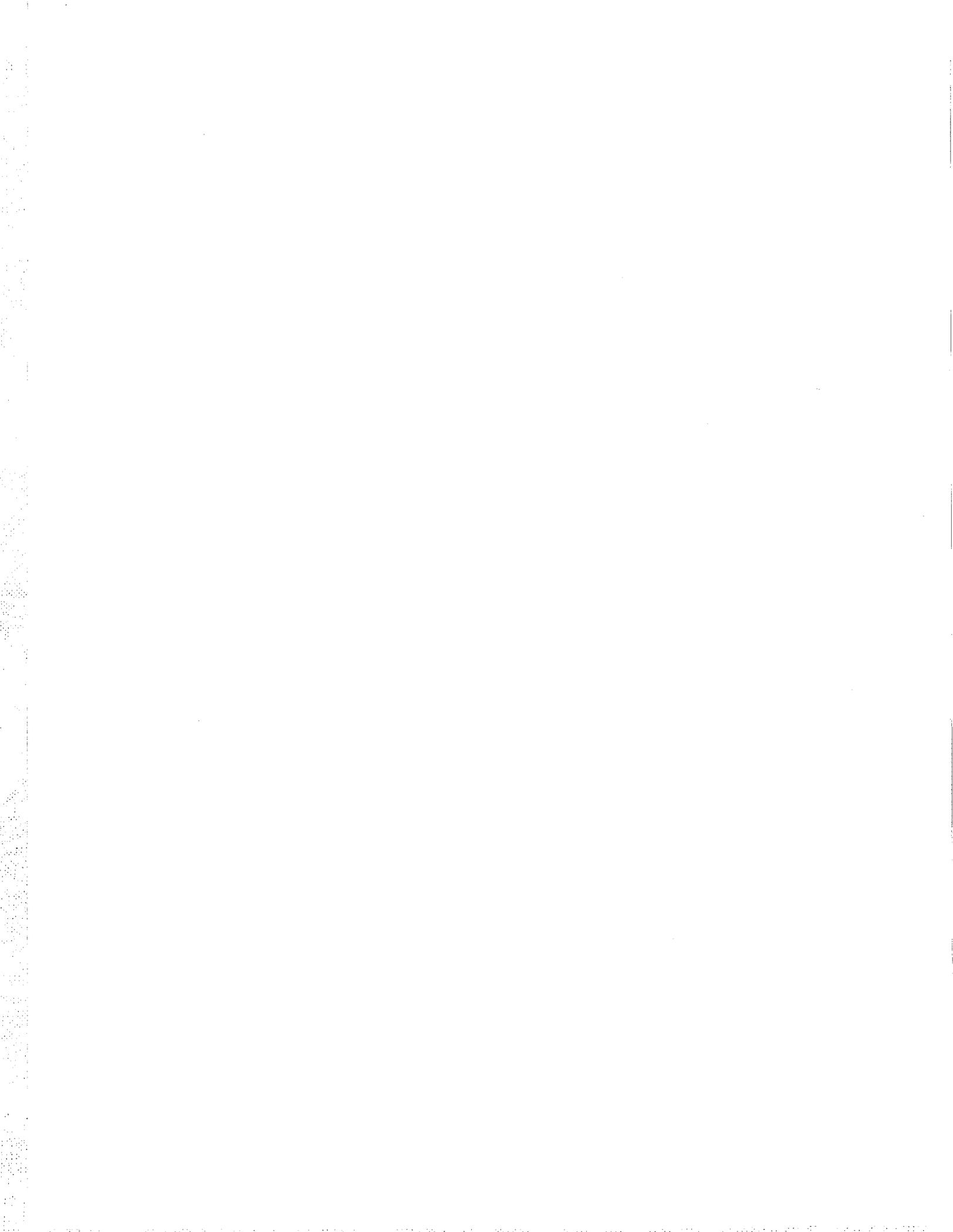


TABLE OF CONTENTS

ix	Message from the Chairman
1	The Federal Financial Institutions Examination Council
3	Record of Actions of the Council
7	State Liaison Committee Report
9	Administration of the Council
11	Activities of the Interagency Staff Groups
19	The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions
23	Assets, Liabilities, and Net Worth of U.S. Commercial Banks and Thrift Institutions as of June 30, 1995
24	Income and Expenses of U.S. Commercial Banks and Thrift Institutions for the Twelve Months Ending June 30, 1995
25	Appendix A: Relevant Statutes
29	Appendix B: 1995 Audit Report
33	Appendix C: Maps of Agency Regions and Districts



MESSAGE FROM THE CHAIRMAN



Jonathan L. Fiechter

The Federal Financial Institutions Examination Council (FFIEC) was created to promote consistency in federal examinations and progressive and vigilant supervision. Although much has been accomplished by the Council during its sixteen year history, we need to continue our efforts to work more effectively as a team and promote uniformity and consistency in the supervision of insured depository institutions. Involvement by state supervisors is an important component of this effort. It is important that we maintain public confidence and trust in our collective ability to discharge our responsibilities efficiently and equitably.

The Council had a successful year in 1995. Significant progress was made in meeting the requirements of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA). All titles of this legislation with due dates in 1995 were completed. Other assignments with due dates in 1996 are progressing well under the guiding hands of a special steering committee of senior staff representatives from the FFIEC's constituent agencies.

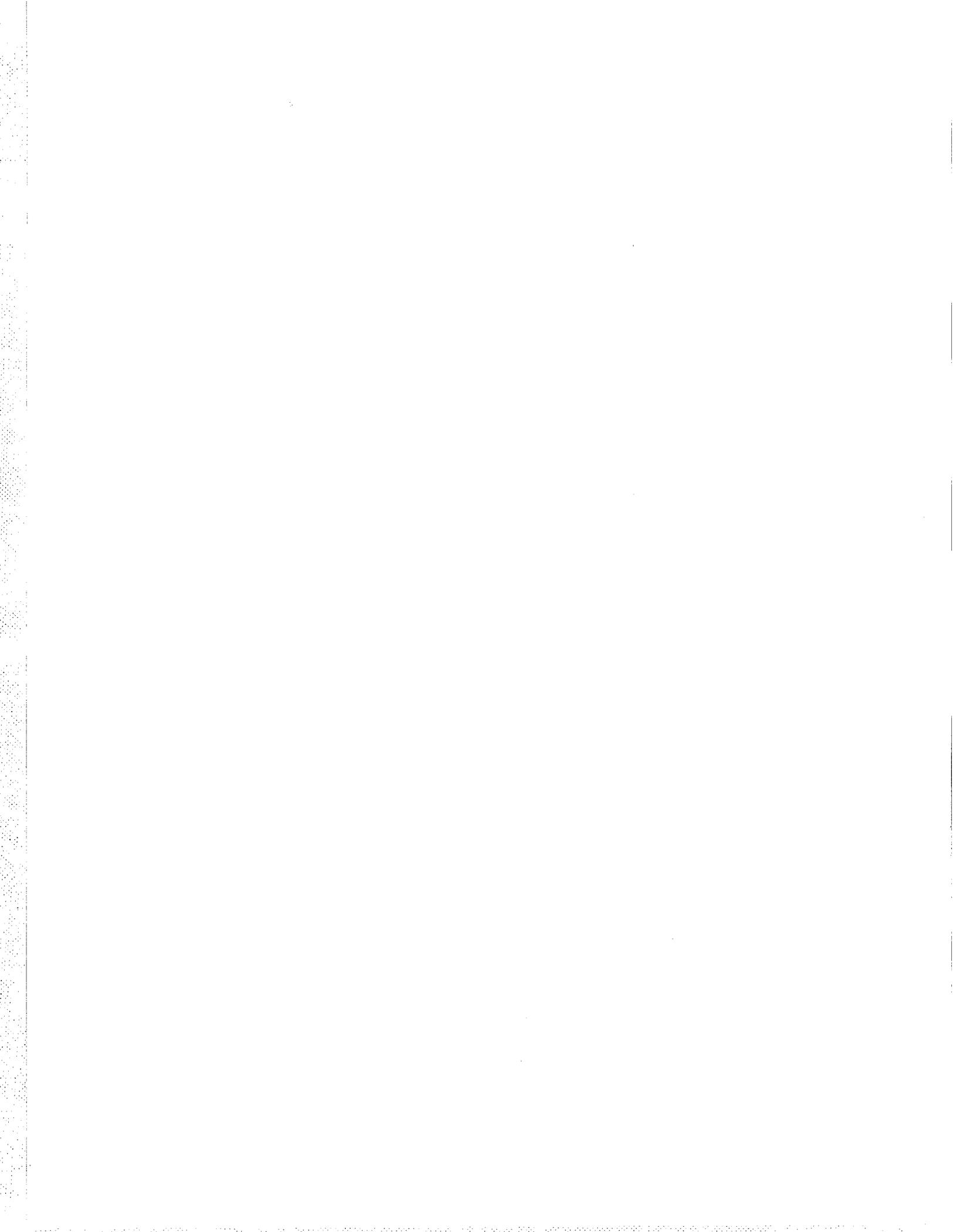
A centerpiece of RCDRIA, section 303, requires the agencies to harmonize their supervisory regulations, policies and procedures, and recordkeeping requirements. The objective of this exercise is to simplify the agencies' regulations and reduce regulatory burden. All assignments for the Council in RCDRIA are on track to be completed by the end of the third quarter of 1996.

Following revision of the Community Reinvestment Act (CRA) regulations in 1995, the Council coordinated the implementation

of the revised examination procedures for the four banking and thrift agencies. Under the guidance of the Task Force on Consumer Compliance, more than 1,000 compliance examiners were trained in five locations around the country during the second half of the year. The successful completion of this training as scheduled demonstrated the Council's ability and resolve to combine and coordinate the resources of the agencies for a common purpose.

Successful completion of other projects on the Council's agenda last year include: development and delivery of a new capital markets course for examiners, with strong emphasis on total risk management in financial institutions; revision and implementation of branch closure policies pursuant to the new Riegle-Neal interstate branching legislation; revision of the FFIEC Annual Report of Trust Assets to include information on the income and expenses of financial institutions with over \$250 million in trust assets; and approval of the adoption of GAAP accounting in the call report.

In the coming year, the Council will continue to review and refine the regulatory process. We anticipate completing our assignments with significant participation by the Council's State Liaison Committee, which is playing an increasingly major role in Council projects. The states in many cases have served as pilots for testing the effectiveness of various regulatory policies. The feedback provided by the SLC and their colleagues helps to provide balance to recommendations flowing to the Council. Our partnership is essential to the successful execution of the Council's mission.



THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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

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

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

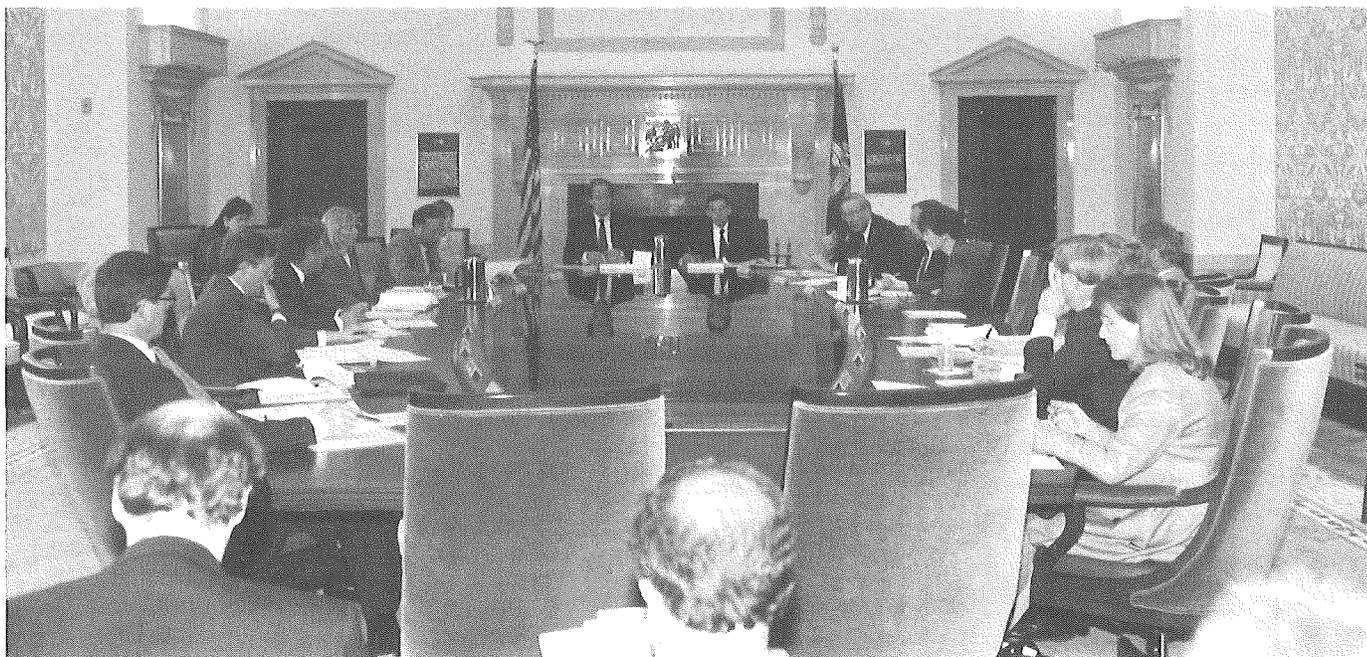
In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Examination Council. The functions of the subcommittee are (1) monitoring the requirements, including a code of professional responsibility, established by states for the certification and licensing of individuals who are qualified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

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

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



RECORD OF ACTIONS OF THE COUNCIL



The Examination Council in Session.

Following is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1995 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978, Public Law 95-630; section 304 of the Home Mortgage Disclosure Act (HMDA), Public Law 94-200; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA), Public Law 103-325.

February 16

Action. Unanimously approved the 1994 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 22

Action. Approved by a 4-0-1 vote publishing a request for public comment on a proposed schedule on trust income and expense.

Explanation. The Council proposed to revise the information collected in the FFIEC 001 Annual Report of Trust Assets to include a new schedule to collect income and expense information for fiduciary activities as of year-end 1996. This issue was raised to address supervisory concerns expressed about financial exposure in banks due to the rapid expansion of trust activities.

March 22

Action. Unanimously approved a new Council course for examiners on capital markets.

Explanation. In 1994 the Council directed the Task Force on Exam-

iner Education to develop a training program in capital markets issues. The focus is to assess the risk characteristics in capital market activities and to integrate the analysis into an assessment of total risk in a financial institution.

March 22

Action. Unanimously approved that the Task Force on Consumer Compliance develop examiner training for revised Community Reinvestment Act (CRA) requirements.

Explanation. The new CRA regulations approved by the federal agencies require a change in data elements reported to the agencies on small-business and small-farm loans originated by financial institutions effective January 1, 1996. The new requirements have resulted in a need for interagency training to address uniform examination procedures.

June 8

Action. Unanimously approved that the Council assume data processing responsibilities associated with certain new CRA requirements on behalf of the Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision.

Explanation. The new CRA regulations approved by the agencies in April 1995 require "large" institutions to collect and report to the agencies certain data elements pertaining to each small-business and small-farm loan that they originate. Agencies are required to provide to the institutions reports of small-business and small-farm loan originations for release to the public, as well as aggregate MSA reports for public release through central depositories. The Council determined that it would be most cost effective for one agency to handle the software development, annual output, and distribution responsibilities for the agencies.

June 22

Action. Unanimously approved adoption of guidelines on the acceptability of state examinations.

Explanation. Section 349 of RCDRIA requires the Council to develop guidelines on the acceptability of state examinations. The interagency guidelines ultimately developed contain four criteria: (1) completeness of a state examination report, (2) adequacy of documentation maintained by a state's examiner, (3) the ability over time of a state's banking department to achieve examination objectives, and (4) the adequacy of any formal or informal arrangement or working agreement between a state banking department and a federal banking agency.

June 22

Action. Unanimously approved that the Task Forces on Consumer Compliance and Examiner Education conduct interagency training on the new CRA examination procedures.

Explanation. In March 1995, the Council directed the Task Force on Consumer Compliance to develop interagency examination procedures training to address regulatory changes in the collection of certain data under the Community Reinvestment Act. When the training was developed, the Council authorized the task force to conduct five

sessions at various locations to train state and federal examiners.

September 22

Action. Unanimously approved the submission of a report to Congress on the progress made in enhancing training, examination, and reporting programs to money laundering.

Explanation. Section 404 of the RCDRIA requires the FFIEC to submit a report to Congress on the banking agencies' progress in carrying out the required review and enhancement of their training and examination procedures, and on the usefulness of the information concerning money-laundering schemes received by the banking agencies from law enforcement authorities.

October 11

Action. Unanimously approved examination procedures and public evaluation formats to implement the new CRA regulations.

Explanation. New examination procedures were jointly developed to reflect regulatory changes adopted by the agencies earlier in the year. The new examination procedures address (1) small institutions; (2) lending, investment, and service tests for large retail institutions; (3) community development tests for limited-purpose and wholesale institutions; and (4) strategic plans.

October 31

Action. Approved by a 4-0-1 vote the proposed changes to the bank Call Reports for 1996.

Explanation. The Council approved a recommendation that the four federal banking agencies adopt revisions to the Call Report effective March 31, 1996. The revisions include the following: (1) deletions of a number of existing Call Report items, including several memoran-



Council discussion.

dum items for deposits; (2) for larger banks, a reduced level of detail on nontransaction accounts by type of depositor; (3) new items disclosing certain capital and asset amounts that are used in calculating regulatory capital ratios and providing better data on short-term liabilities and assets; and (4) instructional changes and clarifications relating to mortgage-servicing rights, trading accounts, low-level recourse transactions, and other topics.

October 31

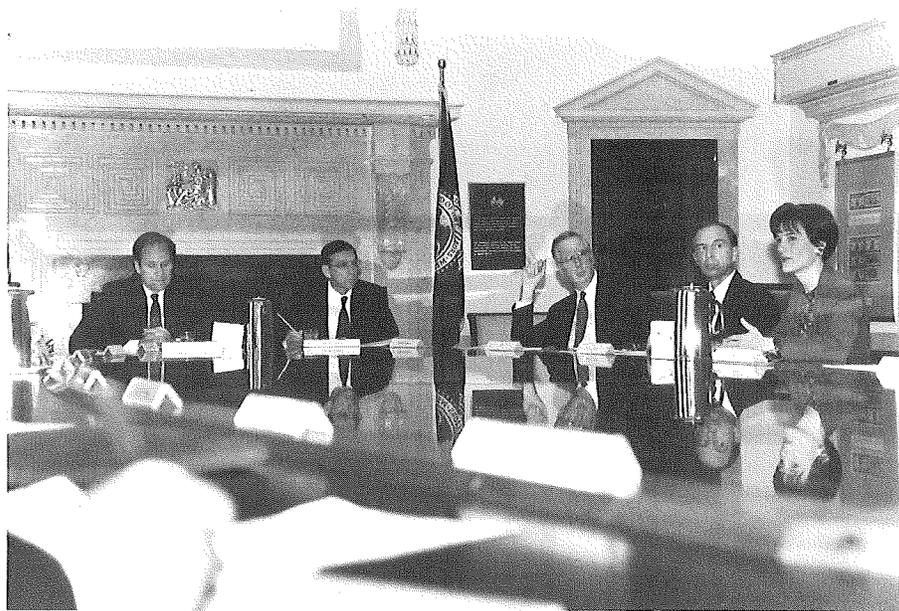
Action. Approved by a 4-0-1 vote the adoption of generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules in the bank Reports of Condition and Income (Call Report), effective with the March 1997 report date.

Explanation. Section 307(b) of the RCDRIA requires the federal banking agencies to work jointly to develop a single form for the filing of core information by banks, savings associations, and bank holding companies. Adopting GAAP as the reporting basis in the basic schedules of the Call Report eliminates existing differences between bank regulatory reporting standards and GAAP such as the accounting treatment of assets sold with recourse, futures, forwards, and option contracts, netting on the balance sheet, and excess servicing fees.

December 15

Action. Approved by a 3-1-1 vote the proposal to collect trust income and expense data (Schedule E, FFIEC 001).

Explanation. On June 30, the Council issued a proposal to amend the Annual Report of Trust Assets effective with the year-end 1996 reporting requirement. The amendment adds the requirement for disclosure of income and expense



Council discussion.

information to enable the agencies to fully monitor the fiduciary activities of the banking industry.

December 15

Action. Approved by a 4-0-1 vote the proposal to share CRA data production costs.

Explanation. In June the Council had approved that it would assume the data processing responsibilities associated with aggregating, processing, and distributing the new CRA data for the agencies. This data will be made available to the public as well as the supervised institutions. Expenses related to the data production will be shared by the agencies based on a combination of each agency's reporting institutions and the number of loans reported by each institution.

December 18

Action. Unanimously approved a memorandum of understanding defining the agreement between the Council, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency for

production and distribution of the Uniform Bank Performance Report (UBPR) for 1996-98.

Explanation. The memorandum of understanding is an agreement among the three federal banking agencies and the Council that sets forth the duties and responsibilities for producing and distributing the UBPR. The current agreement expires at the end of 1995, and the new agreement covers three years beginning January 1, 1996. Under the agreement, the FDIC is responsible for producing the UBPR, distributing UBPRs to state bank supervisory agencies, and selling UBPRs to the public. The Council provides general staff support to the UBPR effort, and the three federal bank-supervisory agencies share equally the total costs and revenues generated by the UBPR activities.

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

Task Force on Reports

- June 21—Approved the regula-



Jonathan L. Fiechter

tory reporting treatment for mortgage-servicing rights by banks in accordance with FASB Statement No. 122, which eliminates the accounting distinction between originated mortgage-servicing rights (OMSRs) and purchased mortgage-servicing rights (PMSRs).

- November 15—Approved certain changes to the Report of Assets and Liabilities of U.S. Branches and Agencies (form FFIEC 002) for implementation in 1996.

STATE LIAISON COMMITTEE REPORT

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

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

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

Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as chair for twelve months. Of the five members, two are



*State Liaison Committee
Standing L-R: Harold Lee, Jr. (Chairman); James Hansen; Gavin Gee
Seated L-R: Sue Mecca, Catherine Ghiglieri*

selected by the Council. The other three are designated by the American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the National Association of State Credit Union Supervisors (NASCUS). A list of the SLC members appears on page 10 of this report.

Participation in Examination Council Activities

The SLC played an active role in 1995, providing advice and a state perspective on a multitude of issues brought before the Council.

In 1995, the SLC participated on the steering committee convened to oversee the many agency assignments mandated by the Riegle Community Development and Regulatory Improvement Act of 1994. The states extensively reviewed several sections of the act, most notably section 349, which required the Council to develop guidelines on the acceptability of state examinations. The SLC also provided input for (1) section 303, which requires standard-

ization of agency rules and regulations; (2) section 305, which calls for coordination and unified examination procedures; and (3) section 341, which requires the Council to study the feasibility of establishing and maintaining a data bank for reports submitted to a federal banking agency. This involvement was the first time the SLC had participated in direct agency assignments, and it brought the committee a new level of understanding of the federal regulatory mechanism.

During the past year, the SLC also secured training opportunities not normally accorded state regulators by advocating state attendance at the Council's cyberbanking conference as well as the CRA examination procedures training conducted at various sites around the country.

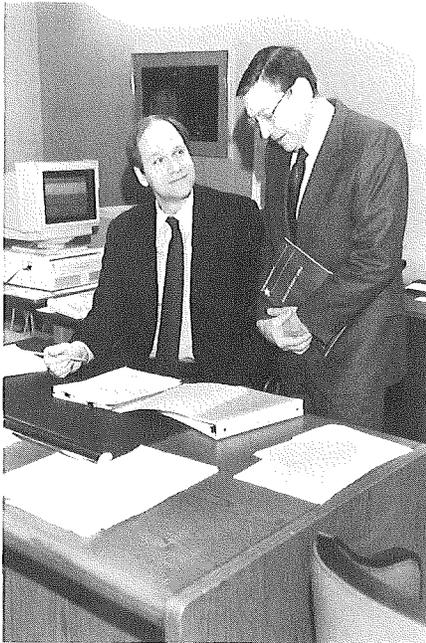
Under the auspices of the SLC, states actively participated in an off-site surveillance conference by attending as well as presenting state surveillance models. This resulted in a federal commitment to increase the uniformity in agency models provided to the states, and highlighted the need to increase communications to all users.

The SLC also pointed out the need for coordination of federal/state examinations of financial-institution information systems, with corresponding common training. The federal agencies made a commitment to coordinate examination scheduling through the SLC in an effort to enhance procedures.

Throughout 1995, the SLC has continued to participate with the Council, offering advice and the state perspective on a wide range of matters brought before the Council. The SLC remains firmly committed to continued cooperation between the state and federal regulatory authorities.



ADMINISTRATION OF THE COUNCIL



Council Chairman Fiechter and Executive Secretary Cleaver

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 derive from semi-annual assessments on its five constituent agencies. The Council also receives reimbursement for the services it provides to support preparation of the quarterly Uniform Bank Performance Report. It also receives tuition fees from non-agency attendees to cover some of the costs associated with its examiner-education program.

The Federal Reserve Board provides budget and accounting services to

the Council, and the Federal Reserve's Controller serves as the Council's Controller. The Council is supported by a small full-time administrative staff in its operations office, and its examiner-education program is administered by Council staff located at its Examiner Training Facility in Arlington, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council. All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are the following:

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

Five interagency staff task forces and the Legal Advisory Group (LAG) provide most of the staff support in the substantive areas of concern to the Council. The task forces and the LAG are responsible for the research and other investigative work done by agency staff members on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. In addition, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of efforts by their respective agencies' staff members in support of the Council. The Executive Secretary of the Council is an ex officio member 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 1995 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 1995 would have been impossible.

Organization, December 31, 1995

Members of the Council

Jonathan L. Fiechter, *Chairman*
Acting Director
Office of Thrift Supervision (OTS)

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

Ricki Helfer
Chairman
Federal Deposit Insurance
Corporation (FDIC)

Edward W. Kelley, Jr.
Member
Board of Governors of the
Federal Reserve System (FRB)

Eugene A. Ludwig
Comptroller of the Currency
Office of Comptroller of the
Currency (OCC)

State Liaison Committee

Harold N. Lee, Jr., *Chairman*
Commissioner, Office of
Commissioner of Savings and
Loan
Wisconsin

Gavin M. Gee
Bureau Chief, Financial
Institutions Bureau
Idaho

Catherine A. Ghiglieri
Banking Commissioner
Texas

James A. Hansen
Director of Banking and Finance
Nebraska

Sue E. Mecca
State Banking Commissioner
Wyoming

Council Staff Officers

Joe M. Cleaver,
Executive Secretary

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

Interagency Staff Groups

Agency Liaison Group

Susan F. Krause (OCC)
Lee Lassiter (OTS)
David M. Marquis (NCUA)
John W. Stone (FDIC)
Frederick M. Struble (FRB)

Legal Advisory Group

Douglas H. Jones, *Chairman* (FDIC)
Robert M. Fenner (NCUA)
Carolyn B. Lieberman (OTS)
J. Virgil Mattingly (FRB)
Robert B. Serino (OCC)

Consumer Compliance Task Force

Timothy R. Burniston, *Chairman*
(OTS)
Stephen M. Cross (OCC)
Glenn E. Loney (FRB)
Janice M. Smith (FDIC)
Jodee J. Wuerker (NCUA)

Examiner Education Task Force

Robert E. Leibowitz, *Chairman* (FRB)
Ronald H. Ball (FDIC)
William S. Glover (OCC)
Martin F. Kushner (NCUA)
David Smith (OTS)

Reports Task Force

Robert F. Storch, *Chairman* (FDIC)
Zane Blackburn (OCC)
Phillip R. Crider (NCUA)
Gerald A. Edwards (FRB)
David H. Martens (OTS)

Supervision Task Force

Susan F. Krause, *Chair* (OCC)
Kent D. Buckham (NCUA)
Stanley J. Poling (FDIC)
John C. Price, Jr. (OTS)
Richard Spillenkothen (FRB)

Surveillance Systems Task Force

Jack P. Jennings, *Chairman* (FRB)
Richard W. Jones (FDIC)
William Shively (OTS)
Renee Valliere (NCUA)
Bob Ward (OCC)

**Members of the Appraisal
Subcommittee**

Diana L. Garmus, *Chair* (OTS)
Mark W. Holman (HUD)
Robert F. Mialovich (FDIC)
Roger H. Pugh (FRB)
Herbert S. Yolles (NCUA)
P. Michael Yuenger (OCC)

ACTIVITIES OF THE INTERAGENCY STAFF GROUPS

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

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

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

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

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

Task Force on Consumer Compliance

The Task Force on Consumer Compliance promotes policy coordina-

tion and uniform enforcement of consumer laws by the five agencies represented on the Council. It consists of senior personnel who are knowledgeable in consumer compliance matters. The task force identifies and studies problems concerning consumer compliance and fosters uniformity in the policies and procedures used by member agencies.

The task force is responsible for those laws and regulations that protect consumers who conduct business with insured depository institutions. The task force also addresses other legislation, regulations, or policies at the state and federal levels that could affect agencies' consumer compliance responsibilities. There are three standing subcommittees of the task force: the CRA Subcommittee, the HMDA Subcommittee, and the Examination Procedures Subcommittee. Each of these subcommittees was engaged in several projects during 1995 that furthered the primary responsibilities of the task force.

CRA Subcommittee

The CRA Subcommittee provides policy guidance to the task force on issues associated with the agencies' implementation of the CRA. The subcommittee was charged with the task of developing new examination procedures and other materials to be used to implement new interagency CRA regulations that were adopted by the agencies in April 1995 as part of President Clinton's CRA Reform Initiative. The subcommittee worked closely with the task force and the interagency team that is directing the CRA reform effort and developed new procedures that the FFIEC recommended the agencies adopt. The subcommittee also developed and orga-

nized, with the assistance of the FFIEC's Examiner Education Office, a training program for compliance examiners on the new CRA regulation and examination procedures.

During 1996, the subcommittee will be called on to help the agencies ensure that the new CRA examination procedures are being properly implemented and to develop policy and interpretive guidance for the task force on examination issues arising from the implementation of the new regulation.

HMDA Subcommittee

The HMDA Subcommittee supervises the collection of HMDA data reported to the agencies and aggregated by the Council. During 1995, the Council processed approximately 12.2 million records of loans and applications. The data was available to the public two months earlier than in previous years. The subcommittee also worked with Federal Reserve Board staff to publish the first staff commentary on HMDA regulations, which should serve to assist all HMDA reporters with regulatory issues.

During 1996, the HMDA Subcommittee expects to continue its work to further shorten the processing cycle and further expand public access to HMDA data.

Examination Procedures Subcommittee

The Examination Procedures Subcommittee is responsible for maintaining updated interagency examination procedures for several compliance and consumer protection laws and regulations. During 1995, the subcommittee developed revised examination procedures

for the Electronic Fund Transfer Act and for branch-closing requirements. The revised procedures were approved by the task force for adoption by the member agencies.

During 1996, the subcommittee will be working on revisions to the examination procedures for the Fair Credit Reporting Act, Home Mortgage Disclosure Act, Flood Disaster Protection Act, and Truth in Lending Act. These revisions are necessitated by legislative or regulatory amendments.

CRA Training Sessions for Agency Compliance Examiners

Under the auspices of the Council, the task force sponsored five CRA training sessions for agency compliance examiners during 1995. These five sessions—held in Dallas, San Francisco, Atlanta, Chicago, and Boston—were very well received by the agencies and attended by 1,133 compliance examiners. The sessions provided a forum for learning more about the new CRA regulation and the examination procedures. Presentations were made by leaders from the agencies, key agency staff, representatives from the banking and thrift industries, and community organizations.

Task Force on Examiner Education

The purpose of the interagency training program is to provide high-quality training that fosters uniformity among examiners of the member agencies.

In response to section 1218 of FIRREA, two Risk Management Planning seminars were conducted in 1995 for financial institutions. Since 1990, thirteen Risk Management Planning seminars have been offered for the banking, thrift, and credit union industries. The goal of the seminars is to encourage financial institutions to improve their internal risk management systems.

In 1995, the Examiner Education Office conducted five Community Reinvestment Act seminars in cooperation with the FFIEC Task Force on Consumer Compliance. Seminars were held in Atlanta, Boston, Dallas, Chicago, and San Francisco for a total of approximately 1,100 examiners. A one-day course on cyberbanking was also offered. This program for senior regulatory officials from the member agencies and states focused on risks and regulatory concerns related to, among other things, banking on the Internet.

During 1995, twenty courses and conferences were available and attendance totaled 5,570. Instructors for courses and conferences include examiners and other staff members from the member agencies and the states. Industry specialists serve as guest speakers in some programs.

The goals of the training program are:

- to foster uniformity of examiner education through joint sponsorship of interagency training,
- to develop and offer high-quality seminars and conferences that meet the training needs of financial institution examiners, and
- to provide training opportunities for state and foreign supervisory agencies of financial institutions.

Costs

Member agencies provide instructors free of charge and in proportion to their enrollment, thus keeping costs low. State financial institution supervisors pay a rate based on the estimated member-agency cost.

Facilities

In 1991, the Council's training staff moved into the FDIC Seidman Center in Arlington, Virginia. This facility offers convenient access to a 100-seat auditorium and to lodging.

The Council leases its office and classroom space from the FDIC.

Regional programs are usually conducted in the cities in which District or Reserve Bank offices of the member agencies are located. When class size permits, courses are conducted in agency facilities at no cost to the Council.

Courses Offered in 1995

EDP Symposium

The symposium is targeted at senior data-processing examiners who address an emerging area of supervisory concern chosen by the EDP Subcommittee of the Task Force on Supervision. During the week, participants develop and refine a consensus report focusing on an EDP issue of regulatory concern. The report is submitted to the Task Force on Supervision, which weighs the need for additional examination policies or procedures.

Instructor Training

This week-long course prepares examiners to teach in agency and Council schools. Computer-assisted instruction is now available for all lessons and is used by instructors and students.

Basic International Banking Self-Study

The course provides a basic foundation of knowledge for those in need of only an introductory course.

International Banking School

This program identifies and analyzes the various risks associated with treasury operations, interest-rate derivatives, foreign exchange, and global underwriting, and it provides knowledge and techniques needed in field examinations.

Management Workshop

This general skill-building course is designed to strengthen and expand the practical application of basic management concepts.

Testifying

This course is designed for commissioned examiners who are likely to testify at a hearing or a trial in the foreseeable future. Only those who are scheduled to testify imminently are encouraged to attend.

Conferences

Capital Markets Training

This conference, which replaced the Off-Balance-Sheet Risk Conference in 1995, provides examiners with an understanding of the various risks associated with structured notes, asset-backed securities, and other derivative products. Measurement of the risks associated with these instruments is considered in presentations on interest rate risk analysis, duration and convexity analysis, value at risk and other risk management tools.

Emerging Issues

This conference targets senior examiners and provides analysis of contemporary and emerging technical issues confronting the regulatory and banking communities. Two versions of the conference are available, one for examiners of multinational and super-regional institutions and one for examiners of community and regional institutions.

Income-Property Lending

This program provides examiners with the skills needed to assess the assumptions built into real estate market studies, feasibility studies, and appraisals. It emphasizes appraisal analysis, construction lending, construction loan disbursements, workout situations, and current regulatory issues.

Information Systems and Technology

This conference updates senior data-processing examiners on current

developments in data processing, software, systems development, security controls, telecommunications, networks, auditing, computer fraud, switches, data center operations, and related topics.

International Banking

This program deals with international credit, legislative and regulatory issues, and recent international banking developments, innovations, and problems.

Payment Systems Risk

This program improves examiners' understanding of the risks involved in electronic payments systems, the methods used to minimize these risks, and the means of evaluating these risks in the examination process.

Trust

This conference emphasizes new initiatives affecting trust banking.

Attendance at FFIEC Courses by Agency, 1995

Course	FDIC	OTS	FRB	NCUA	OCC	FCA	Other	Total
Cyberbanking	29	16	18	20	16	...	8	107
EDP Symposium	...	5	3	...	3	...	...	11
Emerging Issues	370	10	159	...	221	6	3	769
Emerging Issues, Multinational	12	1	75	...	75	1	...	164
Income-Property Lending	90	3	102	10	75	12	...	292
Information Systems & Technology	17	14	62	...	64	7	2	166
Instructor Training (includes regionals)	59	9	104	...	88	1	...	261
International Banking Conference	...	...	...	...	...	...	...	...
International Banking School	32	...	100	...	21	2	30	185
Basic International Self-Study	71	...	132	...	46	3	...	252
Management Workshop (includes regionals)	372	27	24	3	92	5	...	523
Off-Balance-Sheet Risk	63	10	121	7	128	10	...	339
Capital Markets	25	5	120	...	60	8	...	218
Payments Systems Risk	82	...	89	3	28	4	1	207
Testifying	13	1	5	1	23	...	...	43
Trust	11	7	51	...	88	...	8	157
White Collar Crime	386	9	143	32	49	4	3	626
Subtotal	1,632	117	1,308	76	1,077	63	47	4,320
CRA	446	173	333	...	132	...	49	1,133
Risk Management	...	4	38	...	67	8	...	117
Total Agency Training	2,078	294	1,679	76	1,276	71	96	5,570

Topics vary from session to session.

White Collar Crime

This conference covers insider abuse and fraudulent activities in real estate, investment securities, computers, money laundering, and the Bank Secrecy Act. Detection and investigation techniques are stressed.

Course Catalogue and Schedule

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

FFIEC Examiner Education
3501 Fairfax Drive, Room 3086
Arlington, VA 22226-3550
Phone: (703) 516-5588
Fax: (703) 516-5487
Internet: JPender@FDIC.GOV

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 received other responsibilities related to the development of interagency uniformity in the reporting of periodic information needed for effective supervision. The task force is thus concerned with such issues as the development and interpretation of reporting instructions; the application of accounting standards to specific transactions; the publication and distribution of reports; the development and application of processing standards; the monitoring of data quality; the assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants. The task force is also responsible for any special

projects related to these subjects that the Council may assign. To help it carry out its responsibilities, working groups are organized as needed to handle accounting, reporting, instructional, and processing matters of a specialized or technical nature.

Activities of the Task Force

During 1995, the task force's activities primarily involved the Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks and the development of a common core report form for banks, savings associations, and bank holding companies. This latter project emanates from section 307 of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA). In addition, the task force addressed regulatory reporting issues arising from a new accounting standard on mortgage-servicing rights and, in conjunction with the Task Force on Supervision, continued its work on a new trust income schedule.

After approval by the U.S. Office of Management and Budget (OMB), a number of revisions to and clarifications of the Call Report requirements took effect in the first quarter of 1995. Certain corresponding changes were made to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (Form FFIEC 002). The revisions to the Call Report included deletions of a number of existing Call Report items and a reduced level of detail regarding certain restructured loans and leases. Call Report disclosures about a bank's off-balance-sheet derivatives activities were expanded. Other new items covered investments in "high-risk mortgage securities" and "structured notes," sales of proprietary mutual funds and annuities, certain reciprocal demand-deposit balances, and the use of push-down accounting. A number of instructional changes and clarifications,

particularly with respect to the reporting of investments in mortgage-backed securities, were also implemented.

The additional information about off-balance-sheet derivative activities that began to be collected in the Call Report in 1995 included a more detailed breakdown of the data reported by all banks on the notional amounts or par values of derivative contracts by type of exposure and type of contract. Banks with foreign offices or with assets of \$100 million or more began to disclose the fair values of their derivative contracts, separately reporting this information for contracts held for trading and for purposes other than trading. These banks also began to provide a breakdown of their trading revenues and disclose the impact on income of off-balance-sheet derivatives held for purposes other than trading. The reporting of data related to the current credit exposure and potential future credit exposure of derivatives under the banking agencies' risk-based capital standards was also revised.

On October 31, 1995, the Council approved several modifications to the Call Report that are scheduled to take effect as of March 31, 1996, pending OMB approval. These changes include the elimination of several memorandum items for deposits as well as two other memorandum items and a reduction in the level of detail for larger banks on nontransaction accounts by type of depositor. New items will disclose certain capital and asset amounts that are used in calculating regulatory capital ratios, which may provide a basis for eliminating at a later date some items now reported in the Call Report solely for risk-based capital measurement purposes. Other new items will provide better data on short-term liabilities and assets. Information on credit losses on off-balance-sheet derivatives at large banks and on small-business obligations sold with

recourse under rules implementing section 208 of RCDRIA will also begin to be collected. Changes and clarifications will be made to the instructions for mortgage-servicing rights, trading accounts, low-level recourse transactions, and several other topics. Banks were notified by letter about these changes in reporting requirements on December 15, 1995.

Section 307 of the RCDRIA requires the four federal banking agencies to work jointly to develop a single form for the filing of core information by banks, savings associations, and bank holding companies. During 1995, the task force began working to fulfill this statutory mandate, a fundamental element of which is a uniform basis of reporting by these three types of financial institutions. Accordingly, on October 31, 1995, the Council approved the adoption of generally accepted accounting principles (GAAP) as the reporting basis in the bank Call Report, effective with the March 1997 report date. Adopting GAAP will eliminate existing differences between bank regulatory reporting standards and GAAP. These differences include the extent to which assets and liabilities may be netted on the balance sheet and the accounting treatment of assets sold with recourse; excess servicing fees; and futures, forward, and option contracts. The Council's action will bring bank regulatory reporting into conformity with the GAAP reporting basis already used for savings association Thrift Financial Reports and Federal Reserve bank holding company FR Y Reports.

In developing a common core report for banks, savings associations, and bank holding companies, the task force is considering the existing reporting and disclosure requirements applicable to financial statements prepared in accordance with GAAP as well as those set forth by the Securities and Exchange Commission for publicly held bank and thrift holding companies. This will assist the Council in achieving

greater consistency in the information collected in regulatory reports and general-purpose financial statements. It will also enable the task force and the agencies to identify the information currently required to be reported in regulatory reports solely for supervisory and other regulatory purposes and to consider the continued usefulness of this information. Nevertheless, because GAAP does not require the disclosure of all the data needed by the agencies and does not address all of the agencies' supervisory concerns, regulatory reports for banks, savings associations, and bank holding companies will still have to collect some information for supervisory and other purposes in supplemental schedules and items. Implementation of a common core report and appropriate supplemental information by the four federal banking agencies would take place not earlier than the March 31, 1997, report date. The development of these revised regulatory reporting requirements is expected to include the issuance of a proposal for public comment during the first half of 1996.

Section 307 of RCDRIA also requires the four federal banking agencies to work jointly to develop a system allowing insured depository institutions and their affiliates to file bank Call Reports, Thrift Financial Reports, and Federal Reserve bank holding company FR Y Reports electronically and the agencies to make these reports available to the public electronically. The statute also directed the agencies to report to the Congress within one year of its enactment and to recommend legislation that would enhance efficiency for filers and users of regulatory reports. The task force prepared the agencies' report to the Congress, which was submitted on September 22, 1995. In the report, the agencies concluded that they have sufficient authority under existing laws to implement a system for electronic filing of regulatory reports and

electronic public access. The report further noted that the agencies have already implemented electronic filing systems for regulatory reports and procedures for public access to these reports. The agencies then discussed these systems and procedures and stated that they have no legislative recommendations at this time.

Following the May 1995 issuance of a new accounting standard on mortgage-servicing rights (FASB Statement No. 122), on June 21, 1995, the task force announced its decision regarding the appropriate regulatory reporting treatment by banks for mortgage-servicing rights. Mortgage-servicing rights (MSRs) are the contractual obligations undertaken by an institution to provide servicing for mortgage loans owned by others, typically for a fee. Statement No. 122 eliminates the accounting distinction between originated mortgage-servicing rights (OMSRs) and purchased mortgage-servicing rights (PMSRs). OMSRs generally represent the servicing rights acquired when an institution originates mortgage loans and subsequently sells the loans but retains the servicing rights. PMSRs are mortgage-servicing rights that have been purchased from other parties.

Upon an institution's adoption of Statement No. 122, both OMSRs and PMSRs must be capitalized as balance-sheet assets, a treatment previously permitted only for PMSRs. The task force concluded that, for Call Report purposes, all banks must adopt Statement No. 122 for fiscal years beginning after December 15, 1995, the effective date set forth in this accounting standard. Early adoption also is permitted to the extent allowable under Statement No. 122. In addition, once an institution adopts Statement No. 122, it must use the fair value of MSRs to determine whether impairment exists, as prescribed by the standard, rather than the impairment guidance currently contained in the Call Report instructions. The

Office of Thrift Supervision reached a similar reporting decision for the Thrift Financial Report.

In March 1995, the Council voted to solicit public comment on a proposal to add Schedule E, Fiduciary Income Statement, to the Annual Report of Trust Assets (Form FFIEC 001). This schedule would be applicable only to depository institutions with \$100 million or more in total trust assets and to nondeposit trust companies. Working with the Fiduciary Issues Working Group of the Task Force on Supervision, the task force prepared the Council's *Federal Register* notice requesting comment on the proposed schedule, which was published on June 30, 1995. The working group reviewed the 56 comments that the Council received and recommended to the Task Force on Supervision that certain modifications be made to the proposed schedule to address commenters' concerns about reporting burden.

On December 14, 1995, the Council approved the trust income schedule with these and other modifications. The schedule will be included in the Annual Report of Trust Assets for the first time for the 1996 reporting year. The task force assisted the Fiduciary Issues Working Group in notifying all institutions with trust powers about this new reporting requirement by letter on December 28, 1995. In general, institutions will report trust fees by type of trust account; three categories of expense; and the amount of settlements, surcharges, and other losses gross and net of recoveries. If an institution's aggregate losses are \$100,000 or more in any year, individual losses of \$10,000 or more must be reported by type of account. The trust income schedule should enable the four federal banking agencies to better target their supervision of trust activities to those areas that pose greater risks to institutions.

In November 1995, the task force, acting under delegated authority, approved certain changes to the

Report of Assets and Liabilities of U.S. Branches and Agencies (Form FFIEC 002) for implementation in 1996. These revisions to the U.S. branch and agency reporting requirements involve some new items related to off-balance-sheet derivative contracts that have already been added to the bank Call Report. The revisions also include a number of instructional changes to conform the branch and agency reporting instructions with those applicable to banks.

Finally, in August 1995, the American Bankers Association (ABA) submitted suggestions for improvements to the Form FFIEC 004, "Report on Indebtedness of Executive Officers and Principal Shareholders and Their Related Interests to Correspondent Banks," to the Federal Reserve Board. The ABA also furnished a prototype of this modified form to the Federal Reserve Board staff, which shared this proposed redesigned form with the task force. The task force has added this proposal to its agenda and expects to revise the report form in response to the ABA's suggestions, effective for the 1996 reporting year.

Task Force on Supervision

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

Task force members are the senior supervisory officials of the constituent agencies. Meetings are held periodically to address and resolve common supervisory issues. The task force has a standing subcom-

mittee to address information systems issues. Ad hoc working groups are created as needed to handle particular projects and assignments.

Activities of the Task Force

During 1995, the task force, its ad hoc working groups, and its Information Systems Subcommittee were involved in several projects and activities. Working groups have been formed and are addressing the supervisory issues raised by the Council's decision to move to GAAP reporting for Call Reports filed after March, 1997. Other working groups have addressed and continue to address matters relating to the Riegle Community Development and Regulatory Improvement Act of 1994.

FAS 122

In May, the Financial Accounting Standards Board issued statement 122 "Accounting for Mortgage Servicing Rights". Among other things, FAS 122 eliminated the accounting distinction between purchased mortgage servicing rights (PMSRs) and originated mortgage servicing rights (OMSRs). FAS 122 specified that capitalized mortgage servicing rights are to be treated as a single type of asset, regardless of how the rights were acquired. In June, the task force recommended that the constituent agencies adopt interim capital rules that would apply the same regulatory capital provisions to OMSRs that applied to PMSRs. A joint interim rule was published in July.

Schedule E

In March, the task force recommended that the Council approve the adoption of a new schedule, Schedule E-Fiduciary Income Statement, the Annual Report of Trust Assets. The Council decided to solicit public comment on the proposed schedule. After reviewing the public comments and revising

the proposed Schedule E in light of those comments, in December the task force recommended, and the Council approved, the adoption of Schedule E for the 1996 Annual Report of Trust Assets.

State Conducted Examinations

In June, the task force recommended and the Council approved guidelines developed by a working group on the acceptability by federal regulators of state conducted examinations. Under the guidelines, federal regulators will review the completeness of the state examination; the adequacy of documentation; the ability over time of the state banking department to achieve examination objectives; and the adequacy of any agreement or arrangement between the state banking department and the federal agency when determining whether it will accept a state examination report.

Task Force on Surveillance Systems

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

During 1995, the Surveillance Task Force and Surveillance Working

Group completed the following projects:

- Expanded the analysis of derivative activity in the UBPR. This new information will allow further analysis of the kinds of derivative activity a bank is engaged in as well as the resulting impact on earnings.
- Added information to the UBPR regarding high-risk and mortgage-backed securities and structured notes.
- Developed several changes to be used in the March 1996 Call Report to collect new data on deposits, loans, and other borrowed money. The new data will provide maturity and repricing information, which will allow consistent comparison of all major categories of assets and liabilities. The data will be used extensively in revising the analysis of short-term assets and funding sources.
- Added a new page to the UBPR that presents average UBPR data by state. Designed as a supplement to existing peer-group information, it will assist in detecting regional trends.
- Completed ratio-writing phase of the project to convert UBPR system to the FDIC data warehouse.
- Produced and distributed four quarterly versions of the UBPR ahead of schedule. The federal banking agencies each received UBPR data in electronic format. State banking agencies were provided two sets of printed UBPRs for banks in their respective states. It is anticipated that some of the state banking agencies that are developing information systems will ultimately request UBPR data in electronic rather than printed format. Additionally, printed UBPR reports were sent to all banks. Over 7,000 copies of individual bank UBPRs were provided to the general public.

- Expanded the list of regulators using early Call Report data. Several Federal Home Loan Banks were added to the list of state banking regulators currently using the early Call Report data-download facility. Throughout the editing cycle, this facility provides Call Report data similar to that received by the federal bank regulators.
- Redesigned and reprinted the UBPR User's Guide in a perfect-bound format. Copies were distributed to all banks and federal and state banking authorities.
- Reviewed the tax-benefit calculation in the UBPR and decided the calculation should be retained but simplified.
- Reviewed the peer-group calculation process and decided to use a weighted average for peer-group analysis, to be implemented in 1996.
- Hosted a Surveillance Conference that included representatives of the five federal financial institution regulators as well as representatives from four state banking agencies. The purpose of the two-day conference was to share so-called best practices in supervising financial institutions, with some emphasis given to surveillance systems used and data needs. The conference was considered a success by all attending and may be followed up with a catalogue outlining surveillance programs and contacts at each agency in 1996.
- The Surveillance Task Force set up a working group to study the feasibility of creating a data repository as mandated by section 341 of the RCDRIA. The working group should complete its study by the first quarter of 1996.

Several projects are planned for 1996, which should provide further enhancements to the UBPR:

- Develop new ratios to reflect revised maturity and repricing

data to be collected with the March 1996 Call Report. Several changes to the analysis of short-term assets and short-term funding sources are planned.

- Implement changes to peer-group-average methodology and tax-equivalency calculations. The changes will be scheduled to occur with the conversion of the UBPR to a data warehouse, currently scheduled with the June 30, 1996, UBPR.
- Revise the UBPR User's Guide to incorporate all changes that are planned for 1996. This is the second complete reprinting in perfect-bound format.
- Study the impact of changing the UBPR system to accommodate a common Call Report for all banks and thrift institutions. The reporting changes required by RCDRIA bill will expand and enhance data used in the UBPR, but significant programming changes may be needed to take advantage of the revised information.
- Convert the UBPR system to FDIC data warehouse. Significant cost savings are projected

after conversion and testing is complete.

- Produce four quarterly versions of the UBPR. Distribute copies to federal and state agencies, banks, and the general public.

While the UBPR is primarily a supervisory tool for three federal banking agencies, it is also used extensively by others. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below in the distribution policy. In addition to the 7,000 UBPRs distributed in printed form, several institutions have acquired UBPR data in electronic form.

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

- Each insured bank will receive one copy of the current UBPR per quarter.
- UBPR data will be provided to each federal banking agency each quarter.
- Two copies of the UBPRs will be made available to state bank supervisors for banks in their state. Alternatively, the printed

reports may be requested in tape form.

- State banking agencies may also purchase UBPR data files in electronic form.
- UBPRs and Call Report data will be made available to the public for a fee.

Copies of UBPRs may be purchased by the general public for \$45. A User's Guide, which describes the content of the report and defines ratio calculations, is available for \$25. The peer-group report, showing average ratios for all peer groups, is available for \$65. The State Average Report is available for a charge of \$45. Peer Group and State Average Percentile Distribution Reports are available for \$65 and \$45 respectively. Standardized UBPR quarterly data on magnetic tape are available for \$400. Information on ordering items may be obtained by calling (202) 634-6526, by E-mailing SMULLENJ@FRB.GOV, or by writing the Council:

Federal Financial Institutions
Examination Council
2100 Pennsylvania Avenue, NW
Suite 200
Washington, DC 20037

THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 24,600 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1995, these financial institutions held total assets of more than \$6.2 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

Board of Governors of the Federal Reserve System (FRB)

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

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

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

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

The Federal Reserve covers the expenses of its operations with revenue it generates principally from interest received on Treasury and federal-agency securities held as assets by the Reserve Banks. The funding for these investments is derived partially from 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 to the Federal Reserve Board, which are used to meet its expenses. Excess revenues are turned over to the Treasury general fund and categorized as interest on Federal Reserve notes.

Federal Deposit Insurance Corporation (FDIC)

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

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

The FDIC's supervisory activities are conducted by the Division of Supervision (DOS) and the Division of Compliance and Consumer Affairs (DCA). Each of these divisions is organized into eight regions, with regions headed by a regional director (DOS) or a regional manager (DCA). Bank liquidation activities are divided among five service centers, each of which is also headed by a regional director (liquidation).

The FDIC administers two federal deposit insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The basic insured amount for a depositor is \$100,000 at each insured depository institution. The BIF is funded through assessments paid by insured commercial banks, certain federal and state savings banks, and industrial banks, as well as through income from investments in U.S. government securities. The SAIF, which was created in 1989 as a successor to the former Federal Savings and Loan Insurance Corporation (FSLIC), receives assessment premiums from insured savings associations. The FDIC sets assessment rates for both the BIF and the SAIF. Historically, rates had been fixed at the same rate for all institutions insured by a fund. Effective January 1, 1993, the FDIC established a risk-based assessment system for all depository institutions insured by BIF or SAIF as required under the Federal Deposit Insurance Corporation Improve-

ment Act (FDICIA). Under the risk-based assessment system, those institutions that pose a greater risk to their respective funds are assessed higher premiums than low-risk institutions.

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

The FDIC has primary federal regulatory and supervisory authority over insured state-chartered banks that are not members of the Federal Reserve System; however, it has the authority to examine for insurance purposes any insured financial institution, either directly or in cooperation with state or other federal supervisory authorities. FDICIA gives the FDIC backup enforcement authority over all insured institutions; that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if the primary supervisory agency fails to do so. The FDIC's supervisory authority has expanded so that it can deny authorization to insured state-chartered banks for engaging in any activity that is impermissible for a national bank if the FDIC determines that the activity would pose a significant risk to the BIF or if the institution is not in compliance with applicable capital standards. The FDIC may also prohibit activities that seriously threaten the SAIF and may otherwise limit the powers of state-chartered savings associations

to those permitted for a federal savings association. In consultation with other federal supervisory agencies, the FDIC has established minimum capital levels below which institutions are deemed to be "critically undercapitalized" and, as such, are subject to seizure or closure if no longer viable.

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

National Credit Union Administration (NCUA)

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

The main responsibilities of the NCUA are the following:

- charters, examines, and supervises more than 7,500 federal credit unions nationwide
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures 98 percent of member share accounts in nearly 12,100 U.S. federal and State-chartered credit unions
- manages the Central Liquidity Facility, a central bank for credit unions, which provides financial stability to the credit union system

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

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

Office of the Comptroller of the Currency (OCC)

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

The OCC is the charterer, regulator, and supervisor of the national banking system. As such, it currently regulates and supervises about 3,000 national banks with total assets of about \$2.5 trillion, which accounts for about 55 percent of the total assets of all U.S. commercial banks. As the only federal banking agency with authority to charter commercial banks, it shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters, the establishment of branches, relocations of head offices, and mergers of national banks.

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

regulation that accomplishes four objectives:

- promotes safety and soundness by requiring that national banks adhere to sound banking and management principles and that they comply with the law
- promotes banks' ability to compete fairly in the financial marketplace
- increases OCC efficiency and reduces regulatory burden to the extent consistent with safety and soundness
- ensures fair and equal access to credit for all Americans

The principal supervisory tools of the OCC are on-site examination activities and ongoing analysis of national bank operations. As appropriate, the OCC issues rules and regulations concerning banking, bank investment, and other aspects of bank operations.

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

- Bank Supervision Operations is responsible for examinations and other supervision activities in the OCC's six geographic districts; the multinational banking department, which supervises the largest national banks and oversees operations in the OCC's London office; and the special supervision division, which supervises troubled banks. It also oversees OCC's corporate activities, including making final decisions on all corporate applications, such as those for charters, new branches, mergers, operating subsidiaries, and head office relocation.
- Bank Supervision Policy formulates and disseminates OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. It also has responsibility for training and development as well as the OCC's information systems.

- Capital Markets develops OCC's policies on the capital markets activities of national banks, including derivatives, other bank investments, and emerging markets.
- Economic Analysis and Public Affairs includes two main areas of responsibility: (1) economic research and analysis, which includes statistical analysis of national banks' performance, and (2) external affairs, which includes OCC's relations with the general public, bank customers, community groups, the Congress, the news media, and trade associations.
- The Chief Counsel advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The Chief Counsel also directs all OCC legal functions, including drafting regulations, responding to requests for legal interpretations, and representing the OCC in all legal matters and proceedings.
- Administration provides operational support for OCC's activities. This support includes human resources, management and quality improvements, and financial services.

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

Office of Thrift Supervision (OTS)

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

The mission of the OTS is to:

- effectively and efficiently supervise thrift institutions;
- maintain the safety and soundness and viability of the industry; and
- support the industry's efforts to meet housing and other community credit and financial services needs.

OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, and (3) taking appropriate action to enforce compliance with federal laws and regulations. In addition to overseeing thrift institutions themselves, OTS also regulates, examines, and supervises companies that own thrifts, and controls the acquisition of thrifts by such holding companies.

OTS is headed by a Director appointed by the President with the advice and consent of the Senate to serve a five-year term. The director determines policy for the OTS and makes final decisions on regulations governing the industry as a whole and on measures affecting individual institutions. The Office of the Director also includes Minority Affairs, Quality Assurance, and the Ombudsman.

The OTS is organized around five major units:

- *Supervision* oversees the operations of OTS's five regional offices, supervision policy, corporate activities, compliance policy, and accounting policy. It is responsible for the supervision and examination of OTS-regulated thrift institutions to ensure the safety and soundness of the industry and compliance with the Community Reinvestment Act and fair lending requirements, the development of policies affecting those functions, applications of all types, and the agency's accounting policies.
- *Administration* is responsible for the agency's financial management and information systems. It administers the agency's human resources, training, procurement, ADP, telecommunications, and records/information programs.
- *Chief Counsel* is responsible for overseeing the legal activities of the agency. This includes providing legal services to the Director and other agency staff; representation of OTS on pending litigation; preparation of the record for final agency action in accordance with legal requirements; pursuing enforcement actions relating to thrift institutions; providing effective and timely legal advice and opinions; and drafting support on regulatory projects, statutes, and regulations.
- *Research and Analysis* is composed

of four units: Risk Management, Economic Analysis, Industry Analysis, and Financial Reporting. The office develops and maintains surveillance systems for monitoring and reporting the condition of the thrift industry and assists in identifying the impact of emerging issues. The office also collects and analyzes data on individual institution exposure to financial risk for use by the institution's management and by OTS examiners.

- *External Affairs* manages congressional matters, press relations, and liaison with the FDIC and FFIEC. It interacts with members of Congress as well as with executives at other federal agencies to accomplish the legislative and regulatory objectives of the OTS. The office convenes press conferences; and distributes news releases; and communicates and explains policy directives, objectives, and actions of the agency to the press, the thrift industry, other government agencies, and employees.

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

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

ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks and Thrift Institutions as of June 30, 1995¹

Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member		OTS-Regulated ¹⁷		Other FDIC-Insured	Federal Charter	State Charter
						Federal Charter	State Charter				State Savings Banks
Total assets	6,285	2,299	944	927	795	736	43	240	190	111
Total loans and lease receivables (net)	3,801	1,441	480	578	321	590	34	173	115	69
Loans secured by real estate ⁴	1,792	582	64	298	41	554	33	160	37	23
Consumer loans ⁵	669	296	75	132	*	35	1	9	77	44
Commercial and industrial loans	743	392	143	105	88	6	*	6	1	2
All other loans and lease receivables ⁶	404	170	99	42	92	*	*	1	*	*
LESS: Allowance for possible loan and lease losses	62	31	11	11	*	5	*	2	1	1
Federal funds sold and securities purchased under agreements to resell	225	92	41	30	50	5	*	5	2	*
Cash and due from depository institutions ⁷	476	172	59	51	173	9	1	4	4	3
Securities and other obligations ⁸	1,150	392	176	238	98	91	6	46	66	37
U.S. government obligations ⁹	776	301	134	193	48	27	3	19	33	18
Obligations of state and local governments ¹⁰	76	31	15	28	*	1	*	1	‡	‡
Other securities	297	59	27	17	50	63	3	26	33	19
Other assets ¹¹	689	235	198	41	153	41	1	12	5	3
Total liabilities	5,836	2,118	878	840	795	680	39	216	171	99
Total deposits and shares ¹²	4,326	1,617	571	720	414	516	34	189	167	98
Federal funds purchased and securities sold under agreements to repurchase	462	186	79	55	80	47	1	12	2	*
Other borrowings ¹³	505	142	73	46	126	102	3	13	*	*
Other liabilities ¹⁴	543	173	155	19	175	15	1	2	2	1
Net worth¹⁵	449	182	66	87	*	56	4	23	19	12
Memorandum: Number of institutions reporting	24,633	2,942	995	6,231	547	1,188	290	604	7,412	4,424

Symbols Appearing in Tables

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

Footnotes to Tables

1. Covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the Federal Deposit Insurance Corporation or National Credit Union Savings Insurance Fund. All branches and agencies of foreign banks in the United States, but excluding any in Puerto Rico and U.S. territories and possessions, are included 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 subsidiar-

ies, branches in Puerto Rico and U.S. territories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.

3. Data are for federally insured credit unions only.
4. Loans secured by residential property, commercial property, farmland (including improvements), and unimproved land; and construction loans secured by real estate. For SAIF-insured institutions, also includes mortgage-backed securities.
5. Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.
6. Loans to financial institutions, loans for

purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.

7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. SAIF-insured institutions data are for cash and demand deposits only; time deposits are included in "Other securities."
8. Government and corporate securities, including mortgage-backed securities and obligations of states and political subdivisions and of U.S. government agencies

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions for the Twelve Months Ending June 30, 1995¹
Billions of dollars

Item	Total	U.S. Commercial Banks ²			Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member	OTS-Regulated ¹⁷		Other FDIC-Insured	Federal Charter	State Charter
					Federal Charter	State Charter				State Savings Banks
Operating income	460	208	70	83	54	4	19	15	8
Interest and fees on loans	275	122	35	52	43	4	3	10	6
Other interest and dividend income	98	38	18	16	6	*	14	4	2
All other operating income	87	48	16	14	5	*	2	1	1
Operating expenses	375	166	59	67	47	3	14	12	7
Salaries and benefits	77	35	13	14	7	*	3	3	2
Interest on deposits and shares	133	52	18	23	21	2	7	6	4
Interest on other borrowed money	27	10	5	3	9	*	*	*	*
Provision for loan and lease losses	13	5	2	4	2	*	*	*	*
All other operating expenses	125	63	21	22	9	1	4	3	2
Net operating income	84	42	12	16	7	1	3	2	1
Securities gains and losses	*	*	*	*	*	*	*	*	*
Income taxes	27	14	4	5	2	1	1	‡	‡
Net income	56	27	8	11	4	1	2	2	1
Memorandum: Number of institutions reporting	24,086	2,942	995	6,231	1,188	290	604	7,412	4,424

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

9. U.S. Treasury securities and securities and obligations of U.S. government agencies and corporations.

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

11. Customers' liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head

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

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

13. Interest-bearing demand notes issued to the U.S. Treasury, borrowing from Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-

life preferred stock, and other nondeposit borrowing.

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

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

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

17. Data for thrifts regulated by OTS are unconsolidated, except for operating and finance subsidiaries.

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

APPENDIX A: RELEVANT STATUTES

Title X of Public Law 95-630

Title X of Public Law 95-630, which establishes the Federal Financial Institutions Examination Council, reads, as amended, as follows:

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

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

Functions of the Council

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

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

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

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

(c) The Council shall develop uniform reporting systems for federally supervised financial institutions, their holding companies, and 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 and employees of the Federal Housing Finance Board under condition specified by the Council.

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

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

State Liaison

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

expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may

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

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

Access to Information by the Council

Sec. 1009. For the purpose of carrying out this title, the Council shall have access to all books, accounts, records, reports, files, memoranda, papers, things, and property belonging to or in use by federal financial institutions regulatory agencies, including reports of examination of financial institutions

or their holding companies from whatever source, together with workpapers and correspondence files related to such reports, whether or not a part of the report, and all without any deletions.

Risk Management Training

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

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

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

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

Audit by the Comptroller General

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

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

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

Sec. 1011. Establishment of Appraisal Subcommittee

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

Excerpts from Title III of Public Law 94-200

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

Findings and Purpose

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

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

Maintenance of Records and Public Disclosure

Sec. 304. (f) The Federal Financial Institutions Examination Council in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such

system shall include arrangements for a central depository of data in each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not composed of designated primary metropolitan statistical areas. Disclosure statements shall be made available to the public for inspection and copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 306(b)) and which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not composed of designated primary metropolitan statistical areas.

Compilation of Aggregate Data

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

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

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

Excerpts from Title XI of Public Law 101-73

Sec. 1103. Functions of Appraisal Subcommittee.

(a) In General. The Appraisal Subcommittee shall

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

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

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

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

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

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

(b) Monitoring and Reviewing Foundation. The Appraisal Subcom-

mittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

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

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

APPENDIX B: 1995 AUDIT REPORT

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1995 and 1994, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as

of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 1996 on our consideration of the Council's internal control structure and a report dated February 27, 1996 on its compliance with laws and regulations.



February 27, 1996

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheet as of December 31, 1995 and 1994

ASSETS		1995	1994
CURRENT ASSETS			
Cash		\$ 991,681	\$ 770,116
Accounts receivable from member organizations		471,402	443,917
Other accounts receivable		252,532	162,247
Prepaid expenses		13,687	—
Total current assets		1,729,302	1,376,280
FURNITURE AND EQUIPMENT			
Furniture and equipment, at cost		248,445	222,258
Less accumulated depreciation		168,126	146,589
Net furniture and equipment		80,319	75,669
LEASEHOLD IMPROVEMENTS, net of amortization		42,738	59,153
Total assets		\$ 1,852,359	\$ 1,511,102
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts payable to member organizations		\$ 696,036	\$ 696,374
Other accounts payable and accrued liabilities		250,642	49,533
Accrued annual leave		48,043	46,449
Total current liabilities		994,721	792,356
DEFERRED RENT (Note 5)		137,360	147,343
FUND BALANCE		720,278	571,403
Total liabilities and fund balance		\$ 1,852,359	\$ 1,511,102

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Revenues and Expenses and Fund Balance for the Years Ended December 31, 1995 and 1994

	1995	1994
REVENUES		
Assessments to member organizations	\$ 1,345,200	\$ 985,800
Tuition	1,682,999	1,419,128
Other revenue (Note 4)	2,190,499	2,466,348
Total revenues	<u>5,218,698</u>	<u>4,871,276</u>
EXPENSES		
Salaries and related benefits	1,327,267	1,147,740
Data processing	2,215,677	2,552,747
Rental of office space	631,776	621,845
Travel	185,409	157,813
Professional fees	150,164	160,019
Printing	91,455	77,606
Rental and maintenance of office equipment	82,488	76,733
Office and other supplies	69,287	48,568
Administrative fees	49,000	47,000
Depreciation	37,952	38,295
Postage	28,793	28,386
Telephone	18,865	21,340
Books and subscriptions	15,190	35,528
Miscellaneous	166,500	127,319
Total expenses	<u>5,069,823</u>	<u>5,140,939</u>
REVENUES OVER (UNDER) EXPENSES	148,875	(269,663)
FUND BALANCE, Beginning of year	571,403	841,066
FUND BALANCE, End of year	<u>\$ 720,278</u>	<u>\$ 571,403</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

(1) Organization and Purpose

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

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

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the desig-

nees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

(2) Significant Accounting Policies

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

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

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.

(3) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$269,040 in 1995 and \$197,160 in 1994.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$49,000 for 1995 and \$47,000 for 1994.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$2,126,376 in 1995 and \$2,521,920 in 1994 for these items.

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

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Cash Flows
Increase (Decrease) in Cash for the Years Ended December 31, 1995 and 1994

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 148,875	\$ (269,663)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	37,952	38,295
Increase in accounts receivable	(117,770)	(161,145)
Increase in prepaid expense	(13,687)	—
Increase in accounts payable and accrued liabilities	200,771	85,980
Increase in accrued annual leave	1,594	3,262
Decrease in deferred rent	(9,983)	(6,731)
Net cash provided (used) by operating activities	<u>247,752</u>	<u>(310,002)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(26,187)	(18,482)
Net cash used in investing activities	<u>(26,187)</u>	<u>(18,482)</u>
NET INCREASE (DECREASE) IN CASH	<u>221,565</u>	<u>(328,484)</u>
CASH BALANCE, Beginning of year	770,116	1,098,600
CASH BALANCE, End of year	<u>\$ 991,681</u>	<u>\$ 770,116</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements—continued

contributions, disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any postretirement or postemployment benefit liabilities due to the fact that Council employees are included in the plans of the member organizations.

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

(4) Other Revenue

	1995	1994
Home Mortgage Disclosure Act	\$ 1,280,977	\$ 1,661,359
Uniform Bank Performance Report	223,578	228,535
Appraisal Subcommittee	178,048	177,802
Mortgage Insurance Companies of America	168,696	143,269
Rental	126,916	125,900
Community Reinvestment Act	125,995	—
Sale of HMDA Data	83,511	127,470
Miscellaneous	2,778	2,013
	<u>\$ 2,190,499</u>	<u>\$ 2,466,348</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received \$263,043 in 1995 and \$327,370 in 1994 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The Council received \$168,696 in 1995 from the Mortgage Insurance Companies of America for performing HMDA related work for them. The balance of the HMDA revenue for 1995 and 1994 was received from the member agencies.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$223,578 in 1995 and \$228,535 in 1994 for operating expenses incurred in support of the UBPR project.

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received \$178,048 in 1995 and \$177,802 in 1994 from the Appraisal Subcommittee for these services.

The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received \$126,916 in 1995 and \$125,900 in 1994 in rent from the Board.

In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The Council received \$125,995 from participating member agencies in

1995 for operating expenses incurred in support of the CRA project.

(5) Deferred Rent

During 1992 the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) Commitments

The Council has entered into operating leases to secure office and classroom space for periods ranging from two to six years. Minimum future rental commitments under those operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 1995, are as follows:

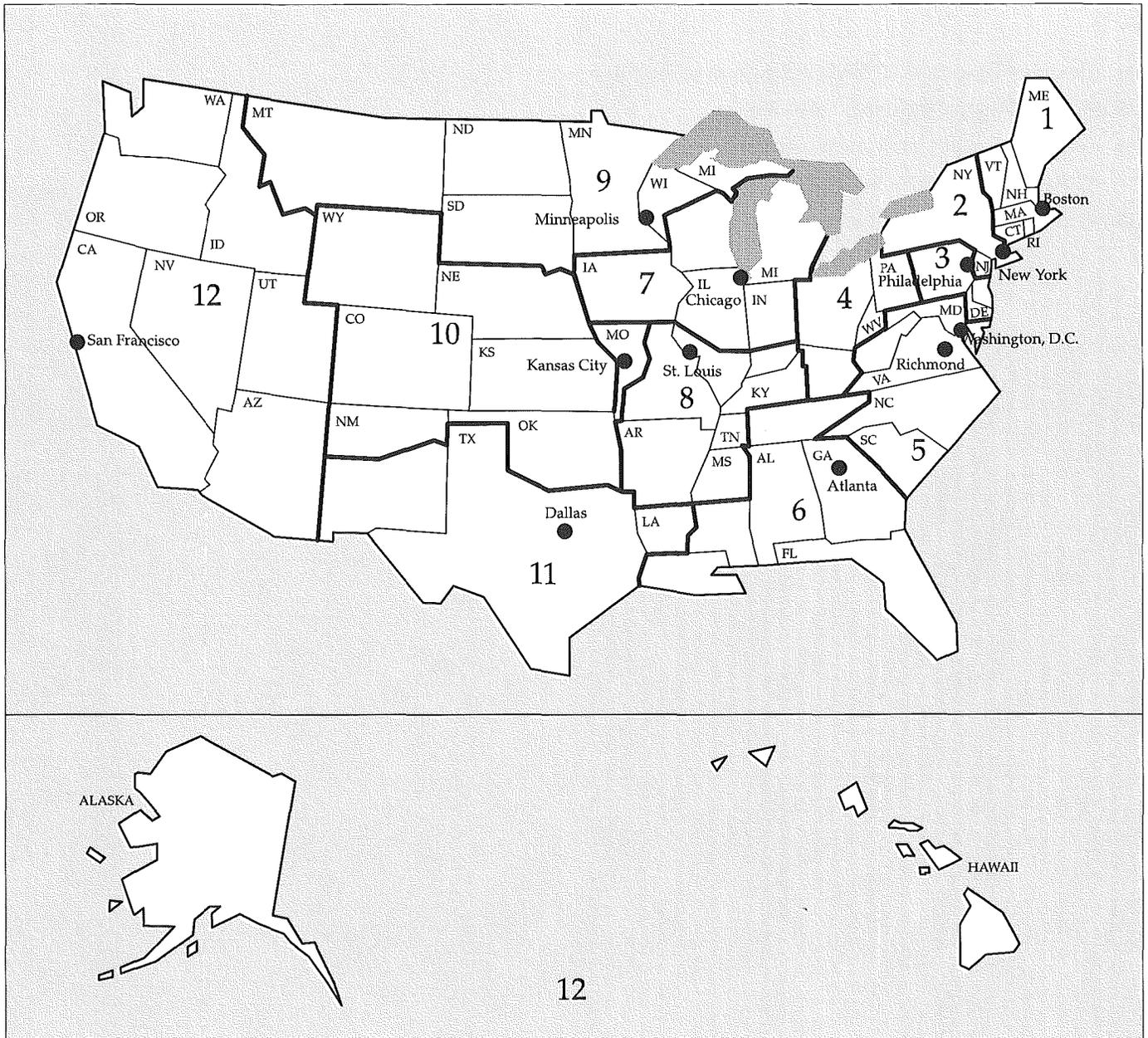
1996	\$ 469,699
1997	398,779
1998	398,779
	<u>\$1,267,257</u>

Rental expenses under these operating leases were \$603,580 and \$597,700 in 1995 and 1994, respectively.

APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

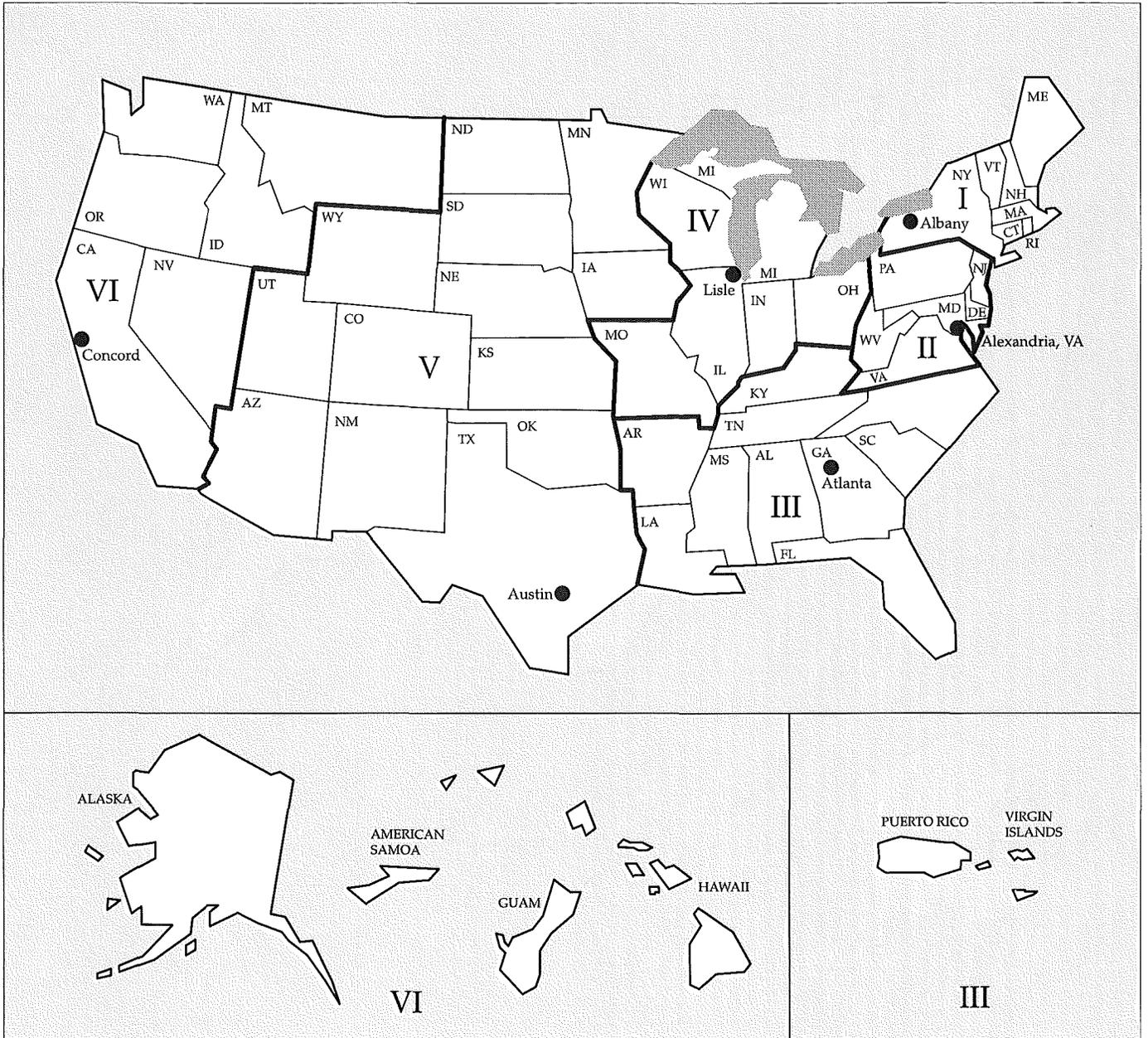
THE FEDERAL RESERVE SYSTEM DISTRICTS



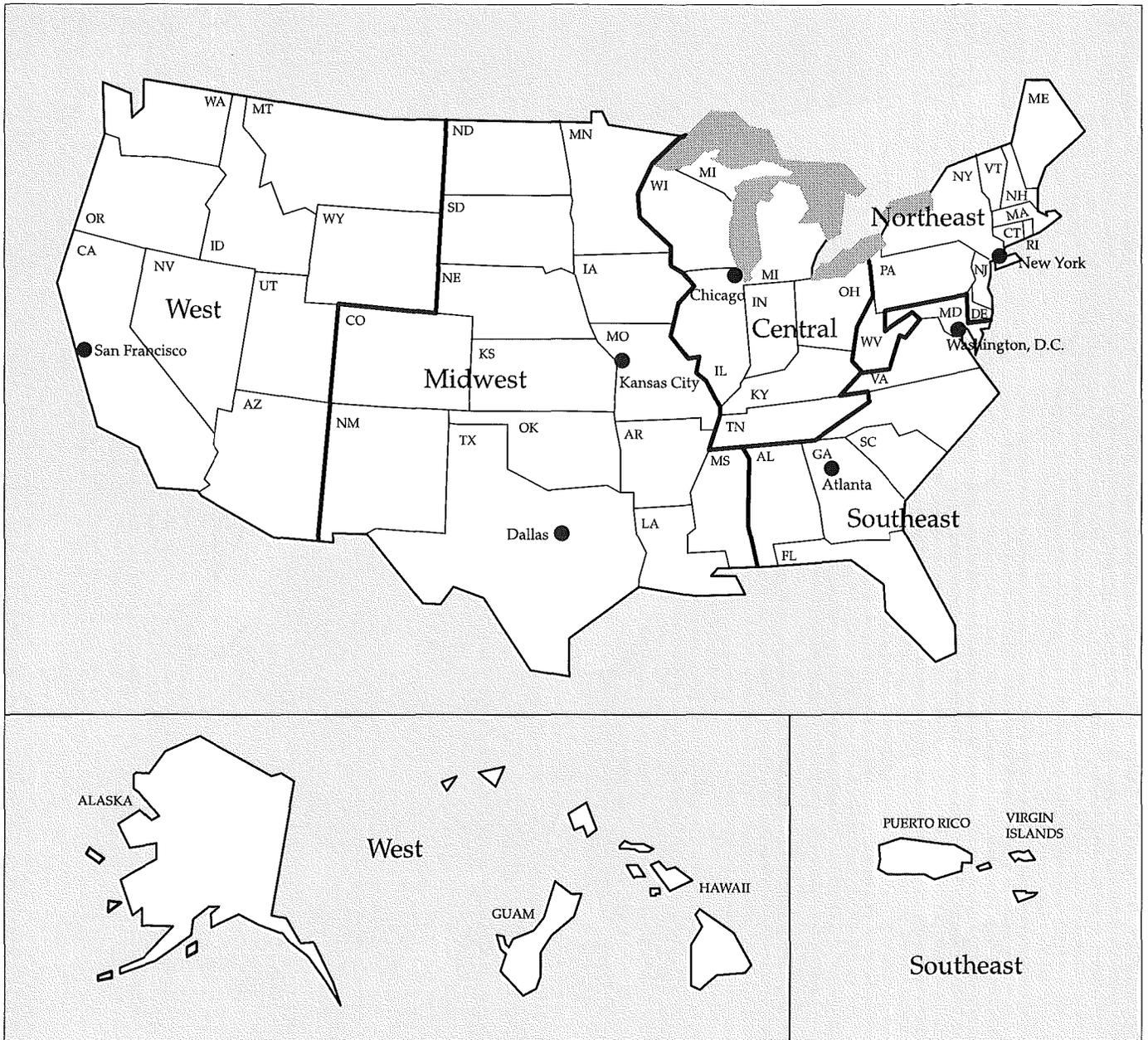
FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION AND COMPLIANCE)



NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION



OFFICE OF THRIFT SUPERVISION

