Letter of Transmittal

Federal Financial Institutions Examination Council
Washington, DC, March 31, 1981

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 1980 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

John G. Heimann
Chairman
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The Federal Financial Institutions Examination Council

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

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

The Council has five members: the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, a Member of the Board of Governors of the Federal Reserve System appointed by the Chairman of the Board, the Chairman of the Federal Home Loan Bank Board, and the Chairman of the National Credit Union Administration Board. In addition, to encourage the application of uniform examination principles and standards by the state and federal supervisory authorities, the Council has established, in accordance with the requirement of the statute, an advisory State Liaison Committee composed of five representatives of state supervisory agencies.
The Federal Financial Institutions Examination Council took a number of significant actions during 1980. These are summarized below. More detailed statements on these and other actions by the Council during 1980 are presented in Record of Actions by the Council.

- Approved a uniform supervisory policy for the classification of delinquent consumer instalment loans at commercial banks and recommended its adoption by the three banking agencies.

- Approved for public release a staff study entitled "Capital Trends in Federally Regulated Financial Institutions."

- Approved standardized instructions for the quarterly reports of condition and income filed by U.S. commercial banks.

- Approved a uniform guideline on internal control for foreign exchange activities in commercial banks and recommended its adoption by the three banking agencies.


- Approved an interagency supervisory policy regarding the assessment of civil money penalties and recommended its adoption by the five agencies represented on the Council.

- Approved a Uniform Bank Performance Report for use by the three banking agencies and a development program for the Report, and recommended their adoption by those agencies.

- Approved a uniform consumer compliance rating system and recommended its adoption by the five agencies represented on the Council.

- Approved a recommendation to the five agencies represented on the Council that each amend its regulations concerning physical security requirements to eliminate the "Report on Security Devices."

- Approved publication of "A Citizen's Guide to CRA."

- Approved a policy statement on the disposition of credit life insurance income and recommended its adoption by the five agencies represented on the Council.
Administration of the Council

Regular meetings of the Council are held at 2:00 p.m. on the first Thursday of each month. A second regular meeting may be held on the third Thursday of the month when the amount of Council business indicates the need. Special meetings of the Council may be scheduled whenever matters of high priority must be considered without delay.

The Council's activities are funded in several ways. Its administrative operations are funded through semiannual assessments on the five agencies represented on the Council, with each agency contributing one-fifth of the total cost of these operations. The Council's examiner education program is currently funded through tuition fees paid by the agencies sending student examiners to Council schools. A residential facility for examiners attending Council classes in the Washington, D.C., metropolitan area is being leased by the Council, and room charges paid by the agencies whose personnel are utilizing the facility provide the funds for lease payments.

The Federal Reserve Board provides budget and accounting services to the Council, and the Federal Reserve's Controller serves as the Council's Controller.

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

• Schedule Council meetings and meetings of the Agency Liaison Group, prepare agendas for Council meetings, prepare minutes of Council meetings, and review all material destined for Council consideration;
• Monitor work of all interagency staff groups involved in the Council's operations, and assist staff groups in setting priorities and in defining key issues;
• Work closely with members of the State Liaison Committee to ensure adequate communication between the members, the Council and the interagency staff groups;
• Coordinate public information activities, including, in cooperation with Federal Reserve Board staff, preparation and distribution of Council press releases;
• Coordinate, with Federal Reserve Board staff, development of the Council's budget and the monitoring of budget performance;
• Maintain liaison with the Congress and with Federal Government departments and agencies; and
• Prepare the Council's annual report to Congress.

Most of the staff support in the substantive areas of concern to the Council is provided by five interagency staff task forces and a Legal Advisory Group (LAG). The task forces and the LAG are responsible for the research and other investigative work done by agency staffs on behalf of the Council and for preparing reports and policy recommendations for consideration by the Council. The Council also established an Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agency's staff efforts in support of the Council. The Executive Secretary of the Council is an ex officio member of each of the five interagency staff task forces and the Agency Liaison Group. The staff time and other resources expended by the task force members and other agency staff on behalf of Council-related projects in 1980 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 1980 would have been virtually impossible.

As provided for in its enabling legislation, the Council created a State Liaison Committee composed of five state supervisors of financial institutions. The Committee provides advice to the Council in all areas of Council responsibility and helps to ensure effective federal-state communication on matters of financial institution supervision and examination. Under the Council's rules of operation, the Conference of State Bank Supervisors, the National Association of State Savings and Loan Supervisors and the National Association of State Credit Union Supervisors each designates one state supervisor to serve on the State Liaison Committee. The remaining two positions on the Committee are filled by state officials selected by the Council. The Committee currently meets as a group with the Council three times a year. In addition, the Committee is represented by one member at each meeting of the Council.

Organization, December 31, 1980

Members of the Council

John G. Heimann, Chairman
Comptroller of the Currency
Office of the Comptroller of the Currency (OCC)
Lawrence Connell, Jr., Vice Chairman
Chairman
National Credit Union Administration (NCUA)

John H. Dalton
Chairman
Federal Home Loan Bank Board (FHLBB)

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

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

State Liaison Committee
Muriel F. Siebert, Chairwoman
Superintendent of Banks, New York

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

Rex Fair
Director, Credit Union Division
Michigan Department of Commerce

Walter C. Madsen
Superintendent of Banks, Arizona

John B. Olin
Superintendent of Banks, Oregon

Council Office of the Executive Secretary
Robert J. Lawrence, Executive Secretary
David K. Schweitzer, Deputy Executive Secretary

Agency Liaison Group
Earl Bradley (NCUA)
Paul M. Homan (OCC)
Alan R. Miller (FDIC)
Samuel H. Talley (FRB)
L. David Taylor (FHLBB)

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

Interagency Staff Task Forces
Consumer Compliance
Jerauld C. Kluckman, Chairman (FRB)
Linda M. Cohen (NCUA)
Lucy Griffin (FHLBB)
Robert R. Klinzing (OCC)
Peter M. Kravitz (FDIC)

Examiner Education
H. Joe Selby, Chairman (OCC)
James A. Davis (FDIC)

John M. Denkler (FRB)
Martin F. Kushner (NCUA)
Robert J. Moore (FHLBB)

Reports
Stanley J. Sigel, Chairman (FRB)
William Dobryskowski (FHLBB)
Mary T. Mitchell (FDIC)
David C. Motter (OCC)
Thomas Straslicka (NCUA)

Supervision
John E. Ryan, Chairman (FRB)
Layne Bumgardner (NCUA)
Paul M. Homan (OCC)
Quinton Thompson (FDIC)
Thomas Timmins (FHLBB)

Surveillance Systems
William E. Martin, Chairman (OCC)
Robert A. Eisenbeis (FRB)
Robert F. Mialovich (FDIC)
Louis J. Oliver (FHLBB)
Robert F. Schafer (NCUA)
Activities of the Interagency Staff Groups

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

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

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

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

Each task force includes one senior official from each agency. The Council also established a Legal Advisory Group composed of a senior legal officer from each agency. The task forces and the Legal Advisory Group provide research and analytical papers and proposals to the Council on the issues they address. This chapter describes the activities and objectives of the five task forces and the Legal Advisory Group.

Task Force on Supervision

Introduction

At its organization meeting in March 1979, the Council established the Task Force on Supervision to review and to make recommendations to the Council on matters relating directly to the examination and supervision of financial institutions. More specifically, the task force focuses on examination and supervisory matters that concern the safety and soundness of financial institutions and their compliance with applicable laws and regulations, except for consumer laws and regulations.

A senior supervisory official from each agency serves on this task force. The task force meets on a regular monthly basis, with special meetings scheduled as needed.

Activities of the Task Force

In fulfilling its responsibilities, the task force relies largely on interagency staff subcommittees which analyze assigned supervisory issues and prepare reports and recommendations for review by the task force. After review and approval, the task force refers the subcommittees’ reports and recommendations to the Council for final action.

The task force utilizes both ad hoc and standing subcommittees. An ad hoc subcommittee is established to resolve a specific issue, and is staffed with persons with expertise in the area under study. Once an ad hoc group has completed its assignment, it is disbanded. On the other hand, standing subcommittees meet regularly to foster interagency coordination and cooperation in supervisory areas of continuing importance. For instance, the EDP Subcommittee is an ongoing entity that addresses current EDP topics and develops uniform EDP examination policies and procedures.

Besides directing and evaluating the work of a number of subcommittees and providing papers and proposals to the Council on policy matters, the task force performs a number of other duties. Among these are: (1) drafting replies to Congressional and other external inquiries, (2) evaluating supervisory issues raised by the General Accounting Office and by other governmental or regulatory bodies, and (3) responding to requests from other Council task forces for information or recommendations. Also, meetings of the task force are frequently used as a forum for exchanging ideas and information on supervisory matters.

During 1980, the task force completed work on 17 projects and forwarded the results and recommendations to the Council. These 17 projects, most of which are described in more detail in Record of Actions by the Council, are listed below.

- Supervisory policy on examiner classification of delinquent consumer installment loans.
- Response to the GAO report, "Federal Supervision of Bank Holding Companies Needs Better, More Formalized Coordination."
- Uniform EDP examination handbook, workpapers, and report of examination.
- Staff Study: "Capital Trends in Federally Regulated Financial Institutions."
- Uniform guidelines on internal controls for bank foreign exchange activities.
- Uniform terms for describing the competitive effects of proposed bank mergers.
• Evaluation of agencies’ procedures for reviewing and classifying construction and residential real estate loans.
• Uniform standards and procedures for assessing civil money penalties.
• Uniform policies and procedures for examining the Clearing House Interbank Payments System (CHIPS).
• Report on enforcement of the “Bank Secrecy Act.”
• Response to the GAO report, “Improvements Needed in Federal Examinations of Financial Institutions.”
• Status report on the Shared National Credits Program.
• Uniform agreement with the Department of Labor on referral of ERISA violations.
• Policy statement on the disposition of income from the sale of credit life insurance.
• Response to GAO report, “Economy and Efficiency of Financial Institutions Examinations Can Be Improved.”
• Reduction in reporting requirements under the Bank Protection Act.

At year-end, the task force had 13 subcommittees working on projects of concern to the various supervisors. These projects are described below.

**Bank Secrecy Act**

The task force established this subcommittee to review and strengthen examination procedures for verifying compliance with the U.S. Department of Treasury’s financial recordkeeping and reporting regulations (31 C.F.R. Part 103) which implement the “Bank Secrecy Act” (formally titled, the Currency and Foreign Transactions Reporting Act; Public Law 91-508, Title II, October 26, 1970).

In February 1980, the task force approved a comprehensive new set of examination procedures to monitor more effectively financial institution compliance with this Act. Before submitting this proposal to the Council, the three banking agencies decided to field-test the procedures to determine their cost in terms of examiner and institution staff time required. The field tests revealed that the proposed procedures required substantial staff time. Since this would make it very difficult for the agencies to justify the use of such elaborate procedures nationwide, the task force directed the subcommittee to reduce the staffing burden.

The subcommittee developed modular examination procedures that would be implemented in stages depending on the institution’s level of compliance with the reporting requirements of the Bank Secrecy Act. The latest version of the modular procedures—a two-step approach—was carefully worked out in cooperation with representatives of the General Accounting Office and the Treasury Department. In November 1980, the three banking agencies initiated field tests of the two-step, modular procedures. The two thrift agencies will field-test modifications of the two-step, modular approach that accommodate unique features of the institutions that each supervises. The subcommittee will reconvene in early 1981 to evaluate the results of the field tests and recommend final procedures.

During the year, the subcommittee also drafted responses to Congressional inquiries on the agencies’ enforcement of the Bank Secrecy Act, and coordinated the dissemination of letters to financial institutions alerting them again of the need to design and implement effective internal controls to assure compliance with the Act.

**Capital Adequacy**

During the first quarter of 1980, the subcommittee completed its general review of capital adequacy and prepared a background report for the Council. The report covered commercial banks, mutual savings banks, savings and loan associations, and credit unions. For each type of institution, three topics were treated: (1) trends in capital ratios, (2) forces affecting the trends, and (3) policy questions.

The subcommittee next turned its attention to a study of alternatives or supplements to equity capital, such as subordinated debt and preferred stock. Considerations included the proper mix of these alternatives, their appropriate minimum terms, and their role in determining capital adequacy.

Before the subcommittee reached any conclusions, the task force met with the subcommittee to identify more precisely the areas of agreement and disagreement among the agencies in evaluating capital adequacy. As a result of that meeting, the subcommittee was asked to begin work on a policy statement for commercial banks that contained specific standards for judging capital adequacy. Capital adequacy issues affecting thrift institutions and holding companies would be dealt with subsequently. The subcommittee was to evaluate various peer group standards and other benchmarks that could be used for triggering alternative forms of supervisory actions. The subcommittee is actively pursuing that objective, while it also continues to explore a number of other capital issues unresolved among the agencies’ staffs.

**Computer-Generated Examination Information**

At mid-year, the task force concluded that the new ability to access bank examination data via on-line computer terminals that are tied into the FDIC data base presented unique problems of security and
control. A subcommittee was set up to develop operating procedures and security standards under which the three banking agencies will exchange computer-generated examination information. The subcommittee was instructed to consider the regional and national needs of each banking agency as well as potential demands by state banking departments. The subcommittee will soon draft an agreement that spells out the kinds of examination data to be exchanged, intended uses for the data, and appropriate assurances as to security and confidentiality.

**Definition of Capital**

The subcommittee was formed to develop a uniform legal definition of capital and its components. Initially it is focusing its efforts on achieving a common "statutory definition" of bank capital.

In August 1980, the Office of the Comptroller of the Currency issued for comment a proposed ruling that would amend its statutory definition of capital and, thereby, bring its treatment of capital into line with that of the other bank regulatory agencies. The proposed ruling would remove subordinated notes and debentures and reserves for possible loan losses from the statutory definition of capital. OCC has recently completed a review of the nearly 800 comments received on the proposed redefinition.

The statutory definition of capital is used in a variety of situations including determining national banks' legal lending limit, limitations on investment securities, and capital requirements for new branches. The statutory definition of capital need not coincide with the definition of capital used by bank supervisors for capital adequacy purposes, however.

**EDP Examinations**

The subcommittee is responsible for promoting interagency coordination and cooperation in matters concerning the examination of data processing operations providing automated services to federally regulated financial institutions.

The group's most important achievement in 1980 was the publication of an interagency "EDP Examination Handbook" for use by all federal EDP examiners. The document, which includes a work program and report of examination, constitutes a comprehensive reference work applicable to all EDP examinations; it should enhance the quality and consistency of these examinations.

The subcommittee is presently drafting two supplements to the interagency handbook. The first will deal with electronic funds transfer systems, and the second with procedures for examining computer operations at small institutions.

The subcommittee is also preparing a position paper on the desirability of minimum EDP audit standards for all financial institutions, similar to those now required by the Federal Home Loan Bank Board for audits of savings and loan associations, and is working on procedures and methodology for conducting centralized examinations of EDP servicers with operations in more than one region of the country.

**Examination Philosophies, Concepts and Procedures**

The subcommittee was established in May of 1979 to determine similarities and differences among the agencies' examination philosophies and procedures. In addition, the subcommittee was to identify those areas where greater agency uniformity can be achieved.

To study systematically agency examination philosophies, concepts and procedures, the subcommittee developed the following research outline:

1. Inherent agency characteristics which influence its examination program;
2. Broad policy directives;
3. Examination planning and control;
4. Use of sampling in the examination;
5. Structure and use of examination workpapers; and
6. Examination policies and procedures by functional area.

The subcommittee has furnished to the task force the preface and parts I through V of the study outline. Work on part VI, a review of policies and procedures in 30 functional examination areas, is progressing.

The task force has directed the subcommittee to draft a three-part report for the Council which: (1) summarizes parts I through V of the study; (2) evaluates alternative strategies for moving toward more uniformity in examinations; and (3) analyzes the implications of these strategies for the Council's training program. This report is being prepared.

**General Insurance**

At the request of the Comptroller of the Currency, the task force referred to a subcommittee two questions on bank holding company sales of general insurance. The subcommittee will prepare a position paper on each of these two issues, which are:

- Should bank holding companies engage in general insurance sales in small towns using bank facilities when the bank itself may engage in the activity; and
- If such sales should be permitted, how should the bank be compensated for use of its premises, personnel, and good will?

**Integrating Bank and Bank Holding Company Supervision**

The purpose of the subcommittee
is to provide an ongoing review of
ways to integrate the FRB's bank
holding company inspection pro-
gram with the OCC's and FDIC's
programs for examining BHC sub-
sidiary banks.

In June 1980, the task force referred
to this subcommittee a proposal of
the Comptroller of the Currency for
examining national bank subsidiar-
ies of multibank holding compa-
nies. The proposal focuses on re-
viewing and evaluating the
management information systems,
credit and operational audits, and
other controls at the parent com-
pany and the lead bank. The quality
and reliability of the holding com-
pany's internal reports and controls
then determine the scope of exam-
ination of subsidiary national banks.

The proposed procedures are now
being field-tested by the Comptrol-
er of the Currency, in coordination
with the Federal Reserve, in four of
OCC's regions. If results of the ex-
periment are favorable, the three
banking agencies will consider fur-
ther coordination on this basis.

Loan Review Selection Criteria

The subcommittee was formed to
evaluate the loan selection methods
used by each agency in its safety
and soundness examinations, and
to explore areas where uniform se-
lection criteria might be developed.
The subcommittee first reviewed
the loan selection methods used by
the five agencies. Based on that re-
view, the subcommittee decided to
concentrate on encouraging uni-
formity in statistical sampling meth-
ods since NCUA and OCC already
make extensive use of such meth-
ods.

Various statistical sampling tech-
niques were analyzed in the light
of each agency's examination object-
ives. The Federal Reserve tested
the OCC's proportional sampling
techniques and reported the results
to the subcommittee. The FDIC has
developed, but has not yet tested,
a sampling plan based on the OCC's
approach.

In November, the subcommittee
recommended, and the task force
agreed, that each agency should
continue to test, or begin to test,
statistical sampling programs over
the next year. During the one-year
experiment, sampling should be
tested on a large number of institu-
tions of varying size and sophis-
tication. The loan selection systems
should be easily understood. The
systems should also be flexible
enough to handle changes in ex-
amination philosophies and objec-
tives, as well as changes in the in-
stitutions supervised and their
operating environment. The prac-
tical experience gained from the
one-year test will assist the agencies
in reconciling differences in their
loan selection procedures as they
relate to statistical sampling.

Monetary Control Act

At its November 1980 meeting, the
task force set up a group to draft
examination procedures to ensure
compliance with the reporting re-
quirements of the Monetary Control
Act, which for the first time places
reserve requirements on thrift in-
stitutions and commercial banks that
are not members of the Federal Re-
serve System. The Federal Reserve
Board staff is preparing an initial
draft of the procedures, which will
provide specific, step-by-step in-
structions for examiners to check
quickly for correct reporting.

Risk Only Participations

At the suggestion of the FDIC, the
task force discussed a number of
legal and supervisory issues raised
by risk only participations. In such
transactions, a participating or buy-
ing bank agrees for a fee to reim-
burse the selling bank for any un-
paid principal and interest on the
selling bank's loan if the loan goes
into default or other financial diffi-
culties are encountered. The buying
bank does not advance any funds
and has no contact with the bor-
rower.

The task force set up a subcommit-
tee to resolve the following super-
visory questions raised by this prac-
tice:

- Under what circumstances may
  the different classes of banks buy
  risk participations; i.e., issue
guarantees?
- Does the agreement allow the
  originating or selling bank to avoid
  exceeding its legal lending limit?

The subcommittee is currently re-
searching these questions.

Trust Rating System

At the OCC's request, the task force
created a subcommittee to consider
revisions to the banking agencies' uni-
form interagency trust rating sys-
tem (UITRS). The major sug-
gested change involves moving from
a composite rating system that is
based on the sum of individual rat-
ings assigned to specific trust op-
érations to a system that permits
agency discretion in assigning com-
posite or final ratings. The subcom-
mittee is drafting language to mod-
ify the UITS policy statement and
instructions to accomplish that ob-
jective.
Task Force on Consumer Compliance

Introduction

The Council's Task Force on Consumer Compliance was created to promote uniformity in the agencies' enforcement of consumer laws, and to identify and resolve problems concerning consumer compliance policies and procedures that are common to several or all of the five agencies represented on the Council.

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

The task force's focus on consumer laws and regulations complements the Task Force on Supervision's concentration on the more traditional safety and soundness issues.

Activities of the Task Force

The task force oversees the work of two standing committees: the Community Reinvestment Act (CRA) Committee and the Fair Lending Committee. The CRA Committee addresses issues designed to improve and coordinate uniform implementation of the Community Reinvestment Act of 1977. The Fair Lending Committee addresses issues related to uniform implementation and enforcement of the Equal Credit Opportunity Act, the Fair Housing Act and related fair lending statutes and regulations. In 1980 both committees made substantial progress in promoting uniformity within the consumer compliance examination function.

The CRA Committee developed the "CRA Information Statement," an interagency CRA policy statement which was subsequently issued by the Council. The statement describes the requirements of the Act and the general policies of the agencies in implementing CRA. The committee also completed drafting the "plain English" guide to agency protest procedures, an effort begun in 1979. The pamphlet, entitled "A Citizen's Guide to CRA," is designed to assist those persons interested in commenting on CRA-related applications. The need for the pamphlet became apparent during discussions with community groups and others interested in the Community Reinvestment Act. The pamphlet, approved by the Council in late 1980, will be published in early 1981.

This same committee has also developed a new uniform interagency CRA rating system. The system is designed to give specific guidance to those rating an institution's CRA performance and to provide detailed CRA performance information to those reviewing applications subject to CRA. The system has received preliminary task force approval and is now awaiting comment from agency regional offices before a final recommendation is made to the Council. The committee is currently reviewing the differences and similarities in agency CRA procedures, reviewing the need to revise the interagency CRA examination procedures developed by the task force in 1979, and compiling a set of informational CRA-related questions and answers. The committee also responds to CRA inquiries from community groups and individuals interested in agency application of the CRA.

The Fair Lending Committee completed its drafting of an interagency uniform Equal Credit Opportunity Act and Fair Housing Act Enforcement Policy Guide. The guide addresses substantive violations of the Acts and identifies corrective action creditors will generally be required to take when violations are discovered by the agencies. Development of the guide was begun in 1978, put out for comment in that year, field tested in 1979 and subsequently re-drafted in 1980 to reflect comments received during the comment and agency field testing periods. The guide is in the process of final review by the task force and Council staff.

During 1981, the Fair Lending Committee will become involved in a detailed review of agency fair lending regulations and procedures in response to Section 340(e) of the Housing and Community Development Act of 1980 (Public Law 96-399). This statute requires the Examination Council to report to Congress not later than September 30, 1982, on the feasibility and desirability of establishing a unified system for enforcing fair housing laws and regulations, CRA and HMDA.

The task force also establishes various ad hoc interagency project groups to deal with issues relating to the consumer compliance area. In 1980 these groups addressed the following projects. Unless otherwise noted, the projects have been completed.

Truth in Lending Enforcement Policy Guide

Since its organization in 1979 the task force has been involved in developing a uniform guide for agency enforcement of the Truth in Lending Act. With the passage of the Truth in Lending Simplification Act in March of 1980, a firm foundation was laid for the guide. Development of the guide was completed and approved by the Council in mid-1980. The guide describes what action a creditor is to take when annual percentage rates or finance charges are understated to the consumer. It also addresses other vio-
lations of the Truth in Lending Act, such as those violations involving credit life insurance disclosures.

Electronic Fund Transfers Act Examination Procedures

During 1979, the task force developed and the agencies implemented uniform examination procedures for the enforcement of the provisions of the Electronic Fund Transfers Act (Federal Reserve Regulation E) which became effective in May of 1980. Interagency examination procedures for those provisions were developed by the task force and implemented by the agencies in mid-1980. The examination procedures are reviewed by the task force on a continuing basis and updated as necessary.

Right to Financial Privacy Act Examination Procedures

The task force completed uniform examination procedures for the enforcement of the Right to Financial Privacy Act of 1979. The procedures were implemented by the agencies in late 1980.

NOW Account Advertising Statement

The Depository Institutions Deregulation and Interest Rate Control Act of 1980 authorized all financial institutions (except credit unions) to offer Negotiable Order of Withdrawal accounts (NOW accounts) to consumers (previously they were authorized in only New York, New Jersey, and the New England states.) Although the new accounts were not to be available to consumers until December 31, 1980, in the fall of 1980 advertising for NOW accounts appeared which in some instances was believed to be misleading. At that time, the task force developed and the Council issued a NOW Account Advertising Policy Statement which reminded institutions of existing guidelines to be adhered to when soliciting accounts.

Uniform Interagency Consumer Compliance Rating System

The task force developed in 1980 a uniform interagency consumer compliance rating system designed to be used by the agencies in rating a financial institution's performance in terms of compliance with consumer laws and regulations. The system is patterned after the uniform commercial rating system developed by the Council for rating a financial institution's safety and soundness performance. The rating system was approved by the Council and recommended to the agencies in the latter part of 1980.

Several task force efforts begun in 1980 or earlier have not been completed and will be carried over into 1981. These projects are described below.

Technical issues relating to Truth in Lending Enforcement Policy Guide

One of the ongoing responsibilities of the task force is to address technical issues relating to agency implementation of the Truth in Lending Enforcement Policy Guide. Task force responses to agency questions help achieve uniform approaches to application of the guide during the examination of financial institutions.

Uniform Truth in Lending Examination Procedures

The development of interagency uniform Truth in Lending examination procedures will continue into 1981. The procedures will be completed shortly after the Federal Reserve's amended Regulation Z is issued in the spring of 1981.

Home Mortgage Disclosure Act Amendments of 1980

The Home Mortgage Disclosure Act Amendments of 1980 (Section 340 of Public Law 96-399), among other things, direct the Council to collect and aggregate, each year, the data reported by financial institutions under the Home Mortgage Disclosure Act (HMDA) and to prepare tables indicating, for each SMSA, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level, and racial characteristics. In addition, the Council is required by the statute to implement a system to facilitate public access to HMDA data by arranging for a central data depository in each SMSA. The task force has been assigned primary responsibility for coordinating the staff work necessary to accomplish these tasks.

Training for Consumer Examiners

The task force has been active in providing technical support for the interagency Consumer Compliance Examination School which was piloted in 1980 by the Council's Task Force on Examiner Education. During 1981 additional technical support will be provided as requested to assure that the lesson plans for this course are kept up-to-date.

Task Force on Examiner Education

Introduction

The Council's Task Force on Examiner Education works to foster and supervise the Council training program, which at the end of 1980, consisted of eight courses. The primary goal of the task force is to train examiners to attain the highest level of performance in carrying out their official duties and responsibilities. To achieve this goal, specific objectives include:

- Identification of training requirements of examiners, and development of programs to meet those needs;
- Review of training curricula and instructor standards to provide high quality programs;
- Establishment of appropriate fa-
ilities for training; and
- Assistance in developing training opportunities for employees of state and foreign financial institution supervisory agencies.

Activities of the Task Force

The major thrust of the task force in 1980 was in the development and presentation of Council courses. Of the seven areas targeted for development by the end of 1980, courses were developed in six areas: consumer compliance, data processing, instructor training, international banking, management, and trust. The seventh area, white collar crime, will be developed in 1981.

The following examiner training courses were conducted in 1980:

<table>
<thead>
<tr>
<th>Course Title</th>
<th>No. of Sessions</th>
<th>No. of Examiners Trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Compliance Examination School</td>
<td>5</td>
<td>147</td>
</tr>
<tr>
<td>Fundamentals of Data Processing</td>
<td>15</td>
<td>355</td>
</tr>
<tr>
<td>EDP Work Program</td>
<td>3</td>
<td>64</td>
</tr>
<tr>
<td>Instructor Training</td>
<td>15</td>
<td>166</td>
</tr>
<tr>
<td>Basic International Banking School</td>
<td>6</td>
<td>171</td>
</tr>
<tr>
<td>Management Workshop</td>
<td>13</td>
<td>307</td>
</tr>
<tr>
<td>Basic Entry Level Trust School</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>Trust Workshop</td>
<td>2</td>
<td>43</td>
</tr>
</tbody>
</table>

These classes were held at the FDIC training center in Rosslyn, Virginia. It is anticipated that this facility will continue to be utilized until a permanent site can be selected and is available for Council use.

An apartment facility was leased during 1980 to provide housing for the students attending Council-approved courses and other agency training in the Washington metropolitan area. It is estimated that the utilization of leased housing saved the agencies a total of approximately $350,000 compared to the cost of ordinary commercial housing. The lease provides options for renewal every six months over the next three years. The task force, on behalf of the Council and the agencies, has extended the lease for the first option period in 1981.

The Manager for Examiner Education, a member of the Council's staff, is responsible for the administration of the Council's examiner education program, the school, and the housing facility.

In 1981, the task force will focus on the continued development of the examiner training school. The task force will work to carry out the directives of the Council with respect to staffing, financing, and identifying potential sites for a permanent physical facility for the school. It is expected that school staff will consist of a combination of permanent and temporary personnel on detail to the Council from the agencies. The staff will include administrative, managerial, and educational personnel. Part of the staffing effort will involve the integration of a portion of the individual agencies' examiner training personnel into the Council school. A special committee of senior agency personnel officers is being established to address personnel issues connected with the integration process.

The task force has scheduled two major studies for early 1981. First, the Subcommittee on Facilities will conduct a logistics and cost study regarding appropriate physical facilities for the school. The subcommittee is to submit a report on an interim site for a central facility in April 1981, and a recommendation on possible longer-range physical facilities later in the year. Second, the Subcommittee on Education is to conduct a study on curriculum requirements. As part of this effort, the task force is preparing a compendium of examiner training courses. This will include a catalogue of all courses currently offered by the Council and the five agencies represented on the Council. Also included will be listings of courses being actively developed, those still in the planning stage, and those as yet unplanned but for which a future need can be demonstrated.

Task Force on Reports

Introduction

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

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

Activities of the Task Force

Standardized instructions for the reports of condition and income required by the banking supervisory agencies.

The development of "uniform reporting systems," has three main facets: uniform report forms, uniform instructions for completing the report forms, and uniform interpretations of the instructions. The task
force has approached this assignment by dealing first with the problems of report uniformity among the three bank supervisory agencies. The problems posed by the question of uniformity as between the banking reports, the FHLBB reports and the NCUA reports will be addressed at a later stage.

During 1980, the task force made considerable progress in the development of uniform reporting instructions for the three banking agencies. For two of three major instructions pamphlets for the reports of condition and income, U.S. commercial banks with foreign offices and domestic-only banks with assets of $100 million or more, the task force developed common instructions manuals to replace the different agency manuals that were in use. Those common pamphlets have been approved by the Council, have been issued to the banks and are now in use.

In the course of the development of these uniform pamphlets, the task force uncovered and eliminated a number of significant differences in reporting requirements that stemmed from differences in instructions and interpretation. To prevent such differences in instructions from arising again, the task force not only agreed on common instructions but provided for their common printing so that agreement in wording is henceforth guaranteed. The task force also worked to eliminate differences in interpretation through its Subcommittee on Accounting and Instructions which provided the mechanism for arriving at joint agency positions on a variety of accounting and definitional questions.

The uniform instructions pamphlet for banks with less than $100 million in assets is still under development. In this part of the project, the task force, in addition to achieving uniformity among the agencies, will endeavor to provide as much simplification in the pamphlet for the smaller banks as possible.

One aspect of this simplification, the provision of an alphabetical index for easier access to the instructions, will also be applied to the larger banks' pamphlets when it is completed. The smaller banks' uniform instructions pamphlet will not be issued until the Council has adopted the revision in the reports of condition and income that is now underway, as described in the next section.

Revision in the reports of condition and income to achieve complete uniformity in the reporting requirements and to provide additional information needed for the uniform bank performance reports and other surveillance requirements.

The task force is currently engaged in the early stages of developing recommendations for a revision in the required quarterly reports of condition and income now in use by the bank supervisory agencies. The need for such a revision stems from several factors. First, there is the statutory mandate to develop uniform reporting systems. During the course of 1980, the task force completed its cataloging and description of the details of any remaining differences among reports of the three banking agencies. These differences, other than those already eliminated in the uniform instructions project described above, occur mainly in certain schedules where the three agencies ask for varying amounts of information. Elimination of these differences will require revision in the report forms themselves.

Another source of revision in the reports of condition and income is the information requirements generated by the uniform bank performance report approved by the Council and by other aspects of a "surveillance" approach to the examination process. During 1980, the task force, through an ad hoc working group, completed a preliminary review of proposals submitted by the Task Force on Surveillance Systems for added information requirements, principally more data in the form of daily averages and more information from smaller banks.

Some other aspects of the project to revise the condition and income reports are also worth noting. First, the reporting requirements for contingency or off-balance sheet items will be revised and extended to banks not now required to report this information. Second, proposals to extend the current requirements for reporting on an accrual basis are now under study. Part of this study will be a survey of the accounting and reporting practices at banks under $25 million in assets. A third possible source of revision in the reports relates to changes resulting from the Monetary Control Act of 1980.

In 1981, the task force will develop recommendations for revisions in the reports of condition and income. These recommendations will be based on substantive needs for information, but with consideration given to any added burden on reporting banks, particularly the smaller ones. Any recommendations for major changes in reporting requirements will be issued for public comment before final decision and implementation. While some reporting requirements may be changed in 1981, it is not expected that any major revisions in reporting will be implemented before 1982.

In 1981, the task force will also be considering the impact of the needs of the uniform performance reports and of other surveillance requirements on certain of the reports submitted by bank holding companies to the Federal Reserve.

Joint agency publication of the reports of condition and income.

During 1980, the task force re-examined the question of the need for, and the form of, joint agency publication of the reports of condi-
tion and income. The task force agreed on the need to have a comprehensive summary table bringing together in one place, on a roughly comparable basis, the aggregate assets and liabilities reported by all types of depository institutions to the five supervisory agencies represented on the Council. The task force has developed such a table which, beginning with this issue (see table of contents), will be published each year in the Council's Annual Report.

The task force decided that the formal semiannual detailed joint publication of banking assets and liabilities printed by the FDIC for the three banking agencies should not be issued for the 1978, 1979, or 1980 reports. However, joint interagency presentation of the year-end banking data on a less detailed basis was adopted for these years. Considerations going into this decision were cost, availability of the data in other forms, and delays in publication under current procedures. The question of whether to reinstitute a formal publication for 1981 was postponed until after there is a clear view of when the revisions in the reports will be implemented and what they will look like.

Other Activities

The task force dealt with a number of specific reporting areas in 1980: repeat of the interagency survey of foreign trust activities; revisions in the banking agencies’ uniform country exposure report; clarification and revision in the report of condition for U.S. branches and agencies of foreign banks; and adoption of uniform interpretations and accounting treatments in a number of areas.

The Subcommittee on Accounting Standards and Instructions provided consistent and timely assistance in handling of questions and issues relating to report instructions, item definitions, and accounting matters. The Subcommittee on Processing Standards and Data Quality continued its work of monitoring agency data processing standards, procedures, and quality controls and of dealing with particular immediate problems in the areas of reporting, processing, and data quality.

Liaison with Professional Organizations.

During 1980, the Reports Task Force met with several industry groups including the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Bank Administration Institute (BAI), and the Interassociation Committee on Bank Accounting. The meetings provided unique opportunities for a free exchange of views on topical accounting and reporting issues and established relationships upon which to base a continuing dialogue on subjects of mutual concern.

Task Force on Surveillance Systems

Introduction

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

Activities of the Task Force

The major accomplishment of the task force was completing the basic design for a Uniform Bank Performance Report (UBPR) which was submitted to, and approved by, the Examination Council. Each of the banking agencies adopted the design and an interagency contract was executed that provides for the development and production of the UBPR utilizing FDIC personnel and computer hardware. This was followed by the selection of a staff coordinator to oversee the design and implementation of the uniform report system. The project is currently on schedule, with first production of the report anticipated to be in March 1982, utilizing December 1981 call report data. The UBPR as adopted is a comprehensive document which provides data that can be used for both summary and in-depth financial analysis by all users. The extensive use of peer group data will permit comparative evaluation of a given bank’s position and performance vis-a-vis that of its peers.

The development of the UBPR will remain an active project of the task force during 1981. Even after production begins in 1982, it will remain a major activity since the report itself is considered heuristic, thus requiring maintenance and modification as changes in the industry might dictate. The task force is currently working on the design of a Uniform Bank Holding Company Performance Report (UBHCP), and it is expected that the model of this report will be submitted to the Examination Council in the first quarter of 1981, accompanied by recommendations for improving the collection of data which would be utilized in the preparation
of this report. With the successful adoption and implementation of the UBPR and UBHCPR, the task force will be moving forward with planning for a uniform surveillance system for the early identification of institutions which may be in need of increased supervisory attention.

Legal Advisory Group

Many of the projects undertaken by the Council and its task forces contain legal elements that must be addressed. The Legal Advisory Group (LAG) was created shortly after the establishment of the Council to assist in this respect.

LAG is composed of senior legal officers of the agencies represented on the Council. The present chairman of the group is the Chief Counsel, Office of the Comptroller of the Currency. The mandate of LAG is to provide informal legal assistance to Council task forces and to address specific legal issues referred to it by the Council. The chairman of LAG also provides legal advice to the Council at its meetings.

In 1980, LAG aided the Council by compiling a package of recommended technical and substantive amendments to the recently enacted Financial Institutions Regulatory and Interest Rate Control Act of 1978. LAG also assisted in the drafting of leases and other legal documents, and rendered assistance in various internal matters such as the Council’s responsibilities under the Freedom of Information Act. Substantive projects affecting the agencies and their supervisory practices included interpretation of the restitution provisions of the Truth in Lending Simplification and Reform Act, the permissibility of risk-only participations in loans, the status of members of Regional Advisory Boards under the Interlocks Act, the effect of geopolitical boundaries on community delineations under the Community Reinvestment Act, disclosure of enforcement actions, and drafting of uniform examination procedures for enforcement of Regulation E. Also, LAG addressed various requests for access to the confidential information contained in examination reports.
The following presentation is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council pursuant to Sections 1006 and 1007 of Public Law 95–630 and Section 340 of Public Law 96–399 (Home Mortgage Disclosure Act Amendments) during 1980.

February 7

Action. Approved a uniform supervisory policy for the classification of delinquent consumer installment loans at commercial banks and recommended its adoption by the three banking agencies. (All three agencies approved the Council’s recommendation.)

Explanation. As a part of the ongoing interagency effort to achieve uniformity in examination procedures, the Council approved this policy which establishes uniform guidelines for the classification of consumer installment credit at commercial banks based on delinquency status. For bank examination purposes, closed-end credit delinquent 120 days or more, and open-end credit delinquent 180 days or more will be classified loss. In addition, the FDIC, FHLBB, and NCUA agreed to study the feasibility of applying the classification policy to the examination of thrift institutions. By year-end the FHLBB had incorporated the policy into its regulations governing FSLIC-insured savings and loan associations and the FDIC had made the policy applicable to FDIC-insured mutual savings banks.

May 1

Action. Approved an EDP Examination Handbook for use by the three banking agencies in examining data processing centers subject to the 1978 Interagency EDP Policy Statements, and for use as a reference book by all five agencies on all other EDP examinations.

Explanation. In 1978, four of the agencies adopted uniform policies for examining and rating EDP facilities with respect to joint and rotated examinations of data processing centers servicing more than one class of financial institution. To implement effectively those policies and to improve the overall quality of EDP examinations, a comprehensive uniform EDP Examination Handbook was developed. Examinations conducted by the three banking agencies pursuant to the 1978 agreement must be performed in accordance with the Handbook instructions. In addition, the Handbook will be used by all five agencies as a reference in performing all other EDP examinations.

May 15

Action. Approved standard terms for describing the competitive effects of merger transactions in competitive factor reports required by the Bank Merger Act and recommended their adoption by the three banking agencies. (All three agencies approved the Council’s recommendation.)

Explanation. As a result of GAO recommendations in a study titled “Comparing Policies and Procedures of the Three Bank Regulatory Agencies,” the Council’s Task Force on Supervision reviewed procedures used by the agencies in approving corporate applications. While substantive uniformity already exists in most of the procedures, it was felt that further consistency among the agencies could be achieved by the use of standard terms for describing the competitive effects of proposed merger transactions in competitive factor reports prepared in response to interagency requests made under the Bank Merger Act (12 USC 1828(c)).

May 15

Action. Approved a uniform guide-
line on internal control for foreign exchange activities in commercial banks and recommended its adoption by the three banking agencies. (All three agencies approved the Council's recommendation.)

Explanation. This guideline, originally put out by the Council for public comment in July 1979, represents the current judgment of the three federal bank regulatory agencies on minimum internal control for foreign exchange activities in commercial banks. An internal control system is composed of administrative and accounting controls concerned with authorization and accounting for transactions and safeguarding of assets. The guideline focuses on (a) the establishment and documentation of policy, (b) internal accounting controls, and (c) audit documentation. It reinforces existing procedures and practices widely utilized by commercial banks in monitoring and controlling their foreign exchange activities and in providing timely and accurate reports to bank boards of directors, senior management, supervisory authorities, and other interested parties. It also applies to those foreign exchange activities undertaken to fund loans or other extensions of credit through the money markets.

June 5

Action. Approved a proposal for legislative amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978, Public Law 95–630 ("FIRA") and recommended its approval by the five agencies represented on the Council. (All five agencies approved the legislative proposal which was then forwarded to the House and Senate Banking Committees for consideration.)

Explanation. The proposed amendments to FIRA were developed by the Council's Legal Advisory Group based on the first year's experience of the agencies under that statute. The proposal was for technical changes to correct a number of problems encountered by the agencies in implementing and administering the various provisions of FIRA as originally drafted.

June 19

Action. Approved hiring a professional-level "Coordinator for State Liaison Activities" to work with the Council on behalf of the State Liaison Committee.

Explanation. In order to improve communication between the Council and the State Liaison Committee, the Council authorized a full-time professional staff person to assist the members of the State Liaison Committee.

June 19

Action. Approved a new "Policy Guide" for enforcing the Truth in Lending Act as amended by the Truth in Lending Simplification and Reform Act of 1980, and recommended its adoption by the five agencies represented on the Council. (All five agencies approved the Council's recommendation.)

Explanation. Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980 (known as the TIL Simplification and Reform Act) amended the Truth in Lending Act, 15 U.S.C. Section 1601 et seq. Section 608 of Title VI authorized the federal enforcement agencies to order creditors to make monetary and other adjustments to the accounts of consumers in cases where an annual percentage rate or finance charge was inaccurately disclosed. The Policy Guide summarizes and explains the new restitution provisions of the Truth in Lending Act, as amended. It also explains corrective actions the agencies intend to take in those situations in which the Act gives the agencies the authority to take remedial action.

June 19

Action. Approved standardized examination policies and procedures for examining institutions participating in the Clearing House Interbank Payments System (CHIPS) developed by the New York Clearing House Association.

Explanation. The increasing size and importance of the CHIPS operation in the clearing of interbank payment transfers in New York City led the federal banking agencies represented on the Council to conclude that standardized examination policies and procedures would be desirable to assure effective supervision of the system and its participants. The federal agencies and the New York State Banking Department will use the new procedures in their examinations of the nearly 100 financial institutions participating in CHIPS.

July 15

Action. Issued for agency implementation new standard, interagency examination procedures for determining institution compliance with Regulation E, Electronic Fund Transfers.

Explanation. The Electronic Fund Transfer Act (15 USC 1693), enacted November 10, 1978, became effective, for the most part, on May 10, 1980. It was implemented by Federal Reserve Board Regulation E (12 CFR 205). The standard examination procedures, implemented by all five agencies represented on the Council, were developed to promote uniformity in the examination and supervision of financial institutions' compliance with the Act and Regulation E.

July 17

Action. Approved an interagency supervisory policy regarding the assessment of civil money penalties and recommended its adoption by the five agencies represented on the Council. (All five agencies approved the Council's recommendation.)
Explanation. The Financial Institutions Regulatory and Interest Rate Control Act of 1978 gave authority to the federal financial institution regulatory agencies to assess civil money penalties for violations of final cease and desist orders and of the provisions of certain other statutes. As a means of promoting consistency in the application of this authority, the five agencies represented on the Council adopted the uniform policy (1) establishing procedures for exchanging information on assessment actions taken, and (2) specifying the factors that should be taken into consideration in deciding whether, and in what amount, civil money penalties should be imposed.

August 7

Action. Approved, and recommended to the three banking agencies for adoption, the development program for a Uniform Bank Performance Report. Included in the program was approval for a Council staff position of "Coordinator for Uniform Performance Reports." (All three banking agencies approved the Council's recommendation.)

Explanation. The uniform performance report will display financial data derived primarily from the quarterly reports of condition and income filed by commercial banks with their federal regulators. The performance report is designed to be used by federal bank examiners and analysts in connection with their examination and supervisory activities. The data can be used for a quick summary or for an in-depth review of the financial condition of a bank. At the present time, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation each produces its own bank performance report for use by examiners and supervisory personnel. The Federal Reserve Board uses the OCC-produced report for its examination and supervisory purposes. The uniform commercial bank performance report now under development, which incorporates many of the features of both existing reports, is seen by the Council as a major step forward in achieving its statutory objective of promoting uniform supervision of federally regulated financial institutions. In addition, it is anticipated that adoption of a single uniform report will, once software development is completed, significantly reduce the total costs to the three banking agencies in comparison to maintaining and producing two separate performance reports. First production of the new report is scheduled for early 1982 based on December 31, 1981 data.

September 4

Action. Approved for issuance to the public a "CRA Information Statement."

Explanation. Four of the five agencies represented on the Council have CRA responsibilities. They are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Office of the Comptroller of the Currency. The National Credit Union Administration is not covered by CRA but it requires credit unions under its jurisdiction to follow nondiscriminatory policies in conformance with consumer protection laws and regulations. The Council's CRA information statement describes the requirements of the Act and the general policies of the four agencies in implementing the Community Reinvestment Act of 1977 (CRA).

September 12

Action. Approved a uniform supervisory policy statement regarding advertisements for NOW accounts prior to December 31, 1980.

Explanation. Under the terms of the Depository Institutions Deregulation and Monetary Control Act of 1980, Negotiable Order of Withdrawal (NOW) accounts were authorized for all depository institutions nationwide effective December 31, 1980. Institutions under the jurisdiction of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Reserve Board and the Office of the Comptroller of the Currency were affected. Credit unions, under the jurisdiction of the National Credit Union Administration, were given share draft authority by the same statute, but effective March 31, 1980. The Council-recommended policy on NOW account advertising was issued as a guide to institutions desiring to advertise their forthcoming NOW account authority, and to solicit potential account holders, prior to December 31, 1980.

October 2

Action. Approved issuance of the banking agencies' "Country Exposure Report" under the Council's logo (Form FFIEC 009).

Explanation. The Country Exposure Report is utilized by the Federal Reserve Board, the Comptroller of the Currency and the FDIC to collect data on certain overseas activities by country. The report is filed semiannually by every insured commercial bank in the U.S. and Puerto Rico (or its U.S. bank holding company) that (1) has a foreign branch or a foreign subsidiary, an Edge or Agreement Corporation subsidiary, or a branch in Puerto Rico or in any U.S. possession, and (2) has, on a fully consolidated basis, claims on residents of foreign countries totaling more than $20 million. The reported data facilitate both the monitoring of individual bank overseas lending and investment activity and the publication of aggregate data for U.S. banks with significant overseas activity. Data on individual banks are accorded confidential treatment.

November 6

Action. Approved procedures for cooperation between the agencies
and the Department of Labor in enforcing compliance with the Employee Retirement Income Security Act of 1974 (ERISA), and recommended their adoption by the five agencies represented on the Council. (All five agencies and the Department of Labor approved and signed the recommended procedures.)

Explanation. Section 3004(b) of ERISA provides that the Secretary of Labor may utilize the facilities or services of any department, agency, or establishment of the United States, with the lawful consent of such department, agency, or establishment; and each department, agency or establishment of the United States is authorized and directed to cooperate with the Secretary of Labor and, to the extent permitted by law, to provide such information and facilities as the Secretary may request. This agreement is executed pursuant to that authority. The procedures call for written notification by the agencies, to the extent consistent with law and the resources of the agencies, of significant possible violations of ERISA identified by their examiners. The procedures also specify what types of possible violations would be considered significant and the information to be provided to the Department. So far as is lawfully possible, this information will be held confidential.

November 6

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

Explanation. The survey for year-end 1980 is identical to the survey made at year-end 1979. It is believed that a second survey is needed to provide for continuity in the existing information base which the agencies will be able to use to develop a supervisory plan for the foreign fiduciary activities of U.S. banks and bank holding companies. The survey is conducted by having each of the three banking agencies send letters to the chief executive officers of participating banks under its supervision. Although these letters would be on agency letterhead, the content of the letters is standardized and bears the identifying form FFIEC 006.

November 6

Action. Approved by a 4–1 vote (Council Member Janis dissenting) a uniform consumer compliance rating system and recommended its adoption by the five agencies represented on the Council. (With the exception of the Federal Home Loan Bank Board, which declined to implement the rating system for reasons noted below, all of the agencies adopted the Council’s recommendation.)

Explanation. The consumer compliance rating system was developed to reflect in a comprehensive and uniform fashion the nature and extent of an institution’s compliance with consumer protection and civil rights laws, to be a tool useful to the agencies for summarizing the compliance posture of individual institutions, and to assist the public and Congress in assessing the aggregate compliance situation. Compliance with the Community Reinvestment Act would continue to be rated separately. Under the rating system, institutions are rated by the consumer examiners on a scale of 1 to 5, with 1 representing institutions presenting little or no compliance concern, a rating of 3 representing institutions requiring a higher than normal level of supervisory concern but not representing a significant risk of financial or other harm to consumers, and 5 identifying institutions that disregard the law and require the strongest supervisory attention and monitoring to bring them into compliance. Three general factors—covering many specific factors that would be considered—are used to arrive at ratings. These are the nature and extent of present compliance with consumer protection and civil rights laws, management’s ability and willingness to take steps to assure compliance, and the adequacy of such operating systems as internal procedures, controls and audit activities bearing on compliance.

The FHLBB did not adopt the uniform consumer compliance rating system. Unlike the other agencies, which conduct separate consumer examinations, the Bank Board uses an integrated examination process which considers consumer and civil rights compliance as an integral part of an institution’s total compliance picture. FHLBB officials were concerned that an arbitrary segregation of consumer compliance matters in order to accommodate the Council-recommended rating system would be administratively difficult and counterproductive for that agency.

November 6

Action. Approved printing of 10,000 copies of “A Citizens Guide to CRA.”

Explanation. The Community Reinvestment Act of 1977 (CRA) requires the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Office of the Comptroller of the Currency to assess the records of the institutions under their jurisdiction in meeting the credit needs of their communities, and to take those records into account in considering certain applications filed by such institutions. “A Citizens Guide to CRA,” originally requested by community groups, is designed to assist those individuals and organizations wishing to comment on those applications. The guide, “in plain English,” describes the types of applications handled by each agency that are subject to CRA and answers common questions about the application/comment process.
December 11

Action. Approved publication in the Federal Register of a notice requesting public comment on the feasibility and usefulness of requiring depository institutions to make public disclosures of data on small business lending activity.

Explanation. The Examination Council is required by Section 340(d) of the Housing and Community Development Act of 1980 (Public Law 96-399) to conduct a study to assess the feasibility and usefulness of requiring depository institutions which make small business loans to compile and publicly disclose information regarding such loans. The results of this study are to be reported to the House and Senate Banking Committees not later than March 1, 1981. As part of its study, the Council requested public comment on the general feasibility and usefulness of requiring depository institutions which make small business loans to compile and publicly disclose information regarding such loans. The results of this study are to be reported to the House and Senate Banking Committees not later than March 1, 1981. As part of its study, the Council requested public comment on the general feasibility and usefulness of requiring depository institutions which make small business loans to compile and publicly disclose information regarding such loans. All comments were to be filed with the Council by February 17, 1981.

Explanation. Agency rules required that all supervised financial institutions file a report for each office location providing information on security devices installed in conformity with agency standards. The purpose of obtaining these reports was to allow the agencies to assess the physical security arrangements of depository institutions and to track improvements in security. However, onsite monitoring by examiners and the now generally high level of security in banks and thrift institutions substantially reduced the utility of information derived from continued collection of the report. Consequently, the Examination Council recommended elimination of the filing requirement. Under the Council's recommendation, agency examiners will continue to evaluate each institution's security program and its compliance with the security standards of the federal agencies as part of the normal examination process, and financial institutions will continue to maintain the written security procedures required by agency regulations.

December 11

Action. Approved a policy statement on the disposition of credit life insurance income and recommended its adoption by the five agencies represented on the Council. (Agencies given until April 30, 1981 to respond to the Council's recommendation.)

Explanation. The Council made its recommendation after considering over 600 comments received on a similar proposal published for public review in January 1980. The recommended policy statement would generally prohibit individuals associated with financial institutions from personally profiting from the sale of credit life insurance to loan customers by requiring that income from such sales be credited to the financial institution. However, the policy statement would permit crediting such income to service corporations or to affiliated organizations, where appropriate, if the financial institution making the loan receives "reasonable compensation" for its role in selling credit life insurance. It would also allow employees and officers of financial institutions to participate in the income from credit life insurance sales under a bonus or incentive plan, not to exceed 5 percent of the recipient's annual salary. The recommended statement calls for compliance within two years of its effective date by financial institutions not already subject to a rule or policy statement on the disposition of credit life insurance income. The Council noted, in making its proposal, that NCUA regulations already prohibit federal credit unions and their employees from receiving any remuneration for acting as an agent for a credit life company.
The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

Introduction

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 36,000 domestically chartered banks and thrift institutions which, on June 30, 1980, held total assets of over $2.5 trillion. The Federal Reserve Board and the Federal Home Loan Bank Board also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

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

The FRB was established in 1913. It is headed by a seven-member Board of Governors. Each member is appointed by the President, with the advice and consent of the Senate, for a 14-year term. Subject to confirmation by the Senate, the President selects two board members to serve 4-year terms as Chairman and Vice Chairman. In activities most relevant to the work of the Council, the FRB:

- Examines, supervises and regulates state member banks, bank holding companies, and Edge and Agreement Corporations;
- Approves or denies applications for mergers and acquisitions by state member banks and bank holding companies; and
- Approves or denies applications for foreign operations of member banks and has residual supervisory responsibility for U.S. offices of foreign banks.

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

The funding for the Reserve Banks is derived from interest received on Treasury and federal agency securities held as assets by the Reserve Banks. The funds for such investments are derived partially from non-interest earning reserves which member banks 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 FRB which are used to meet the agency’s expenses.

The Federal Deposit Insurance Corporation (FDIC)

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

The FDIC provides:

- Deposit insurance for commercial banks and state-chartered mutual savings banks;
- Ongoing supervision of FDIC-insured, state-chartered commercial and mutual savings banks that are not members of the Federal Reserve System; and
- Services as trustee and receiver of all closed national banks, and as receiver of closed insured state-chartered banks.

The bank supervision functions of the FDIC are shared with state and other federal authorities. All national banks and state banks that are members of the Federal Reserve System must be insured by the FDIC. Nonmember state banks may apply for FDIC deposit insurance. The FDIC examines and supervises those banks under its purview that are not examined by the other federal regulators, approves or denies their applications for structural or corporate changes, and rules on applications for insurance.
The FDIC is organized geographically into 14 regions, each of which is headed by a regional director. The Corporation is funded by assessments on average total deposits of insured banks.

The Federal Home Loan Bank Board (FHLBB)

The FHLBB was established in 1932. It is headed by a bipartisan three-member Board appointed by the President, with the advice and consent of the Senate. Full term appointments are for 4 years, although uncompleted terms are filled only to completion. The Board is headed by a Chairman, named by the President. The FHLBB supervises the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation (FSLIC) and regulates federally-chartered savings and loan associations. Supervision of FSLIC-insured, state-chartered savings and loan associations is shared between the FHLBB and the chartering state. In addition, Title XII of Public Law 95-630 provided for a limited, new class of federal institution, the federal mutual savings bank. Such institutions are chartered and regulated by the FHLBB, and their deposits are insured by the FSLIC. At year-end 1980, the FHLBB had accepted three former state-chartered mutual savings banks for conversion to federal charter under this new authority.

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

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

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

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

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

The National Credit Union Administration (NCUA)

The NCUA was created in 1970 as the successor to the Bureau of Federal Credit Unions established in 1934. The purpose of the NCUA is to charter, examine, supervise and provide share insurance for all federal credit unions. The NCUA also provides insurance for those state-chartered credit unions which apply and are accepted. Additionally, Title XVIII of Public Law 95-630 created, within the agency, a National Credit Union Central Liquidity Facility to improve the general financial stability of member credit unions by assisting them to meet their liquidity needs. Membership in the facility is open to all federal and state credit unions that meet the membership requirements.

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

Major responsibilities of the NCUA are:
- Chartering federal credit unions;
- Supervising federal credit unions;
- Examining federal credit unions;
- Providing administrative services for federal credit unions;
- Administering the National Credit Union Share Insurance Fund (NCUSIF); and
- Managing the Central Liquidity Facility.

In addition, the NCUA has statutory authority to examine and supervise NCUSIF-insured, state-chartered credit unions, although the current practice is to accept examination reports prepared by state supervisory authorities. The NCUA is financed by operating fees assessed against federal credit unions which it examines and by share insurance premiums received from NCUSIF-insured credit unions.

The Office of the Comptroller of the Currency (OCC)

The OCC was established in 1863 as a bureau of the Treasury Department. It is headed by the Comptroller who is appointed by the President, with the advice and
consent of the Senate, for a 5-year term. The OCC regulates national banks through its powers to:

- Approve or deny applications for new charters, branches, mergers, or other changes in corporate or banking structure;
- Examine the national banks and their affiliates;
- Take various supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing bank practices, issuance of cease-and-desist orders, and assessment of civil money penalties; and
- Issue rules and regulations concerning banking operations, and governing bank lending and investment practices and corporate structure.

The OCC is organized geographically into 14 regions, each of which is headed by a regional administrator. The Office is funded through assessments on the assets of national banks and by fees charged to national banks and other applicants for certain regulatory approvals.
# ASSETS, LIABILITIES and NET WORTH
of U.S. Commercial Banks and Thrift Institutions\(^1\)
for June 30, 1980
(in billions of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>U.S. Commercial Banks(^2)</th>
<th>U.S. Branches and Agencies of Foreign Banks</th>
<th>Mutual Savings Banks</th>
<th>Savings and Loan Associations</th>
<th>Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total National State Member Non-Member</td>
<td>Foreign Banks</td>
<td>Federal Charter State Charter Federal Charter State Charter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. TOTAL ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Total loans and lease receivables (net)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Loans secured by real estate(^3)</td>
<td>1,671 1,035 339 372</td>
<td>123</td>
<td>150</td>
<td>331</td>
<td>252</td>
</tr>
<tr>
<td>2. Consumer loans(^4)</td>
<td>846 146 51</td>
<td>(___)</td>
<td>2</td>
<td>89</td>
<td>281</td>
</tr>
<tr>
<td>3. Commercial and industrial loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. All other loans and lease receivables(^5)</td>
<td>402 234 76</td>
<td>53</td>
<td>38</td>
<td>1</td>
<td>*</td>
</tr>
<tr>
<td>5. LESS: Allowance for possible loan losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>B. Federal funds sold and securities purchased under agreements to resell</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>C. Cash and due from depository institutions(^6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Securities and other obligations(^7)</td>
<td></td>
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<td></td>
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<tr>
<td>4. Obligations of State and local governments(^8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5. Other securities</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>E. Other Assets(^9)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

| II. TOTAL LIABILITIES\(^10\) | 2,508 978 322 343 | 123 | 141 | 313 | 238 | 34 | 17 |
| A. Total deposits and shares\(^11\) | 2,082 806 260 323 | 34 | 135 | 272 | 204 | 32 | 16 |
| B. Fed. funds purchased and securities sold under agreements to repurchase |
| C. Other liabilities| 133 28 | 14 | 33 | 3 | 26 | 23 | 2 | 1 |
| D. Other liabilities\(^13\) |
| III. NET WORTH\(^10\) | 148 57 | 17 | 29 | \(\_\_\_\) | 10 | 18 | 14 | 2 | 1 |

<table>
<thead>
<tr>
<th>Memorandum: Number of institutions reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>36,600 4,426 981 9,001</td>
</tr>
</tbody>
</table>

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

Symbols Appearing in Table
\* = Less than $500 million
\# = Not available separately
\@ = Not applicable

Footnotes to Table
1. The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the FDIC, FSLIC or NCUSIF. All branches and agencies of foreign banks in the United States, but excluding any in Puerto Rico and U.S. territories and possessions, are covered whether or not insured. The table excludes Edge and Agreement corporations that are not subsidiaries of U.S. commercial banks.
3. Loans secured by residential property, commercial property, farmland (including improvements) and unimproved land, and construction loans secured by real estate. For savings and loan associations, also includes mortgage-backed securities, mortgage loans in process, and wrap-around loans.
4. 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 in installment loans.
5. 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), and miscellaneous types of loans.
6. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions except savings and loan associations, which do not report these assets separately.
7. Government and corporate securities, including mortgage backed securities and loans to states and political subdivisions and to U.S. government agencies and corporations. For savings and loan associations, also includes cash and due from depository institutions and excludes mortgage backed securities.
8. U.S. Treasury securities and securities of and loans to U.S. government agencies and corporations, except for savings and loan associations which do not report these securities separately.
9. Securities of and loans to states and political subdivisions and public authorities, except for savings and loan associations which do not report these securities separately.
10. Customers' liabilities on acceptances, real property owned, various accrual accounts and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For savings and loan associations, also includes equity investment in service corporation subsidiaries.
11. Includes subordinated debt.
12. Demand, savings and time deposits including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks and mutual savings banks; credit balances at U.S. agencies of foreign banks; share balances at savings and loan associations, also includes cash and due from depository institutions and excludes mortgage backed securities.
13. Loans secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single payment loans. Net of unearned income in installment loans.
14. Excluding bank holding companies.
15. Includes mortgage backed securities and loans to states and political subdivisions and to U.S. government agencies and corporations. For savings and loan associations, also includes cash and due from depository institutions and excludes mortgage backed securities.
16. U.S. Treasury securities and securities of and loans to U.S. government agencies and corporations, except for savings and loan associations which do not report these securities separately.
17. Securities of and loans to states and political subdivisions and public authorities, except for savings and loan associations which do not report these securities separately.
18. Customers' liabilities on acceptances, real property owned, various accrual accounts and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For savings and loan associations, also includes equity investment in service corporation subsidiaries.
19. Includes subordinated debt.
20. Demand, savings and time deposits including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks and mutual savings banks; credit balances at U.S. agencies of foreign banks; share balances at savings and loan associations, also includes cash and due from depository institutions and excludes mortgage backed securities.
associations and credit unions, including certificates of deposit, NOW accounts, share draft accounts, etc. For U.S. commercial banks, includes $285 billion deposits in foreign offices, branches in U.S. territories and possessions, and Edge and Agreement subsidiaries.

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

14. Depository institutions' own mortgage borrowing, liability for capitalized leases, liability on acceptances executed, various accrual accounts, and miscellaneous liabilities. For U.S. branches and agencies of foreign banks, also includes net due to head office and other related institutions. For savings and loan associations, also includes offset items for loans in process and for wrap-around loans.

15. Capital stock, surplus, capital reserves, undivided profits, etc.
The following report was prepared by the Subcommittee on Shared National Credits of the Task Force on Supervision, based on material presented to the Examination Council in August 1980.

The current Shared National Credits Program was developed in an effort by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation to provide for the uniform evaluation of multi-million dollar loans shared by two or more banks and to conserve examiner resources needed to review these large, complex credits. Both of these objectives are being achieved through the cooperative efforts of the three federal bank regulatory agencies and 10 state banking departments which have chosen to participate in the program. The subcommittee estimates, for example, that in 1980 the Shared National Credits program saved the Federal agencies alone the work of 70 examiners by eliminating duplicate appraisals of shared credits.

Background

The Office of the Comptroller of the Currency (Comptroller) introduced a program providing for standardized reviews of Shared National Credits (SNC) at national banks in 1975. The Board of Governors approved the implementation of a similar program in Federal Reserve examinations of state member banks in the following year. In April 1977, the Federal Reserve, Comptroller and the Federal Deposit Insurance Corporation (FDIC) joined together in the establishment of a joint program for the uniform review and classification of SNC. The examining departments of interested state authorities were also invited to participate. The States of California, Connecticut, Georgia, Massachusetts, Michigan, New York, Ohio, Pennsylvania and Tennessee participated in the program in 1980.

Under the program, an SNC is defined as any loan in an original amount of $20 million or more, shared at inception by two or more banks under formal lending agreements, or loans of this size wherein portions are sold to one or more banks with the purchasing bank assuming its pro rata share of the credit risk. The basic purposes of the SNC program are: (1) to provide for uniform treatment of large multibank credits in reports of examination, and (2) to conserve examiner resources. Prior to the implementation of the program, the conclusions concerning a particular credit reviewed at each of the sharing banks by different examiners were not always the same. A credit could be passed at one bank and criticized at another. Such differences could exist within examining agencies as well as between those agencies. The more efficient utilization of examiner personnel stems from the elimination of duplicate reviews of the same credit at various banks sharing in that credit. Absent the SNC program, examiners had to read the credit file, discuss findings with management and prepare a loan writeup at each bank. Under the SNC program this process is performed just once at the agent bank and the loan writeup is then mailed to each bank participating in the credit in question.* The savings resulting from the elimination of duplicate reviews have been substantial, particularly since 100 to 200 or more banks may participate in some SNC.

Description of the Program

The SNC program consists of three basic elements: the credit review and evaluation, the coordination and distribution of program results, and the procedure for rereview.

Credit Review and Evaluation

All SNC are reviewed and evaluated for credit-worthiness at the national or state member bank acting as the lead/agent bank by teams of three or four examiners selected from the staff of the appropriate supervisory agencies. The review teams at national banks are composed of three OCC examiners and one FDIC examiner. Teams at state member banks include one or two Federal Reserve examiners, an FDIC examiner and, in instances where a state bank regulator participates, an examiner from that department. As noted above, 10 state banking departments now participate in the program. Each team member has one vote on each loan reviewed with the majority vote determining the disposition of the loan; i.e., passed, specially mentioned or classified. The votes on virtually all credits have been unanimous, even when they are criticized or classified. Each team prepares appropriate writeups for any loan subject to criticism. The reviews begin in May when information on the borrowing firms’ results for the preceding calendar year are generally available.

Distribution of SNC Results

A central clearing unit has been established at the Federal Reserve Bank of New York for collection of SNC reports from each of the Federal Reserve Banks and the Comptroller’s Office. Data pertaining to all loans reviewed by examiners at

* Loan writeups are prepared and distributed only for credits that are criticized by the examining team.
the Comptroller's regional offices are first sent to the Washington headquarters, where all criticized loan writeups are reviewed, and then forwarded to the clearing unit in New York. The reports sent to the clearing unit include: (1) descriptions of each credit and current participants, (2) final disposition of each loan reviewed, and (3) loan writeups for each loan classified or specially mentioned.

To control the voluminous input and generate the various reports necessary under the program, an automated system has been developed to facilitate the storage and recovery of all pertinent SNC data. Detailed reports summarizing the overall results of the uniform review, as well as copies of the writeups of loans criticized, are sent to each Federal Reserve Bank and other participating federal and state agencies. Each agency distributes the material on classifications to the banks under its supervision holding participations, together with a covering letter indicating that the assigned classifications (or special mention) will apply to the credits until the next annual SNC review. Such letters also instruct banks to charge off all loss classifications within a specified time period. By mutual agreement among the federal and state agencies, the distribution of SNC material on classifications is made within 70 days from the start of the annual review.

Summary of 1980 Results

The SNC program has expanded steadily in its four years of existence. The 1980 reviews covered 1,254 credit lines, an increase of about 20% over the prior year, and 50% higher than the number of loans included in the initial reviews in 1977. The inclusion of real estate related credits and certain international credits during the 1978 and subsequent reviews accounted for part of this increase in the number of SNC. Inflation, by increasing the size of shared credits to the $20 million threshold for inclusion in the program, accounted for the balance of the increase.

Results of Shared National Credits Reviews

<table>
<thead>
<tr>
<th>Number of credit lines reviewed:</th>
<th>834</th>
<th>919</th>
<th>1,056</th>
<th>1,254</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of credit lines criticized, by degree of criticism:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Special mention</td>
<td>42</td>
<td>29</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>• Substandard</td>
<td>110</td>
<td>90</td>
<td>85</td>
<td>71</td>
</tr>
<tr>
<td>• Doubtful</td>
<td>24</td>
<td>21</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>• Loss</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Total lines criticized:</td>
<td>180</td>
<td>145</td>
<td>126</td>
<td>126</td>
</tr>
<tr>
<td>Number of lines criticized as percent of total number of lines reviewed:</td>
<td>22%</td>
<td>16%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Amount of lines reviewed (in millions of dollars):</td>
<td>N/A</td>
<td>N/A</td>
<td>$78,342</td>
<td>$113,346</td>
</tr>
<tr>
<td>Amount of criticized lines, by degree of criticism (in millions of dollars):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Special mention</td>
<td>$ 2,075</td>
<td>$ 3,926</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Substandard</td>
<td>6,207</td>
<td>5,596</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Doubtful</td>
<td>790</td>
<td>1,604</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Loss</td>
<td>61</td>
<td>95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount of lines criticized:</td>
<td>N/A</td>
<td>N/A</td>
<td>$ 9,093</td>
<td>$11,345</td>
</tr>
<tr>
<td>Amount of lines criticized as percent of total amount of lines reviewed:</td>
<td>N/A</td>
<td>N/A</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Number of banks participating in credit lines reviewed:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• State member</td>
<td>101</td>
<td>83</td>
<td>85</td>
<td>89</td>
</tr>
<tr>
<td>• State nonmember</td>
<td>239</td>
<td>237</td>
<td>270</td>
<td>330</td>
</tr>
<tr>
<td>• National</td>
<td>465</td>
<td>393</td>
<td>422</td>
<td>459</td>
</tr>
<tr>
<td>Total banks participating in reviewed credits:</td>
<td>805</td>
<td>733</td>
<td>777</td>
<td>878</td>
</tr>
</tbody>
</table>
Appraisal of the Program

The SNC program attained its two goals, the uniform treatment of large multi-bank credits in examination reports and a more cost-effective utilization of examiner resources. Based on an analysis of the 1980 SNC review, it is estimated that the SNC program has saved the federal agencies the equivalent of about 70 full-time examiners in that year. These estimates project that it takes, on average, two days for an examiner to review, analyze, discuss and, where necessary, write up a credit of the type included in the SNC program. Savings by state banking departments also should be significant.

Bankers generally have been enthusiastic about the program primarily because of the reduction in time needed for loan review during the regular examination. The fact that SNC classifications apply uniformly to all banks has also served to reduce commercial bank criticism of disparate examination standards among the supervisory agencies. Initial fears that the program would result in restricting future credit availability for those borrowers whose SNC loans were criticized seem to have been unwarranted. No instances have been noted where borrowers have been “black listed” because of this program.

Subcommittee on Shared National credits

Frederick C. Schadrack, Chairman (FRBNY)
Richard C. Wanlin (OCC)
Patrick J. McDonough (FDIC)
A. Title X of Public Law 95–630

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

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

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

Functions of the Council

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

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

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

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

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

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

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

State Liaison

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

Access to Information by the Council

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

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

(c) In addition, the Council may—

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

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

Audits by the Comptroller General

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

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

(2) striking out in subsection (e)(2) "(1)", and (C)" and inserting in lieu thereof "(C), and (D)".
B. FFIEC Examiner Education Program
Course Descriptions (1980)

Instructor Training Course
This one-week course prepares examiners for classroom teaching assignments. Students learn to prepare lesson plans, give three classroom presentations, and critique each other's presentations as shown on video tape. Students learn the techniques of lecturing, leading discussion, and integrating the use of audio-visual aids. Attendees should be experienced examiners who anticipate teaching assignments in their agency or in Council courses.

Management Workshop
This one-week course emphasizes the managerial skills needed by examiners. Attendees bring survey instruments completed by themselves and by colleagues or subordinates, administer self-assessment questionnaires and participate in small group discussion sessions. Lectures, films, video tapes, and slides present the basic concepts. The desired results are an improved self-perception as a manager and a greater knowledge of good applied management techniques. Participants should have a minimum of five years examining experience and some previous training in management.

Basic Entry Level Trust School
This course, now ready for Council approval, introduces students to the functions and organization of a trust department, the duties and responsibilities of a fiduciary, and the role of the regulatory agencies concerning their supervisory responsibilities. This two-week course utilizes lecture, group discussion, and case studies. Participants are expected to have either 3 to 6 months of experience as a trust examiner or 18 to 24 months of commercial examining experience.

Basic International Banking
Students in this one-week course learn the functions, language, and concepts of international banking, as well as the role of the regulatory agencies. Topics include *nastro* and *vastro* accounts, cable and telex operations, international lending, letters of credit, bankers acceptances, and foreign exchange. Attendees are required to have a minimum of one year of experience as an examiner.

Fundamentals of Data Processing
This entry level course presents basic computer language and systems, and the creation, utilization, and storage of programs and data. Emphasis is placed on internal controls necessary from a supervisory standpoint. Although not designed to produce overall expertise in electronic data processing, the one-week course allows examiners to become familiar with key terminology and concepts necessary to operate effectively in today's increasingly automated financial environment. Candidates for attendance should be assistant examiners with a minimum of one year of experience.

EDP Work Program School
This two-week program instructs EDP examiners in the techniques of examination of a data processing center, utilizing the Interagency EDP Work Program and the Interagency EDP Handbook. The examiner learns to draft technical comments for the report of examination and should be capable of completing the EDP work program in its entirety. Attendees should have completed a basic course equivalent to the Council's Fundamentals of Data Processing, participated in a minimum of two EDP examinations, and must meet other requirements determined by their agency.

Trust Workshop
This conference emphasizes current events in the fiduciary field. Topics vary from session to session and the workshop features guest speakers from the trust industry. Senior trust examination personnel are designated as attendees at this week-long conference.

Consumer Compliance Examination School
This new two-week school, completely revised and updated, has now been successfully piloted and 20 sessions are planned for 1981. Topics include fair housing, equal credit opportunity, fair credit reporting, truth-in-lending, reimbursement, interest on deposits, Community Reinvestment Act, electronic fund transfers, and many other topics. Through working with loan files and case studies, students learn to apply knowledge of the regulations to their agency's examination procedures for consumer compliance. Participants are required to have taken part in at least one consumer examination, preferably two or more.

Courses Scheduled for Development in 1981
- Municipal Securities Dealer Activity
- White Collar Crime
- Intermediate International Banking
- Small Financial Institutions EDP
To the Federal Financial Institutions Examination Council Members:

We have examined the combining balance sheet of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL as of December 31, 1980, and the related combining statements of revenues, expenses and changes in fund balance, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the combining financial statements referred to above present fairly the financial position of the Federal Financial Institutions Examination Council as of December 31, 1980, and its revenues and expenses and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

COMBINING BALANCE SHEET AS OF DECEMBER 31, 1980
(With comparative totals for 1979)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th></th>
<th></th>
<th>1979</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operations</td>
<td>Loading Facility</td>
<td>Examiner Education</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>ASSETS:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, held by Board of Governors of the Federal Reserve System</td>
<td>$77,424</td>
<td>$50,215</td>
<td>$89,254</td>
<td>$116,463</td>
<td>$238,513</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>—</td>
<td>119,790</td>
<td>36,625</td>
<td>156,415</td>
<td>—</td>
</tr>
<tr>
<td>Office furniture and equipment, at cost (Note 2)</td>
<td>40,274</td>
<td>—</td>
<td>17,885</td>
<td>58,159</td>
<td>33,376</td>
</tr>
<tr>
<td>Total assets</td>
<td>$117,698</td>
<td>$69,575</td>
<td>$143,764</td>
<td>$331,037</td>
<td>$271,889</td>
</tr>
<tr>
<td>LIABILITIES:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$13,200</td>
<td>$5,500</td>
<td>$63,065</td>
<td>$81,765</td>
<td>$45,474</td>
</tr>
<tr>
<td>Advances from member organizations</td>
<td>—</td>
<td>42,414</td>
<td>81,720</td>
<td>124,134</td>
<td>78,255</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>13,200</td>
<td>47,914</td>
<td>144,785</td>
<td>205,899</td>
<td>123,729</td>
</tr>
<tr>
<td>COMMITMENT (Note 4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FUND BALANCE:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in office furniture and equipment</td>
<td>40,274</td>
<td>—</td>
<td>17,885</td>
<td>58,159</td>
<td>33,376</td>
</tr>
<tr>
<td>Operating</td>
<td>64,224</td>
<td>21,661</td>
<td>(18,906)</td>
<td>66,979</td>
<td>114,784</td>
</tr>
<tr>
<td>Total fund balance</td>
<td>104,498</td>
<td>21,661</td>
<td>(1,021)</td>
<td>125,138</td>
<td>148,160</td>
</tr>
<tr>
<td>Total liabilities and fund balance</td>
<td>$117,698</td>
<td>$69,575</td>
<td>$143,764</td>
<td>$331,037</td>
<td>$271,889</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this balance sheet.
## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
### FOR THE YEAR ENDED DECEMBER 31, 1980
(With comparative totals for 1979)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments to member organizations (Note 3)</td>
<td>$213,280</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 213,280</td>
<td>$237,322</td>
</tr>
<tr>
<td>Rentals (Note 4)</td>
<td>—</td>
<td>1,312,600</td>
<td>—</td>
<td>1,312,600</td>
<td>—</td>
</tr>
<tr>
<td>Tuition</td>
<td>—</td>
<td>—</td>
<td>136,925</td>
<td>136,925</td>
<td>—</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>162</td>
<td>—</td>
<td>280</td>
<td>442</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$213,442</td>
<td>1,312,600</td>
<td>$137,205</td>
<td>1,663,247</td>
<td>$237,322</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EXPENSES:</strong></th>
<th>1980</th>
<th>1980</th>
<th>1980</th>
<th>1979 Total</th>
<th>1979 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging facility rental (Note 4)</td>
<td>—</td>
<td>1,268,750</td>
<td>—</td>
<td>1,268,750</td>
<td>—</td>
</tr>
<tr>
<td>Salaries and related benefits (Note 3)</td>
<td>165,542</td>
<td>17,674</td>
<td>45,495</td>
<td>228,711</td>
<td>42,651</td>
</tr>
<tr>
<td>Travel</td>
<td>18,770</td>
<td>—</td>
<td>43,881</td>
<td>62,651</td>
<td>5,876</td>
</tr>
<tr>
<td>Books and subscriptions</td>
<td>309</td>
<td>—</td>
<td>34,205</td>
<td>34,514</td>
<td>324</td>
</tr>
<tr>
<td>Rental of office space (Note 3)</td>
<td>33,015</td>
<td>—</td>
<td>—</td>
<td>33,015</td>
<td>7,638</td>
</tr>
<tr>
<td>Administrative fees (Note 3)</td>
<td>7,094</td>
<td>4,515</td>
<td>4,514</td>
<td>16,123</td>
<td>14,156</td>
</tr>
<tr>
<td>Printing</td>
<td>14,219</td>
<td>—</td>
<td>1,402</td>
<td>15,621</td>
<td>8,215</td>
</tr>
<tr>
<td>Office supplies</td>
<td>3,336</td>
<td>—</td>
<td>5,383</td>
<td>8,719</td>
<td>1,664</td>
</tr>
<tr>
<td>Professional services</td>
<td>5,757</td>
<td>—</td>
<td>2,590</td>
<td>8,347</td>
<td>5,588</td>
</tr>
<tr>
<td>Postage</td>
<td>5,166</td>
<td>—</td>
<td>301</td>
<td>5,467</td>
<td>2,165</td>
</tr>
<tr>
<td>Telephone</td>
<td>3,502</td>
<td>—</td>
<td>—</td>
<td>3,502</td>
<td>885</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>394</td>
<td>—</td>
<td>455</td>
<td>849</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$257,104</td>
<td>1,290,939</td>
<td>136,726</td>
<td>1,666,269</td>
<td>89,162</td>
</tr>
</tbody>
</table>

| Revenues over (under) expenses before property additions | (43,662) | 21,661 | (1,021) | (23,022) | 148,160 |
| Property ADDITIONS (Note 2) | 6,898 | —     | 17,885  | 24,783   | 33,376   |
| Revenues over (under) expenses after property additions | (50,560) | 21,661 | (18,906) | (47,805) | 114,784 |
| FUND BALANCE, beginning of year | 148,160 | —     | —       | 148,160  | —        |
| Property additions (Note 2) | 6,898 | —     | 17,885  | 24,783   | 33,376   |
| FUND BALANCE, end of year | $154,498 | $21,661 | $(1,021) | $125,138 | $148,160 |

The accompanying notes are an integral part of this statement.
### COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1980
(With comparative totals for 1979)

<table>
<thead>
<tr>
<th>1980</th>
<th>Operations</th>
<th>Lodging Facility</th>
<th>Examiner Education</th>
<th>Total</th>
<th>1979</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOURCES OF CASH:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$213,442</td>
<td>$1,312,600</td>
<td>$137,205</td>
<td>$1,663,247</td>
<td>$237,322</td>
<td></td>
</tr>
<tr>
<td>Advances from member organizations</td>
<td>—</td>
<td>(35,841)</td>
<td>81,720</td>
<td>45,879</td>
<td>78,255</td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued liabilities</td>
<td>(32,274)</td>
<td>5,500</td>
<td>63,065</td>
<td>36,291</td>
<td>45,474</td>
<td></td>
</tr>
<tr>
<td>Total sources</td>
<td>181,168</td>
<td>1,282,259</td>
<td>281,990</td>
<td>1,745,417</td>
<td>361,051</td>
<td></td>
</tr>
<tr>
<td>USES OF CASH:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>257,104</td>
<td>1,290,939</td>
<td>138,226</td>
<td>1,688,269</td>
<td>89,162</td>
<td></td>
</tr>
<tr>
<td>Purchases of office furniture and equipment</td>
<td>6,898</td>
<td>—</td>
<td>17,885</td>
<td>24,783</td>
<td>33,376</td>
<td></td>
</tr>
<tr>
<td>Increase in accounts receivable</td>
<td>—</td>
<td>119,790</td>
<td>36,625</td>
<td>156,415</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Total uses</td>
<td>264,002</td>
<td>1,410,729</td>
<td>192,736</td>
<td>1,867,467</td>
<td>122,538</td>
<td></td>
</tr>
<tr>
<td>INCREASE (DECREASE) IN CASH</td>
<td>(82,834)</td>
<td>(128,470)</td>
<td>89,254</td>
<td>(122,050)</td>
<td>236,513</td>
<td></td>
</tr>
<tr>
<td>CASH BALANCE, beginning of year</td>
<td>160,258</td>
<td>78,255</td>
<td>—</td>
<td>238,513</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>CASH BALANCE, end of year</td>
<td>$ 77,424</td>
<td>$(50,215)</td>
<td>$ 89,254</td>
<td>$116,463</td>
<td>$236,513</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this statement.

**Notes to Financial Statements as of December 31, 1980**

1. **Organization and Purpose**

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

   - **Office of the Comptroller of the Currency**
   - **Board of Governors of the Federal Reserve System**
   - **Federal Deposit Insurance Corporation**
   - **Federal Home Loan Bank Board**
   - **National Credit Union Administration**

2. **Significant Accounting Policies**

   The Council maintains its accounts in three self-balancing funds, which have been established for the following purposes.

   - **Operations**—to account for all activities of the Council other than those activities accounted for in the two specific-purpose funds below.
   - **Lodging Facility**—to account for the costs of obtaining lodging for out-of-town examiners of the member organizations who attend training courses provided by the Council, and for the rentals charged to the member organizations.
   - **Examiner Education**—to account for the costs of providing training courses for examiners employed by the member organizations and for the related tuition charged to the member organizations.

   Property additions are recorded as a transfer from the operating fund balance to the investment in office furniture and equipment fund balance. The Council does not provide for depreciation of its property.

   The financial information shown for 1979, which covers the period March 16, 1979 (date of organizational meeting) to December 31, 1979, is included in the accompanying financial statements to provide a basis for comparison with 1980 and presents summarized totals only. Certain reclassifications of 1979 balances have been made to be consistent with the presentation adopted in 1980.

3. **Transactions with Member Organizations**

   As provided by the Act, member organizations are assessed for one-fifth of the annual budgeted operating costs and expenses of the Council. Each member organization was assessed and paid $42,656 in 1980 and $47,465 in 1979. In addition, each member organization advanced $16,344 to the Examiner Education Fund in 1980 to finance its start-up costs; these advances are repayable to the member organizations over a three-year period beginning in 1981.

The Board of Governors of the Federal Reserve System provides administrative support services to the Council on a cost-reimbursable basis. The Council reimburses the Board $16,123 in 1980 and $14,156 in 1979 for these services.

The Office of the Comptroller of the Currency provides office space for the Council. The Council reimburses the Comptroller for this office space.

The Council reimburses member organizations for the cost of salaries, employee benefits and travel expenses of personnel who perform administrative, clerical and instructional functions for the Council. Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

4. **Leasing of Lodging Facility**

   During 1980, the Council leased 125 efficiency units in Arlington, Virginia at a total cost of $1,268,750. The Council assessed the three participating member organizations for these rentals based on their actual and planned usage. The lease agreement, which can be renewed for various periods through December 1983, provides for escalation of rentals based on changes in the Consumer Price Index.

   The Council has exercised its option to extend the lease through June 30, 1981, and has increased the number of units leased to 129. Future minimum lease payments for these units are approximately $774,000 at December 31, 1980.
D. Maps of Agency District or Regional Divisions

42 Board of Governors of the Federal Reserve System
43 Federal Deposit Insurance Corporation
44 Federal Home Loan Bank Board
45 National Credit Union Administration
46 Office of the Comptroller of the Currency
The Federal Reserve System Districts