



Annual Report 1981



Letter of Transmittal

Federal Financial Institutions Examination Council
Washington, D.C.
March 31, 1982

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 1981 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,



J. Charles Partee
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 depository institutions are required to disclose under HMDA, and the aggregation of annual

HMDA data, by census tract, for each standard metropolitan statistical area.

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



Highlights of Council Actions in 1981

During 1981, the Federal Financial Institutions Examination Council took a number of significant actions, which are summarized below. More detailed statements on these and other actions by the Council are presented in "Record of Actions by the Council."

- Approved, for recommendation to the five agencies, a Uniform Community Reinvestment Act Rating System.
- Approved substantive and technical amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 and recommended to the five agencies that the proposed amendments be submitted for congressional consideration.
- Approved a report to the House and Senate Banking Committees on the feasibility and usefulness of small-business loan disclosures by financial institutions.
- Approved a recommendation to the five agencies that the Report of Crime (P-2 Report) be eliminated.
- Approved a policy statement and supervisory policy on enforcement of the Equal Credit Opportunity and Fair Housing Acts and recommended their adoption by the five agencies.
- Approved a requirement that the Reports of Condition and Income be filed on an accrual-accounting basis beginning January 1, 1983 for banks with assets of \$10 million or more and January 1, 1985 for banks with assets under \$10 million. Also recommended to the three banking agencies the adoption of a supervisory accounting guideline that would require banks to keep their books on an accrual-accounting basis with the same implementation dates as the reporting requirement.
- Approved a definition of bank capital to be used in determining bank capital adequacy for supervisory purposes and recommended its adoption by the three banking agencies.
- Approved a policy for distribution of the Uniform Bank Performance Report to the public.

Administration of the Council

Regular meetings of the Council are held at 2:15 p.m. on the first Thursday of each month. A second regular meeting may be held on the third Thursday of the month if the amount of Council business requires it. 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. During 1981, the Council's examiner education program was funded through tuition fees paid by the agencies that sent student examiners to Council schools. Beginning in 1982, the fixed costs of the examiner education program will be recovered through equal assessments on the five agencies, while the program's variable costs will be recovered through student tuition fees. 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 use 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 defining key issues;
- undertake special projects and studies as requested by the Council;
- work closely with members of the State Liaison Committee to ensure adequate communication between the members, the Council, and the interagency staff groups;
- coordinate public information activities, including, 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 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 the 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. Also, the Council has established an Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agencies' staff efforts in support of the Council. The Executive Secretary of the Council is an ex officio member of each of the five interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on behalf of the Council-related projects in 1981 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 1981 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 advises the Council in all areas of Council responsibility and helps to ensure effective federal-state communication on matters of financial institution supervision and examination. Under the Council's rules of operation, the Conference of State Bank Supervisors, the National Association of State Savings and Loan Supervisors, and the National Association of State Credit Union Supervisors each designates one state supervisor to serve on the State Liaison Committee. The remaining two positions on the Committee are filled by state officials selected by the Council. The Committee currently meets as a group with the Council three times a year. In addition, the Committee is represented by at least one member at each meeting of the Council.

Organization, December 31, 1981

Members of the Council

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

William M. Isaac, *Vice Chairman*
Chairman
Federal Deposit Insurance
Corporation (FDIC)

Edgar F. Callahan
Chairman
National Credit Union
Administration (NCUA)

C. T. Conover
Comptroller of the Currency
Office of the Comptroller
of the Currency (OCC)

Richard T. Pratt
Chairman
Federal Home Loan Bank
Board (FHLBB)

State Liaison Committee

Edward D. Dunn, *Chairman*
Commissioner
Department of Banking
and Finance
Georgia

John C. Foley
Assistant Director
Department of Banking
and Finance
Nebraska

Gerald T. Mulligan
Commissioner
Division of Banks
Massachusetts

John B. Olin
Superintendent of Banks
Oregon

David L. Paul
Commissioner, Savings and
Loan Associations
Colorado

Council Office of the Executive
Secretary

Robert J. Lawrence
Executive Secretary

David K. Schweitzer
Deputy Executive Secretary

Agency Liaison Group

Earl F. Bradley (NCUA)
D. James Croft (FHLBB)
Jack E. Edgington (FDIC)
Paul M. Homan (OCC)
Samuel H. Talley (FRB)

Legal Advisory Group

Robert E. Mannion, *Chairman* (FRB)
Thomas A. Brooks (FDIC)
Robert M. Fenner (NCUA)
John M. Miller (OCC)
Thomas P. Vartanian (FHLBB)

Interagency Staff Task Forces

Consumer Compliance

Jerauld C. Kluckman
Chairman (FRB)
Linda M. Cohen (NCUA)
Clinton C. Futrell (FDIC)

Cynthia N. Graae (FHLBB)
Robert R. Klinzing (OCC)

Examiner Education

Martin F. Kushner
Chairman (NCUA)
John M. Denkler (FRB)
Mary T. Mitchell (FDIC)
Robert J. Moore (FHLBB)
H. Joe Selby (OCC)

Reports

Rhoger H. Pugh, *Chairman* (OCC)
William E. Dobryskowski (FHLBB)
V. A. (Mike) Fischer (NCUA)
Mary T. Mitchell (FDIC)
Stanley J. Sigel (FRB)

Supervision

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

Surveillance Systems

Robert F. Mialovich
Chairman (FDIC)
Robert A. Eisenbeis (FRB)
Parker H. Jayne (FHLBB)
William E. Martin (OCC)
Joseph W. Visconti (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 those schools available to employees of state supervisory agencies under conditions specified by the Council.

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

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

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

Task Force on Consumer Compliance

The 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's area of responsibility is those laws and regulations that are "consumer related," that is, those passed by Congress or promulgated by the agencies to protect consumers conducting business with financial institutions. 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 Federal Trade Commission Improvement Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfers Act, the Community Reinvestment Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, and Federal Reserve Regulation Q (Interest on Deposits). Also, the task force addresses issues relating to the agencies' flood insurance regulations, advertising regulations, and general civil rights policies and regulations dealing with lending practices. It also addresses state consumer law issues that have an impact on the agencies' examination programs. The task force is composed of senior agency personnel who are experienced in the area of consumer compliance.

Activities of the Task Force

The task force oversees the work of two standing committees as well as

ad hoc interagency project groups. The standing committees, the Community Reinvestment Act (CRA) Committee and the Fair Lending Committee, each contributed greatly to 1981 task force achievements.

The CRA Committee was established to foster uniform implementation of the Community Reinvestment Act of 1977. It also addresses CRA-related issues of concern to community groups and others interested in agency implementation of CRA. To accommodate community groups interested in agency CRA protest procedures, the committee wrote the pamphlet "A Citizen's Guide to CRA." The pamphlet was approved by the Council in late 1980 and published in the spring of 1981. By year-end 1981, 33,000 pamphlets had been distributed to community groups, financial institutions, and agency personnel.

The CRA Committee also developed the Uniform CRA Assessment Rating System, which was designed to give specific guidance to those rating an institution's CRA performance and to provide uniform CRA-performance information to those reviewing applications subject to CRA. The system was approved by the Council and adopted by the banking agencies effective July 1, 1981.

The second standing committee, the Fair Lending Committee, was established to address issues related to the uniform enforcement of the Equal Credit Opportunity Act, the Fair Housing Act, and other fair-lending statutes and regulations. During 1981, the Council approved the Equal Credit Opportunity and Fair Housing Acts Enforcement Policy Statement and a supervisory policy to be used in implementing the policy statement. Development of the enforcement policy was begun by an interagency committee in 1978

and was continued by the Fair Lending Committee in 1979, after the Council had been created. The statement identifies the following types of violations of the Acts as particularly serious, requiring both retrospective and prospective corrective action by financial institutions:

- discouraging applicants on a prohibited basis, in violation of the Fair Housing Act or section 202.3 or 202.5(a) of Federal Reserve Regulation B
- using credit criteria in a discriminatory manner when evaluating applications, in violation of the Fair Housing Act or Sections 202.4 through 202.7 of Regulation B
- imposing different terms on a prohibited basis, in violation of the Fair Housing Act or section 202.4 or 202.6(b) of Regulation B
- requiring cosigners, guarantors, or the like on a prohibited basis, in violation of section 202.7(d) of Regulation B
- failing to furnish separate credit histories as required by section 202.10 of Regulation B, and
- failing to provide adequate notice of adverse action under section 202.9 of Regulation B

The underlying supervisory policy intended for agency use details the specific corrective actions that financial institutions would generally be required to take if the agencies discover any of the six types of violations. It also allows the agencies to require other corrective actions when the situation warrants deviation from the policy. The policy statement was adopted by the FDIC, FRB, NCUA, and OCC. The supervisory policy was adopted by the FRB, NCUA, and OCC.

In 1981, the task force agreed to develop uniform examination procedures for the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, and the agencies' flood insurance regulations. By

year-end, each of the targeted examination procedures had been developed by the task force.

The following are other projects completed by the task force:

- a comparison of agency complaint handling activities
- development of the tables to be used for the aggregation of Home Mortgage Disclosure Act statements
- a response to the GAO report "Financial Regulators Need to Focus on Substantive Principles of Consumer Legislation During Compliance Examinations"
- a response to the NCUA proposal to release consumer compliance examination reports to third parties

Two major projects begun in 1981 will not be completed until 1982: the study required by section 340(e) of the 1980 Home Mortgage Disclosure Act Amendments and the uniform examination procedures for the Truth in Lending Act (Regulation Z).

Section 340(e) of the 1980 Home Mortgage Disclosure Act Amendments requires the Council to conduct a study "on the feasibility and desirability of establishing a unified system for enforcing fair lending laws and regulations, implementing the CRA and satisfying the disclosure requirements of HMDA." The task force's Fair Lending Committee has begun developing materials that will be included in the study, which is to be reported to Congress by September 30, 1982.

An interagency project group began the process of developing uniform examination procedures for the Truth in Lending Act (Regulation Z) in early 1980. However, in March of that year Congress substantially amended the Act, directing the Federal Reserve Board to rewrite Regulation Z by March 31, 1981, to become effective on October 1, 1982. Work towards uniform examination procedures was thus delayed and should be completed in the first quarter of 1982.

In 1982, the task force plans to continue promoting uniformity in the agencies' enforcement of consumer laws. The following activities are targeted for completion in 1982:

- a videotape to assist examiners conducting outside contacts for the Fair Housing and/or Community Reinvestment Act segments of the consumer compliance examination
- uniform examination procedures for Federal Reserve Regulation C and the Home Mortgage Disclosure Act
- a study to determine the need for interpretive questions and answers on the Uniform Community Reinvestment Act Assessment Rating System
- a study to determine the need to update Uniform Community Reinvestment Act Examination Procedures
- updating of the demographic material used by examiners during a consumer compliance examination
- a study to determine whether information captured in the Home Mortgage Disclosure Act Aggregation System holds any cost-effective utility for the consumer compliance examination process
- maintenance of the lesson plans included in the Council's Consumer Compliance School

The task force will also continue to address technical issues relating to agency implementation of Council-approved policies and examination procedures.

Task Force on Examiner Education

The Council's Task Force on Examiner Education fosters and supervises the Council training program, which at the end of 1981 consisted of nine 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, the task force established several specific objectives:

- identification of examiner training needs and development of programs to meet those needs
- review of training curricula and instructor standards to provide high quality programs
- establishment of appropriate training facilities
- assistance in developing training opportunities for examiners of state and foreign financial institution supervisory agencies

Activities of the Task Force

In 1981, the task force concentrated its efforts on refinement and presentation of existing Council courses and on the development of new courses. The following examiner training courses were conducted in 1981:

Course Title	No. of Sessions	No. of Examiners Trained
Instructor Training	16	145
Management Workshop	16	329
Fundamentals of Data Processing	15	281
EDP Work Program	6	105
Basic Entry Level Trust School	7	197
Trust Workshop	2	46
Basic International Banking	7	162
Intermediate International Banking	5	144
Consumer Protection School	11	293
	85	1,702

These figures show a 26 percent increase over 1980 in the number of examiners trained and a 37 percent increase in the number of sessions conducted. The majority of these classes were held at the Council's training center in Rosslyn, Virginia, which is being subleased from the FDIC on an actual-usage basis. This facility will probably continue to be used in the foreseeable future.

In addition to classes in Rosslyn, Virginia, the Council conducted a

limited number of regional training sessions in 1981. Regional training sessions permit the Council to conduct high-quality interagency training programs while reducing member agencies' travel costs. It is anticipated that the number of regional sessions will be increased in 1982.

A major study of existing Council courses and potential new courses was undertaken in 1981. The objective of the study was to determine the best method of delivering uniform examiner training in areas where uniform examination procedures have yet to be developed. The findings of this study indicated that, in certain areas, the Council could best serve its member agencies by developing uniform course material. This material would be developed cooperatively by the five agencies and would be designated the core material for the agencies' in-house training programs. This core material would become the base information from which each agency would then tailor its training program to meet its own particular needs. Such an approach would —

- bring together experts from each agency to develop the highest-quality course material
- reduce the amount of staff time each agency would have to devote to the development of new course material
- retain the ability of each agency to mold the course to meet individual needs, and
- reduce the time it would take to develop an interagency training program should uniformity in a subject area be reached.

In 1981, the Consumer Compliance Examination School, the Basic Entry Level Trust School, and Fundamentals of Data Processing were identified as courses suitable to be designated core material courses.

During 1982, the task force will continue to identify subject areas in which uniform training, either inter-

agency or core, would be appropriate. The major emphasis in 1982 will most likely be on the development of core material. This will continue to be necessary until further progress is made in reaching uniformity in examination philosophy and procedures.

In 1981, the Council adopted a task force proposal to reduce significantly the tuition charge for attending Council courses in 1982. This will be made possible by including in the Council's operating budget the salaries and fixed costs of conducting the education program. The reduced tuition will make Council courses more attractive to both federal and state examiners.

An apartment facility was leased during 1980 to provide housing for the students attending Council-approved courses and other agency training sessions in the Washington metropolitan area. In 1981, it is estimated that the use of leased housing, as opposed to ordinary commercial housing, saved the agencies over \$400,000. During the latter half of 1981, the Council renegotiated the lease on the apartments to obtain a substantial reduction in the cost of the lease, which is renewable every six months through 1983.

Task Force on Reports

Section 1006(c) of Public Law 95-630 requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports.

The task force has also been given other responsibilities related to the development of interagency uniformity in the reporting of periodic information needed for effective supervision. The task force is thus concerned with such issues as development and interpretation of reporting instructions; application of accounting standards to specific transactions; publication and distri-

bution of reports; development and application of processing standards; monitoring of data quality; assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects relating to these subjects that the Council may assign.

Activities of the Task Force

Revision of Bank Condition and Income Reports

The task force is working toward the revision of quarterly Reports of Condition and Income (call reports) to meet changing supervisory needs and the changing banking environment. An important objective is to eliminate overlapping and obsolete information while including new data needed for supervisory and surveillance purposes. Better supervisory data can enhance off-site surveillance and may permit decreasing the frequency of on-site examinations, thereby resulting in savings to both the agencies and the banks. However, the requirements imposed by the Paperwork Reduction Act of 1980 must also be satisfied. The larger problem of increasing the degree of uniformity between the reports filed by commercial banks, and those filed by savings and loan associations and credit unions, will be addressed later.

The task force has set March 31, 1983 as the date for implementation of new Reports of Condition and Income for all insured banks. To meet this target, a number of major milestones must be reached in 1982, including consultation with the Inter-Association Committee on Bank Accounting, approval by the Council and the three banking agencies, publication for public comment, and approval by the Office of Management and Budget (pursuant to the Paperwork Reduction Act of 1980). The task

force addressed the project in 1981 and devoted its time and attention to resolving preliminary issues affecting it. Special surveillance needs were identified in conjunction with the Task Force on Surveillance. Agencies' differences on data-related issues were identified and documented.

The contents of the call report have not been completely reviewed for some years. The project to revise the call report will require significant changes in the way banks process and report data, and the task force considers it necessary to alert banks to the changing requirements as far ahead of their effective dates as possible. For this reason, final issuance of the new requirements is planned for mid-September 1982. In addition, the May 1982 issuance of proposed changes for public comment will keep the banking community and the public informed.

Standardization of Instructions for Reports of Condition and Income

The task force has over the past two years completed several projects in the area of standardizing instructions for Reports of Condition and Income. In 1981, standardized instructions were issued for the Large Bank Supplements filed by banks with assets of \$300 million and more. In 1980, standardized instructions for banks with foreign offices and for banks with over \$100 million in assets and only domestic offices were issued.

The project of standardizing the call report instructions has been tied closely to the project to revise the call report. The task force must completely revise the instructions as part of the development of the new 1983 call report project.

Throughout 1981, the Task Force on Reports has continued to respond to questions about interpretation of report instructions as well as proper reporting of new transactions not clearly or directly addressed in the instructions. These questions, raised by both the agencies and banks in 1981, relat-

ed to uniform treatment of interest rate overcharge reimbursements, capitalization of interest pursuant to Statement of Financial Accounting Standards 34, accounting for stripped coupons and securities, and reporting of international banking facility activities.

Accrual Accounting

Another major issue that the task force addressed in the past year was a proposal to make accrual accounting mandatory for smaller banks (under \$25 million in assets). After conducting a survey to assess the likely impact, the Council published for comment a proposal that all banks be required to adopt accrual accounting in two stages: banks with \$10 million or more in assets beginning on January 1, 1983, and the remainder on January 1, 1985.

From the beginning, it has been recognized that there is a distinction between reporting and recordkeeping, a broader supervisory issue. The Council approved both aspects, mandating accrual-accounting reporting consistent with the above timetable, under section 1006(c) of Public Law 95-630, and recommending that the agencies adopt accrual recordkeeping requirements for their constituent banks by the same implementation dates, under section 1006(b).

Other Projects

The task force also agreed on inter-agency guidelines for data processing standards, which will mean more timely and accurate call report data. Full implementation of these standards will significantly aid agency supervisory activities. The task force developed a format for the joint summary publication in the Council's annual report. Joint inter-agency publication of trust department assets was implemented, and an interagency survey of foreign trust activities was continued.

Task Force on Supervision

The Council established the Task

Force on Supervision at its organizational meeting in March 1979. The principal function of the task force is to review and 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, other than consumer laws and regulations.

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

Activities of the Task Force

In carrying out its mission, the task force relies primarily on interagency staff subcommittees, which analyze supervisory issues and prepare reports and recommendations for review by the task force. After consideration and approval by the task force, those reports and recommendations are referred to the Examination Council for final action.

Both ad hoc and standing subcommittees are utilized. The ad hoc subcommittee approach is used when a specific issue needs to be researched and resolved. Such working groups are staffed with people from the agencies who have expertise in the particular area under study. Once their assignments are completed, these subcommittees are disbanded. An ad hoc subcommittee was employed, for example, to review and make recommendations on the need for and usefulness of the standard form reports of external crimes. In contrast to the temporary ad hoc groups, standing subcommittees meet regularly to foster interagency cooperation and coordination in various supervisory areas that are of continuing interest. To illustrate, the EDP Subcommittee is an ongoing entity that addresses current electronic data processing topics and develops uniform

EDP examination policies and procedures.

The task force performs a number of other duties in addition to directing and evaluating the work of subcommittees and providing the Council with papers and proposals on policy matters. These include drafting replies to congressional and other external inquiries, evaluating supervisory issues raised by the General Accounting Office and by other governmental or regulatory bodies, and responding to requests from other Council task forces for information or recommendations.

The following projects were completed by the task force in 1981 (some of these are described in greater detail in "Record of Actions of the Council"):

- response to the GAO report "Federal Examinations of Financial Institutions: Issues that Need to be Resolved"
- recommendations on technical amendments to Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRIRCA)
- uniform examination procedures for verifying compliance with financial recordkeeping and reporting regulations (Bank Secrecy Act)
- response to the GAO report "The Federal Structure for Examining Financial Institutions Can Be Improved"
- elimination of a reporting requirement under the Bank Protection Act
- revisions to uniform policies and procedures for examining the Clearing House Interbank Payments System
- recommendations on substantive amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRIRCA)
- uniform examination procedures for determining compliance with reserve requirements of Federal

Reserve Regulation D (Reserve Requirements of Depository Institutions)

- definition of bank capital for the purpose of determining capital adequacy
- supervisory policy on financial information on data processing servicers

Task force projects in process as of year-end 1981 are discussed below. Several of these assignments are expected to be completed early in 1982.

EDP Examinations

The EDP Subcommittee is an ongoing interagency group responsible for promoting coordination and cooperation among the agencies in various matters involving electronic data processing services in or for federally regulated financial institutions. One of the subcommittee's more important achievements in 1981 was the first coordinated national examination of a large data processing company. This program is aimed at national or large data centers that operate in more than one supervisory region or district. The branches or local centers are usually examined first under this approach, with the examinations completed in an established time period. Subsequently, the headquarters office of the firm is examined and a consolidated report of the whole entity prepared. The experiment was quite well received, and the program will be expanded in 1982. The subcommittee also hopes to complete two additional chapters for the Council's *EDP Handbook* in 1982.

Coordination of Bank and Bank Holding Company Supervision

A subcommittee was formed to provide a vehicle for discussion and review of ways to coordinate the FRB's bank holding company inspection program with the OCC's and FDIC's

program for examining bank holding company subsidiary banks. During 1981, the Comptroller of the Currency and the Federal Reserve field-tested an experimental program in which selected holding company systems were analyzed at the parent-company and lead-bank level. The proposal focuses on review and evaluation of the policies, credit and operational audits, management information systems, and other controls at the holding company and lead bank. The quality and reliability of the parent's internal reports and controls then determine the scope of examination of the subsidiary banks. The FDIC also participated with the OCC in this experiment in examinations of several holding company organizations that have state nonmember bank subsidiaries. Testing was continuing as of year-end 1981. If results of the experiment are favorable, further coordination may be possible.

International Banking

In 1981, the task force approved a merger of two interagency subcommittees that had been working in the area of international banking. The resulting Subcommittee on International Banking meets to exchange ideas and discuss mutual problems concerning the supervision of foreign banks operating in the United States and the foreign activities of U.S. banks. At this time, the subcommittee is reviewing the possibility of developing a rating system for U.S. branches and agencies of foreign banks.

Risk-Only Participations/ Participations in Bankers Acceptances

A subcommittee of the task force has drafted a statement of policy dealing with the practices of selling participations in the risk portion of extensions of credit and in participating portions of acceptances to other banks. In the case of bankers acceptances, questions have been received on whether the selling of

participations therein relieves the issuing institution from limits established by federal laws and regulations. Lending limit issues also arise in connection with risk-only participations. The proposed policy position is intended to provide guidance to the industry on these questions. Because the statement deals principally with legal issues, it is being reviewed by the Council's Legal Advisory Group.

Examination Philosophies, Concepts, and Procedures

A subcommittee was formed in May of 1979 to study the agencies' similarities and differences in examination philosophies and approaches and to identify those areas in which greater agency uniformity can be achieved. The comprehensive study requested by the task force focused on six broad areas: (1) inherent agency characteristics that 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. Five segments of the study have been completed and interim reports submitted to the task force, along with an introductory paper on the rationale for examinations.

In 1981, the subcommittee continued its work on the sixth phase of the analysis, which consists of a review of policies and objectives in 30 functional examination areas. As a first step in this review, a comparison was made of the agencies' examination objectives and a comparability rating was assigned relative to the 30 functional areas contained in the study. The goal of this process is development of a list of uniform examination objectives that the Council could recommend to the agencies. The task force will be submitting a report on this project to the Council in February 1982.

After comparing examination objec-

tives, the subcommittee selected certain functional areas and performed an agency-by-agency comparison of examination policies. The areas reviewed were chosen on the basis of their perceived degree of importance and general applicability to all agencies. Although a fair degree of comparability was noted, the survey suggested that the formulation of examination policies is heavily influenced by such factors as the inherent characteristics of the agencies, the varying nature and size of the institutions they supervise, the laws and regulations each enforces, and the role played by the state supervisory authorities.

At its September 1981 meeting, the Council approved a pilot project calling for analysis of one of the functional examination areas from the standpoints of examination objectives, policies, and procedures. The goal is to determine the feasibility of achieving uniformity in approach, and the area chosen for study was the loan portfolio segment of the examination. The team anticipates having a report to the task force in January 1982. If this approach is successful, it will serve as a blueprint or format for achieving uniformity in the other 29 functional examination areas.

Another project of the subcommittee in 1981 was development of a discussion paper outlining the basic core elements that should be contained in the commercial bank examination report. This paper was presented to the Council in September.

Trust Rating System

The task force formed a subcommittee to review possible changes to the banking agencies' Uniform Interagency Trust Rating System. The major revision contemplated was moving from a composite rating system that is based on the sum of individual ratings assigned to specific trust operational areas to one that permits agency discretion in assigning composite or final ratings.

Sharing of Computer-Maintained Examination Information

Confidential examination data on all federally insured banks are available via on-line computer terminals tied into the FDIC data base. Sharing this information among the three banking agencies presents unique problems of security and control; therefore, a subcommittee has been looking into these issues, and one of the agencies has been working on a draft agreement setting out the operating procedures and security standards to be followed.

Examination Procedures for the All-Savers Certificates

The Depository Institutions Deregulation Committee (DIDC) recently adopted rules that permit the issuance of a new category of time deposits designed to allow depositors to take advantage of changes in federal income tax laws. Interest on these new certificates is exempt from federal taxes, up to certain prescribed limits. The DIDC rules require institutions that issue All-Savers Certificates (ASCs) to make a certain portion of the funds received available for qualified residential financing. The task force created a subcommittee to develop uniform examination procedures to check for compliance with this and other provisions of the rules of ASCs. It is expected that the examination procedures will emphasize review of the institution's policies, internal control procedures, and advertising statements.

White Collar Crime Training

The Examination Council has requested the task force to review the agencies' policies on and approaches to the reporting of criminal activity committed in or against financial institutions. The basic purpose of this study is to determine if there is need for greater supervisory uniformity in this area and whether or not interagency examiner training

in white collar crime is necessary and feasible.

Task Force on Surveillance Systems

The Examination Council established the Task Force on Surveillance Systems to deal with surveillance and monitoring systems used 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 warnings tools to detect emerging financial problems. The task force will identify and recommend to the Council ways to achieve those objectives, initially emphasizing uniformity among the three federal agencies that regulate commercial banking activities. Council-approved systems will be implemented under the oversight of the task force, in coordination with other Council task forces as necessary.

Activities of the Task Force

In August of 1980, the Examination Council gave its approval to a development program for the Uniform Bank Performance Report (UBPR). The UBPR is a comprehensive reporting of financial data derived primarily from Reports of Condition and Income that commercial banks file with their federal regulators. It is intended to be used by federal bank examiners and analysts in conjunction with their examination and supervisory activities. Although the basic design of the UBPR was adopted in 1980, the actual development was a major project of the task force in 1981, undertaken in close consultation with the Council's staff coordinator for this assignment. Various programming and production details were worked out under the supervision of the task force during the past year. The project, which

will use December 1981 call report data, remains on schedule, with a targeted introduction date of April 1982.

The task force also addressed several ancillary projects in 1981. One of these was developing a user's guide for the UBPR, and another was educating examiners and analysts in regional and district offices so that they can understand and use this new report. Finally, at its December 1981 meeting, the Council approved policies and procedures governing the availability and distribution of the UBPR. The plan approved by the Council calls for each federal banking agency to receive reports on all banks, for each federally insured commercial bank to receive one copy of its own report, and for state supervisory authorities to be given the opportunity to receive copies for all banks within their respective jurisdictions. Moreover, the Council concluded that the UBPR should not be restricted to the institutions and the regulators but should be provided to any individual or organization that requests it. Copies will therefore be made available to the general public for a fee. Requests for the reports and user's guides will be handled by the FDIC, which is under a contractual agreement with the Council to serve as the servicer and producer. The task force will closely monitor the UBPR after production begins and will determine whether changes need to be made to meet changing conditions in the financial services industry. The report is designed to accommodate these modifications.

The task force frequently asks its standing subcommittee to research and make recommendations on various issues that are of interest. One such project was recently submitted by a member of that subcommittee and consists of a study describing the surveillance systems presently used by the five federal financial institution regulators. All of the agencies use a computer screening program to identify institutions that have potential or existing financial

problems. The study constitutes a first step in a task force review of the feasibility of developing a uniform surveillance system.

At the Council's March 1981 meeting, the task force presented a prototype Uniform Bank Holding Company Performance Report (UBHCPR). Development of such a report was assigned to the task force by the Council. As proposed, the UBHCPR would have required changes in the source documents from which the report would be derived. After consideration of the costs and potential benefits of implementing the proposed UBHCPR, the Council determined that further work on the project was needed but should be deferred. The task force will review the matter again in 1982.

As mentioned previously, the Reports of Condition and Income are important source documents for the UBPR and also for the screening systems used by the agencies. For these reporting and monitoring systems to be of maximum value for supervisory purposes, it is essential that the source data be as accurate and complete as possible. To this end, the task force is participating with the Task Force on Reports in two projects that are especially important to surveillance. One of these concerns the recent Council action calling for all banks to submit the condition and income reports on an accrual ba-

sis. The other is an ongoing project involving possible revisions to the call report.

Legal Advisory Group

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

The LAG is composed of senior legal officers of the agencies represented on the Council. The present Chairman of the group is the Deputy General Counsel of the Board of Governors of the Federal Reserve System. The mandate of the 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 the LAG also provides legal advice to the Council at its meetings.

In 1981, the LAG aided the Council by drafting a package of recommended technical and substantive amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The LAG also prepared memoranda on legal issues associated with the promulgation and implementation of policy statements recommended to con-

stituent federal regulators on enforcement of the Equal Credit Opportunity and Fair Housing Acts and the disposition of income from the sale of general insurance. It also provided the Council with legal advice on certain agencies' selective release of portions of consumer compliance examination reports and on the release and format of Uniform Bank Performance Reports. In addition, the LAG drafted amendments to various sections of the Council's Rules of Operation concerning the succession of the Vice Chairman of the Council, the counting of certain qualified alternates to Council members for the purpose of determining a quorum at Council meetings, and circumstances requiring the affirmative vote of three Council members. The LAG also rendered assistance on various internal matters such as the leasing of Council property, requests for Council documents under the Freedom of Information Act, permissible methods of funding the Council's examination school, and the status of the Council under certain executive orders and legislation. Finally, upon request, the LAG provided legal advice to the various task forces of the Council. In 1981, for example, it provided legal advice on truth in lending reimbursements, risk-only participations on loans, and sundry other matters.

State Liaison Committee Report

As set forth in section 1007 of Public Law 95-630, the State Liaison Committee was established "to encourage the application of uniform examination principles and standards by State and Federal supervisory agencies." The Liaison Committee seeks to comply with this broad mandate by assuming an active advisory role in all areas of Council responsibility, especially in those areas where federal jurisdiction overlaps to state-chartered institutions. A primary objective of the Liaison Committee is to achieve a reduction in the burden of redundant supervision of state-chartered institutions by fostering coordination and communication in the activities of state and federal agencies. Progress toward this objective, with benefits to both the industry and its regulators, has been achieved since the establishment of the Council, but more notably over the past year.

Before 1981, several factors constrained the Liaison Committee from fully participating in Council issues. First, the Committee was unable to play an active role in the formulation and preparation of recommendations coming to the Council, and communication of a state perspective on Council issues was limited to a monthly review of the Council agenda. Another problem was the insufficient lead time in which to study issues coming before the Council, which limited the Committee's capacity to draw upon the expertise and experience of state

regulatory agencies. Furthermore, the intermittent attendance by Liaison Committee members at the Council hindered the continuity necessary to perform effectively the role envisioned by Congress.

In an effort to resolve these problems, the Council at its June 5, 1981 meeting approved a Liaison Committee proposal providing for a full-time staff position on the Council's staff. This staff person would be a dedicated resource working full time on matters of interest to the State Liaison Committee. The position was filled in March 1981. In addition to this staff resource, the Committee has made a concerted effort to increase its participation by having its Chairman attend every Council meeting and one additional member attend on a rotation basis. Furthermore, the Liaison Committee has informed all state regulators about the availability of Council-conducted examiner training courses for state examiners and has invited state regulators' comments on the various projects being undertaken by the Council's staff task forces. These actions provide a foundation on which the Committee feels a permanent forum can be established for state and federal regulators to meet and address the issues of bank supervision and state/federal interaction on these issues.

Much of the success of the Council, including the contributions of the Liaison Committee, is dependent

upon the extent to which the Council members support the goals established for the Examination Council by Congress. Though the Council accomplished significant and tangible achievements in 1981, particularly the recommendations for amending the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRIRCA), the Liaison Committee feels that greater progress could be attained by expanding the Council's agenda to its full potential and allowing the Council to become the focal point for developing and changing the approaches to financial institution examination. The Liaison Committee feels that the Council, with its mandate to promote uniformity, can coordinate the activities of state and federal agencies so as to economize on the combined state and federal resources devoted to bank supervision.

In 1982, the Liaison Committee hopes to develop improved procedures for informing state regulators of proposed federal actions and actively solicit their views during the formative stages of the process. Also, more surveys will be conducted to determine the training needs of state departments and how such needs can be satisfied by federal programs. In the same vein, the Liaison Committee intends to investigate what use the states can make of federal surveillance and reporting systems, and the training needs of state departments in the use of these systems.



Record of Actions of the Council

Following 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 of 1980) during 1981.

January 15

Action. Approved a new formula for financing the examiner education program, whereby the fixed costs associated with the program would be covered by assessments on each agency based on the projected enrollment from the agency for the year. Variable costs would be covered by tuition charges. The effective date for the new financing arrangements is January 1, 1982.

Explanation. Recovering all costs of the examiner education program through tuition charges resulted in relatively high charges per student day. Such charges created a disincentive for attending the Council's schools, because the agencies charge no tuition for their own examiner training schools. By limiting tuition charges to those necessary to cover only variable costs, there would be greater incentive for the agencies to send their examiners to the Council's schools.

Action. Approved issuance, for public comment, of proposed tables for presenting the aggregated Home Mortgage Disclosure Act data as required by section 340 of the Home Mortgage Disclosure Act Amendments of 1980.

Explanation. Section 340 of the Home Mortgage Disclosure Act Amendments of 1980 requires the Examination Council to compile, each year for each standard metropolitan statistical area (SMSA), aggregate HMDA data by census tract

and to produce for each SMSA tables showing aggregate lending patterns on the basis of specified neighborhood characteristics as determined by the latest available U.S. census. These data are to be made available to the public no later than December 31 of the year following the calendar year to which the data pertain. The proposed tables were issued for comment in order to obtain the views of community organizations, and other potential users of the data, on the manner in which the aggregate data were to be presented.

February 5

Action. Approved a survey of commercial banks with total assets of less than \$25 million to determine present accounting and reporting practices at such banks and to obtain information on the costs of converting from cash to accrual accounting.

Explanation. There was increasing supervisory concern about the use of a modified-cash basis of accounting in smaller commercial banks. The purpose of the survey was to determine how widespread the use of cash accounting was and to obtain estimates of the costs to banks of converting to accrual accounting and reporting.

Action. Approved the 1980 annual report of the Council.

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

February 11

Action. Approved by 4-1 vote the

transmittal of two resolutions to the Chairmen of the House and Senate Banking Committees. The first resolution recommended that Congress postpone the statutory requirement to aggregate the Home Mortgage Disclosure Act (HMDA) data to begin with the data for 1981 rather than 1980. The second resolution recommended replacing the existing HMDA exemption based on the asset size of the financial institution with one based on the size of an institution's mortgage and home improvement loan portfolio.

Explanation. Delay of the aggregation of the HMDA data was suggested, because it was likely that the 1980 data would be of poor quality. In reporting the 1980 data, financial institutions would not be using a standardized report form, and the aggregate data would have to be presented using the census tracts from the 1970 census. Delaying implementation of the statutory requirements to begin with the 1981 data would allow time to effect changes to Federal Reserve Regulation C to require use of a standardized HMDA reporting form and would also permit use of 1980 census tract definitions. Changing the basis for the exemption of an institution from the HMDA reporting requirement from \$10 million in assets to \$5 or \$10 million in mortgage and home improvement loans would exempt many more institutions while resulting in relatively little loss in information about overall mortgage and home improvement lending patterns. The Federal Home Loan Bank Board representative dissented on the first resolution because of his dissatisfaction with the resolution format. He dissented on the second resolution because converting to an exemption criterion based on the size of the mortgage and home improvement loan portfolio could lead to a reduction in the

number of savings and loan associations that were exempted.

March 5

Action. Approved for recommendation to the five agencies a uniform Community Reinvestment Act rating system. The vote was 3-1-1 with Council Member Dalton dissenting and Council Member Connell abstaining. (The three banking agencies approved the Council's recommendation, the Federal Home Loan Bank Board rejected the recommendation, and the National Credit Union Administration took no action because credit unions are not covered by the Community Reinvestment Act.)

Explanation. Although the agencies currently use a common CRA rating system, the new rating system would provide more guidance to agency examiners. Council Member Dalton stated that FHLBB had given extensive training to its examiners under the current system and believes the current system is adequate.

Action. Approved technical amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 and recommended to the five agencies that they be submitted for congressional consideration. (All five agencies approved the Council's recommendation.)

Explanation. The agencies have had more than two years of experience in implementing the provisions of FIRA. The technical amendments correct minor errors in the original legislation and help clarify some of its provisions.

April 2

Action. Approved the appointment of Edward D. Dunn, Commissioner of Banking and Finance, Georgia, and Gerald T. Mulligan, Commissioner of Banks, Massachusetts, as members of the State Liaison Committee for the period May 1, 1981 to April 30, 1983.

Explanation. As required by statute, the Examination Council has established a liaison committee composed of five representatives of state agencies that supervise financial institutions. Under the Council's Rules of Operation, two of the five members are appointed by the Council; the Conference of State Bank Supervisors, National Association of State Savings and Loan Supervisors, and National Association of State Credit Union Supervisors each designates one member.

Action. Approved a report on the feasibility and usefulness of small-business loan disclosures by financial institutions and submitted it to the House and Senate Banking Committees. In the report, the Examination Council concluded that legislation to require depository institutions publicly to disclose information on loans to small businesses is not justified, because the possible benefits are substantially outweighed by the costs to the affected institutions.

Explanation. Section 312 of the Home Mortgage Disclosure Act Amendments of 1980 (Public Law 96-399) required the Council 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 the study, together with recommendations, were to be submitted to the House and Senate Banking Committees.

June 4

Action. Approved a letter to be sent from the Council to the National Credit Union Administration suggesting that consumer compliance examination reports not be released to third parties. The vote was 3-1-1, with FHLBB Board Member DiPrete dissenting and Council Member Connell abstaining.

Explanation. The National Credit Union Administration had issued a

proposal for public comment to make consumer compliance examination reports available to third parties under certain conditions. The letter approved by the Council expressed the Council's concern about the NCUA proposal because of the precedent it might establish. Mr. DiPrete dissented because he felt that, in taking such action, the Council was going beyond its statutory mandate.

June 11

Action. Approved a draft *Federal Register* notice requesting public comment on the proposed definition of bank capital for determining the adequacy of bank capital for supervisory purposes.

Explanation. The Council believed that an effort should be made to achieve a uniform definition of bank capital. The principal issue involved was whether subordinated debt and limited-life preferred stock should be regarded as part of bank capital and, if so, under what conditions.

July 9

Action. Approved a recommendation to the five agencies that the Report of Crime (P-2 Report) be eliminated. (All five agencies approved the Council's recommendation.)

Explanation. The purpose of requiring financial institutions to file this report was to collect data that would be useful in formulating policies to assist in deterring external crimes and in apprehending the perpetrators of crimes. The Council determined that these objectives had not been accomplished and that the agencies had used the reports infrequently. Moreover, the Federal Bureau of Investigation maintains and makes available to the agencies information on such crimes.

Action. Approved a policy statement concerning enforcement of the Equal Credit Opportunity and Fair

Housing Acts and recommended its adoption by the five agencies. The vote was 4-1, with Council Member Pratt dissenting. (Except for the Federal Home Loan Bank Board, the agencies approved the Council's recommendation.)

Explanation. The Council believed that a policy statement on enforcement of the Acts should be issued so as to inform the public and financial institutions about the agencies' intentions regarding enforcement. The policy statement sets forth six violations of the Acts that are regarded as serious and indicates the kinds of enforcement actions that will be taken when violations are discovered. Council Member Pratt dissented, questioning the legality, effectiveness, and efficiency of the retroactive enforcement aspects of the guidelines.

August 6

Action. Approved a *Federal Register* notice requesting comment on a proposal to recommend that the three federal bank supervisory agencies require accrual accounting by all FDIC-insured commercial and state-chartered mutual savings banks.

Explanation. The Council believed that an accrual-accounting requirement for banks would provide data on the Reports of Condition and Income that would be much more useful for supervisory purposes. By providing better financial information to bank managements, directors, and owners, it could also lead to improved bank performance.

September 10

Action. Approved the format of the tables to be used to present the aggregated data on the geographic distribution of residential mortgage and home improvement loans made by financial institutions.

Explanation. On January 15, the Council approved issuance, for pub-

lic comment, of tables for presenting the aggregate Home Mortgage Disclosure Act data as required by section 340 of the Home Mortgage Disclosure Act Amendments of 1980. No substantive comments were received on the proposal; hence, the tables were approved with only minor modifications. The Council decided that the tables would contain data on loan originations only; data on purchased loans will not be presented, because data on the geographic distribution of the borrowers for loans that have been purchased by a financial institution are not meaningful.

Action. Approved a supervisory policy on enforcement of the Equal Credit Opportunity and Fair Housing Acts and recommended its adoption by the five agencies. The vote for this action was 3-2, with Council Member Isaac and Board Member DiPrete dissenting. (The Federal Reserve Board, National Credit Union Administration, and Office of the Comptroller of the Currency approved the Council's recommendation; the Federal Deposit Insurance Corporation and Federal Home Loan Bank Board disapproved the recommendation.)

Explanation. At its July 9 meeting, the Council approved a policy statement on enforcement of the Equal Credit Opportunity and Fair Housing Acts. It was believed that adoption of a uniform supervisory policy would help ensure uniform enforcement by the five agencies by providing guidance to examination and supervisory personnel at the agencies. The dissenting Council members believed that the policy statement provided adequate guidance and that a detailed supervisory policy left too little flexibility to the agencies responsible for enforcement of the Acts.

Action. Approved, beginning in 1982, the funding of the Examination Council's examiner education program by (1) sharing equally among the five agencies the program's fixed costs and (2) covering

the variable costs of the program through imposition of a \$10 per-student per-day tuition charge.

Explanation. There had been concern that the relatively high tuition charged for courses offered in the Council's examiner education program would discourage attendance by federal agency examiners and examiners employed by the state supervisory agencies. The lowering of the tuition charge from \$35 to \$10 per student per day should help make the Council's program more competitive with similar training programs offered by others.

Action. Approved a series of proposed amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 and recommended to the five agencies that the proposed amendments be submitted to the House and Senate Banking Committees for their consideration. (None of the agencies approved the recommendation for granting the agencies authority to impose civil money penalties for violations of certain consumer protection laws. Three of the agencies—the Federal Reserve Board, National Credit Union Administration, and Office of the Comptroller of the Currency—approved all of the other amendments recommended by the Council. The Federal Home Loan Bank Board abstained on the remaining proposals. The Federal Deposit Insurance Corporation took no action on the Council's recommendations; but FDIC Chairman Isaac indicated that, while he supported most of the amendments, he could not support the legislative package because he found several of the proposals unacceptable.)

Explanation. At its March 5 meeting, the Examination Council approved certain technical amendments to FIRA. Most of the amendments approved at the September 10 meeting were regarded as substantive, and the Council believed that the proposed amendments will help strengthen the supervisory process

while significantly reducing reporting burdens on financial institutions. The various proposed amendments discussed by the Council, the rationale for them, and the votes on those proposals are described below.

A. *Limits on Insider Loans.* Proposal rejected 3-2, with Council Members Connell and Lord dissenting. The current statute calls for a limit on aggregate loans to each executive officer and principal shareholder, including their related interests, equal to the lending limit contained in 12 U.S.C. 84. The proposed amendment would have relaxed this restriction and restored the borrowing limits applicable prior to the passage of FIRIRCA. The majority vote against this proposal was based on the belief that the current limitations were appropriate and should not be changed at this time. The SLC representatives favored the proposed amendment.

B. *Limits on Insider Loans Requiring Board Approval.* Proposal approved 3-1-1, with Mr. Thompson, the FDIC representative, dissenting and FHLBB Board Member DiPrete abstaining. The current statute requires board approval of any extension of credit to an executive officer, director or principal shareholder (including their interests) in excess of \$25,000. The proposal, as amended, would remove the statutory limit and permit the Examination Council to recommend to the agencies an appropriate dollar limit based upon current economic conditions. An example of a possible limit would be two percent of capital or \$100,000, whichever is greater. The dissenting vote was based on the belief that each agency should be able to deal with loans to insiders on an individual basis and that involvement of the Council would pose unnecessary interference with agency operations. The SLC representatives supported the proposal.

C. *Overdrafts.* Proposal approved 3-1-1, with the FDIC representative dissenting and the FHLBB representative abstaining. The current statute prohibits banks from paying overdrafts of executive officers and directors. The proposal voted on was to eliminate this prohibition and instead review overdrafts in the general context of analyzing insider transactions of all types for preferential treatment. The dissenting vote was based on the belief that, rather than eliminating this prohibition, it should be expanded to include also the interests of executive officers and directors. The SLC representatives supported the proposal.

D. *Civil Money Penalties—Trust Violations.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. This proposal affects only the Office of the Comptroller of the Currency. Currently, OCC has statutory authority to impose civil money penalties for violations of the National Banking Act, but this does not include violations of trust rules and regulations. The proposal approved would extend the agency's civil money penalty authority to cover trust violations.

E. *Civil Money Penalties—Consumer Law Violations.* Proposal approved 3-2, with the FDIC and FHLBB representatives dissenting. The agencies currently do not have authority to impose civil money penalties for violations of consumer laws, except when an institution continues a practice in violation of a final cease-and-desist order. This proposal would provide the agencies with authority to impose civil money penalties for violations of the consumer laws themselves, as an action independent from issuing a cease-and-desist order. The dissenting votes were based on the belief that the agencies currently have sufficient authority to enforce the consumer laws and that the addition of direct civil money penalty authority is unnecessary.

F. *\$10,000 Limit on Other Loans to Executive Officers.* Proposal approved 3-1-1, with the FDIC representative dissenting and the FHLBB representative abstaining. The current statute places a \$10,000 limit on other loans (i.e., other than mortgage and educational loans) to executive officers. The proposal voted on would eliminate the statutory limit and permit the Council to recommend an appropriate dollar limit based upon current economic conditions. The dissenting vote was based on the belief that no change in the existing statute was necessary at the present time. The SLC representatives supported the proposal but indicated a preference for eliminating the "other loan" limit entirely and relying instead on the overall statutory limit on loans to insiders.

G. *Elimination of Reporting Requirements—Title VIII.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. The current statute requires institutions to maintain comprehensive reporting systems for loans to insiders from other banks that maintain correspondent relationships with the insiders' banks. The proposed amendment would eliminate the statutory reporting requirements and allow the agencies to develop less burdensome means of monitoring for abuses in this area.

H. *Extend Preferential Lending Prohibitions to Mutual Savings Banks.* Proposal approved 4-1, with Board Member DiPrete dissenting. The existing statute (Title VIII) prohibits preferential loans to executive officers, directors and principal shareholders of banks that maintain correspondent relationships with the lending banks, but defines "bank" to include only those institutions that accept deposits and grant commercial loans; i.e., only commercial banks. The proposed amendment would extend the statute's prohibition to cover mutual savings banks. The

dissenting vote was based on the reported absence of abuses to date at savings and loan associations and federally chartered mutual savings banks.

- I. *Extend Prohibitions on Preferential Loans by Correspondent Banks to Include Interests of Executive Officers, Directors, and Principal Shareholders.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. The current statute prohibiting preferential loans to insiders by correspondent banks does not cover insider interests.
- J. *Treble Damages for Violations of Title VII.* No vote was taken on this issue. Instead, the question of whether the Congress had intended the treble damages provisions of the Bank Holding Company Act to apply to violations of Title VIII of FIRIRCA, which amends section 1006(b) of the Act, was turned over to the Legal Advisory Group for analysis.
- K. *Disclosure of Material Facts—Title IX.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. The current statute requires banks to make an annual report (FFIEC Form 003) disclosing the identity of principal shareholders and information regarding shareholders' and executive officers' indebtedness to both the bank and its correspondents. The proposal is to eliminate this burdensome reporting requirement. The SLC representatives supported this proposal.
- L. *Right to Financial Privacy—Title XI.* Proposal approved unanimously. The current statute is not specific in providing that federal financial institution regulatory agencies are permitted to exchange among themselves unedited reports of examination and other supervisory information without the need for customer notice, even absent the statutory authority of one or more of the agencies directly to examine the financial institution(s) involved. The proposed amendment would

clarify this issue by specifically stating that the exchange of such materials is permissible. The SLC representatives requested that clarification also be obtained concerning authorization for state financial institution regulatory agencies to be included in the exchange of examination information among the federal agencies. Legal counsel for the OCC suggested that Title XI as currently worded does not restrict the exchange of information with state agencies.

M. Technical Amendments

1. *Appeals of Civil Money Penalties.* Proposal approved unanimously. FIRIRCA sections dealing with imposition of civil money penalties generally provide that an appeal must be filed with the U.S. Court of Appeals within 10 days from the date of the order. The proposal would extend the time during which an appeal could be filed to 20 days from the date of service.
2. *Notification to Depositors After Merger Transactions.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. This is primarily an FDIC issue. FIRIRCA amended the FDIC Act by adding section 8(q), a requirement that the resulting bank must notify all depositors within 30 days of a merger, consolidation, or assumption that accounts in the merged bank will be insured separately for six months. The proposed amendment would eliminate the statutory notice requirement but not change the insurance provisions.
3. *Annual Audit of NCUA.* Proposal approved 4-0-1, with Board Member DiPrete abstaining. At GAO's request, the Council agreed to submit an amendment to the FCU Act to require an annual GAO audit of the NCUA on a fiscal-year basis rather than the current-calendar-year basis.

November 5

Action. Approved two actions relating to accrual accounting and reporting by commercial banks: (1) under section 1006(c) of Title X of FIRA, required that the Reports of Condition and Income be filed on an accrual-accounting basis beginning January 1, 1983, for banks with assets of \$10 million or more, and January 1, 1985, for banks with assets under \$10 million and (2) under section 1006(b) of Title X of FIRA, recommended to the three banking agencies the adoption of a supervisory accounting guideline that would require banks under their authority to keep their books on an accrual-accounting basis with the same implementation dates as the reporting requirement. The vote on the first action was 3-0-2, with Council Member Callahan and Mr. Croft, the Federal Home Loan Bank Board representative, abstaining. The vote on the second action was 2-1-2, with Chairman Partee dissenting and Council Member Callahan and Mr. Croft abstaining. (The Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency approved the Council's recommendation that banks be required to keep their books on an accrual-accounting basis, while the Federal Reserve Board did not approve the recommendation.)

Explanation. At its August 6 meeting, the Examination Council requested public comment on its proposal to require commercial banks to file their Reports of Condition and Income on an accrual-accounting basis and to require that they keep their books on an accrual basis. Also, at its February 5 meeting, the Council had authorized a survey of commercial banks with assets of less than \$25 million to obtain information on the costs of converting from cash to accrual accounting. After taking into consideration the comments from the public on its proposal and the results of the survey, the Council decided to require that all commercial banks report on an accrual-accounting basis and de-

cided to recommend that the three banking agencies require all commercial banks to keep their books on an accrual-accounting basis. The Council believes that reporting by banks on an accrual basis is essential for the banking agencies to conduct their supervisory activities effectively. Also, the Council believes that bank managements will have better information on the operations of their banks if accrual accounting is in effect. Recognizing that careful planning and implementation are needed to convert from a modified-cash to an accrual-accounting basis, especially for smaller banks, the Council decided to provide a lead time of one year for banks with \$10 million or more in assets and three years for banks with less than \$10 million in assets to convert to accrual accounting and reporting. Chairman Partee dissented on the recommendation to require all banks to maintain their books on an accrual-

accounting basis, feeling that it represented too much interference with the prerogatives of bank management.

December 3

Action. Approved a policy for the distribution of the Uniform Bank Performance Report. The vote was 4-0-1, with Board Member DiPrete abstaining.

Explanation. In 1980, the Examination Council approved the development program for a quarterly Uniform Bank Performance Report (UBPR). When published for the first time in 1982, the report will display financial data derived primarily from the Reports of Condition and Income filed by commercial banks. The UBPR is for use by bank examiners and analysts in connection with their examination and supervisory

activities. The key features of the distribution policy approved by the Council are as follows: (1) each commercial bank will ordinarily receive one copy of its own report free of charge, with any additional copies provided for a fee; (2) state banking departments may receive copies of the reports of banks within the state free of charge, with a fee charged for any additional special requests or orders; (3) copies of the performance report for individual banks would be provided to the public at a cost of \$25 per report for the current quarter, though a quantity discount will be given for large orders; and (4) a "Uniform Bank Performance Report Users' Guide," which explains how to use the report as an analytical tool, will be available without charge to banks and state supervisory agencies and to the public at a modest cost.

The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 36,000 domestically chartered banks and thrift institutions, which, on June 30, 1981, held total assets of almost \$3.0 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 four-year terms as Chairman and Vice Chairman. In activities most relevant to the work of the Council, the FRB —

- examines, supervises and regulates state member banks, bank holding companies, and Edge and agreement Corporations;
- approves or denies applications for mergers 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.

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 that member banks and other depository institutions are required to hold at the Reserve Banks and partially from non-interest-bearing Federal Reserve notes (currency) issued by the Reserve Banks. The Reserve Banks pay the FRB assessments, 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 six-year terms, and one of those is elected by the board to be Chairman. The Comptroller of the Currency is the third Board member and serves on the Board during his or her tenure as Comptroller. 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 assess-

ments 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 four years, although uncompleted terms are filled only to completion. The Board is headed by a Chairman, named by the President. The FHLBB supervises the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation (FSLIC) and regulates federally chartered savings and loan associations. Supervision of FSLIC-insured, state-chartered savings and loan associations is shared 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 1981, the FHLBB had accepted seven 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 federally 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 that apply and are accepted. 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 helping

them meet their liquidity needs. Membership in the facility is open to all federal and state credit unions that meet the membership requirements.

The NCUA is headed by a bipartisan three-member Board appointed by the President, with the advice and consent of the Senate. The Board is headed by a Chairman, named by the President. The Chairman and the Board Members serve terms of six 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 that 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 five-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 that do not conform to laws and regulations or that 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 Institutions¹ for June 30, 1981
Billions of dollars

	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Mutual Savings Banks	Savings and Loan Associations		Credit Unions	
		National	State Member	Non-Member			Federal Charter	State Charter	Federal Charter	State Charter
Total Assets	2,951	1,131	380	417	171	155	363	271	41	22
Total loans and lease receivables (net)	1,832	624	196	224	94	98	318	236	27	15
Loans secured by real estate ³	908	159	34	86	3	89	307	228	1	1
Consumer loans ⁴	229	95	19	51	*	5	11	8	26	14
Commercial and industrial loans	461	262	87	63	47	2	*	*	=	=
All other loans and lease receivables ⁵	245	115	58	27	44	1	*	*	=	=
LESS: Allowance for possible loan losses	10	6	2	2	@	*	*	*	*	*
Federal funds sold and securities purchased under agreements to resell	84	41	12	20	7	4	*	*	=	=
Cash and due from depository institutions ⁶	385	210	93	42	35	4	=	=	1	*
Securities and other obligations ⁷	470	175	53	113	4	45	35	27	12	6
U.S. Gov't. obligations ⁸	192	81	23	65	3	20	=	=	*	*
Obligations of state and local gov'ts ⁹	148	78	22	45	*	3	=	=	@	=
Other securities ¹⁰	68	16	8	3	1	22	=	=	12	6
Other Assets ¹¹	182	81	26	18	31	5	10	9	2	*
Total Liabilities	2,794	1,068	361	385	171	145	345	258	40	21
Total deposits and shares ¹²	2,288	878	287	360	60	139	294	213	38	9
Fed. funds purchased and securities sold under agreements to repurchase	167	95	36	13	10	2	6	5	=	=
Other borrowings ¹³	168	32	16	4	49	3	33	30	1	*
Other liabilities ¹⁴	169	64	22	8	52	1	12	10	*	*
Net Worth¹⁵	156	63	18	32	@	9	17	13	2	2
Memorandum: Number of institutions reporting	36,212	4,453	1,018	8,986	342	336	1,966	1,958	12,239	4,914

Symbols Appearing in Tables

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

Footnotes to Tables

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

2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and Edge Act and agreement subsidiaries—and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excluding bank holding companies.

3. 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 wraparound 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 that 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 that 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; and share balances at savings and loan associations and credit unions, including certificates of deposit, NOW accounts, share draft accounts, etc. For U.S. commercial banks, includes \$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 wraparound loans.

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

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

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

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for 12 months ending June 30, 1981
Billions of dollars

	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks ^{1b}	Mutual Savings Banks	Savings and Loan Associations		Credit Unions	
		National	State Member	Non- Member			Federal Charter	State Charter	Federal Charter	State Charter
Operating Income	297	128	40	46		14	35	27	5	2
Interest and fees on loans	207	86	26	28		9	30	23	3	2
Other interest and dividend income	73	34	12	14		4	4	3	2	*
All other operating income	17	8	2	3		1	1	1	*	*
Operating Expenses	278	117	37	40		15	36	27	4	2
Salaries and benefits	31	15	4	7		1	2	2	*	*
Interest on deposits and shares	176	68	21	24		12	27	20	3	1
Interest on other borrowed money	13	3	2	*		*	4	3	*	*
Provision for loan losses	5	3	1	1		*	=	=	=	=
All other operating expenses	52	28	9	8		1	3	2	1	*
Net Operating Income	19	11	3	6		(1)	(1)	*	*	*
Securities Gains and Losses	(2)	(1)	*	*		*	*	*	=	=
Taxes	4	2	1	1		*	*	*	@	@
Net Income	13	8	2	4		(1)	(1)	*	*	*
Memorandum: Number of institutions reporting	35,870	4,453	1,018	8,986		336	1,966	1,958	12,239	4,914

Staff Papers

The three staff papers that follow address subjects that relate directly to the work of the Examination Council. The purpose of the papers is to present information and discuss issues on subjects of current interest. The views expressed in the staff papers are those of the authors and not necessarily those of the Examination Council or the agencies represented on the Council.

The Uniform Bank Performance Report

by Donald T. Mulherin*
Staff, Federal Deposit Insurance Corporation

A major accomplishment of the Federal Financial Institutions Examination Council has been the development of the Uniform Bank Performance Report (UBPR). The report, which is expected to be available in April of 1982, is an analytical device designed for commercial bank supervisory, examination, and management purposes. It will allow for either a summary or in-depth analysis of an institution's financial performance and trends and should be useful to bankers and bank supervisors alike. In the brief remarks that follow, the history, description, and use of this report will be outlined.

Background

The three federal commercial banking agencies have employed for some time balance sheet and income statement report-generating systems as tools to perform financial analysis and have provided this performance information to the banks they supervise. For the Federal Deposit Insurance Corporation, the system has been the Comparative Performance Report (CPR). For the Office of the Comptroller of the Currency, the mechanism is the National Bank Surveillance System (NBSS) Bank Performance Report, which is also used by the Federal Reserve Board. One of the findings of a study undertaken by the Examination Council's Staff Task Force on Surveillance in 1979 was that there appeared to be some duplication of effort in providing the CPR and NBSS reports to the banks. But more

important, it was felt that if a uniform bank surveillance system were ever to be possible, a common report for analyzing banks was a necessary first step. The Examination Council, therefore, instructed the task force to review the feasibility of developing a uniform bank performance report.

A model outlining the basic design of such a uniform report was presented to the Council in mid-1980, and at its August 7, 1980 meeting, it agreed to recommend that the three commercial bank regulatory agencies adopt the report. This recommendation was accepted by the three agencies, and an interagency agreement specifying the details for the development and production programs for the UBPR was subsequently signed. This agreement calls for the FDIC to develop and maintain the UBPR system and to produce the reports on behalf of the three banking agencies.

It was recognized that the various actions required to bring the UBPR into production would involve considerable time and effort, because of the complex nature of the basic UBPR software and the number of edit and other support programs comprising the total system, all of which not only had to be developed but also thoroughly tested. To oversee this effort and to ensure accurate and timely production of the report, a Council staff position was created and an individual selected as the Coordinator for Uniform Performance Reports. The Coordinator is also responsible for developing a user's guide that will explain in detail how to use the UBPR.

Description of the Report

A UBPR will be produced for each commercial bank in the United States that is supervised by the FRB, FDIC, or OCC. It will be computer-generated from information taken mainly from the Reports of Condition and Income that are submitted by those banks. Several years of data

will be presented in the report in the form of ratios, percentages, and dollar figures, along with corresponding ratios for the institution's peer group and percentile rankings for most ratios. The report is presented in four sections. First is a summary ratios schedule, which includes ratios on the bank's earnings and profitability, loan-loss history, liquidity and rate sensitivity, and capitalization and growth rates. Review of this summary will give a quick synopsis of the bank's financial performance and highlight conditions that may warrant further investigation. It thus provides direction in analyzing the other parts of the report. Income information is presented after the summary ratios, followed by sections on balance sheet data and other items. Information in these four sections is displayed in one format for banks with assets under \$300 million and in another for those with total resources of \$300 million or more.

Peer groups are included to show how a group of banks with similar characteristics has performed during a period. Three general peer group formations are used but the primary one is based on a combination of three factors: asset size, branch versus nonbranch, and metropolitan versus nonmetropolitan location. The other two peer group formations consist of the state average for all commercial banks within the state and a breakdown within the state of averages based on specific asset sizes of the banks. The UBPR also contains percentile rankings in conjunction with most of the ratios. These rankings may be used to determine how high or low the bank's ratio is in relation to those of its peers. It is, of course, important to recognize that a high or low percentile ranking is simply a declaration of statistical fact and not a statement of either good or bad, satisfactory or unsatisfactory, performance.

The tax-equivalent-income concept is incorporated into the UBPR. This concept is based on the premise that

*This paper is based on material developed by the Examination Council's Staff Task Force on Surveillance Systems. Many helpful comments were also provided by Thomas Byledbal of the Council's staff.

the tax benefit derived from tax-exempt income, which nearly all banks generate to one degree or another, must be taken into account when determining the true return on investment. Banks differ both in their ability to utilize this type of income and in the amount of tax-exempt assets they hold. An adjustment is therefore made to reported book operating income, by adding in this tax benefit. This adjustment reduces distortions and allows for more meaningful comparisons among banks and between different time periods in the same bank.

Distribution of the UBPR

Policies and procedures governing the distribution of the UBPR were established by the Council in December 1981. These policies stipulate that each federally insured commercial bank will be provided one copy of its own report without

charge as frequently as it submits its Report of Income, which generally means quarterly for large institutions and semiannually for small ones. The federal banking agencies will receive reports on all banks, and the state supervisory authorities will be given the opportunity to receive, without charge, UBPRs on all banks within their respective states (meaning national banks, state-chartered institutions, or both). It was determined that since the report is based principally on information in the Reports of Condition and Income, which have been available to the general public for some time, there is no compelling reason to restrict public access to the UBPR. Copies will therefore be provided for a fee to any individual or organization that asks for the report. Instructions on how to obtain UBPRs and user's guides will be included in a March 1982 Council press release announcing the availability of these publications. The Council is now considering whether there is a need to train

examiners or other users of the UBPR so that the report's full potential is realized.

Conclusion

The Uniform Bank Performance Report is an information tool intended to supplement, but certainly not replace, the on-site examination. It relies chiefly on information supplied by the institution and may be flawed to the degree that the source data are incomplete or inaccurate. The report was designed primarily to meet the supervisory needs of the regulatory authorities, but it will provide information on a bank's financial health that will be valuable to both the bank examiner and bank management. The report will be closely monitored after its introduction, and modifications will be made as necessary so that it remains a valuable analytical tool for the rapidly changing financial services industry.

The Aggregation of Home Mortgage Disclosure Act Information

by Shawn McNulty
Staff, Federal Financial Institutions Examination Council

Summary of the Requirements of the 1980 Home Mortgage Disclosure Act Amendments

On October 8, 1980, Congress extended and amended the Home Mortgage Disclosure Act (HMDA) of 1975. With the extension, Congress directed the Federal Financial Institutions Examination Council (Council) to aggregate the information institutions would now be required to report to their federal financial regulators under the Act. The Council was also directed by Congress to establish a central depository for HMDA data in each standard metropolitan statistical

area (SMSA). At these depositories, interested parties could review, at a single location, the disclosure reports submitted by institutions within their SMSA.

The Home Mortgage Disclosure Act of 1975 as a Preface to the Aggregation Requirement

The original Home Mortgage Disclosure Act was passed by Congress in 1975. The law was intended to give citizens sufficient information to evaluate the performance of individual depository institutions in meeting the housing-related credit needs of their communities. The law also was intended to give community officials a foundation upon which to design public programs to develop local housing and community development initiatives.

The law's implementing regulation, the Federal Reserve Board's Regulation C, provided that depository institutions located within an SMSA and having assets greater than \$10 million would be required to disclose annually certain information on their housing-related loan activities. Institutions were required to disclose both originations and purchases of mortgage loans. Specifically, the disclosure requirement, for both originations and purchases, was that the institution disclose by location (census tract or Zip code area) the number of loans and principal amount of the loan for the following loan categories:

- FHA, FmHA, or VA loans
- other residential mortgage loans
- home improvement loans

- total mortgage loans on multi-family dwellings
- non-occupant loans

Under the initial regulation, institutions were only to make the disclosure statement available at their own offices for public review and copying. The regulation did not contain a reporting requirement.

In the regulation's first five years, housing-related loan disclosures were used by citizens, community groups, public officials, and regulatory agencies. Citizens and community groups gathered the disclosure statements and evaluated the information as an aid in determining whether or not institutions were meeting the credit needs of their communities. After the Community Reinvestment Act (CRA) was passed by Congress in 1978, HMDA disclosure information became a significant tool that community groups used to evaluate and sometimes challenge applications that were subject to CRA. Public officials in many localities gathered the statements to evaluate community credit needs and to direct community development projects. Regulatory agencies used the disclosure statements in both their Fair Lending and Community Reinvestment Acts examination programs.

The usefulness of the data made available by institutions was reduced, however, by two major factors:

- Regulation C did not require that institutions use a standard prescribed format when disclosing their HMDA data.
- Aggregate HMDA data on all SMSA lenders were generally not available.

The HMDA Hearings of 1980

The HMDA hearings of 1980 were held to determine whether or not HMDA was to be abolished, extended, or amended. During the hearings, it became clear that HMDA was a signifi-

cant tool used by both the regulatory agencies and the public.

Various bills introduced during the hearings proposed a standardized reporting format, the establishment of central depositories for the collection of HMDA data, and the aggregation of HMDA data. Aggregation of HMDA data was considered particularly useful by some of those testifying. Examples of supporting testimony follows.

- This data would be useful to cities, community groups, and lenders in targeting local reinvestment efforts, and it would allow for the measurement of the successes of these ventures. At the same time, aggregate data would provide the agencies with a context for measuring individual lender performance as part of their CRA evaluations.—Allen Fishbein, Center for Community Change
- We believe such data aggregation will have several major benefits. Even after the delay required to compile statements, the data would be in a readily usable form for hundreds of jurisdictions. Thus local institutions would have valuable information to develop reinvestment programs, and federal officials could systematically use the data in considering alternatives for urban policy. Data aggregation would also provide a more complete picture of the mortgage market.—JoAnn Barefoot, Office of the Comptroller of the Currency
- We believe this proposal is in keeping with other amendments to increase the effectiveness and utility of the HMDA data and would provide local governments and neighborhoods with another tool in developing comprehensive reinvestment and revitalization strategies.—Alan Beals, National League of Cities
- I don't think it's a mistake to provide people with good solid information (i.e., aggregation), and I

don't think the cost would be excessive, given the benefit to the entire metropolitan area Moreover, good solid information is essential if you are going to have good enforcement of federal laws and regulations that protect equal lending opportunity and fair housing practices.—Sandra Solomon, National Urban Coalition

- We also support the Chairman's (Senator Proxmire) proposal to have the regulatory agencies analyze this information for regional and national use.—Richard Arrington, U.S. Conference of Mayors
- This proposal is in keeping with other amendments to increase the effectiveness and utility of the HMDA data and would provide local governments and neighborhood groups with another tool in developing comprehensive reinvestment and revitalization strategies.—Ruth Scott, National League of Cities

In addition to supporting aggregation, many community groups also supported the concept of a central depository in each SMSA and a standardized disclosure format. All those who testified considered improved access and a standard format necessary to facilitate complete and accurate use of the HMDA data.

The Aggregation and Central Depository Provisions of the HMDA Amendments of 1980

The HMDA Amendments were signed into law on October 8, 1980, as part of the Housing and Community Development Act of 1980. The amendments required, in part, that HMDA disclosure statements be made available to the public at central depositories to be established in each standard metropolitan statistical area and that the HMDA data be aggregated for each SMSA.

The amendments also required institutions, for the first time, to use a

standardized format for reporting the data. Because the HMDA data were to be aggregated, the Federal Reserve Board's Regulation C required each institution to file copies of its HMDA disclosure forms with its federal supervisory agency.

Responsibility for establishing the central depositories and aggregating the HMDA data was given to the Council. Section 340(a) (3) (f) of the HMDA Amendments requires the Council, in consultation with the Secretary of Housing and Urban Development, to arrange for central depositories in each SMSA where interested persons may inspect and copy the HMDA disclosure statements prepared by covered institutions in the SMSA. Section 340(c) of the HMDA Amendments requires that the Council aggregate the HMDA data by census tract for each SMSA, beginning with the data reported for calendar year 1980.

The Act also requires that the Council produce 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. These tables are to be made available to the public by December 31 of the year following the calendar year on which the data are based. The Act specified that the Federal Reserve Board provide staff and data processing resources to enable the Council to carry out its responsibilities under the Act.

Establishment of Central Depositories

Shortly after the passage of the HMDA amendments, the Council

began to work with HUD's Office of Policy Development and Research to establish central depositories in each of the SMSAs in the country. In March of 1981 a letter was sent to each central city mayor of each of the SMSAs inviting them to participate in establishing and maintaining their SMSAs' central depositories for HMDA data.

The first edition of the central depository directory contained 139 addresses and was distributed to the agencies in July 1981. In October 1981, through the assistance of the National Association of Regional Councils, contact was made with regional planning and intergovernmental councils in 82 SMSAs. This effort resulted in identifying 39 additional depositories. Next, an effort was made to contact directly the public libraries in the remaining SMSAs. Currently, central depositories have been designated in 242 of the 324 SMSAs, and it is believed that the remaining 82 SMSAs will soon have their depositories. The federal financial institution regulatory agencies have distributed completed 1980 HMDA disclosure statements to depositories already identified and will mail lender statements to the remaining SMSAs as depositories in them are found. The final edition containing the remaining central depositories should be distributed in the spring of 1982 and published in the *Federal Register* at that time.

Functions of the Central Depositories

Congress expected that the central depositories would play an essential, yet minimally burdensome, role

under the HMDA Amendments. Until the amendments were passed, the public could request an institution's HMDA disclosure statement at the institution. However, to analyze community lending patterns it was necessary to request HMDA disclosure statements at many institutions. Now the amendments provide that HMDA Disclosure Statements for all covered institutions would be available for public review in a central location. In addition, the Council agreed to distribute the aggregate lending pattern tables to the central depositories so that the public could review the aggregate data along with the individual HMDA disclosure statements.

The depositories are required to provide access to the documents in the depository and to provide access to copying facilities if a person wants to reproduce any of the documents. However, depositories are not responsible for the completeness or the accuracy of the disclosures they are provided under this program.

Congress believed that accessible HMDA data would be an important source of information for community groups evaluating individual institutions' lending patterns as well as total SMSA lending patterns. Congress also believed the data could provide information for local officials developing housing and community development initiatives.

A proposed set of tables was published by the Council with a request for public comments in February 1981. Comments received were analyzed and the final revised tables were approved by the Council in September 1981. Those tables are presented below.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE I
CENSUS TRACT AGGREGATION¹

Census Tract Number, or County ² Name	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi- Family Dwellings		Non-Occupant Loans (1-4 family dwellings)		Percentage Minority ³ Population	Median Income as a Percent of SMSA ⁴ Median Income	Median Age of Housing Stock ⁵	Number of Owner- Occupied Units
	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	Percentage	Percentage	Year	Number
Census Tract 0001																
.																
.																
.																
9999																
County Name																
.																
.																
.																
SMSA Total																
Total																
SMSA percentage of minority population:																
SMSA median income:																
SMSA median age of housing stock:																

¹All census tract definitions and demographic data are based on the 1970 Census of Population and Housing.
²If a census tract number is duplicated within an SMSA, a county designation will be included.
³Minority population includes: Negroes, Hispanics and other minority groups as derived by calculating total population less White and Negro for each census tract.
⁴Median income is determined by using median family income for a census tract.
⁵Because the census data on housing stock age is categorized in intervals of several years, the median housing stock age of a census tract is determined by calculating the midpoint of the interval in which the median unit falls. The midpoint (year) in which the median unit was built is presented in this column.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE II
HOME LOAN DATA BY INCOME CATEGORIES

Census Tract Income Category ¹	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi- Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
		No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Low and Moderate Income Areas:													
Middle Income Areas:													
Upper Income Areas:													
Column Total													

¹Low and moderate income category consists of census tracts whose median family is less than 80 percent of the SMSA median family income, middle income category consists of census tracts whose median family income is between 80 and 120 percent of the SMSA median income, upper income category consists of census tracts whose median family income is greater than 120 percent of the SMSA median family income.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE III
HOME LOAN DATA BY RACIAL CHARACTERISTICS

Census Tract Racial Category ¹	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi- Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
		No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Less than 10% minority tracts:													
10% to 15% minority tracts:													
16% to 39% minority tracts:													
40% to 59% minority tracts:													
60% to 79% minority tracts:													
80% to 100% minority tracts:													
Column Total													

¹Minority population includes: Negroes, Hispanics and other minority groups as derived by calculating total population less White and Negro for each census tract.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE IV
HOME LOAN DATA BY INCOME CATEGORY AND RACIAL CHARACTERISTICS

Census Tract Racial and Income Category ¹	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi- Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
		No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Low and moderate income less than 10% minority tract —													
Middle income less than 10% minority tract —													
Upper income less than 10% minority tract —													
Low and moderate income 10-15% minority tract —													
Middle income 10-15% minority tract —													
Upper income 10-15% minority tract —													
Low and moderate income 16-39% minority tract —													
Middle income 16-39% minority tract —													
Upper income 16-39% minority tract —													
Low and moderate income 40-59% minority tract —													
Middle income 40-59% minority tract —													
Upper income 40-59% minority tract —													

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE IV (continued)

Census Tract Racial and Income Category ¹	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi- Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
		No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Low and moderate income 60-79% minority tract —													
Middle income 60-79% minority tract —													
Upper income 60-79% minority tract —													
Low and moderate income 80-100% minority tract —													
Middle income 80-100% minority tract —													
Upper income 80-100% minority tract —													

¹Low and moderate income category consists of census tracts whose median family income is less than 80 percent of the SMSA median family income, middle income category consists of census tracts whose median family income is between 80 and 120 percent of the SMSA median family income, the upper income category consists of census tracts whose median family income is greater than 120 percent of the SMSA median family income. Minority population includes: Negroes, Hispanics and other minority groups as derived by calculating total population less White and Negro for each census tract.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE V
HOME LOAN DATA BY GEOGRAPHIC LOCATION CATEGORIES

Location Category ¹	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi-Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
		No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Central City(s): ²													
SMSA Less Central City(s):													
Total													

¹SMSA less central city includes all census tracts and nontraced counties outside the central city(s) but within the SMSA.

²Central city is defined as in the census. For SMSAs with more than one city name, multiple central cities are delineated.

SMSA "NAME"
ORIGINATIONS
(Does Not Include
Purchased Loans)

TABLE VI
HOME LOAN DATA BY AGE OF HOUSING STOCK

Housing Stock Age ¹	Census Tracts Categorized by Median Age of Housing Stock	Number of Census Tracts	FHA, FmHA or VA Loans (1-4 family dwellings)		Other Home Purchase Loans ("Conventional") (1-4 family dwellings)		Total Home Purchase Loans (1-4 family dwellings)		Total Home Improvement Loans (1-4 family dwellings)		Total Mortgage Loans on Multi-Family Dwellings		Non-Occupant Loans (1-4 family dwellings)	
			No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
1969 to March 1970														
1965 to 1968														
1960 to 1964														
1950 to 1959														
1940 to 1949														
1939 or earlier														

¹Census tracts are grouped according to median age. Because the census data on housing stock age is categorized in intervals of several years, the median housing stock age of the census tract is determined by calculating the mid-point of the interval in which the median unit falls. The tracts are then arrayed in this table by the time period in which the median unit was built.

Bank Regulatory Accounting Standards and Their Compatability with Generally Accepted Accounting Standards for Supervisory Reporting Purposes

by Rhoger H. Pugh, M. Robert Bowers, and David C. Motter, Staff, Office of the Comptroller of the Currency

Federal regulators of commercial banks are often asked why the regulatory accounting principles (RAP) that they have established pursuant to their supervisory responsibilities differ in certain accounting specifications from generally accepted accounting principles (GAAP) that must be followed by registered institutions in providing financial data for shareholders.*

The principal reporting instruments of the three banking agencies are the so-called call reports, known officially as the Reports of Condition and Income. The term also embraces certain supplements to these reports: the Large Bank Supplements, which are submitted by banks with assets of more than \$300 million, and other information required from banks with foreign offices. Furthermore, the Office of the Comptroller of the Currency, as a means of providing certain data for the operation of its National Bank Surveillance System, requires from national banks additional information relating principally to contingent liabilities and past-due loans. Neither the Federal Deposit Insurance Corporation nor the Federal Reserve System requires these data from state-chartered institutions.

The call report structure is the main focal point for discussions of differences between RAP and GAAP. The call reports are similar in appearance and form to financial statements re-

quired for shareholder disclosure purposes.

Shareholder disclosures are generally required of banks and bank holding companies under four separate standards. Holding companies subject to the jurisdiction of the Securities and Exchange Commission must file their annual reports to shareholders and other similar disclosure documents pursuant to the Securities and Exchange Commission's standards as enunciated in Article 9 of Regulation SX, Accounting Rules for Bank Holding Companies and Banks. Individual banks with more than 500 shareholders are subject to the shareholder disclosure regulations of the three banking agencies: Regulation F of the Board of Governors of the Federal Reserve System (12 CFR 206), 12 CFR 11 of the Comptroller of the Currency, and 12 CFR 335 of the Federal Deposit Insurance Corporation. These last three regulations have been conformed by the three banking agencies and are substantially identical with respect to financial disclosure requirements. The agencies, furthermore, are under a statutory requirement to conform their individual bank disclosure requirements to the standards of the SEC or to explain publicly why they believe the SEC's criteria are inappropriate for bank supervisory and regulatory needs.

To understand why differences exist between RAP and GAAP, one must understand the purposes for which financial information is required and how it is used. The Securities Exchange Commission consistently embraces generally accepted accounting principles as the basis for the financial disclosures that it requires. Its purpose in doing so is easily discerned. The SEC is responsible for the financial oversight of a large number of firms in a variety of industries. Each firm is required to make specific financial disclosures because its stock is publicly held.

At the same time, these businesses use financial data for various inter-

nal purposes—for planning and cost measurement and control, as a part of their management information systems, and as the basis for the payment of their taxes. The need to establish such systems, to pay taxes, and to maintain shareholder confidence in published financial information has traditionally led to the employment of independent CPA firms to carry out audits and to attest to the fairness of the presentation of the financial statements.

Members of the accounting profession, both independent CPAs and internal accountants, are interested in the integrity of financial data. Using financial information, accountants play an integral role in the establishment of internal accounting and control mechanisms, the development of financial and tax accounting systems, and the formulation of tax strategies. Accordingly, to give its members reasonable standards to follow, the accounting profession has over the years adopted a series of principles and standards that its members can apply. These are collectively known as generally accepted accounting principles.

In most cases, there is not one single principle governing the treatment of a given transaction. For example, there are several acceptable methods of accounting for inventory and for depreciation of fixed assets. It is likely that the number of circumstances for which specific standards do not exist exceeds the number for which such standards do exist. In such cases, any accounting principle is "generally accepted" if it fairly presents the condition of the organization when applied consistently with other principles in the same and previous years. Given the myriad transactions in which American businesses engage, the setting of absolute standards for the reporting of each and every transaction is obviously impossible. Furthermore, GAAP principles are applied by accountants on a case-by-case basis. They allow the accountant—a trained professional—a degree of latitude in applying those standards so as to fairly present, in the

*The question is more acute for the bank regulators than for the Federal Home Loan Bank Board and the National Credit Union Administration, because credit unions and many savings and loan associations are mutual institutions owned by their depositors. Stock savings and loan associations generally report to the Federal Home Loan Bank in accordance with GAAP.

accountant's judgment, a business's financial position and results of operations.

From accountant to accountant, opinions on what generally accepted accounting principles apply in a given situation may legitimately vary within the parameters laid down by the profession, provided certain broad principles are followed. This degree of latitude, while contributing to the overall consistency and presumed fairness of the presentation of an individual institution's financial statements over a period of time, often leads to considerable difficulty in comparing the financial statements of one entity with another. Hence, the application of GAAP to the financial statements of an institution must be thoroughly documented and explained through a series of footnotes. These footnotes become an integral part of the financial statement and serve to explain the manner in which unique and special transactions were treated in accordance with broader generally accepted accounting principles. Analysis and investors, in seeking to make interpretive comparisons between institutions may, by analysis of these footnotes, draw their own conclusions about the consistency with which generally accepted accounting principles were applied in two or more institutions. As part of their analytic technique, they may then make such manual adjustments as they deem necessary and reasonable to reduce the financial statements of the institutions to a sufficient degree of commonality.

The accounting profession also allows for some interindustry differences in treatment. This gives industries flexibility in accounting for circumstances unique or peculiar to their environment. When comparing RAP and GAAP approaches for various industries on an overall basis, there may be more similarity between the two in banking than in other regulated industries such as transportation, insurance, public utilities, and certain trading and agricultural corporations.

The situation is quite different, however, in the regulatory and supervisory spheres. Most regulated industries are subject to regulatory accounting and reporting principles that are far less flexible than the generally accepted accounting principles applicable to those industries—less flexible in the sense that they allow far less latitude for individual interpretation. However, only infrequently is the RAP approach totally inconsistent with GAAP.

The tax accounting standards established by the Internal Revenue Service contain thousands of significant differences from GAAP. To allow the degree of latitude in the preparation of tax returns that is permitted under GAAP would result in a chaotic situation. The cost of collecting taxes would sharply increase, and the achievement of equity among tax payers would be made more difficult.

For bank regulators, a high degree of comparability among the call reports of commercial banks is essential to efficient and even-handed supervision. It may be argued that the regulatory agencies could analyze financial institutions' financial statements prepared in conformance with GAAP on an individual basis, as do investors and other financial analysts. To a considerable degree this is done for the larger institutions, to gain supplementary information relevant to supervision. Audited statements are not available for many smaller banks, however. Even if they were, relying solely on them for supervisory data would lead to substantial information gaps. It would also require a significantly greater investment in trained analytical personnel than is necessary to analyze fully comparable bank call reports.

One might ask why it is necessary to carry out off-site analyses of individual banks now, when for over 12 decades of federal bank regulation, the examination processes have been the principal, and typically the only, vehicle by which the activities

of individual banks were monitored and evaluated. The answer to that question is simply one of economics: budget and personnel constraints. Increased staff salaries and travel costs, the increased complexity of banking transactions, and the personnel ceilings that are the result of government-wide policies to limit the growth of the federal government have made it impractical for the regulatory agencies to rely on the bank examination process as their only means of bank supervision. To meet the challenges of the present day and to deal with the unprecedented changes in the structure and operations of the banking system that lie ahead, regulators must develop new tools and new procedures for carrying out their supervisory responsibilities.

Monitoring seems to be the answer to this dilemma, that is, off-site monitoring of banks through analysis of financial data from call reports and other sources, supplemented by less frequent and more special purpose examinations. The regular analysis of comparable, uniform financial data reveals those banks that are operating in a manner consistent with their historical patterns, continuing to be profitable, and growing in a controlled manner. Sophisticated analysis also permits the regulatory agencies to pinpoint areas of concern within individual banks. This allows the less-frequent examinations to concentrate on those areas within a particular bank's operation that have prompted supervisory concern. This, in turn, minimizes the time examiners need to spend in banks.

These new techniques mean greater efficiency in the examination area. Yet, given the rates of inflation that have prevailed in the country for some time and the new complexities being introduced by deregulation and new competition in banking, the overall monetary costs of supervision will not decrease. The new procedures simply help to hold cost increases to an acceptable level. The key to this new era of supervisory

inquiry is monitoring, using computerized techniques to compare banks with similar economic, regional, and size characteristics. For such analysis to be useful, the basic financial data submitted by banks must be consistent not only from reporting period to reporting period, but from bank to bank, when compared with similar banks categorized by size and other criteria. Computers cannot analyze footnotes efficiently; therefore, the regulatory agencies cannot allow the degree of latitude in accounting methods that would be allowable under GAAP, although, as previously noted, an acceptable RAP approach may not be inconsistent with GAAP. Reporting standards must yield data sufficiently consistent and accurate to enable the agencies to modify their examination procedures and supervisory approaches to realize fully the efficiencies that modern data processing techniques can afford.

The differences between GAAP and RAP do not stem from the fact that the regulatory agencies are unwilling to embrace standards adopted by independent rulemaking agencies outside of the government sector. On the contrary, the regulatory agencies have made significant efforts in recent years, particularly under the auspices of the Federal Financial Institutions Examination Council, to establish an effective channel of communication with the American Institute of Certified Pub-

lic Accountants and the Financial Accounting Standards Board. By promoting an awareness of their common concerns and problems, the federal regulatory agencies and the mediators of accounting standards hope to be able to minimize the differences in accounting and reporting requirements that banks must address in preparing financial statements and call reports.

The regulatory agencies are committed to continuing progress in making RAP consistent with GAAP, if not identical in detail. The Examination Council's Task Force on Reports has consistently moved to adopt GAAP where feasible for regulatory accounting purposes or to adopt reporting standards that, while more specific than GAAP, are nonetheless consistent with the broader standards. An example in this area is the treatment of the capitalization of imputed interest under SFAS 34. Recent revisions of the call report instructions, published for the first time under the auspices of the FFIEC, specifically state that, in the absence of specific call report instruction, banks should be governed by GAAP in reporting new or unusual transactions.

Perhaps the area of most significant difference between GAAP and RAP is the treatment of goodwill by banks. The regulatory agencies are actively reevaluating their position in this area. Though no final decision has been reached, it is likely

that the agency reporting standards will move closer to GAAP.

The operation of a bank surveillance system has become an integral and vital part of efficient and responsible supervision of financial institutions, and will become more so in the coming decade. Responsible supervision cannot be pursued without implementing modern data processing techniques. Just as banks have found it economically feasible to employ electronic data processing in the handling of their own internal transactions and accounting records, regulatory agencies cannot effectively monitor and review the changes with which banks are confronted without employing automated techniques.

The regulators are striving to minimize differences between generally accepted accounting principles and reporting standards to the extent consistent with their overall objectives. They actively seek the help and support of the accounting profession and of bankers, inviting the profession to comment on both proposed accounting standards and regulatory standards as put forward by the supervisory agencies. Greater responsiveness by banks can help ensure that differences between RAP and GAAP are minimized while at the same time promoting effective and efficient supervision by the regulatory agencies.

Appendixes

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.

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

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

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

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

State Liaison

Sec. 1007. To encourage the application of uniform examination principles and standards by State and

Federal supervisory agencies, the Council shall establish a liaison committee composed of five representatives of State agencies which supervise financial institutions which shall meet at least twice a year with the Council. Members of the liaison committee shall receive a reasonable allowance for necessary expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may—

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

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

Access to Information by the Council

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

Audits by the Comptroller General

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

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

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

B. FFIEC Examiner Education Program Course Descriptions (1981)

Instructor Training Course

Instructor Training is a one-week course that 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

The one-week Management Workshop emphasizes the managerial skills needed by examiners. Attendees bring survey instruments completed by themselves and by colleagues or subordinates, administer self-assessment questionnaires, and participate in small group discussion sessions. The basic concepts are presented through lectures, films, video tapes, and slides. 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

The Basic Entry-Level Trust School, 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 supervisory role of the regulatory agencies. This two-week course incorporates 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. During 1982, this course will be conducted by the individual agencies using Council course materials.

Basic International Banking

Students in the one-week Basic International Banking course learn the functions, language, and concepts of international banking, as well as the role of the regulatory agencies. Topics include nostro and vostro 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.

Intermediate International Banking School

The purpose of the five-day Intermediate International Banking School is to bring attendee's knowledge of international banking and its regulation up to a high level of expertise. The course gives more advanced treatment to many of the topics introduced in the basic school, emphasizing foreign exchange, international lending, foreign credits, and country risk. Case studies of actual lending situations give the student analytical experience in these areas. Only senior examiner-specialists teach in this course, aided in some sessions by an invited speaker from the banking industry. Agencies should carefully review the qualifications of nominees for attendance. Attendees must have two years' examination experience and must have satisfactorily completed a basic international banking school.

Fundamentals of Data Processing

Fundamentals of Data Processing, an entry-level course, deals with basic computer language and systems, and the creation, utilization, and storage of programs and data. Emphasis is 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 have approximately one year of examination experience. During 1982, this course will be conducted by individual agencies using Council course material.

EDP Work Program School

The two-week EDP Work Program School instructs EDP examiners in the techniques of examination of a data processing center, using 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 able to complete the EDP work program in its entirety. Attendees should have completed a basic course equivalent to the Council's Fundamentals of Data Processing, participated in a minimum of two EDP examinations, and met other requirements determined by their agency.

Trust Workshop

The Trust Workshop 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 two-week school is being completely revised and updated to address the on-going changes in agencies' consumer compliance programs. Topics include fair housing, equal credit opportunity, fair credit reporting, truth in lending, reimbursement, interest on deposits, the Community Reinvestment Act, electronic fund transfers, and many oth-

er topics. Through working with loan files and case studies, students learn regulations and procedures applicable to their agency's examination for consumer compliance. During 1982, this school will be conducted by the individual agencies using Council course materials.

Municipal Securities Rulemaking Board School (under development)

The Municipal Securities Rulemaking Board School, now under development, would be a one-week program providing the senior assistant and commissioned examiner with an understanding of municipal

securities dealer activities. Topics include municipal securities dealer organization and regulatory structure, professional qualifications, securities processing and clearance, underwriting, industry practices, and related fair-practice rules related to trading and sales and supervision.

Other New Courses

Two additional courses are being considered for development in 1982:

- Small Financial Institutions EDP
- EDP Advanced Seminar

C. Financial Statements together with Auditors' Report

To the Federal Financial Institutions Examination Council:

We have examined the balance sheets of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL as of December 31, 1981 and 1980, and the related statements of revenues and expenses and changes in financial position for the years then ended. Our examinations were made in accordance with

generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Financial Institutions Examination Council as of December 31, 1981 and 1980, and its revenues

and expenses and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Washington, D.C.,
February 19, 1982.

BALANCE SHEETS as of December 31, 1981 and 1980

	1981				1980			
	Operations	Lodging Facility	Examiner Education	Total	Operations	Lodging Facility	Examiner Education	Total
ASSETS								
OPERATING FUND:								
Cash, held by Board of Governors of the Federal Reserve System	\$134,362	\$145,560	\$106,119	\$386,041	\$ 77,424	\$ (50,215)	\$ 89,254	\$116,463
Accounts receivable	—	20,274	30,625	50,899	—	119,790	36,625	156,415
Total operating fund	134,362	165,834	136,744	436,940	77,424	69,575	125,879	272,878
PROPERTY FUND:								
Office furniture and equipment, at cost (Note 2)	39,433	—	17,702	57,135	40,274	—	17,885	58,159
Total property fund	39,433	—	17,702	57,135	40,274	—	17,885	58,159
Total assets	\$173,795	\$165,834	\$154,446	\$494,075	\$117,698	\$ 69,575	\$143,764	\$331,037
LIABILITIES AND FUND BALANCES								
OPERATING FUND:								
Liabilities —								
Accounts payable and accrued liabilities	\$ 92,848	\$ 55,619	\$ 62,719	\$211,186	\$ 13,200	\$ 5,500	\$ 63,065	\$ 81,765
Advances from member organizations	—	109,753	54,480	164,233	—	42,414	81,720	124,134
Accrued annual leave	8,487	462	1,693	10,642	7,484	—	2,066	9,550
Total liabilities	101,335	165,834	118,892	386,061	20,684	47,914	146,851	215,449
Commitment (Note 4)								
Fund balance —								
Balance, beginning of year	56,740	21,661	(20,972)	57,429	114,784	—	—	114,784
Prior period adjustment to record accrued annual leave (Note 2)	—	—	—	—	(5,932)	—	—	(5,932)
Revenues over (under) expenses	(23,713)	—	38,824	15,111	(52,112)	21,661	(20,972)	(51,423)
Distribution of 1980 lodging facility fund balance (Note 4)	—	(21,661)	—	(21,661)	—	—	—	—
Balance, end of year	33,027	—	17,852	50,879	56,740	21,661	(20,972)	57,429
Total operating fund	134,362	165,834	136,744	436,940	77,424	69,575	125,879	272,878
PROPERTY FUND:								
Fund balance —								
Balance, beginning of year	40,274	—	17,885	58,159	33,376	—	—	33,376
Additions, at cost	1,153	—	—	1,153	6,898	—	17,885	24,783
Disposals, at cost	(1,994)	—	(183)	(2,177)	—	—	—	—
Total property fund	39,433	—	17,702	57,135	40,274	—	17,885	58,159
Total liabilities and fund balances	\$173,795	\$165,834	\$154,446	\$494,075	\$117,698	\$ 69,575	\$143,764	\$331,037

The accompanying notes are an integral part of these balance sheets.

STATEMENTS OF REVENUES AND EXPENSES for the years ended December 31, 1981 and 1980

	1981				1980			
	Operations	Lodging Facility	Examiner Education	Total	Operations	Lodging Facility	Examiner Education	Total
REVENUES:								
Assessments to member organizations (Note 3)	\$568,650	\$ —	\$ —	\$ 568,650	\$213,280	\$ —	\$ —	\$ 213,280
Rentals (Note 4)	—	1,505,052	—	1,505,052	—	1,312,600	—	1,312,600
Tuition	—	—	421,975	421,975	—	—	136,925	136,925
Total revenues	568,650	1,505,052	421,975	2,495,677	213,280	1,312,600	136,925	1,662,805
FUNDED EXPENSES:								
Lodging facility rental (Note 4)	—	1,462,725	—	1,462,725	—	1,268,750	—	1,268,750
Salaries and related benefits (Note 3)	301,180	35,089	61,667	397,936	165,542	17,674	45,495	228,711
Travel	20,929	—	151,366	172,295	18,770	—	43,881	62,651
Data processing	154,206	—	—	154,206	—	—	—	—
Books and subscriptions	446	—	36,641	37,087	309	—	33,925	34,234
Rental of office space (Note 3)	58,022	—	75,770	133,792	33,015	—	—	33,015
Rental and maintenance of office equipment	775	—	8,499	9,274	—	—	—	—
Administrative fees (Note 3)	10,500	5,950	5,950	22,400	7,094	4,515	4,514	16,123
Printing	26,874	—	23,303	50,177	14,057	—	1,402	15,459
Office supplies	1,688	826	7,334	9,848	3,336	—	5,383	8,719
Professional fees	4,300	—	—	4,300	3,000	—	—	3,000
Postage	6,053	—	6,579	12,632	5,166	—	301	5,467
Telephone	3,077	—	2,289	5,366	3,502	—	—	3,502
Miscellaneous	2,157	—	4,126	6,283	3,151	—	3,045	6,196
Total funded expenses	590,207	1,504,590	383,524	2,478,321	256,942	1,290,939	137,946	1,685,827
Revenues over (under) funded expenses before property additions	(21,557)	462	38,451	17,356	(43,662)	21,661	(1,021)	(23,022)
Property additions (Note 2)	1,153	—	—	1,153	6,898	—	17,885	24,783
Revenues over (under) funded expenses and property additions	(22,710)	462	38,451	16,203	(50,560)	21,661	(18,906)	(47,805)
UNFUNDED ACCRUED ANNUAL LEAVE (Note 2)	1,003	462	(373)	1,092	1,552	—	2,066	3,618
REVENUES OVER (UNDER) FUNDED EXPENSES, PROPERTY ADDITIONS AND UNFUNDED ACCRUED ANNUAL LEAVE	\$(23,713)	\$ —	\$ 38,824	\$ 15,111	\$(52,112)	\$ 21,661	\$ (20,972)	\$ (51,423)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION for the years ended December 31, 1981 and 1980

	1981				1980			
	Operations	Lodging Facility	Examiner Education	Total	Operations	Lodging Facility	Examiner Education	Total
SOURCES OF CASH:								
Revenues	\$568,650	\$1,505,052	\$421,975	\$2,495,677	\$213,280	\$1,312,600	\$136,925	\$1,662,805
Increase (decrease) in advances from member organizations	—	67,339	(27,240)	40,099	—	(35,841)	81,720	45,879
Increase (decrease) in accounts payable and accrued liabilities	79,648	50,119	(346)	129,421	(32,274)	5,500	63,065	36,291
Total sources	648,298	1,622,510	394,389	2,665,197	181,006	1,282,259	281,710	1,744,975
USES OF CASH:								
Funded expenses	590,207	1,504,590	383,524	2,478,321	256,942	1,290,939	137,946	1,685,827
Purchases of office furniture and equipment	1,153	—	—	1,153	6,898	—	17,885	24,783
Increase (decrease) in accounts receivable	—	(99,516)	(6,000)	(105,516)	—	119,790	36,625	156,415
Distribution of 1980 lodging facility fund balance	—	21,661	—	21,661	—	—	—	—
Total uses	591,360	1,426,735	377,524	2,395,619	263,840	1,410,729	192,456	1,867,025
INCREASE (DECREASE) IN CASH	56,938	195,775	16,865	269,578	(82,834)	(128,470)	89,254	(122,050)
CASH BALANCE, beginning of year	77,424	(50,215)	89,254	116,463	160,258	78,255	—	238,513
CASH BALANCE, end of year	\$134,362	\$ 145,560	\$106,119	\$ 386,041	\$ 77,424	\$ (50,215)	\$ 89,254	\$ 116,463

The accompanying notes are an integral part of these statements.

Notes to Financial Statements as of December 31, 1981 and 1980

1. Organization and Purpose

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

- 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

Fund Accounting — The Council maintains its accounts in three self-balancing funds (each with operating and property fund balances), 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.

Accounting for Property — The Council does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction of expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts and the property fund balance accounts in the Property Fund are increased or reduced at cost.

Accounting for Employee Annual Leave — In accordance with Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," the Council now records the liability for employees' rights to receive compensation for annual leave. Accordingly, the accompanying financial statements for 1980 have been restated to reflect the liability for vested employee annual leave as of December 31, 1979, and for the incremental expense for 1980. The current-year incremental expense for this liability is presented in the Statements of Revenues and Expenses.

1980 Reclassifications — Certain 1980 revenue and expense balances have been reclassified to be consistent with the 1981 presentation.

3. Transactions with Member Organizations

As provided by the Act, member organizations are assessed one-fifth of the annual budgeted operating costs and expenses of the Council. Each member organization paid their assessed costs of \$113,730 in 1981 and \$42,656 in 1980. In addition, each member organization advanced \$16,344 to the Examiner Education Fund in 1980 to finance its startup costs. One-third of these advances were repaid to the member organizations in 1981, and the remaining two-thirds will be repaid in 1982.

The Board of Governors of the Federal Reserve System provides administrative support services to the Council. The Council paid the Board \$22,400 in 1981 and \$16,123 in 1980 for these services.

Member organizations provide office space and data processing services to the Council. The Council paid member organizations \$287,998 in 1981 and \$33,015 in 1980 for office space and related services.

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. Lease of Lodging Facility

The Council leased 125 efficiency units in Arlington, Virginia at a total cost of \$1,462,725 in 1981 and \$1,268,750 in 1980. The Council was reimbursed by the participating member organizations for these rentals. 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. Effective January 1, 1982, the number of leased efficiency units was reduced to 100. Future minimum lease payments for these units were approximately \$514,500 at December 31, 1981.

In 1980, the operation of the lodging facility resulted in revenues over expenses of \$21,661. Since the Council does not intend for the Lodging Facility Fund to generate income in excess of actual expenses, the aforementioned \$21,661 will be distributed to the three sponsoring agencies (Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System). This amount is reflected in the 1981 Balance Sheet as a reduction of the Lodging Facility Fund Balance and is included in Accounts Payable.

In 1981, the rental charges for the lodging facility were adjusted at year-end to effectively show a breakeven operation for the lodging facility for the year.

D. Maps of Agency District or Regional Divisions

56 Board of Governors of the Federal Reserve System

57 Federal Deposit Insurance Corporation

58 Federal Home Loan Bank Board

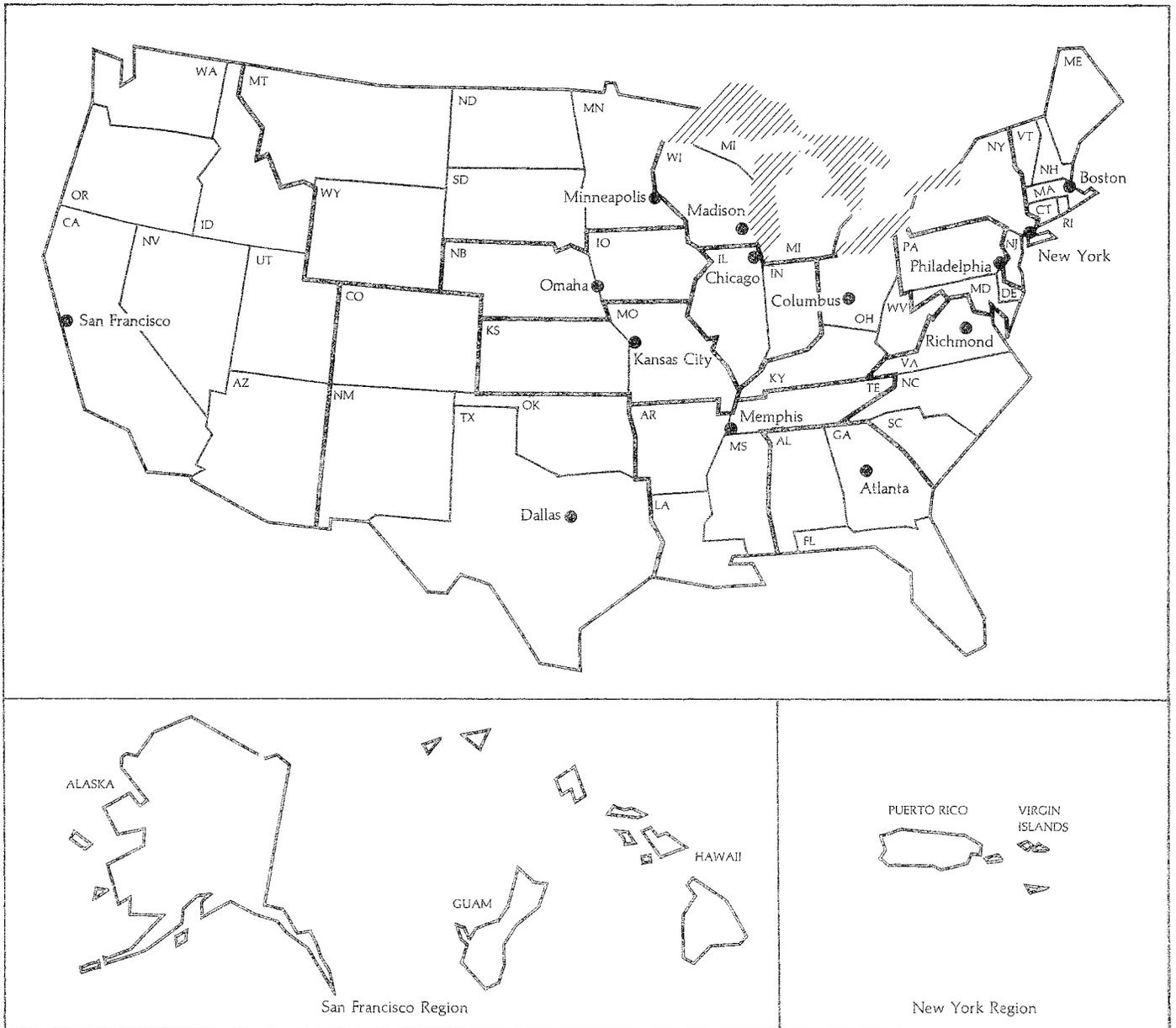
59 National Credit Union Administration

60 Office of the Comptroller of the Currency

The Federal Reserve System Districts



Federal Deposit Insurance Corporation Regions



National Credit Union Administration Districts



Comptroller of the Currency Regional Organization *



* Effective January 1, 1982, the Portland Region was merged into the San Francisco Region.

