



ANNUAL REPORT 1996

MEMBERS OF THE COUNCIL



Nicolas P. Retsinas, *Chairman*
Director
Office of Thrift Supervision



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



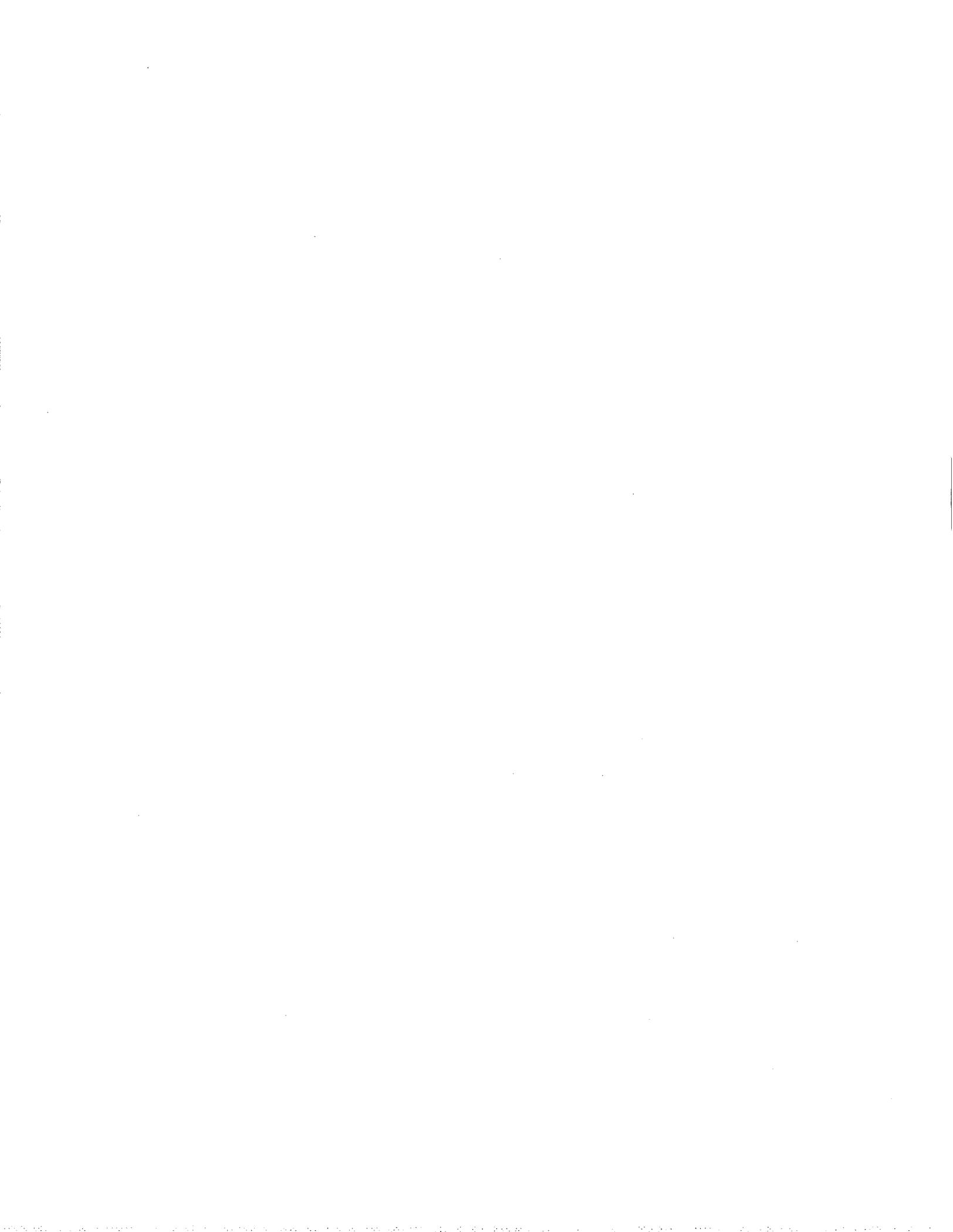
Susan M. Phillips
Member
Board of Governors of the
Federal Reserve System



Ricki Helfer
Chairman
Federal Deposit Insurance Corporation



Eugene A. Ludwig
Comptroller of the Currency
Office of the Comptroller of the Currency



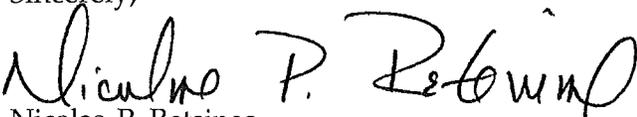
LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC
March 25, 1997

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 1996 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink that reads "Nicolas P. Retsinas". The signature is written in a cursive style with a large, prominent initial "N".

Nicolas P. Retsinas
Chairman



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MESSAGE FROM THE CHAIRMAN



Nicolas P. Retsinas

With the departure of Jonathan Fiechter from the Office of Thrift Supervision (OTS), I became Chairman of the Federal Financial Institutions Examination Council (FFIEC) in October 1996. The Council rotates the Chair among the five agencies every two years and our turn expires at the end of March 1997. Hence, my term as Chair will last just six months. The FFIEC agencies must continue their efforts to promote consistency in the supervision of depository institutions and to complete high priority projects. This joint commitment of federal and state supervisors working within the framework of the FFIEC will continue to enhance the safety and soundness of our financial system.

The Council had a successful year in 1996. The final phase of assignments required by the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA) was completed and a report to Congress was dispatched in September 1996. Progress was made by all of the Council's constituent agencies towards harmonizing and simplifying their supervisory regulations, policies and procedures, and recordkeeping requirements. The agencies are committed to further review, and revision where necessary, of their regulations to ensure that they remain timely and the least burdensome as possible.

Other projects completed in 1996 include preparation for the implementation of revised examination procedures for large financial institutions under the streamlined Com-

munity Reinvestment Act of 1995 (revised exam procedures for small banks and thrifts were implemented in 1996); publication of "Interagency Questions and Answers Regarding Community Reinvestment"; a request for public comment on mandatory electronic filing of Call Reports; regulatory reporting guidance on FASB Statement No. 125 and on Accounting for the SAIF Special Assessment and FICO Assessments; guidance on the effect of year 2000 on computer systems; release of the FFIEC Information Systems Examination Handbook; revision of the Uniform Financial Institutions Rating System, including disclosure of CAMEL components and the rescission of outdated or unnecessary policy statements pursuant to section 303 of the RCDRIA.

The Council and its State Liaison Committee (SLC) look forward to a productive year in 1997. Cooperation between state and federal supervisors is essential to the successful coordination of supervision and regulation of all financial institutions. The states and the Council's agencies have agreements in place to handle the complex issues required for the full implementation of interstate banking in 1997. The SLC will continue to be the Council's touchstone to measure the local effects of the accelerating changes in the financial system.

Clear, responsive and consistent principles, standards and regulations are increasingly important in the ever changing world of financial services.

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, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of Comptroller of the Currency, and Office of Thrift Supervision and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the non-financial-institution subsidiaries of those institutions and holding companies. It conducts schools for examiners employed by the five agencies represented on the Council and makes those schools available to employees of state 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. 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).

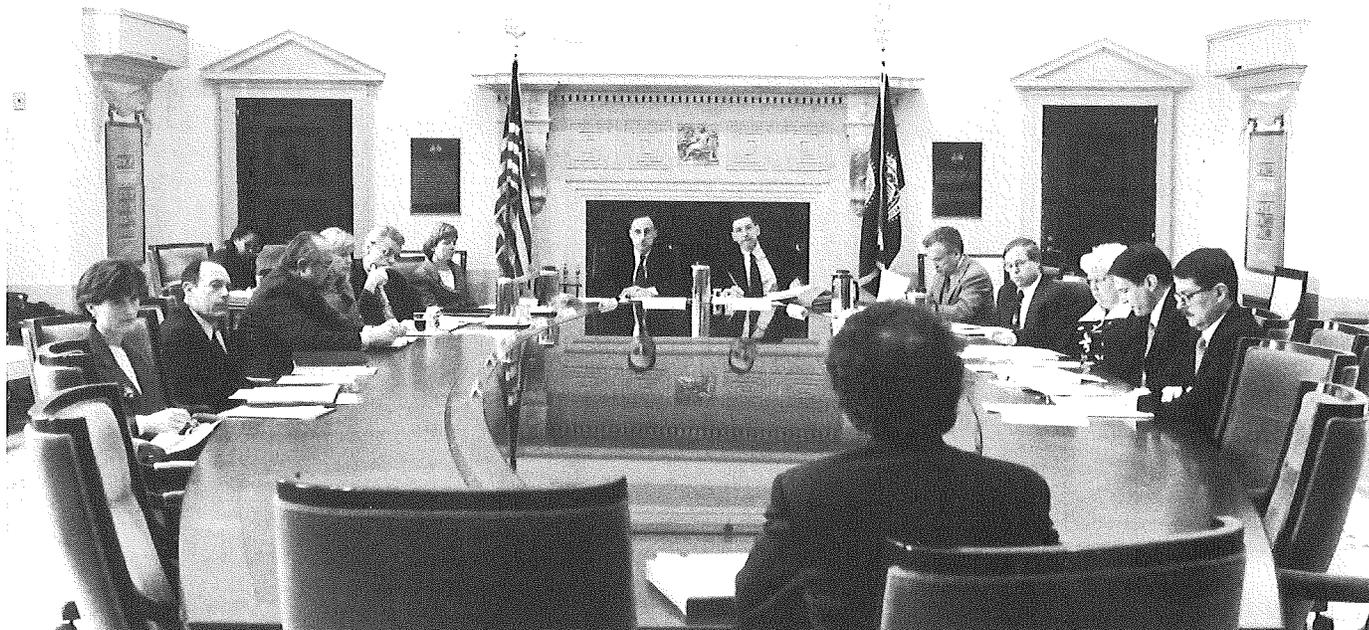
In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Examination Council. The functions of the subcommittee are (1) monitoring the requirements, including a code of professional responsibility, established by states for the certification and licensing of individuals who are qualified 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 1996 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 of 1975 (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 1995 annual report of the Council to the Congress.

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

March 14

Action. Unanimously approved the appointment of Thomas Curry, Massachusetts Commissioner of Banking, and Neil Levin, New York Commissioner of Banking, to the State Liaison Committee for the period from May 1, 1996, to April 30, 1998.

Explanation. Under the Council's Rules of Operation, the Council directly appoints two of the five members of the State Liaison Committee to two-year terms. Mr. Curry and Mr. Levin succeed Catherine Ghiglieri, Texas Banking Commissioner, and James Hansen, Nebraska Director of the Department of Banking and Finance, who completed their terms on the committee.

June 24

Action. Approved by a 4-0-1 vote the submission of a report to Congress

on the feasibility of establishing an interagency data bank.

Explanation. Section 341 of the RCDRIA set forth the requirement that the Council study the feasibility, including the costs and benefits to insured depository institutions, of establishing and maintaining a data bank for reports submitted by any depository institution to a federal banking agency. The study was to consider the feasibility of permitting depository institutions to file reports directly with the data bank, as well as permitting federal banking agencies, state bank supervisors, and the public access to any report on file with the data bank that the supervisor or the public is otherwise authorized to receive.

July 9

Action. Unanimously approved the publishing of a request for public

comment on proposed revisions to the 1979 Uniform Financial Institutions Rating System (UFIRS).

Explanation. The Council proposed to revise the UFIRS by expanding the components reviewed and rated as CAMEL under the existing system. While retaining the basic framework of the UFIRS, a sixth component rating sensitivity to market risk is to be added, as well as placing emphasis throughout the rating system on risk management.

July 9

Action. Unanimously approved the submission of a report to Congress on the use of consistent financial terminology.

Explanation. Section 210 of the RCDRIA set forth the requirement for the Council to report to Congress on recommendations for the use of consistent financial terminology by depository institutions for small-business loans or leases of personal property which are sold for the creation of small business related securities (as defined in section 3(a)(53)(A) of the Securities Exchange Act of 1934). The report concluded that the definition used by the Small Business Administration is appropriate for small-business loan and lease securitization.

July 9

Action. Approved by a 2-1-2 vote proposed revisions to the Country Exposure Report (FFIEC 009).

Explanation. The Country Exposure Report is filed quarterly by any insured bank or bank holding company that has a "foreign office" and total outstanding claims on residents of foreign countries of at least \$30 million. The recommended changes included a new schedule for credit exposures arising from foreign exchange and derivatives contracts, a new column for trading account securities, deletion of a column for

U.S. government guaranteed claims, and streamlining certain items and other changes in format and country codes. The changes will be implemented in March 1997.

July 9

Action. Unanimously approved the rescission of the policy statement on advertising NOW accounts.

Explanation. Included in the provisions of section 303 of the RCDRIA is a requirement that the Council member agencies undertake a review and update of rules, regulations, statements of policy, and guidelines outstanding in an effort to promote consistency and uniformity. The October 1980 Interagency Policy Statement Regarding Advertising of NOW Accounts has been determined to be of no further value as an outstanding guideline.

July 30

Action. Approved by a 4-0-1 vote the disclosure of CAMEL component ratings to insured institutions.

Explanation. The Council has determined that there would be a number of benefits to disclosing the individual component CAMEL ratings under the UFIRS to the management and boards of directors of examined institutions. Disclosing the ratings would benefit bankers by providing them with an early warning of emerging problems and risk perspectives and would enhance the quality of the examination report and promote communication in the examination process. The effective date of disclosure will be not later than January 1, 1997.

September 5

Action. Approved by a 4-0-1 vote the publishing of a request for public comment on proposed changes to the Reports of Condition and Income for 1997.

Explanation. The proposed revisions include deletions to existing Call Report items or reductions in the level of detail in ten schedules (plus one schedule collected only from FDIC-supervised savings banks). The Call Report instructions would be revised by eliminating instructions that differ from generally accepted accounting principles (GAAP), and a small number of new items would be added to meet supervisory data needs resulting from this move to GAAP. Other new items would be added to the Call Report that are necessary to enhance the agencies' ability to monitor interest-rate risk, identify bank usage of credit derivatives, and support the FDIC's calculation of deposit-insurance assessments.

September 18

Action. Unanimously approved the rescission of the policy statement on money laundering and the policy statement on coordination of bank holding company inspections.

Explanation. Included in the provisions of section 303 of the RCDRIA is a requirement that the Council member agencies undertake a review and update of rules, regulations, statements of policy, and guidelines outstanding in an effort to promote consistency and uniformity. The 1992 policy statement on money laundering was rendered unnecessary by amendments to the Bank Secrecy Act and the May 28, 1996, rules issued by Treasury on wire transfer record-keeping requirements. The 1979 policy statement on coordination of bank holding company inspections and subsidiary bank examinations was superseded by a revised 1993 policy statement.

September 19

Action. Unanimously approved Council adoption of the interagency chapter of the RCDRIA section 303.

Explanation. Section 303 of RCDRIA directed the Council member agencies, not the Council, to report to Congress. The Council provided assistance and coordination in the preparation, production, and distribution of the report, as well as in preparing an interagency chapter on the progress made under the section 303 requirements to streamline regulatory requirements. The report was submitted to Congress September 23, 1996.

October 25

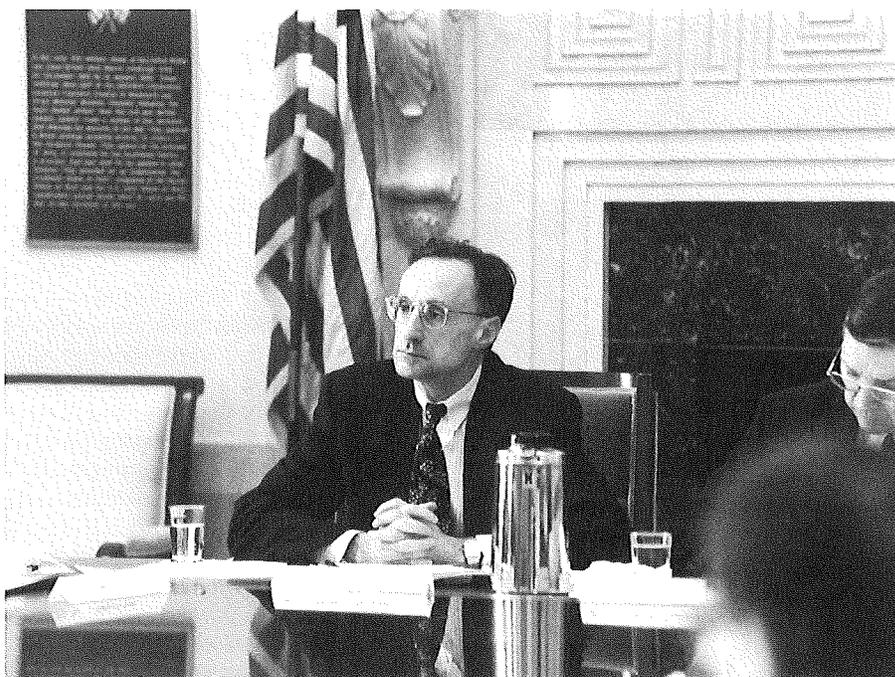
Action. Unanimously approved the publishing of a request for public comment on the proposed electronic filing requirement for Call Reports.

Explanation. The Council proposed implementation of the requirement that banking agencies would no longer accept Reports of Condition and Income (Call Reports) that are filed with the banking agencies in paper form. Following a phase-in period established by asset size, the banking agencies would only accept Call Reports filed electronically or on computer diskette. The targeted date for total conversion of submitted Call Reports is December 31, 1997.

December 3

Action. Approved by a 4-0-1 vote the rescission of the policy statement on the sale of U.S. government secured loans and sale premiums.

Explanation. Included in the provisions of section 303 of the RCDRIA is a requirement that the Council member agencies undertake a review and update of rules, regulations, statements of policy, and guidelines outstanding in an effort to promote consistency and uniformity. The November 1979 interagency policy statement on the sale of U.S. government secured loans and sale premiums has been superseded by the Financial Accounting Standard (FAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and



Chairman Retsinas presides over a Council meeting.

Initial Direct Costs of Leases," which banks are required to comply with.

December 30

Action. Approved by a 4-0-1 vote the proposed changes to the bank Call Reports for 1997.

Explanation. The Council approved a recommendation that the four federal banking agencies adopt revisions to the Call Report some of which would be effective March 31, 1997, while others would be effective June 30, 1997. The revisions include deletions of existing Call Report items or reductions in the level of detail in ten schedules (plus one schedule collected only from FDIC-supervised savings banks); elimination of instructions that differ from GAAP; a small number of new items added to meet supervisory data needs resulting from this move to GAAP; and items added to the Call Report to enhance the agencies' ability to monitor interest-rate risk, identify bank usage of credit derivatives, and support the FDIC's calculation of deposit-insurance assessments.

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

Task Force on Consumer Compliance

- *October 3*—Approved for inter-agency use examination procedures for the Home Mortgage Disclosure Act (Regulation C).

Task Force on Reports

- *October 3*—Approved the reformatting of the Report on Indebtedness of Executive Officers and Principal Shareholders and their Related Interests to Correspondent Banks (FFIEC 004).
- *October 17*—Approved the publication of proposed changes to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) for March 1997 implementation.
- *October 25*—Approved issuance of a letter to insured banks and savings associations on the

accounting for the SAIF special assessment and FICO assessments.

- *December 19*—Approved the publication of proposed changes to the Foreign Branch Report of Condition (FFIEC 030) for a 60-day public comment period.

Task Force on Supervision

- *May 23*—Approved by notational vote an interagency statement, "The Effect of Year 2000 on Computer Systems."
- *May 28*—Approved by notational vote, the following recommendations from the working groups assigned to CDRI Section 303 Projects. The following items were approved for revisions: Investment in Bank Premises; Bank Merger Act Regulation; Disclosure of Financial Information Regulations; OCC and OTS Regulations, and FDIC Policy Statement addressing Securities Issued by Banks; Reporting Requirements for Registered Securities under the Securities Exchange Act of 1934; and Record Keeping and Confirmations of Securities Transactions Effected by Banks Regulations. The following items were approved for retention: Interagency Statement on Large Scale Integrated Financial Software Systems; Appraisal Standards for Federally Related Transactions Regulations; and Real Estate Lending Standards Regulations.
- *June 17*—Approved by notational vote, authorization for the Information Systems Subcommittee to print and distribute the 1996 Information Systems Examination Systems Handbook.
- *July 16*—Approved by notational vote the following recommendations from the working groups assigned to CDRI Section 303 Projects. The following items were approved for revisions: Notice of Addition or Change of Director and Senior Executive Officers Regulations; Reports of Crimes or Suspected Crimes Regulations; Interagency Guidelines for Risk-Based and Leverage Capital Adequacy Standards; Interagency Guidelines for Standards for Safety and Soundness; Allocated Transfer Risk Reserve Regulation; FFIEC 1985 Policy Statement on Repurchases Agreements of Depository Institutions with Securities Dealers and Others; FFIEC Policy Statement on Securities Activities; Interagency Policy Statement on Assessment of Civil Money Penalties; and Interagency Uniform Policy for Classification of Consumer Installment Credit Based on Delinquency. The following items were approved for retention: Security Devices and Procedures Regulations; Bank Secrecy Act Compliance Regulations; and Interagency Statement on EDP Service Contracts. The following items were approved for revision: Municipal Securities Dealer Activities of Banks Regulations; FFIEC Guidelines for Internal Control for Foreign Exchange Activities in Commercial Banks; Joint Policy Statement on Improper and Illegal Payments by Banks and Bank Holding Companies; and Agricultural Loan Loss Amortization Regulations.
- *September 18*—Approved the elimination of the Generally Accepted Accounting Procedures/Regulatory Accounting Procedures differences in the following areas: Offsetting or Netting of Assets and Liabilities on the Balance Sheet, Delayed Delivery Securities Transactions, and Guidance on Regulatory Reporting Requirements for Investments in Debt and Equity Securities in Relation to the Provisions of the "Uniform Agreement of the Classification of Assets and Appraisal of Securities Held by Banks."
- *September 18*—Approved a Joint Statement by the FFIEC on Risk Management of Client/Server Systems to address risks and fundamental controls associated with a client/server environment.
- *December 9*—Approved the revised Uniform Financial Institutions Rating System to reflect changes that have occurred in the financial services industry and in supervisory policies and procedures since the rating system was first adopted in 1979.
- *December 9*—Approved by notational vote, the following recommendations from the working groups assigned to CDRI Section 303 Projects. The following items were approved for revisions: Change in Bank Control Regulations; Disclosure of Indebtedness of Executive Officers and Principal Shareholders; Interagency Policy Statement on the Coordination of Formal Corrective Action; and Management Official Interlocks Regulations.
- *December 18*—Approved by notational vote, the issuance of the Interim Guidance on the Treatment of Servicing Assets for Regulatory Reporting and Regulatory Capital Purposes.
- *December 19*—Approved by notational vote, the implementation of procedures for the disclosure of component ratings on applicable specialty examinations no later than January 1, 1997.

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 on Council matters and to participate in all Council activities, including task force assignments and other projects.

Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as Chair for 12 months. Of the five members, two are 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

During 1996, the SLC continued a record of active participation in the deliberation of numerous financial regulatory initiatives brought before the Council.

The SLC participation with the ongoing Riegle Community Development and Regulatory Improvement Act of 1994 Steering Committee provided valuable insight from the state perspective to the requirements of section 305 calling for coordination and unified examination procedures. SLC input to the interagency working group assigned 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, has developed into an information-sharing relationship in jointly developing software with several of the member agencies. The emphasis of the SLC and member agencies has been to minimize unnecessary burden while standardizing data recordkeeping systems.

As an offshoot of the database project, the Council moved forward to form an interagency Subcommittee on Supervision and Information Technology to focus on information technology issues. SLC representatives are active participants in this new subcommittee and have been working with the federal agencies to bring more structure and commonality to their supervisory information

technology. Among the goals of the subcommittee are enhanced communication and cooperation with supervised institutions and servicing firms to allow greater effectiveness in supervision and provide maximum burden reduction over time.

The SLC made a major contribution in the area of the revised CAMEL components and the issue of CAMEL disclosure to supervised institutions. Early in 1996, the SLC participated in the draft comment process before the release of the proposed revisions to the public. Revisions center around the addition of a separate risk-assessment component and consideration of risk in each of the other CAMEL components. The SLC argued convincingly for CAMEL disclosure, relating state supervisors' experience with state disclosure of component ratings to supervised institutions. After deliberation, the Council decided to proceed with full CAMEL disclosure by each member agency beginning in 1997. This decision was in no small part due to the influence and experience brought to the Council by the SLC.

The SLC also provided to the Council an extensive report on interstate banking including information on the states' status on interstate branching, as well as information on a state task force that is developing a strategic plan identifying major interstate issues for the states. An interstate branching protocol has been adopted which defines roles and responsibilities for home and host states for safety-and-soundness exams, compliance, applicable laws for applications, reports and antitrust issues, and fees and assessments. Before year-end 1996, state bank supervisors adopted a single national agreement among the states, and they plan an agreement and policy statement between the states and federal agencies. The Council

held the state effort as a model for dealing with state-federal issues in the future.

During 1996, the SLC participated extensively in discussions of other state-federal issues, including the frequency of examinations, modifica-

tion of the Country Exposure Report (FFIEC 009), and the common core Call Report. These efforts reflect the SLC's commitment to be influential in Council policy deliberations and to participate actively in Council affairs.

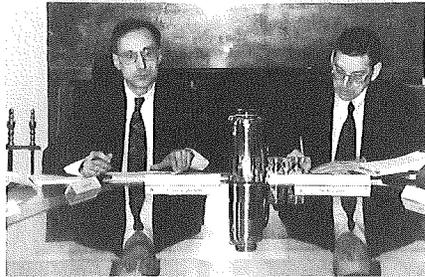
ADMINISTRATION OF THE COUNCIL

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

The Council's activities are funded in several ways. Most of the Council's funds derive from semiannual 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 (UBPR). It receives tuition fees from nonagency 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 review-



Council Chairman Retsinas and Executive Secretary Cleaver

ing all material for Council consideration

- monitoring the work of all interagency 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, Council, and 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 UBPR 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 1996 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 1996 would have been impossible.

Organization, December 31, 1996

Members of the Council

Nicolas P. Retsinas, *Chairman*

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)

Eugene A. Ludwig

Comptroller of the Currency

Office of Comptroller of the

Currency (OCC)

Susan M. Phillips

Member

Board of Governors of the

Federal Reserve System (FRB)

State Liaison Committee

Gavin M. Gee, Jr., *Chairman*

Director, Department of Finance

Idaho

Thomas J. Curry

Commissioner of Banks

Massachusetts

Neil Levin

Superintendent of Banks

New York

Earl Manning

Commissioner of Finance

Missouri

Jack Schaffer

Commissioner of Savings &

Residential Finance

Illinois

Council Staff Officers

Joe M. Cleaver,

Executive Secretary

Keith J. Todd,

SLC Coordinator and Assistant

Executive Secretary

Interagency Staff Groups

Agency Liaison Group

Roger T. Cole (FRB)

Nicholas J. Ketcha Jr. (FDIC)

Susan F. Krause (OCC)

David M. Marquis (NCUA)

John C. Price (OTS)

Legal Advisory Group

Carolyn B. Buck, *Chair* (OTS)

Robert M. Fenner (NCUA)

Douglas H. Jones (FDIC)

J. Virgil Mattingly (FRB)

Robert B. Serino (OCC)

Consumer Compliance Task Force

Glenn E. Loney, *Chairman* (FRB)

Timothy R. (Tim) Burniston (OTS)

Bert A. Otto (OCC)

Carmen J. Sullivan (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)

Patrick G. Berbakos (OTS)

Zane Blackburn (OCC)

Phillip R. Crider (NCUA)

Gerald A. Edwards, Jr. (FRB)

Supervision Task Force

Nicholas J. Ketcha Jr.

Chairman (FDIC)

Kent D. Buckham (NCUA)

Susan F. Krause (OCC)

John C. Price, Jr. (OTS)

Richard Spillenkothen (FRB)

Surveillance Systems Task Force

Jack P. Jennings, *Chairman* (FRB)

Charles W. Collier (FDIC)

William Shively (OTS)

Renee Valliere (NCUA)

Marty Wiseman (OCC)

Members of the Appraisal Subcommittee

Diana L. Garmus, *Chair* (OTS)

Cary H. Hiner (FDIC)

Mark W. Holman (HUD)

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. During 1996 there were three standing subcommittees of the task force: the HMDA Subcommittee, Examination Procedures Subcommittee, and CRA Subcommittee. There were also two issue-specific working groups: one working on the development of an interagency consumer contacts database and another working group on development of interagency fair lending examination procedures. At its last meeting of 1996, the task force approved two additional standing committees; the first will address electronic banking issues and the second will address automation issues relating to the task force's responsibilities.

HMDA Subcommittee

The HMDA Subcommittee supervises the collection of Home Mortgage Disclosure Act (HMDA) data reported to the agencies and aggregated by the Council. During 1996, the Council processed approximately 11.2 million reported loans and applications. This is a decrease of about 8 percent from the previous

year, which primarily reflects a decline in refinancing activity. The subcommittee also continued to work on matters relating to the toll-free assistance line that answers questions from the public relating to HMDA, a technical HMDA guide entitled "Getting It Right," and modification of the HMDA income categories detailed in the aggregate tables and individual disclosure statements to be consistent with the CRA income categories.

During 1997, the HMDA Subcommittee expects to continue the modification of the HMDA income categories to be consistent with CRA, update the assistance line and the HMDA guide to become consistent with the upcoming revisions to the Federal Reserve Board's Regulation C, modify the file specifications for 1998, and consider a process to sample a cross-section of institutions to determine HMDA data accuracy.

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 1996, the subcommittee developed revised examination procedures for the Home Mortgage Disclosure Act and the Flood Disaster Protection Act. The revised procedures were approved by the task force for adoption by the member agencies.

During 1997, the subcommittee will work on revisions to the examination procedures for the Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Truth in Savings Act, and Fair Debt Collection Practices Act.

Also, the Interagency Joint Statement of Policy on the Administrative Enforcement of the Truth in Lending Act—Restitution will be reviewed and revised as necessary to reflect changes in the law.

CRA Subcommittee

The CRA Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with the agencies' implementation of the Community Reinvestment Act (CRA). The agencies adopted revised CRA regulations in April 1995. On January 1, 1996, they began conducting examinations of small institutions using the streamlined assessment method provided for in the revised regulation. The subcommittee reviewed a sample of performance evaluations from those examinations, identified the issues that needed to be addressed, and summarized its conclusions. To facilitate consistent implementation of the CRA among agencies, the task force provided examiners with written guidance on the issues that arose from the review. In another effort to promote a uniform approach to the CRA examination process, the subcommittee surveyed the agencies' examiners to identify strengths of the streamlined examination process and areas of the process that could be improved. Based on the survey, an examiner roundtable was scheduled for January 1997 to develop recommendations for improving the streamlined CRA examination process for small institutions and foster consistency among the agencies.

The subcommittee also developed an interim sample performance evaluation to be used for large institutions examined under the original assessment factor based CRA regulation. The interim performance evaluation was designed to comply with the presentation requirements contained in the Interstate Banking and Branching Efficiency Act (IBBEA). The interim performance evaluation will be used until July 1, 1997, when examination procedures and perfor-

mance evaluations under the revised regulations will be used for all examinations.

During 1997, the subcommittee will continue to help the task force ensure that the new CRA examination procedures are properly implemented. The subcommittee will focus on the CRA examination procedures, organize interagency CRA examiner training for large institution examinations, and develop interpretive guidance for the task force on examination issues that arise.

Fair Lending Examination Procedures Working Group

The Fair Lending Examination Procedures Working Group was established by the Consumer Compliance Task Force in September 1996 following a presentation to the task force of a proposed draft of interagency fair lending examination procedures. The task force requested the working group to determine whether the draft had the potential to serve as the basis for development of a set of procedures that all FFIEC agencies could adopt. That determination was made, in the affirmative, in October 1996, at which time the task force instructed the working group to prepare a draft set of interagency examination procedures using the draft as a starting point, but incorporating elements of all the agencies' procedures (and procedures being developed), as appropriate. The working group's draft was due for submission to the task force by January 31, 1997.

Community Contacts Automated System Working Group

The Community Contacts Automated Systems Working Group was charged by the FFIEC Consumer Compliance Task Force to work on the development of an automated national interagency community contacts system. In 1996, the working group examined current systems

being used or developed by the individual agencies in considering options for an interagency system. At year-end, this developmental work was still progressing and will continue in 1997.

Task Force on Examiner Education

One of the four major statutory functions of the Council, enumerated in the Federal Financial Institutions Examination Council Act of 1978, is to conduct training for member agency examination staff and to make such training available to the staff of state financial institution supervisors.

The goals of the training program are to:

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

During 1996, the Council conducted training for the five member agencies, state financial institution regulatory agencies, other federal agencies, and several attendees from foreign central banks.

Oversight and guidance for curricula and programs is provided by the Task Force on Examiner Education, composed of examiner training representatives from each of the member agencies. Interagency course development committees provide specific guidance for each program. These committees ensure that programs, which are aimed at agency training needs, are kept current. The program calendar is developed in the fall of the year in response to needs surveys conducted in each of the participating agencies. Attendance by regulatory staff totaled 4,364 for the past

year. The table below provides details of attendance by course and agency.

1996 Initiatives

An overall evaluation of the training program was undertaken at the recommendation of the Task Force on Examiner Education. This was conducted by an independent steering committee appointed by the Task Force on Supervision. The work of the committee was divided into two steps. The first step, largely completed in 1996, was to evaluate existing programs. As a result, four programs were discontinued, two programs were expanded, and the balance was retained with changes. The second part of the process, yet to be completed, will consist of evaluating future examiner training needs to determine the types of training needs that can be effectively met on an interagency basis. It is expected that 1997, will be a year of realignment of existing programs

and development of new programs, as outlined above.

Programs

The Council offers a wide variety of courses and conferences, which are primarily aimed at the needs of examiners who have completed the commissioning process within their agencies. However, some noncommissioned examiners also attend Council programs.

Courses

Most courses are 4 1/2 days long and are conducted in groups of 20 to 35 participants. Courses offered in 1996 were Instructor Training, Management Workshop, Information Systems Symposium, Testifying, and International Banking. An International Banking Self-Study Course is maintained by the Council and administered to individuals in the regional offices of the banking agencies.

Conferences

Conferences are generally conducted in an agency auditorium for groups of 100 attendees. Some conferences are aimed at safety-and-soundness examiners, such as Emerging Issues, White Collar Crime, Capital Markets, Payment Systems Risks, and Real Estate Lending. Specialized conferences are available for those who examine trust departments, information systems, and international banking activity. Most conferences last three to four days. Upon demand, courses and conferences are conducted at the regional locations of member agencies. FFIEC conferences provide the member agencies with programs aimed entirely at the needs of the financial institution regulatory community, whereas conferences provided by nongovernment organizations often provide a wider array of topics, some of which are outside the needs of examiners.

In response to a statutory mandate

Attendance at FFIEC Courses by Agency, 1996

Courses/Conferences	FDIC	FRB	NCUA	OCC	OTS	FCA**	States	Total
Capital Markets	421	257	8	214	...	9	...	909
Cyberbanking	34	26	10	17	9	...	4	100
Emerging Issues—Community	516	232	...	104	35	2	3	892
Emerging Issues—Multinational	26	112	...	97	1	...	1	237
Income-Property Lending	50	58	6	25	...	6	...	145
Information Systems Symposium	4	4	...	4	4	...	...	16
Information Systems & Technology	27	65	...	59	6	5	2	164
International Banking Conference	11	48	...	33	...	...	...	92
International Banking School	28	102	...	22	...	...	30	182
International Banking Self-Study	82	74	...	20	...	...	...	176
Instructor Training	43	111	3	23	4	...	1	185
Management Workshop	55	14	...	...	21	...	...	90
Payment Systems Risk	121	89	4	33	...	...	...	247
Testifying	23	17	...	15	2	...	...	57
Trust	25	69	...	75	6	...	4	179
White Collar Crime	349	161	15	12	5	1	1	544
Subtotal	1,815	1,439	46	753	93	23	46	4,215
Risk Management Planning	2	68	10	53	6	10	...	149*
Total	1,817	1,507	56	806	99	33	46	4,364

* Does not include 382 bankers who attended Risk Management Planning Seminar.

** Farm Credit Administration

(see appendix A of this Annual Report), the Council conducts risk-management planning conferences for bankers. In 1996, it conducted two of these conferences, with sessions aimed at regional matters—one in San Diego, California, and one in Kansas City, Missouri. A total of 382 bankers and 139 examiners attended. Two conferences are planned for 1997, one in Chicago, Illinois, and one in Washington, D.C. A periodically updated draft of the Risk-Management Planning conference program agenda is also available on the Internet. This permits bankers to assess the program before deciding to attend.

Costs

Costs are kept low by renting classrooms and auditoriums on an as-needed basis and by obtaining approximately two-thirds of the instructors free of charge.

Facilities

The Council training office and classrooms are located in the FDIC Seidman Center in Arlington, Virginia. Offices, classrooms, and lodging facilities are rented at approximately market rates from the FDIC. This facility offers convenient access to a 100-seat auditorium, numerous classrooms, and a lodging facility. Regional sessions are usually conducted in the cities in which district or Reserve Bank offices of the member agencies are located.

Course Catalog and Schedule

The 1997 course catalog and schedule are available from the Council training office. To obtain a copy contact:

John P. Newton, Manager
FFIEC Examiner Education
3501 Fairfax Drive, Room 3086
Arlington, VA 22226-3550

Phone: (703) 516-5588
Fax: (703) 516-5487
Internet: jnewton@fdic.gov

To access the FFIEC training catalog, schedule, and other information on the Internet:

<http://www.ffiec.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. Thus, the task force is concerned with issues such as the development and interpretation of reporting instructions; application of accounting standards to specific transactions; development and application of processing standards; monitoring of data quality; assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB), and American Institute of Certified Public Accountants (AICPA). 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 1996, the task force continued its efforts to develop a common core report for banks, savings associations, and bank holding companies as mandated by section 307 of

the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA). Other task force activities involved the Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks, including taking steps to move the Call Report toward a common core report. In addition, the task force addressed the regulatory-reporting requirements for U.S. branches and agencies of foreign banks, foreign branches of U.S. banks, country exposure, and insider loans from correspondent banks.

After approval by the U.S. Office of Management and Budget (OMB), several revisions to the bank Call Report requirements took effect in the first quarter of 1996. Certain corresponding changes were made to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) at the same time. The Call Report changes included the elimination of a number of items on deposit liabilities. All banks began to report certain capital and asset amounts that are used in calculating regulatory capital ratios, better data on short-term liabilities and assets, and information on small-business obligations sold with recourse under rules implementing section 208 of the RCDRIA. Larger banks also began to disclose the amount of credit losses on off-balance-sheet derivatives. Instructional changes and clarifications covered mortgage-servicing rights, trading accounts, low-level recourse transactions, and several other topics.

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. Section 307 also directs the agencies to review the information they collect from these three types of institutions that supplements the core information and eliminate those reporting requirements that are not warranted for safety and soundness or other

public purposes. As one of its initial actions toward accomplishing this requirement, the Council in late 1995 approved the adoption of generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules in the bank Call Report, effective with the March 1997 report date. This fundamental change in bank regulatory reporting will bring the Call Report into conformity with the GAAP reporting basis already used for savings association Thrift Financial Reports and Federal Reserve bank holding company FR Y reports. Moreover, eliminating existing differences between bank regulatory-reporting standards and GAAP will produce greater consistency in the information collected in regulatory reports and general purpose financial statements and will reduce reporting burden.

To determine the form and content of a common core report for banks, savings associations, and bank holding companies, the task force began 1996 by completing a comparison between existing regulatory-reporting requirements and the reporting and disclosure requirements set forth in GAAP and in the SEC's rules for publicly held bank and thrift holding companies. This comparison enabled the task force to identify the information currently required in regulatory reports that generally is not reported for other financial-reporting purposes. The task force then compiled preliminary listings of core information and, for banks, supplemental information and items for possible elimination, which it distributed for internal-agency staff review and comment in late February. During May and June, the task force met with bank and thrift representatives associated with the Inter-Association Committee on Bank Accounting to discuss the direction of the core report project and issues related to reporting burden. Also in May, the task force met with staff from the Department of Commerce's Bureau of Economic Analysis and the Treasury Department to learn about their

use of Call Report data and to discuss the task force's efforts to reduce reporting burden.

Based on the input received from agency staff on the preliminary core and supplemental information listings and from the bank and thrift representatives, the task force concluded that implementation of a common core report before 1998 would not be feasible. As an interim measure for 1997, the Council voted in early September to move forward with the planned move to GAAP accounting as the reporting basis for the bank Call Report and, to reduce reporting burden sooner, to proceed with those recommended deletions of existing Call Report items from the February preliminary listing that agency staff had not considered objectionable. The Council also approved the addition to the Call Report in 1997 of some new items recommended to the task force by the Task Force on Supervision, along with the modification of some existing Call Report items. These recommendations resulted from the Task Force on Supervision's review of the supervisory concerns underlying the existing non-GAAP bank regulatory-reporting requirements scheduled for elimination in 1997. In addition, as a form of supplementary information whose collection is warranted for safety-and-soundness purposes, the Council agreed to revise the data that banks report for off-site interest-rate risk analysis before the implementation of a core report. The three banking agencies published these and certain other proposed reporting and instructional changes for 1997 for a 60-day comment period on September 16 as required by the Paperwork Reduction Act of 1995.

After considering the 38 comment letters the agencies collectively received on this proposal, the Council gave final approval in late December to revisions to the Call Report requirements for 1997 that incorporated a number of modifications made in response to the comments. Most notably, the Council voted to defer the effective date for

the revised interest-rate risk information from March 31 until June 30, 1997, to provide banks with additional time to make any necessary systems changes. Banks were notified about the changes in reporting requirements for 1997 in a December 31, 1996, letter from the Council.

While developing the Call Report revisions for 1997, the task force continued its deliberations on a common core report. Because of the similarity in the reporting requirements for banks and bank holding companies, the task force prepared a draft set of schedules common to both the bank Call Report and the bank holding company FR Y-9C. The task force also identified the separate groups of existing items that could preliminarily be considered supplemental information for banks and bank holding companies. The task force met in November with the Task Force on Surveillance Systems to solicit this user group's input on their data needs and priorities in relation to these common schedules and the supplemental information. Extensive deliberations on the integration of savings-association reporting requirements, the data needs and priorities of other user groups within the agencies, burden reduction targets, and convergence with GAAP and SEC reporting and disclosure requirements remain before the task force can present a common core report and supplemental information proposal to the Council.

In October, the Council approved the publication by the three banking agencies of a proposal to discontinue the agencies' acceptance of Call Reports that banks file directly with them in hard copy (paper) form. Under this proposal, the agencies would accept only those Call Reports filed with their electronic collection agent, Electronic Data Systems Corporation (EDS). A bank could either file its reports directly with EDS (by using a computer and modem or by sending EDS a computer diskette) or arrange for a third party to first convert its paper

reports to automated form and then file the reports with EDS. The agencies would implement the new filing practice as of the June 30, September 30, and December 31, 1997, report dates based on bank size. In approving the publication of this proposal, the Council noted that over three-fourths of all banks currently use computer software for preparing and filing their Call Reports and more than two out of three of these banks transmit their reports electronically by modem. The three banking agencies published this proposal for a 60-day comment period on November 4 as required by the Paperwork Reduction Act of 1995.

In October, the task force approved under delegated authority the publication of proposed changes to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) for March 1997 implementation. The required 60-day comment period began November 5. The reporting revisions proposed for U.S. branches and agencies of foreign banks conform to changes currently proposed for or previously made to the bank Call Report, including the adoption of GAAP as the reporting basis for the Report of Assets and Liabilities.

Also acting under delegated authority, the task force approved in December the publication of proposed changes to the Foreign Branch Report of Condition (FFIEC 030) for a 60-day public comment period. The changes would take effect as of the June 30, 1997, report date for quarterly filers of this report and as of the December 31, 1997, report date for annual filers. Under the proposal, new items would be added to this report to enhance the agencies' ability to monitor asset quality and the usage of off-balance-sheet transactions and to conform the reporting of securities held for purposes other than trading to the categories set forth in GAAP. These new items would gather information from foreign branches in a manner consistent with the reporting of this information in the version of the Call

Report applicable to banks with foreign offices (FFIEC 031). In addition, the proposal would revise the criteria used to determine whether a foreign branch files this report of condition on a quarterly basis. The three banking agencies published this proposal for comment on December 30.

In July, the Council approved revisions to the Country Exposure Report (FFIEC 009) primarily related to the reporting of information on an institution's country exposure resulting from revaluation gains on foreign-exchange and derivative contracts held for trading purposes, effective as of the March 31, 1997, report date. Corresponding changes have also been made to the Country Exposure Information Report (FFIEC 009a). Revisions to the Country Exposure Report to include data on exposures arising from foreign-exchange and derivative contracts had originally been proposed to take effect in the first quarter of 1995. However, in response to comments received from bankers concerning the method initially devised for the reporting of these exposures on the form FFIEC 009, the task force deferred the effective date of the proposed revisions. This deferral gave the banking-agency staffs time to work with representatives of major banks affected by the proposed reporting changes to craft modifications to the proposed revisions that incorporated banker suggestions and reduced reporting burden while continuing to provide the additional country exposure information necessary for supervisory and analytical purposes.

In February, the task force established a working group to evaluate suggestions for improvements to the Report on Indebtedness of Executive Officers and Principal Shareholders and their Related Interests to Correspondent Banks (FFIEC 004) that the American Bankers Association (ABA) submitted to the Federal Reserve Board in 1995. The ABA also furnished a prototype of this modified form. The working group prepared a reformatted report form

along with clarified instructions in response to the ABA's 1995 suggestions and subsequent feedback from this organization. The task force provided copies of this reformatted form to the ABA and the other members of the Inter-Association Committee on Bank Accounting for their informal review and comment in September. Receiving no adverse comments, in October, the task force approved the reformatted form for use for the 1996 reporting year. The revisions simplify the form and clarify its instructions, making it more user-friendly, but do not change the information reported on the form.

The Annual Report of Trust Assets (FFIEC 001) for the 1996 reporting year included Schedule E -- Fiduciary Income Statement for the first time. This new schedule collects data on trust fees, expenses, and losses and must be completed by depository institutions with \$100 million or more in total trust assets and by all nondeposit trust companies. The information reported on Schedule E by individual institutions is confidential and will not be publicly available, but the Council will include aggregate information in its annual publication *Trust Assets of Financial Institutions*. The Council approved the addition of a trust income schedule to the Annual Report of Trust Assets and notified institutions with trust powers about this new reporting requirement in December 1995. The Council published a final *Federal Register* notice about these actions in September 1996.

Finally, the task force approved the issuance in October of a letter to FDIC-insured banks and savings associations explaining the task force's understanding of the appropriate accounting under GAAP for the one-time Savings Association Insurance Fund (SAIF) special assessment and the periodic Financing Corporation (FICO) assessments. The letter also directed FDIC-insured institutions to report these assessments in accordance with GAAP in their regulatory reports. The task

force prepared the letter in response to inquiries from affected institutions following the enactment of the Deposit Insurance Funds Act of 1996 on September 30, which authorized the SAIF special assessment and required BIF-member institutions to begin paying FICO assessments that previously had been levied only on SAIF-member institutions.

Task Force on Supervision

The Task Force on Supervision provides a forum for the financial institution regulatory agencies in their efforts to promote quality, consistency, and effectiveness of examination and supervisory practices as well as reduce regulatory burden. In recognition of the impact that emerging technologies may have on regulatory processes, the task force has broadened its focus to include the study of the use of these technologies on an interagency basis to both enhance and streamline the supervisory process.

The jurisdiction of the Task Force on Supervision includes all matters relating to the supervision and examination of depository institutions. Significant issues are referred, with recommendations, to the Council for action. The Council has delegated to the task force authority to make certain decisions, provided all task force members 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 subcommittee to address information system issues and has formed a subcommittee to address supervision and technology issues. Ad hoc working groups are created as needed to handle particular projects and assignments.

Activities of the Task Force

During 1996, the task force, its ad hoc working groups, and its subcom-

mittees were involved in numerous projects and activities. The Information Systems Subcommittee produced a significantly enhanced and expanded edition of the FFIEC Information Systems Examination Handbook. Numerous sections of the Handbook were revised to reflect the rapidly changing information systems (IS) environment of financial institutions. The Handbook also addresses new technologies pertinent to IS safety and soundness issues. The Handbook is available in either hard copy or through the Internet. Work continued on matters relating to the Riegle Community Development and Regulatory Improvement Act of 1994. The task force was responsible for working groups that addressed 46 projects with 25 being completed in 1996. Work will continue into 1997 on the 21 projects that remain active. Major accomplishments in 1996 were achieved in the areas of the Uniform Financial Institutions Rating System, regulatory accounting, and emerging technologies.

Uniform Financial Institutions Rating System

In July, the FFIEC published a notice in the *Federal Register* requesting comment on proposed revisions to the Uniform Financial Institutions Rating System (UFIRS). The UFIRS is a rating system supervisors use to summarize their evaluations of the strength and soundness of financial institutions in a comprehensive and uniform manner. The proposed revisions updated UFIRS to reflect changes that have occurred in the financial services industry and in supervisory policies and procedures since the rating system was first adopted in 1979. In December, the task force approved under delegated authority the revised UFIRS or CAM-ELS rating system. The revised UFIRS retains the basic structure and framework of the previously existing system. The major changes include an increased emphasis on the quality of risk-management prac-

tices and the addition of a sixth component, sensitivity to market risk. The revised UFIRS became effective January 1, 1997.

Supervisory Issues Related to Adoption of GAAP for Call Reports

The task force created working groups in late 1995 to address the supervisory issues raised by the Council's decision to adopt generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules of the Call Report, effective as of the March 31, 1997, report date. During 1996, the task force has approved working-group recommendations concerning the actions the agencies should take to respond to the supervisory concerns underlying the GAAP reporting requirements that have not previously been adopted for Call Report preparation purposes. The actions included recommending to the Task Force on Reports the addition of a modest number of new items to the Call Report in 1997 and the modification of a few existing Call Report items to identify the extent of bank involvement in certain activities or the effect on reported deposits.

FAS 125

In June, the Financial Accounting Standards Board (FASB) issued Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FAS 125), with a January 1, 1997, effective date. FAS 125 applies an accounting treatment similar to that outlined for mortgage-servicing contracts in a 1995 accounting standard and extends this treatment to servicing contracts associated with all financial assets. However, FAS 125 eliminates the previous accounting distinction between "normal" and "excess" servicing and generally reclassifies these cash flows into

two new types of assets: "servicing assets" and certain related financial assets known as "interest-only strips receivable." In December, the task force recommended to the banking and thrift agencies that they issue interim guidance for the regulatory capital treatment of servicing assets and related interest-only strips receivable recorded as assets under FAS 125. Under this interim guidance, the agencies would apply the same regulatory capital rules to mortgage-servicing assets that had applied to mortgage-servicing rights. In addition, the agencies would deduct all servicing assets related to financial assets other than mortgages from tier 1 capital, but generally would not deduct interest-only strips receivable. A working group created by the task force is developing a proposed interagency rule on servicing assets that will amend the agencies' regulatory capital standards.

Subchapter S Election for Federal Income Taxes

The Small Business Job Protection Act of 1996, enacted in August, amended the Internal Revenue Code to allow banks, savings associations, and their parent holding companies to elect subchapter S corporation status for federal income tax purposes beginning in 1997 if they meet certain criteria. In general, an S corporation is treated as a pass-through entity similar to a partnership for federal income tax purposes similar to a partnership and is not subject to federal income taxes at the corporate level. An S corporation's shareholders generally pay federal income taxes on their proportionate share of the corporation's taxable income, without regard to whether cash is distributed to shareholders. After the enactment of this tax change, the agencies received numerous inquiries about regulatory requirements that will apply to institutions electing subchapter S status. In October, the task force approved the issuance of a letter to all banks and thrifts that addressed the two issues most fre-

quently raised by bankers: the need to file applications with the agencies and dividend limitations under prompt corrective action and in other circumstances. The letter also encouraged institutions to obtain appropriate legal, accounting, and tax advice and to carefully review the regulatory and tax issues before making a subchapter S election.

Subcommittee on Supervision and Information Technology

In September, the Subcommittee on Supervision and Information Technology was formed in recognition of the fact that information technology is critical to effective and efficient supervision of banking organizations. This subcommittee will attempt to enhance supervision by leveraging off existing automation efforts and exploring new technologies and by moving toward commonality in information technology systems. The subcommittee's initial priorities are to establish a forum for the ongoing exchange and discussion of individual agency information technology objectives and infrastructures and to work cooperatively to identify ways to use existing and new technology to make bank supervision more effective and efficient.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems oversees the development and implementation of uniform interagency 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 1996, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Revised the analysis of liquidity in the UBPR to take advantage of expanded information about asset and liability maturity collected in the Call Report. This new information will show the effect of maturity changes and improve the analysis of bank liquidity.
- Revised the gap report analysis to take advantage of new data collected in the Call Report. Collection of data on deposit maturities at foreign offices permitted calculation of a net gap position for FFIEC 031 filers, which had not previously been possible.
- Reviewed the core Call Report proposed by the Reports Task Force and provided extensive commentary on its effect on bank analysis for supervisory purposes. Participated in the reports task force outreach meeting with banking industry representatives on the core Call Report project.
- Completed evaluation and testing phase of project to convert UBPR 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 format as a replacement for the printed copies currently provided.

Additionally, printed UBPR reports were sent to all banks. Several thousand copies of individual bank UBPRs were provided to the general public.

- Expanded the list of regulators using early Call Report data. Two Federal Home Loan Banks were added to the list of state banking regulators currently using the early Call Report data download facility. This facility provides Call Report data throughout the editing cycle that is similar to that received by the federal bank regulators.
- Redesigned and reprinted the Uniform Bank Performance Report User's Guide. Copies were distributed to all banks and federal and state banking authorities.
- Studied the feasibility of creating a data repository as mandated by section 341 of the Riegle Community Development and Regulatory Improvement Act. The working group set up in 1995 to study this issue completed its study in 1996 and presented the findings to the member agencies of the Council. The task force has monitored the individual agencies efforts to implement access to report data via the Internet, as recommended in the report.

Several projects are planned for 1997 that should provide further enhancements to the UBPR.

- For the June 1997 UBPR replace the current gap report displayed in the UBPR with a completely revised maturity analysis. The revised page will correlate with agency emphasis in analyzing market risk.
- Adjust UBPR data to account for the effects of push-down accounting.
- Replace the rolling four-quarter earnings analysis with a one-quarter earnings analysis when

conversion to the data warehouse is complete.

- Develop miscellaneous other new ratios, including the "efficiency ratio," to more fully analyze non-interest income and expense.
- 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. That conversion is currently scheduled for the March 31, 1997, UBPR.
- Revise the UBPR User's Guide to incorporate all changes that are planned for 1997. This will be the third complete reprinting in perfect-bound format. Distribute to banking regulators and banks.
- Study the impact of changing the UBPR system to accommodate a common core Call Report for all banks and thrift institutions. The reporting changes required by the Community Development and Investment 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 to the 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.

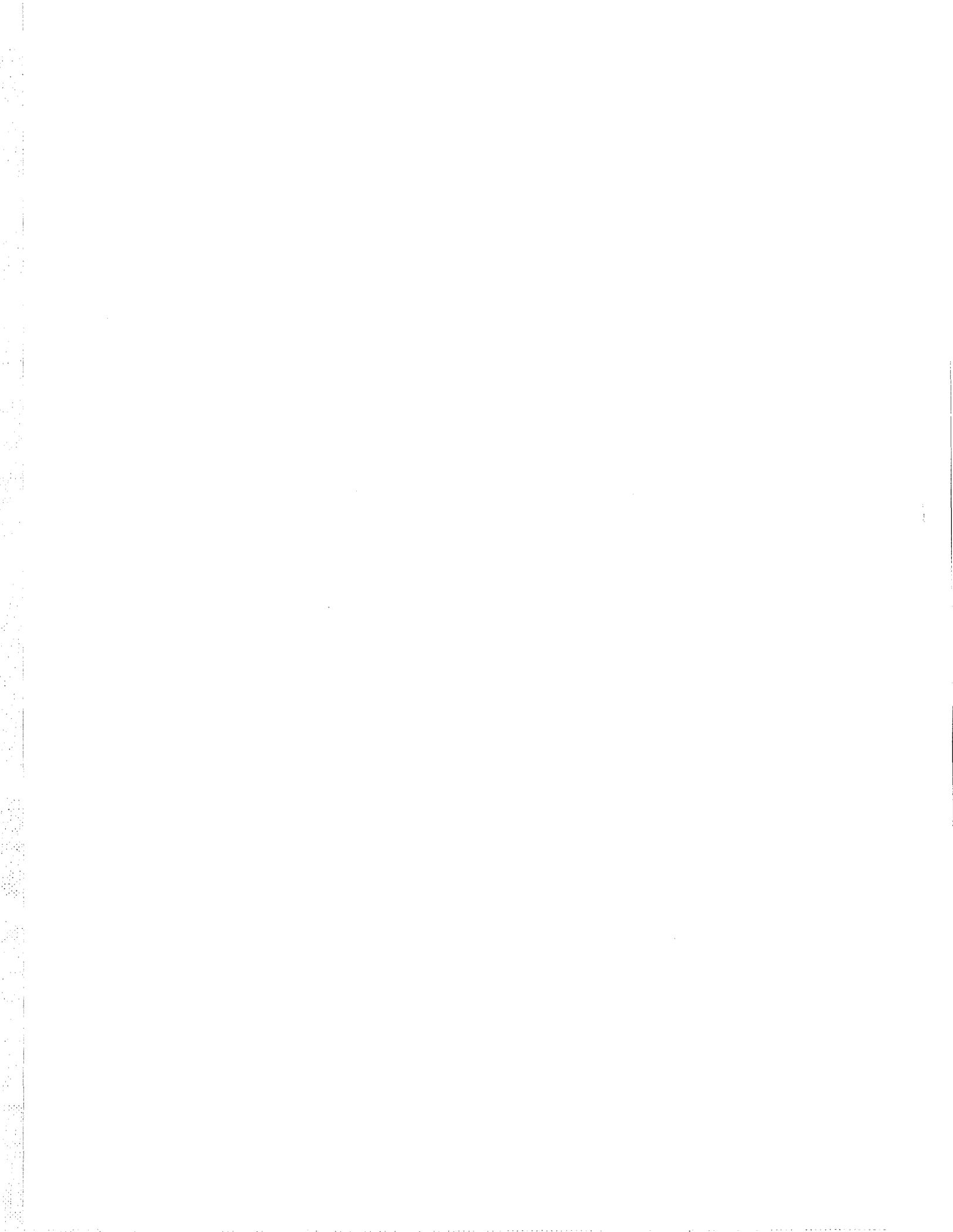
While the UBPR is primarily a supervisory tool for the three federal banking agencies, it is also used extensively by others. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below in the distribution policy. In addition to the 7,000 UBPRs distributed in printed 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 \$45. Peer Group and State Average Percentile Distribution Reports are available for \$65 and \$45 respectively. Standardized UBPR quarterly data are available on magnetic tape for \$400.00. Information on ordering items may be obtained by calling (202) 634-6526, E-mailing SMULLENJ@FRB.GOV, or 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 25,600 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1996, these financial institutions held total assets of more than \$6.5 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 (FDICIA), 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 14-year term. Subject to confirmation by the Senate, the President selects two Board members to serve four-year terms as Chairman and Vice Chairman. 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 12 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, including 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 directly 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 handled by the Division of Resolutions and Receivements and divided among five service centers, each of which is also headed by a regional director.

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. In addition, the enactment on September 30 of the Deposit Insurance Funds Act of 1996 provided for a one-time special assessment to capitalize the SAIF fund at its designated reserve ratio of 1.25 percent of insured deposits. With the SAIF fully capitalized, SAIF assessment rates and BIF assessment rates are currently the same - ranging from

zero to 27 cents for every \$100 of assessable deposits, depending on the degree of risk the institution poses to the respective deposit insurance fund.

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 supervi-

sory 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 7,200 federal credit unions nationwide
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures 98 percent of member share accounts in nearly 11,600 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 2,800 national banks with total assets of about \$2.5 trillion, which accounts for about 55 percent of 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 investments, and other aspects of bank operations.

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

- Bank Supervision Operations is responsible for examinations and other supervision activities in the OCC's six geographic districts and for the multinational banking department, which supervises the largest national banks and oversees operations in the OCC's London office. It is also responsible for OCC supervision activities related to consumer, fiduciary, and community compliance activities; community development; and the special supervision division, which supervises troubled banks.
- 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 and Policy Analysis

conducts economic research and analysis, including statistical analysis of national banks' performance. It also provides analysis on policy-related issues and supplies technical assistance to field examiners on quantitative risk models and measurement tools.

- Public Affairs advises the Comptroller on external relations with the general public, bank customers, community groups, the Congress, the news media, and trade associations. It is the main point of contact for outsiders other than banks and projects the OCC's mission and activities to the public.
- 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. It oversees corporate application activities, including making final decisions on those related to charters, new branches, mergers, operating subsidiaries, and head-office relocation applications.
- Administration provides operational support for OCC's activities. This support includes human resources, management and quality improvements, and financial services.

In addition, the OCC meets its objectives through two other senior level functions: an ombudsman, who considers appeals from national banks that disagree with an OCC supervisory finding, and a risk evaluation position that provides advice to the Comptroller about potentially serious risks facing the national banking system.

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, 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 representing OTS on pending litigation; preparing the record for final agency action in accordance with legal requirements; pursuing enforcement actions relating to thrift institutions; providing 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. 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; 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, 1996¹
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	6,545	2,536	950	944	769	721	47	255	205	118
Total loans and lease receivables (net)	3,944	1,642	487	594	361	476	31	154	125	74
Loans secured by real estate ⁴	1,848	648	157	317	40	451	30	139	41	25
Consumer loans ⁵	714	338	62	139	*	31	1	10	85	48
Commercial and industrial loans	915	436	150	101	212	7	1	6	1	1
All other loans and lease receivables ⁶	540	253	128	48	109	1	*	1	*	*
LESS: Allowance for possible loan and lease losses	73	33	10	11	*	14	1	2	1	1
Federal funds sold and securities purchased under agreements to resell	228	93	43	25	55	4	1	5	2	*
Cash and due from depository institutions ⁷	429	181	59	49	110	15	1	6	5	3
Securities and other obligations ⁸	1,298	388	174	236	113	187	13	79	69	39
U.S. government obligations ⁹	657	137	61	119	58	154	12	61	36	19
Obligations of state and local governments ¹⁰	76	31	15	28	*	1	*	1	‡	‡
Other securities	566	220	98	89	55	33	1	17	33	20
Other assets ¹¹	649	232	187	40	130	38	2	11	6	3
Total liabilities	6,059	2,329	880	853	769	663	43	231	185	106
Total deposits and shares ¹²	4,478	1,792	567	722	382	493	38	198	181	105
Federal funds purchased and securities sold under agreements to repurchase	473	183	76	58	95	43	2	14	2	*
Other borrowings ¹³	636	221	107	59	113	117	3	16	*	*
Other liabilities ¹⁴	472	133	130	14	179	10	*	3	2	1
Net worth¹⁵	486	207	70	91	*	58	4	24	20	12
Memorandum: Number of institutions reporting	23,680	2,755	1,022	5,892	513	1,124	273	583	7,244	4,274

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 subsidiaries, 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

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions for the Twelve Months Ending June 30, 1996¹
Billions of dollars

Item	U.S. Commercial Banks ²				Thrift Institutions			Credit Unions ³	
	Total	U.S. Commercial Banks ²		OTS-Regulated ¹⁷		Other FDIC-Insured	Credit Unions ³		
		National	State Member	State Non-Member	Federal Charter	State Charter	State Savings Banks	Federal Charter	State Charter
Operating income	494	225	80	85	56	3	20	16	9
Interest and fees on loans	299	135	40	55	37	2	13	11	6
Other interest and dividend income	96	40	20	11	13	1	5	4	2
All other operating income	99	50	20	19	6	*	2	1	1
Operating expenses	393	177	65	65	46	2	17	13	8
Salaries and benefits	80	37	14	14	7	*	3	3	2
Interest on deposits and shares	151	60	21	27	22	2	8	7	4
Interest on other borrowed money	52	25	12	6	8	*	1	*	*
Provision for loan and lease losses	17	8	2	5	2	*	*	*	*
All other operating expenses	93	47	16	13	7	*	5	3	2
Net operating income	100	48	15	20	10	1	3	2	1
Securities gains and losses	*	*	*	*	*	*	*	*	*
Income taxes	33	17	5	6	4	*	1	‡	‡
Net income	67	31	10	14	6	1	2	2	1
Memorandum: Number of institutions reporting	23,167	2,755	1,022	5,892	1,124	273	583	7,244	4,274

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 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 conditions specified by the Council.

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

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

State Liaison

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

expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may

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

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

Access to Information by the Council

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

tions 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: 1996 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, 1996 and 1995, 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, 1996 and 1995, 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 28, 1997 on our consideration of the Council's internal control structure and a report dated February 28, 1997 on its compliance with laws and regulations.



February 28, 1997

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheet as of December 31, 1996 and 1995

ASSETS		1996	1995
			(reclassified)
CURRENT ASSETS			
Cash		\$ 821,043	\$ 991,681
Accounts receivable from member organizations		540,205	471,402
Other accounts receivable		255,113	252,532
Prepaid expenses		222	13,687
Total current assets		<u>1,616,583</u>	<u>1,729,302</u>
FURNITURE AND EQUIPMENT			
Furniture and equipment, at cost		251,088	248,445
Less accumulated depreciation		<u>191,775</u>	<u>168,126</u>
Net furniture and equipment		59,313	80,319
LEASEHOLD IMPROVEMENTS, net of amortization			
Total assets		<u>\$ 1,702,218</u>	<u>\$ 1,852,359</u>
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities to member organizations		\$ 1,006,789	\$ 731,887
Accounts payable and accrued liabilities to non-members		90,700	214,791
Accrued annual leave		48,058	48,043
Total current liabilities		<u>1,145,547</u>	<u>994,721</u>
DEFERRED RENT (Note 5)			
		<u>98,083</u>	<u>137,360</u>
FUND BALANCE			
Total liabilities and fund balance		<u>\$ 1,702,218</u>	<u>\$ 1,852,359</u>

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, 1996 and 1995

	1996	1995
REVENUES		
Assessments to member organizations	\$ 1,123,000	\$ 1,345,200
Tuition	1,462,130	1,682,999
Other revenue (Note 4)	<u>2,734,752</u>	<u>2,190,499</u>
Total revenues	<u>5,319,882</u>	<u>5,218,698</u>
EXPENSES		
Salaries and related benefits	1,403,434	1,327,267
Data processing	2,779,681	2,215,677
Rental of office space	628,583	631,776
Travel	148,816	185,409
Professional fees	131,336	150,164
Printing	170,467	91,455
Rental and maintenance of office equipment	43,139	82,488
Office and other supplies	40,955	69,287
Administrative fees	51,200	49,000
Depreciation	40,065	37,952
Postage	36,705	28,793
Telephone	14,805	18,865
Books and subscriptions	10,012	15,190
Miscellaneous	82,374	166,500
Total expenses	<u>5,581,572</u>	<u>5,069,823</u>
REVENUES OVER (UNDER) EXPENSES	(261,690)	148,875
FUND BALANCE, Beginning of year	<u>720,278</u>	<u>571,403</u>
FUND BALANCE, End of year	<u>\$ 458,588</u>	<u>\$ 720,278</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 designees 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.

Reclassifications—Certain 1995 balances have

been reclassified to conform with the 1996 financial statement presentations, the effect of which is immaterial.

(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 \$224,600 in 1996 and \$269,040 in 1995.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$51,200 for 1996 and \$49,000 for 1995.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$2,822,012 in 1996 and \$2,126,376 in 1995.

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 contributions, disbursed on behalf of the Council are reimbursed in full to

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, 1996 and 1995

	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ (261,690)	\$ 148,875
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	40,065	37,952
Increase in accounts receivable	(71,384)	(117,770)
Decrease in prepaid expense	13,465	(13,687)
Increase in accounts payable and accrued liabilities	150,811	200,771
Increase in accrued annual leave	15	1,594
Decrease in deferred rent	(39,277)	(9,983)
Net cash provided (used) by operating activities	<u>(167,995)</u>	<u>247,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(2,643)</u>	<u>(26,187)</u>
Net cash used in investing activities	<u>(2,643)</u>	<u>(26,187)</u>
NET INCREASE (DECREASE) IN CASH	<u>(170,638)</u>	<u>221,565</u>
CASH BALANCE, Beginning of year	991,681	770,116
CASH BALANCE, End of year	<u>\$ 821,043</u>	<u>\$ 991,681</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements—continued

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

	<u>1996</u>	<u>1995</u>
Home Mortgage Disclosure Act	\$ 1,233,979	\$ 1,280,977
Community Reinvestment Act	720,795	125,995
Uniform Bank Performance Report	258,226	223,578
Appraisal Subcommittee	175,342	178,048
Mortgage Insurance Companies of America	138,418	168,696
Rental	127,104	126,916
Sale of HMDA Data	78,363	83,511
Miscellaneous	2,525	2,778
	<u>\$ 2,734,752</u>	<u>\$ 2,190,499</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act

(HMDA). The Council received \$259,469 in 1996 and \$263,043 in 1995 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The Council received \$138,418 in 1996 and \$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 1996 and 1995 was received from the member agencies.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$258,226 in 1996 and \$223,578 in 1995 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 \$175,342 in 1996 and \$178,048 in 1995 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 \$127,104 in 1996 and \$126,916 in 1995 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 first full year of operations was 1996. The Council received \$720,795 in 1996 and \$125,995 in

1995 from participating member agencies 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 non-cancelable lease term in excess of one year at December 31, 1996, are as follows:

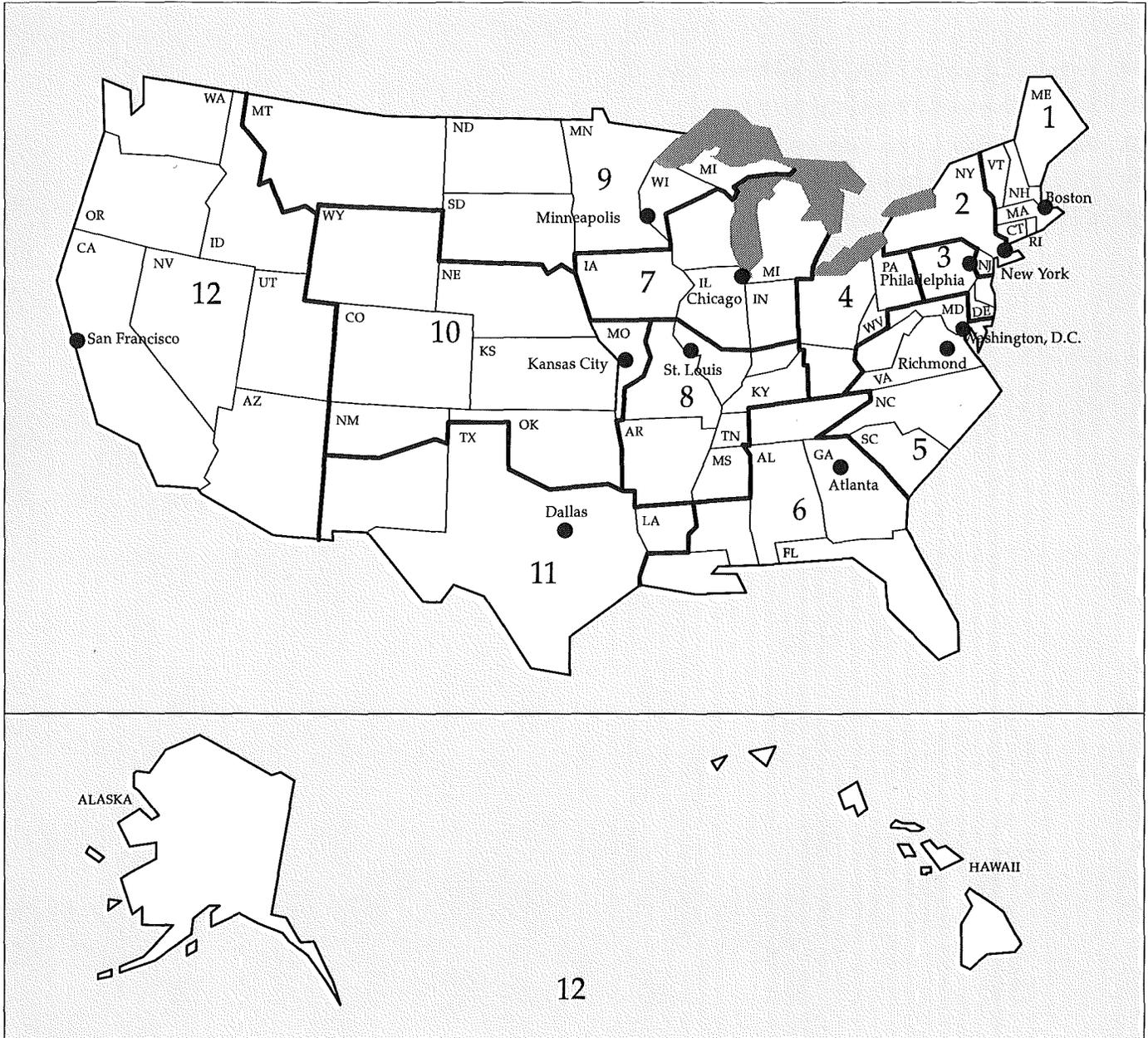
1997	610,275
1998	437,836
	<u>\$1,048,111</u>

Rental expenses under these operating leases were \$652,865 and \$603,580 in 1996 and 1995, respectively.

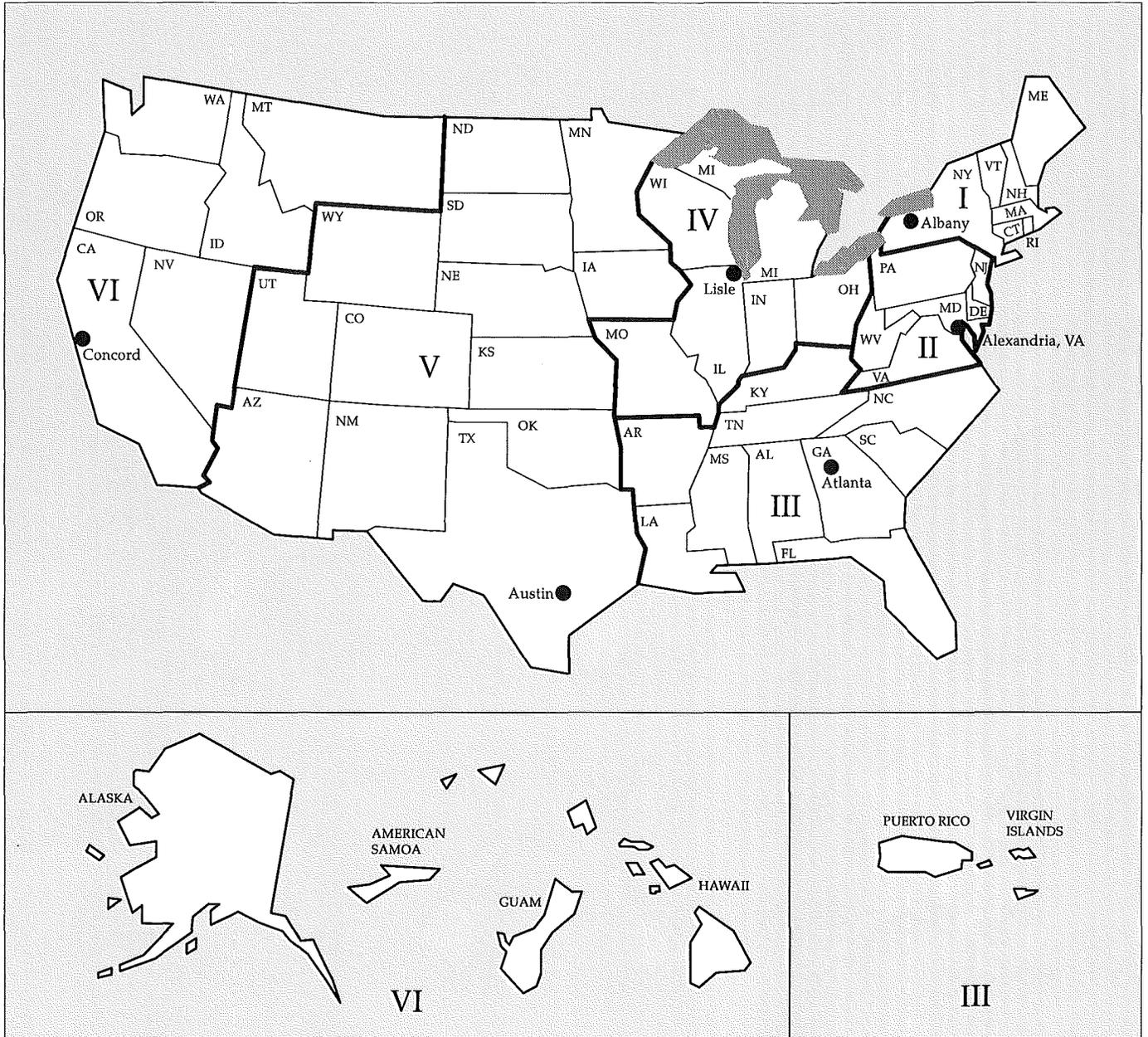
APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

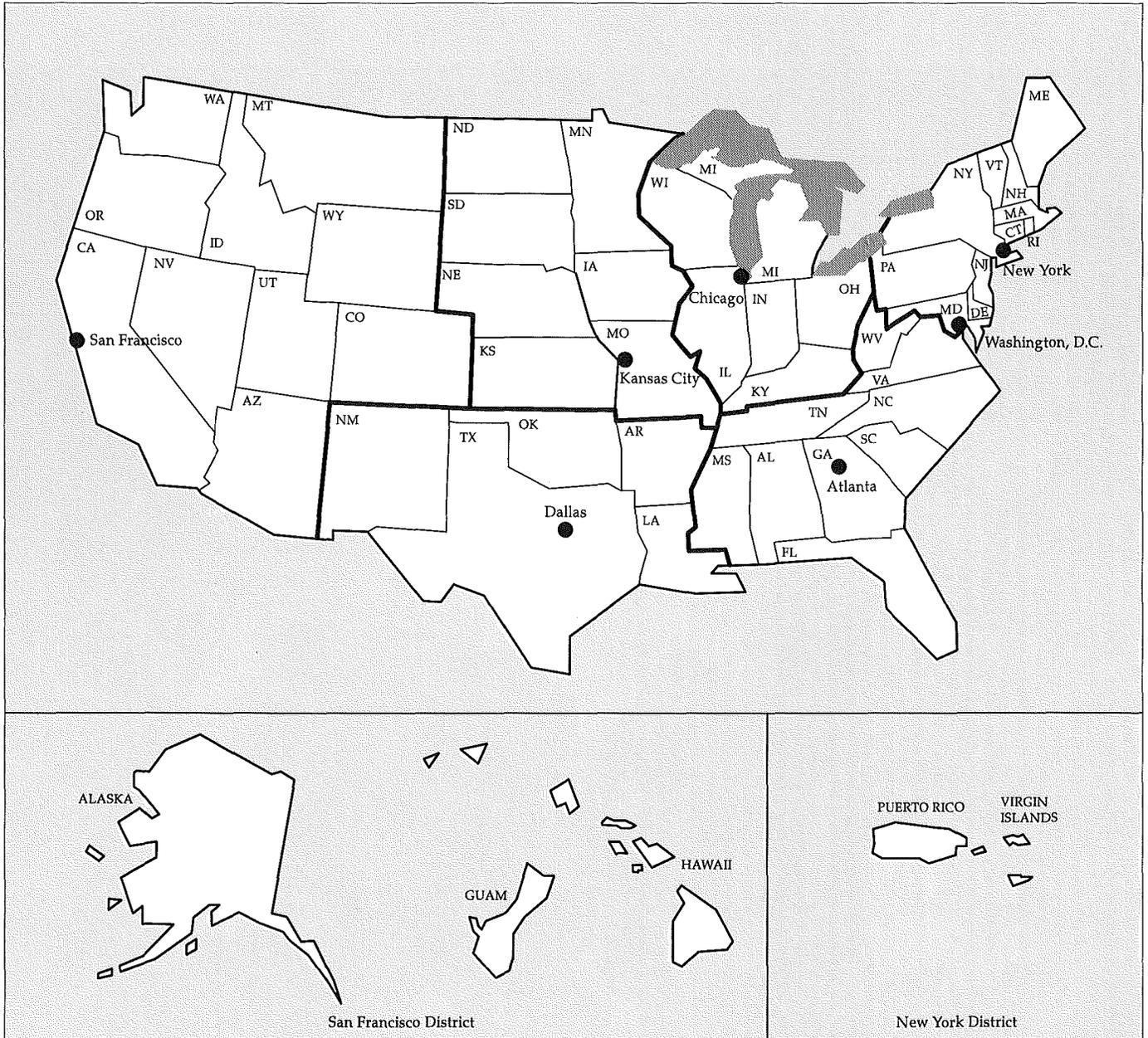
THE FEDERAL RESERVE SYSTEM DISTRICTS



NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION



OFFICE OF THRIFT SUPERVISION

