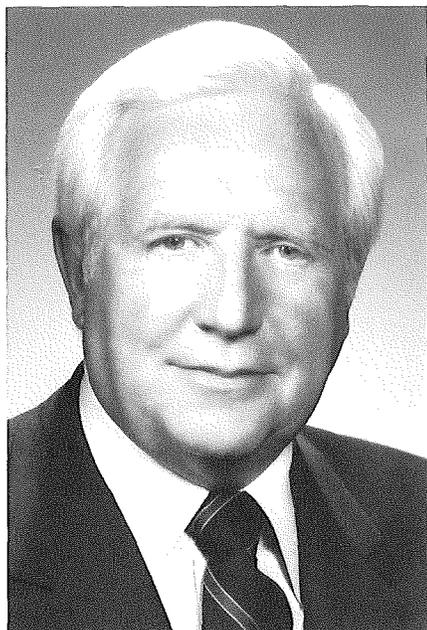




Annual Report 1988

Members of the Council



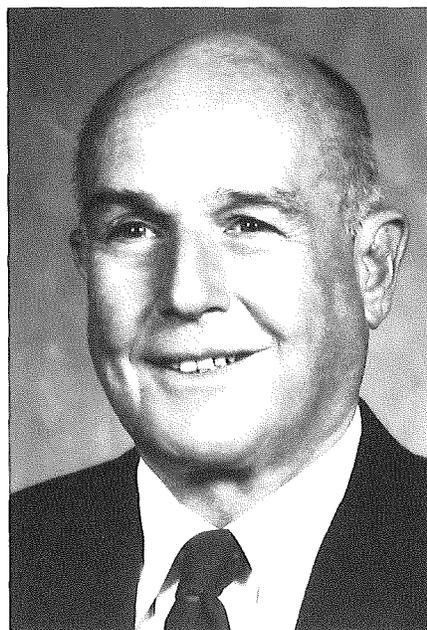
Roger W. Jepsen, *Chairman*
Chairman
National Credit Union Administration



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



H. Robert Heller
Member
Board of Governors of the
Federal Reserve System



L. William Seidman
Chairman
Federal Deposit Insurance Corporation



M. Danny Wall
Chairman
Federal Home Loan Bank Board

Letter of Transmittal

Federal Financial Institutions Examination Council
Washington, DC
March 31, 1989

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 1988 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in cursive script that reads "Roger W. Jepsen".

Roger W. Jepsen
Chairman

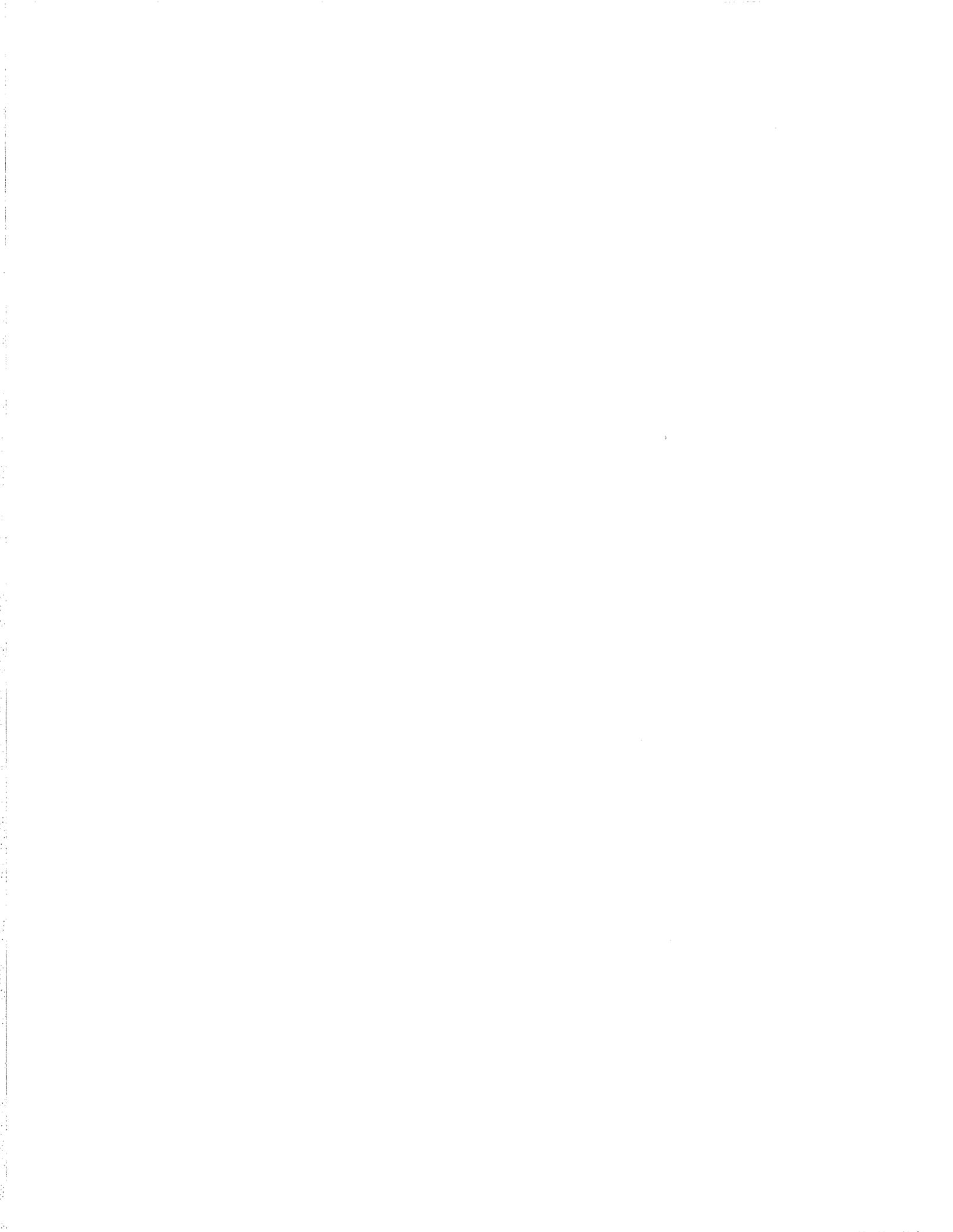
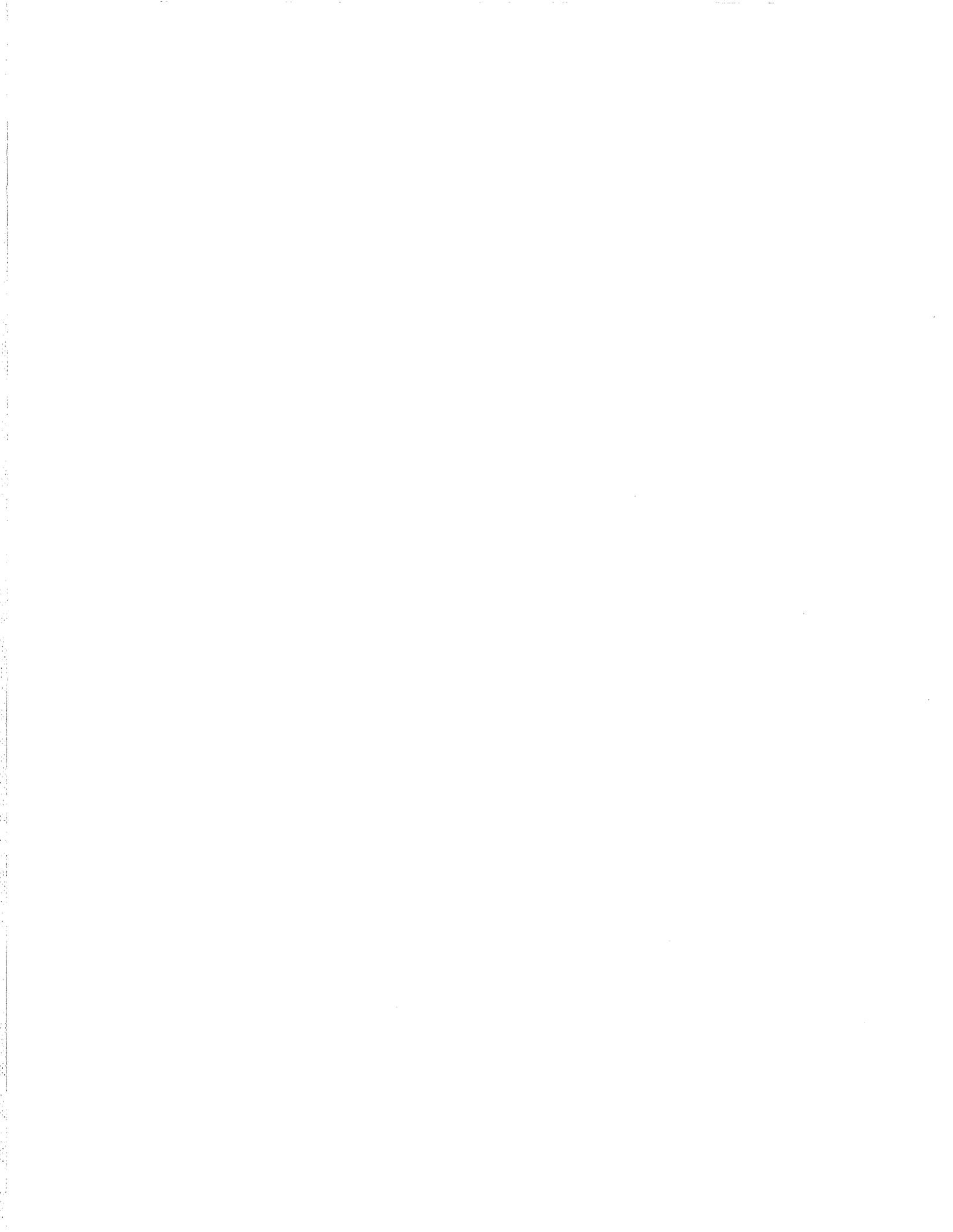


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The Federal Financial Institutions Examination Council



Examination Council in session, 1988

The Federal Financial Institutions Examination Council ("Council") was established on March 10, 1979, pursuant to Title X of Public Law 95-630, the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA). The purpose of Title X was to create a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and Office of the Comptroller of the Currency, and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also to develop uniform reporting systems for federally supervised financial institutions, their hold-

ing companies, and the non-financial institution subsidiaries of those institutions and holding companies. It is to conduct schools for examiners employed by the five agencies represented on the Council and to make those schools available to employees of state financial-institution supervisory agencies. It is the overall intent of the legislation that the Council promote consistency in federal examinations and progressive and vigilant supervision.

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

1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

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



Record of Actions of the Council

Following is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1988 pursuant to sections 1006 and 1007 of Public Law 95-630 and section 340 of Public Law 96-399 (Housing and Community Development Act of 1980).

February 16

Action. Unanimously approved the 1987 annual report of the Council to Congress.

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

March 1

Action. Assigned six courses from the Council's examiner education program to the agencies represented on the Council (One course, the EDP Symposium, was later transferred back to the Council).

Explanation. Reducing the number of courses offered by the Council would reduce the Council's personnel and rental costs. The Council believes that the agencies can assume responsibility for these courses without the need to add to their own staffs and that the courses could be offered within existing space. The agencies assuming responsibility for these courses would offer them to examiners from state agencies and other federal agencies and would ensure that the contents of the courses would serve the needs of all of the agencies.

Action. Decided that the Federal Deposit Insurance Corporation (FDIC) should assume full responsibility for the contract with The Virginian, a

residential facility in Rosslyn, Virginia, that is used by agency examiners when attending training programs in the Washington, D.C. area.

Explanation. In the past, both the Council and the FDIC had contracts with The Virginian to house students attending their respective training programs. The Council believed that savings would be realized by having a single contract with The Virginian and a single agency handling reservations.

March 11

Action. Unanimously approved a supervisory policy "Selection of Securities Dealers and Unsuitable Investment Practices" and recommended its adoption by the agencies, except the Federal Home Loan Bank Board (FHLBB). The FHLBB indicated that it would be working toward a modified version of the policy for the institutions it supervises. All four of the agencies to which the supervisory policy was recommended adopted the policy.

Explanation. The regulatory agencies had become aware of speculative activity in the investment portfolios of a number of depository institutions. Some institutions had failed and others had been significantly weakened as their earnings and capital declined from the erosion in the market value of their investment securities. The Council believes that such speculative activity often occurs when the manager of a depository institution's portfolio follows the advice of securities dealers who tend to encourage speculative practices in order to generate higher investment income for themselves. The supervisory policy approved by the Council provides guidance for selecting securities dealers and identifies investment activities that are regarded as unsuitable for depository institutions' investment portfolios.

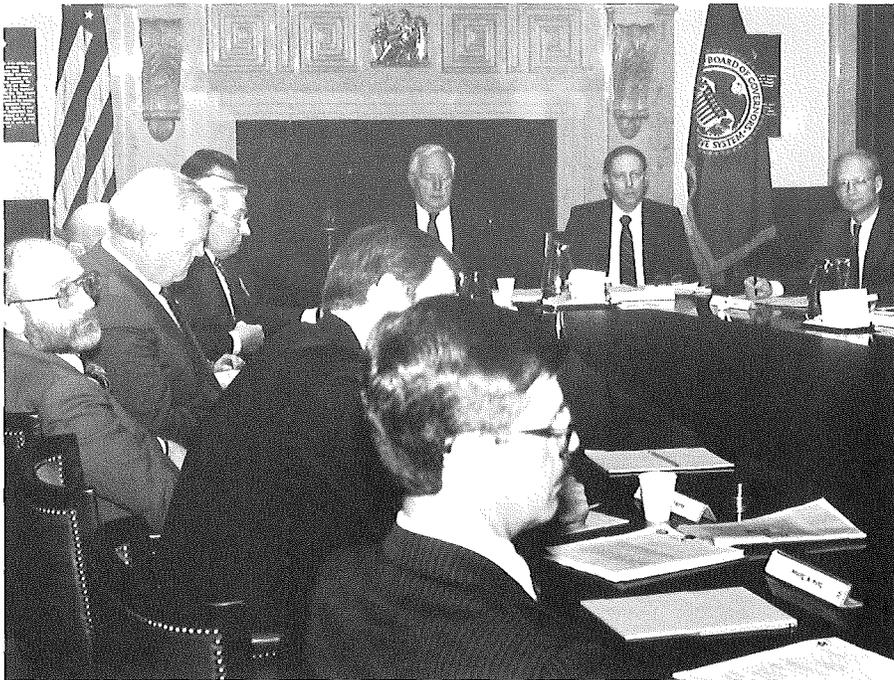
April 4

Action. Approved the issuance for public comment of two proposals regarding the Commercial Bank Report of Condition and Income (Call Report) (1) to define the term "submission date" in the Call Report instructions as the date by which a bank's completed Call Report must be received by the banking agencies (or their collection agent, if the report is submitted electronically) and (2) to require those banks with more than one foreign office (other than a shell branch or an international banking facility) that use any of the additional 15 calendar days they are allowed for the completion of their reports to submit their Call Reports via the approved electronic data transmission system.

Explanation. The Council believes that the usefulness of bank Call Report data to state and federal supervisory agencies, the banking industry, and other public-sector users depends upon the timeliness with which the reports are received and processed. These proposals are part of an effort to ensure the prompt submission of the Call Reports and were developed following extensive consultation with banking industry representatives and state supervisory authorities.

To alleviate industry concerns about possible delays in mail delivery, the Council decided that a bank whose Call Report was mailed first class would be considered to have filed its report on time if the report was post-marked no later than the third calendar day before the required submission date. Also, a bank whose Call Report enters an overnight delivery system the day before the required submission date, in accordance with the established requirements for next-day delivery, will be considered to have filed the report on time.

The proposal to require electronic submission of the Call Report by certain



banks stemmed from suggestions by the New York Clearing House and the American Bankers Association. This requirement would make the Call Report data from these banks, which include the largest banks in the United States, available to the bank regulators up to six days earlier than they are now.

April 8

Action. Unanimously approved a Report to Congress on the Earlier Availability to the Public of the Aggregated Home Mortgage Disclosure Act Data.

Explanation. On February 5, 1988, Congress amended the Home Mortgage Disclosure Act (HMDA). The Joint Congressional Conference on this legislation said there was a need to take steps to make the aggregate HMDA data available to the public earlier. The conferees noted that the Council, which is responsible for producing the aggregate HMDA data, had agreed to report to the Congress on possible modifications of data-handling procedures that would allow the data to be made available earlier.

In its report to the Congress, the Council noted a number of steps that the Council and the agencies intended to take or are taking to speed the processing of the data. Because one of the major hurdles to earlier availability of the data is the late filing of reports by covered financial institutions, most of the actions are aimed at this problem:

- issuing more detailed instructions for completing the HMDA reporting form;
- distributing to covered institutions a video tape containing instructions on completing the form;
- providing a simplified checklist to persons responsible for completing the form;
- refining the examination procedures used by the agencies to identify institutions having problems with reporting accuracy and timeliness; and
- asking an officer of the reporting institution to certify the accuracy and completeness of the HMDA report.

In the report, the Council cautioned that earlier availability of the data must not be achieved at the expense of

data accuracy. It also noted that expanding the scope of HMDA to include mortgage banking subsidiaries of holding companies as called for in the most recent amendments to HMDA would also tend to increase the amount of time needed to process the data.

August 11

Action. Approved two proposals regarding the Commercial Bank Report of Condition and Income (Call Report) (1) to define the term "submission date" in the Call Report instructions as the date by which a bank's completed Call Report must be received by the banking agencies (or their collection agent, if the report is submitted electronically) and (2) to require those banks with more than one foreign office (other than a shell branch or an international banking facility) that use any of the additional 15 calendar days they are allowed for the completion of their reports to submit their Call Reports via the electronic data transmission system.

Explanation. This action by the Council was taken after a review of the public comments received on proposals approved for issuance for public comment on April 4. (See the entry under April 4 for a detailed description of the original proposal.)

The Council decided that the definition of the term "submission date" would become effective with the September 30, 1988 Call Report and that the requirement for certain banks to file their Call Reports electronically would become effective with the June 30, 1989 Call Report.

November 2

Action. Approved for issuance for public comment a proposed Call Report instruction on interest-rate swaps.

Explanation. The proposed Call Report instruction would require that (1) swap income be recognized over the life of the contract rather than at the swap's inception and (2) changes in the market value of swaps subsequent to

their inception (except those accounted for as hedges) be reflected in the bank's income in the period in which they occur. The Council believes that the proposed instruction would eliminate the divergence among banks in the reporting of swaps, thereby allowing more meaningful comparisons of bank income and capital.

The Council believes that the recognition of income at a swap's inception is not appropriate for supervisory purposes since such a practice overstates income and capital. Substantial risk is retained by a bank over the life of a swap, and income may never be realized if unfavorable events occur. Also, requiring subsequent changes in the market value of swaps to be taken into income during the period in which such changes occur will discipline banks by forcing them to record any losses resulting from unfavorable changes in interest rates or credit quality. (Most swaps accounted for as hedges, e.g., those reducing the interest-rate or price risk of a bank's non-swap activities, would be exempt from the requirement that subsequent changes in the market value of swaps be reflected in the Report of Income).

December 13

Action. Approved the phasing out of the Examination Council's Uniform Screening System.

Explanation. The Uniform Screening System (USS) was developed by the Council in 1984 to serve as a basic surveillance system for use by the three federal banking agencies and state banking supervisors. The federal agencies have now developed more complex screening systems of their own and most of the states now have access to the FDIC's screening system.

Because some states are still using the USS, the Council decided to continue production of the USS for another year before it is phased out. All state supervisors will be advised of the termination of the USS so that they can make arrangements for access to an alternative system.

Action. Approved a change to the Council's Rules of Operation whereby members of the State Liaison Committee may be appointed to two consecutive full terms of service on the Committee.

Explanation. The Council's current Rules of Operation specify that members of the State Liaison Committee may not be reappointed immediately following completion of a full two-year term. This provision was included because the Council wanted to ensure that, over time, it received a broad range of views from the Committee. At the time this provision was approved, however, the Council was meeting bimonthly and Committee members were offered many opportunities over a two-year period to exchange views with the Council. Because the Council is now meeting quarterly, it is believed that a longer period of service for the Committee members is desirable so that they may have adequate opportunity to express their views and pursue their areas of interest at subsequent meetings if necessary.

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

Task Force on Consumer Compliance

- August 15—Approved uniform procedures for examining for compliance with Federal Reserve Regulation CC (Expedited Funds Availability Act);

- December 22—Approved uniform procedures for examining for compliance with Federal Reserve Regulation C (Home Mortgage Disclosure Act);

Task Force on Examiner Education

- June 14—Published a catalog of examiner education courses offered by the Council and the five agencies represented on the Council.

Task Force on Reports

- April 15—Approved the addition of a memorandum item to the balance sheet of the Report of Condition and Income (Call Report) wherein a bank would indicate the most comprehensive level of audit performed for the bank by independent, external auditors;
- December 15—Approved, effective March 31, 1989, changes to the Call Report relating to the reporting of equity securities, real estate investments, recourse exposure, accrued interest on deposits, and repricing data for certain time deposits;
- December 22—Approved a revised Call Report instruction relating to sales of agricultural mortgage loan pools that back securities guaranteed by the Agricultural Mortgage Corporation (Farmer Mac).

Task Force on Supervision

- January 15—Approved revisions to the interagency Shared National Credit Program;
- November 10—Approved a Supervisory Policy Statement on Large-Scale Integrated Financial Software Systems.

State Liaison Committee Report

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

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

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

Organization

The SLC consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms.

Each year, the SLC elects one of its members to serve as chair for a period of 12 months. Of the five members, two are selected by the Council. The other three are individually designated by the American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the National Association of State Credit Union Supervisors (NASCUS). A list of the SLC members appears on page 10 of this report.

Participation in Examination Council Activities

The SLC continued its active participation in 1988 to include initiating several projects having significant impact on state and federal financial regulatory agencies.

At the March 1 meeting, the SLC supported the fee structure adopted by the Council for the sale of the Uniform Bank Performance Reports, noting the public benefits associated with access to the data at a reasonable cost.

At the same meeting, during a discussion on returning administration of selected Council courses to member agencies, the SLC expressed the hope that assigning courses to the agencies represented on the Council would not lead to duplication by member agencies. The SLC also asked for assurance that the courses would not lose their value to examiners by becoming more agency-specific.

During the June 14 meeting, a discussion of the funding of the examiner education program elicited comments from the SLC as well as a request that a SLC representative participate in the development of funding proposals. Subsequently, the SLC Chairman attended Examiner Education Task Force

meetings to provide the states' viewpoint and to assist in developing alternative funding proposals.

At the December 13 meeting, the SLC extended an invitation to the three federal bank regulatory agencies to join with the states in meetings to arrange scheduling of interstate examinations of bank holding companies. This type of coordination is important because the holding companies may cross state boundaries, thereby involving several state and federal regulators. The proposed meeting schedule is to be announced early in 1989 by the SLC. This proposal has a significant impact on how examinations are currently scheduled and coordinated, and the Council commended the SLC for initiating this effort.

On another issue, the SLC determined that the present Uniform Screening System is underutilized by most state regulators and, as an alternative, has endorsed the phase-out of the system over a one-year period to enable state agencies to adopt the CAEL System developed by the FDIC.

The SLC has also requested that the Council review the method by which the agencies schedule educational offerings and suggested more coordination among the agencies, the Council, NASCUS, CSBS, and ACSSS to provide the states with information on the availability of training courses and the attendant costs. This project had been assigned to the Examiner Education Task Force.

Finally, the SLC requested that the Council give consideration to allowing SLC members to be reappointed to a consecutive two-year term following completion of an initial two-year term. This action will provide greater continuity on the SLC. This request was approved by the Council.



Administration of the Council



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

The Council's activities are funded in several ways. Most of the Council's funds are derived from semiannual assessments on the five agencies represented on the Council, with each agency contributing one-fifth of the total assessment. The Council also receives reimbursement for the services it provides in support of preparation of the quarterly Uniform Bank Performance Report, and tuition fees cover some of the costs associated with the Council's examiner education program.

The Federal Reserve Board provides budget and accounting services to the Council, and the Federal Reserve's Controller serves as the Council's Controller. The Council is supported by a small full-time administrative staff in its operations office, and its examiner education program is administered by Council staff located at its Examiner

Training Facility in Rosslyn, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council. All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are to—

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

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

Most of the staff support in the substantive areas of concern to the Council is provided by the five interagency staff task forces and the Legal Advisory Group (LAG). The task forces and the LAG are responsible for the research and other investigative work done by agency staffs on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. Also, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of their respective agencies' staff efforts in support of the Council. The Executive Secretary of the Council is an ex officio member of each of the five interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1988 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 1988 would have been impossible.

Organization, December 31, 1988

Members of the Council

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

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

H. Robert Heller
Member
Board of Governors of the
Federal Reserve System (FRB)

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

M. Danny Wall
Chairman
Federal Home Loan Bank
Board (FHLBB)

State Liaison Committee

Mary C. Short, *Chairman*
Superintendent of Banks
Arizona

Howard B. Brown
Commissioner, Connecticut
Banking Commission
Connecticut

John R. Hale
Credit Union Commissioner
Texas

Eugene W. Kuthy
Commissioner of Financial
Institutions
Michigan

L. Scott Walshaw
Commissioner, Financial
Institutions Division
Nevada

**Council Office of the
Executive Secretary**

Robert J. Lawrence
Executive Secretary

John P. Newton
Manager of Examiner Education

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

Agency Liaison Group

Joe M. Cleaver (FRB)
Jonathan L. Fiechter (FHLBS)
Paul G. Fritts (FDIC)
Robert J. Herrmann (OCC)
Donald E. Johnson (NCUA)

Legal Advisory Group

Robert M. Fenner, *Chairman* (NCUA)
John L. Douglas (FDIC)
Jordan Luke (FHLBB)
J. Virgil Mattingly (FRB)
Paul A. Schott (OCC)

Interagency Staff Task Forces

Consumer Compliance

Jerauld C. Kluckman, *Chairman*
(FHLBS)
Martin F. Kushner (NCUA)
Glenn E. Loney (FRB)
John H. McDowell (OCC)
Janice M. Smith (FDIC)

Examiner Education

Martin F. Kushner, *Chairman* (NCUA)
Eugene T. Byrne (FHLBS)
Joe M. Cleaver (FRB)
C. Roger Denesia (FDIC)
Gerry B. Hagar (OCC)

Reports

Robert F. Storch, *Chairman* (FDIC)
Karen Fulton (NCUA)
David C. Motter (OCC)
Rhoger H Pugh (FRB)
William L. Robertson (FHLBS)

Supervision

Robert J. Herrmann, *Chairman* (OCC)
Darrel W. Dochow (FHLBS)
Paul G. Fritts (FDIC)
William Taylor (FRB)
Nicholas Veghts (NCUA)

Surveillance Systems

James I. Garner, *Chairman* (FRB)
Kathleen M. Cahill (OCC)
Charles V. Collier (FDIC)
Jonathan L. Fiechter (FHLBS)
Karen Fulton (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 those institutions and holding companies; and
- to conduct schools for examiners employed by the federal supervisory agencies and make those schools available to employees of state supervisory agencies under conditions specified by the Council.

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

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

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

Task Force on Consumer Compliance

The Task Force on Consumer Compliance was created to promote policy

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

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

Activities of the Task Force

During 1988, action was completed on several major task force efforts.

A subcommittee of the task force spent a considerable amount of time updating the previously issued uniform interagency examination procedures to conform them to current laws and regulations. By the end of 1988, updated procedures had been distributed to the agencies for all Council examination procedures addressing the consumer laws and regulations. Specifi-

cally, revised procedures were issued for examination for compliance with the Truth in Lending Act, the Fair Credit Reporting Act, the Federal Trade Commission Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfer Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, and the Flood Disaster Protection Act. As part of this process, the subcommittee also developed new uniform examination procedures for the Expedited Funds Availability Act, which went into effect on September 1, 1988. During 1989, the subcommittee will revise the Truth in Lending examination procedures to accommodate new legislative changes pertaining to home equity lines of credit and solicitation of credit cards.

To help examiners understand the requirements of the new regulations implementing the Expedited Funds Availability Act, the task force held an interagency examiner training session in July 1988. An underlying purpose of this session was to train selected representatives from each agency who could return to their local offices with the knowledge to train other examiners in the requirements of the new regulation and examination procedures. This all-day session was attended by approximately 100 examiners from the agencies represented on the Council and was well received by the attendees. With assistance from Council staff, an examiner training package was developed and distributed for agency use; included was a videotape of significant portions of the session. This entire training exercise was very cost-effective, providing the agencies with educated personnel and useful resource materials to sponsor on-premises training for the examination staff, thus reducing travel expenditures.

The task force, anticipating a renewed and growing emphasis on the Community Reinvestment Act of 1977, estab-

lished a CRA Subcommittee in August of 1988. During the remainder of 1988, the CRA Subcommittee met four times to discuss and adopt agenda items.

Beginning in 1989, the CRA Subcommittee will begin focusing on seven specific agenda items. The first priority is the development of a position regarding the application of the Community Reinvestment Act to single-purpose/limited-service institutions versus full-service institutions. Two other projects underway include updating the FFIEC *Citizen's Guide to CRA* and developing some practical guidance to the industry regarding the compliance with the spirit and intent as well as the letter of the Community Reinvestment Act. Other agenda items include a review of the uniform CRA examination procedures, a review of the CRA rating system, a study of approaches to training examiners, and research into potential external impediments to lending that may affect performance under the Community Reinvestment Act.

At the request of the Conference Committee on S.825, the Housing and Community Development Act of 1987, the Council was asked to determine ways to expedite the availability of the Home Mortgage Disclosure Act (HMDA) data to the public. The Task Force's Subcommittee on HMDA assessed the HMDA aggregation process to determine if there were areas that could be streamlined to produce the aggregation tables earlier than the mandated December 31st date each year. A number of possible steps were identified and the Council submitted a report to Congress in April 1988. The following actions were subsequently taken:

- Regulation C has been revised to clarify the instructions for completing the HMDA reporting forms.
- Production and distribution of a video tape containing instructions for the institutions to use in completing the HMDA disclosure forms is scheduled to be completed in the first quarter of 1989.
- A new publication is being prepared for distribution to institutions to

provide instruction on complying with HMDA and preparing accurate and timely HMDA forms.

- Procedures have been established to enable the appropriate regulatory agency to make available to their supervised institutions, upon request, a listing of the valid census tract numbers for which they are required to report.
- A joint advisory statement to covered institutions stressing the need for better internal controls and for accurate and timely reporting has been drafted and should be issued during the first quarter of 1989. This statement will also contain a warning that the agencies intend to take stronger action when institutions either fail to file or continually file inaccurate or tardy reports.
- Refined examination procedures, which include steps to help examiners identify and correct HMDA accuracy or timeliness violations, have been issued by the Council.
- Procedures are in place to provide examiners with improved information to use in spot-checking the HMDA reports for accuracy, based on the errors identified during the aggregation process. This information will be made available at the end of the 1988 data aggregation process.
- An editing guide for use by the agencies will be available in February 1989. This guide should help improve the initial editing process so that reporting errors can be identified and corrected prior to submission of the HMDA forms to the Federal Reserve.

In May 1988, the task force approved and issued two new questions and answers on the application of the Council's Interagency Policy Guide for Restitution. This material is included in the question-and-answer document that accompanies the policy guide. The task force continued to work on an additional question and answer addressing the applicability of the policy guide to failed institutions.

During 1989, the task force will also be working on revisions of its brochure "Important Consumer Information."

Task Force on Examiner Education

By emphasizing specialized and advanced topics, the Council training program has provided examiners with much-needed training. Programs are also open to state and foreign financial-institution examiners.

Since the inception of its program, the Council has provided training to 22,147 attendees. During 1988, a curriculum of 19 approved courses and conferences was available. The member agencies and the states provided instructors, and industry members served as guest speakers. Interagency course-development groups provide guidance on topics and speakers.

The goals of the training program are—

- to foster uniformity of examiner training through interagency training;
- to promote efficiency by eliminating duplication where agencies' training needs are the same;
- to develop and offer high-quality courses, seminars, and conferences that meet financial-institution examiner needs; and
- to assist in developing training opportunities for state supervisory agencies.

The Council offers high-quality courses and conferences designed solely for financial-institution examiners. These programs, usually five days or less in duration, are offered at in-house prices and are affordable to the member agencies and the states. This is possible because the participating agencies and states provide most of the instructors.

The interagency training effort has been quite successful for a number of other reasons. It is usually less costly to offer one course on behalf of the five

member agencies than five courses on the same subject. Also, when an agency participates in a Council course, it assigns instructors as if it were its own course. Since the pool of potential instructors is greater when five agencies are involved, this results in instructors' being better suited to the teaching assignment. Larger numbers of instructors from which to choose helps spread the teaching burden among more examiners and also spreads the personal benefits among more instructors.

It is ideal when a course is available at the proper time in an examiner's development. Cooperating to offer courses jointly means that more course sessions will be available throughout the year. For example, 22 sessions of Management Workshop and 14 sessions of Instructor Training were offered in 1988.

The Council offers specialized conferences on a variety of subjects. A single agency often finds it costly to sponsor such conferences for a few examiners. However, the combined needs of five agencies and the states make such conferences economical. The out-of-pocket tuition cost averaged \$100 per attendee at conferences. Including 6 large sessions of White Collar Crime, 24 specialized conferences were offered in 1988.

Facilities

The Council leases training facilities on the tenth floor of a building in Rosslyn, Virginia. This provides the training center with approximately 9,250 sq. ft. of training and office space. Two classrooms and several break-out classrooms are provided. When overflow classrooms are needed, these are borrowed from the FDIC, which has training facilities on the same floor as the Council. Conferences are usually conducted in auditoriums provided without cost by the Federal Home Loan Bank Board.

Courses

Bank Securities Dealer/MSRB/GSA
The Bank Securities Dealer/Municipal

Securities Rulemaking Board/Government Securities Act course was approved as a Council offering in 1982. Topics include municipal and U.S. government securities dealer registration, regulatory structure, professional qualifications, securities processing and clearance, underwriting, industry practices and fair practice rules related to trading and sales. Attendees in this five-day course are senior assistant examiners and individuals who examine or are expected to examine bank securities-dealer departments. (This course was transferred to the Office of the Comptroller of the Currency in July, 1988.)

Basic Entry-Level Trust

This course, conducted primarily by the individual agencies using Council-developed materials, introduces students to the functions and organization of a trust department, the duties and responsibilities of a fiduciary, and the supervisory role of the regulatory agencies. This two-week course incorporates lectures, group discussion, and case studies. Participants are expected to have either 3 to 6 months of experience as a trust examiner or 18 to 24 months of commercial examining experience. (This course was transferred to the Federal Reserve Board in July, 1988.)

Conducting Meetings with Management

This one-week course gives participants practice and confidence in organizing and leading meetings with financial-institution management. Each attendee leads three meetings with small groups role-playing officers of an institution. Difficult meeting circumstances and problem reports are the subjects of the exercises. Videotaped replays augment post-presentation critiques. The target audience is commissioned examiners who are beginning to lead discussions with management, and others who want to improve their meeting-leadership skills.

EDP Symposium

This is a periodic meeting of leading

EDP examiners who are assigned an emerging problem to address. During the week a consensus report is developed and later polished by the course leaders. This report is submitted to the Task Force on Supervision where its possible impact on examination policies and procedures is weighed. Attendance is limited to less than 16 examiners per session. No sessions were conducted in 1988.

EDP Work Program

The two-week EDP Work Program 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 write technical comments for examination reports and, upon completion of the course, is able to complete the EDP Work Program in its entirety. Attendees should have completed a basic course equivalent to the Council's Fundamentals of Data Processing, participated in a minimum of two EDP examinations, and met other requirements determined by their agency. Examiners who have worked with the EDP examination procedures satisfactorily for 12 months or more are not encouraged to attend. (This course was transferred to the Federal Deposit Insurance Corporation in July, 1988.)

Foreign Exchange and International Treasury Operations

This highly specialized one-week school is intended only for examiners who are or will be working in the areas of foreign exchange or international treasury. Attendees must have completed both International Banking I and II. Some topics include credit risk, exchange-rate and interest-rate risks, currency swaps and swap accounting, and foreign-exchange and money-market rates. At the completion of the course, attendees are expected to participate in the examination of an international department, a foreign branch or agency, an overseas examination, or a foreign-exchange department within one year following attendance. (This course was transferred to the Office of the Comptroller of the Currency in July 1988.)

Fundamentals of Data Processing

This one-week course is designed to provide a basic understanding of terminology and systems in use. It is aimed at those who have been examiners for two years or less, and there are no prerequisites for attendance. Emphasis is on controls necessary from a supervisory standpoint. Topics include operations, security, data base management, teleprocessing, micro-computer systems, wire transfer, serviced institutions, and EDP audit and examination. These topics are dealt with on an introductory level. (This course was transferred to the Federal Deposit Insurance Corporation in July, 1988.)

Instructor Training

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

International Banking I (formerly Basic International Banking)

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

International Banking II (formerly Intermediate International Banking)

The purpose of this one-week course is to build on the knowledge gained in International Banking I. This course gives more advanced treatment to for-

eign exchange, international lending, and country risk. Case studies give the student analytical experience in these areas. Only senior examiner specialists teach in this course, aided in some sessions by an invited speaker from the banking industry. Participants usually have a minimum of 24 months' examining experience and have completed the basic course. Candidates must have on-going professional responsibilities in international banking.

International Capital Markets (formerly Advanced International Banking Workshop)

The purpose of this one-week program is to focus on a few financial products presently in vogue in international banking. The following topics are currently receiving one day of discussion each: foreign-currency futures and options, interest-rate and multicurrency swaps, and international lending and back-up facilities. Participants will be able to analyze records of transactions, address regulatory concerns, and write any needed examination comments. Prerequisites include completion of International Banking II and the recommendation of one's agency course-development group representative in Washington. This course is aimed at advanced international examiners who will examine such activities in the immediate future.

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, and videotapes. The desired results are an improved self-perception as a manager, greater knowledge of good management techniques, and improved management practices. Participants should have a minimum of five years' examination experience and some previous training in management.

White Collar Crime

This course, formerly OCC's Fraud Seminar, became an interagency project as a result of the agencies' increased emphasis on fraud and insider abuse. Open to any examiner with five years' experience, this one-week course instructs attendees in detection, investigation, and reporting techniques. Topics include the Bank Secrecy Act, real estate fraud, computer fraud, investment-securities fraud, right to financial privacy, and documentation of evidence. Considerable emphasis is being placed on this course by the chairmen of the member agencies, and over 400 examiners are expected to be trained in 1989.

Conferences

EDP Technology Conference

The EDP Technology Conference is designed to update senior EDP examiners on current developments in data processing, software, systems development, security controls, telecommunications, networks, auditing, computer fraud, and many other issues. The conference features guest speakers who are nationally recognized authorities in their fields. Topics and duration vary from session to session.

International Banking Conference

The International Banking Conference is a high-level, three-day program dealing with the international credit and regulatory situation. The conference includes an update on legislation and regulations. One session is planned for early 1989. Speakers are leading international bankers and senior staff of the bank regulatory agencies. Attendance is limited to senior international examiners and senior examiners-in-charge. No sessions were held in 1988.

Income-Property Lending Conference

This conference presents analytical techniques to equip examiners to challenge the assumptions built into real estate market studies, feasibility studies, and appraisals. Nearly a full

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Basic Trust		20							20
Conducting Meetings with Management	1	205	3	30	5	63	10		317
EDP Work Program	8	3		3			3		17
Foreign Exchange/International Treasury	12	17	15						44
Fundamentals of DP	30	5		6	2				43
Instructor Training	42	36	79	11	6	30			204
International Banking I	38	39	82					10	169
International Banking II	26	29	36					5	96
International Capital Markets	21	48	13					2	84
Management Workshop	112	90	138	54	12	58	9	2	475
Municipal Securities	16	3	51		5				75
White Collar Crime	198	51	86	39	17			13	404
Conferences									
EDP Technology	32	30	29	17	1	4	7		120
Income Property	183	50	69	9	15			4	330
Large-Dollar Transfer Risk	25	24	29	2				8	88
Off-Balance-Sheet Risk	251	182	87	43	16			3	582
Trust	62	22	21					1	106
Totals	1,057	854	738	214	79	155	29	48	3,174

day is devoted to analyzing appraisals. Acquisition, development, and construction loans receive considerable attention, as well as managing construction disbursements. While topics will vary from time to time, additional topics include real estate syndication and equity participations. This conference is open only to commissioned examiners who have considerable involvement with income property and commercial real estate lending. The conference lasts four days.

Large-Dollar Wire Transfer Risk Conference

This conference was developed during 1984, and two sessions are scheduled for 1989. Attendees will learn how to examine a financial institution's large-dollar wire transfer system using the FFIEC *Funds Transfer Activities Uniform Examination Procedures Manual*. They will learn the risks involved in such transfers and will be able to recommend procedures to minimize these risks. Attendees will be those identified by each agency as likely to examine wire-transfer systems and examiners-in-charge who will be responsible for such examinations. This is a two-day conference.

Off-Balance-Sheet Risk Conference

The purpose of this conference is to improve examiners' understanding of the

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

Trust Conference

The Trust Conference emphasizes current events in the fiduciary field. Topics vary from session to session, and the conference features guest speakers from the trust industry. Senior examination personnel who examine trust departments are designated as attendees at this conference. Two sessions are planned for 1989.

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Task Force on Reports

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

Activities of the Task Force

During 1988, the task force's work related primarily to the commercial

bank Reports of Condition and Income (Call Reports). The task force completed the implementation of certain changes in the data collected through the Call Report, agreed upon other changes that will take effect in 1989, and began its study and analysis of the reporting changes needed to accommodate the risk-based capital guidelines that the banking agencies were putting in final form at the end of 1988. An electronic-transmission option for submitting Call Reports became fully operational as of March 31, 1988, and the Council approved the task force's recommendation on two other issues affecting the submission of Call Reports. The task force also received the Council's approval for the solicitation of comments on proposed interest-rate swap reporting standards and adopted a revision to the Call Report instructions relating to certain sales of agricultural mortgage loan pools.

Changes that were approved by the Council in the 1987 interest-rate sensitivity data to be reported in commercial banks' Call Reports became effective with the reports for the first quarter of 1988. Beginning with those reports, Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories," was deleted from the Call Report. In its place, banks began to report less-detailed data on fixed- and floating-rate instruments in memoranda items in the separate Call Report schedules for securities, loans and leases, and deposits. In addition, the Call Report balance sheet was modified to distinguish between one-business-day federal funds transactions and longer-term securities-repurchase transactions. These reporting changes culminated more than two years of efforts by the task force to examine how to reduce the Schedule RC-J reporting burden significantly while continuing to gather the minimum rate-sensitivity data required for the banking agencies' surveillance activities.

The task force also added a memorandum item to the Call Report for June 30, 1988, concerning the level of auditing work performed for each bank by independent external auditors dur-

ing the preceding calendar year. After the initial collection of this memorandum item in the second quarter of 1988, external-audit information will be collected annually in the March Call Report.

The task force agreed to make a number of revisions to the Call Report that, subject to the approval of the Office of Management and Budget, will take effect as of March 31, 1989. The new information to be collected will help the banking agencies identify and monitor risks for which adequate data have not been available. The reporting changes would include separate items for bank holdings of equity securities, a memorandum item for direct and indirect investments in real estate, items for the amount of risk exposure associated with three types of mortgage transfers with recourse that are treated as sales for Call Report purposes, an additional item pertaining to the rate sensitivity of certain time deposits, and the separate reporting of accrued interest payable on domestic-office deposit liabilities.

The impending adoption by the three banking agencies of final risk-based capital guidelines brings with it the need for Call Report changes to facilitate bank and agency measurement of risk-based capital ratios. Thus, the task force had been studying the reporting implications of risk-based capital in order to determine the amounts and types of information that should be collected and which banks should be required to provide such information. In this regard, the task force is attempting to devise criteria that will exempt as many banks as possible from reporting detailed risk-based capital information. Furthermore, the risk-based capital framework incorporates certain off-balance-sheet exposures. As a consequence, in order to allow the banking agencies to improve their monitoring of such exposures, the task force is considering possible revisions to the Call Report schedule for commitments and contingencies (Schedule RC-L) in conjunction with its analysis of changes necessary for measuring risk-based capital. The task force will formulate its recommended reporting re-

quirements for risk-based capital and off-balance-sheet activities in 1989.

Following successful testing with year-end 1987 reports from a small number of banks, the electronic-transmission system for Call Reports, which the Council established in June 1987, became available to all commercial banks for reports prepared as of March 31, 1988. The system allows commercial banks, at their option, to transmit their Call Report data to the banking agencies over telephone lines using computer software certified by CompuServe, Inc., the collection agent for the banking agencies. Commercial banks that do not choose to use this electronic system continue to submit hard-copy Call Reports using agency-supplied printed forms or computer-generated facsimile report forms. The number of commercial banks transmitting electronically began at around 800 for the March 31, 1988, reports and rose to over 1,400—more than 10 percent of the population—for the September 30, 1988, reports.

In mid-1987, the Council authorized the task force to study methods for achieving more timely availability of Call Report data in light of the critical importance of the data in monitoring the financial condition of individual banks and the banking system. At its December 17, 1987 meeting, the task force received Council approval for the solicitation of public comment on two Call Report submission issues. Accordingly, in April 1988 the Council requested comments on proposals to define the term "submission date" in the Call Report instructions as the date by which a bank's completed Call Report must be received by the banking agencies and to require those banks with more than one foreign office that use any of the additional 15 calendar days allowed for the completion of their reports to submit their reports electronically. The effective date for both was proposed to be September 30, 1988. To alleviate concerns about possible delays in mail delivery, the definitional proposal included a provision that a report would be considered filed on time, regardless of when received, if it was mailed first class and post-

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The impending adoption by the three banking agencies of final risk-based capital guidelines brings with it the need for Call Report changes to facilitate bank and agency measurement of risk-based capital ratios. Thus, the task force had been studying the reporting implications of risk-based capital in order to determine the amounts and types of information that should be collected and which banks should be required to provide such information. In this regard, the task force is attempting to devise criteria that will exempt as many banks as possible from reporting detailed risk-based capital information. Furthermore, the risk-based capital framework incorporates certain off-balance-sheet exposures. As a consequence, in order to allow the banking agencies to improve their monitoring of such exposures, the task force is considering possible revisions to the Call Report schedule for commitments and contingencies (Schedule RC-L) in conjunction with its analysis of changes necessary for measuring risk-based capital. The task force will formulate its recommended reporting re-

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In mid-1987, the Council authorized the task force to study methods for achieving more timely availability of Call Report data in light of the critical importance of the data in monitoring the financial condition of individual banks and the banking system. At its December 17, 1987 meeting, the task force received Council approval for the solicitation of public comment on two Call Report submission issues. Accordingly, in April 1988 the Council requested comments on proposals to define the term "submission date" in the Call Report instructions as the date by which a bank's completed Call Report must be received by the banking agencies and to require those banks with more than one foreign office that use any of the additional 15 calendar days allowed for the completion of their reports to submit their reports electronically. The effective date for both was proposed to be September 30, 1988. To alleviate concerns about possible delays in mail delivery, the definitional proposal included a provision that a report would be considered filed on time, regardless of when received, if it was mailed first class and post-

marked no later than the third calendar day preceding the submission date or entered into an overnight delivery system on the day before the submission date. The task force considered the comments contained in the 94 letters the Council received on the proposals and recommended that the Council adopt the definition of "submission date" as proposed. The task force recommended, however, that the effective date for the electronic submission requirement for banks with more than one foreign office be delayed until June 30, 1989. The Council approved the task force's recommendations on August 19, 1988.

Because of concerns on the part of the banking agencies over the lack of a consistent authoritative standard regarding the recognition of income from interest-rate swaps, the Council approved the issuance in November 1988 of proposed regulatory reporting standards for swaps that had been developed by the task force. The proposed Call Report instruction would preclude FDIC-insured commercial and state-chartered savings banks from recognizing arrangement fees and spread income at the inception of a swap. Instead, this income would be recognized over the life of a swap. The instruction would also require that changes in the market values of swaps after their inception, except for most swaps accounted for as hedges, be reflected in the income of the period in which the changes occur. The Council also requested comment on the treatment of the costs incurred to originate interest rate swaps and on the valuation methods used to calculate the market values of swaps. As proposed, the instruction would be effective for swaps entered into after December 31, 1988. Following the close of the comment period on January 9, 1989, the task force will review the comments received and evaluate whether and how to proceed with the proposed reporting standards. The task force will then submit its recommendations to the Council for final action.

In response to requests received by the Council, the task force considered how sales of agricultural mortgage loan

pools that back securities guaranteed by the Federal Agricultural Mortgage Corporation (Farmer Mac) should be reported for Call Report purposes. The Agricultural Credit Act of 1987 created Farmer Mac to facilitate the development of a secondary market for qualified agricultural real estate loans. In order to receive a Farmer Mac guarantee, the organization pooling the loans must either establish a 10 percent reserve of U.S. government securities or retain a 10 percent subordinated interest in the pool. If a mortgage in the pool defaults, recourse must first be made against the reserve or subordinated interest before any demand is made upon Farmer Mac's guarantee. For Call Report purposes, transfers of loans in which the transferring bank retains a risk of loss are generally required to be reported as borrowings rather than sales by the transferring bank. However, transfers of residential mortgages under the federally sponsored residential mortgage programs are treated as sales without regard to the risk retained by the transferring bank. The task force, in consultation with the Task Force on Supervision, concluded that transfers of agricultural mortgages under the Farmer Mac program should receive comparable treatment and is revising the Call Report instructions to indicate that those transfers are to be reflected as sales if they are sales under generally accepted accounting principles.

Task Force on Supervision

The jurisdiction of the Task Force on Supervision (TFS) includes all matters relating to the supervision and examination of depository institutions. The goal of the task force is to improve the quality and efficacy of all aspects of supervision. On items of major importance, the task force makes recommendations to the Council for action. The Council has delegated authority to the task force to make other decisions, provided all members of the Task Force are in agreement.

Task force members are the senior supervisory officials of the constituent

agencies. Meetings are held periodically to address and resolve supervisory issues. The task force has standing subcommittees on electronic data processing examinations and on issues relating to bank securities activities. Ad hoc working groups are created to handle particular projects and assignments.

Activities of the Task Force

During 1988, the task force was involved in a number of projects. The EDP Symposium, under the aegis of the TFS, drafted a policy statement dealing with the risks associated with financial institutions' extensive use of microcomputers, which makes centralized controls more difficult to maintain. After TFS approval, the statement was issued by the Council's constituent agencies to all examiners and depository institutions in 1988.

The TFS established a working group to review the interagency Shared National Credit (SNC) program. In this program, groups of examiners from the three banking agencies jointly evaluate major credits that are shared by two or more institutions. The task force approved the recommendations of the working group, and they were implemented prior to the 1988 SNC reviews.

A working group was established to review the definition of the CAMEL components which had not been subject to an interagency review since being put in place in 1979.

Another EDP Symposium turned its attention to the risks associated with the development and use of large scale integrated financial software systems. The resulting policy statement was approved by the TFS and sent to all depository institutions and examiners.

The Agriculture Credit Act of 1987 created "Farmer Mac" to develop a secondary market for qualified agricultural mortgages. The TFS approved a recommendation of the Reports Task Force that the Call Report instructions be amended to allow transfers of pools of agricultural mortgages under

Farmer Mac to be treated as sales by insured commercial banks. In conjunction with this, the TFS approved another recommendation of the Reports Task Force that a schedule be added to the Call Report to collect data on risks associated with recourse sales of pools of residential and agricultural mortgages.

The imposition of risk-based capital standards, slated for 1990 and 1992, will necessitate the collection of a considerable amount of additional data, notably in connection with off-balance-sheet items. In this context, the TFS asked the Reports Task Force to review the current Call Report treatment of the transfer of assets with recourse.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems deliberates, at an interagency level, on matters concerning surveillance and monitoring systems. Its main functions are to formulate goals, set objectives, and establish priorities of relevant tasks. Historically, its primary objective has been to develop and produce the Uniform Bank Performance Report (UBPR) to monitor the performance of financial institutions, and to identify potential or emerging financial problems in those institutions. This task force is also responsible for the

implementation and oversight of Council-approved surveillance systems.

Activities of the Task Force

In the first quarter of 1988, the project to make the UBPR a more useful and efficient product was completed. A revised User's Guide was also issued to reflect the revisions to the UBPR. The service of providing standardized UBPR quarterly data sets that are prepared on magnetic tapes for public consumption also began in the first quarter.

In 1988, the task force completed and presented to the Council a report on the Uniform Screening System (USS), an interagency computer-based surveillance and monitoring system that was adopted in 1984. After the USS was adopted, each of the agencies formulated and put in place more sophisticated and customized surveillance systems. As a result, the agencies no longer relied on USS as a monitoring tool. Today, considerable supervisory information, including agency surveillance results, is exchanged electronically (on-line and image tapes) among federal regulatory agencies. Much of this information is also available to the state regulatory agencies. This improved communication and sharing of information has considerably strengthened the overall supervisory process. The Council approved

the phase-out of the USS by the end of 1989.

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

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

Copies of UBPRs may be obtained for \$30 per report. A *User's Guide*, which describes the content of the report, is available for \$15. A *Peer Group Report*, showing average ratios for all 25 peer groups, is available for \$50. The *State Average Report* is available for \$30. Standardized UBPR quarterly data sets on magnetic tape are available for \$400 per disclosure tape. Information on ordering items may be obtained by calling (202) 357-0111 or writing to:

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

The Federal Financial Institutions Regulatory Agencies and Their Supervised Institutions

The five federal financial institutions regulatory agencies represented on the Council have primary federal supervisory jurisdiction over more than 31,500 domestically chartered banks and thrift institutions, which, on June 30, 1987, held total assets of more than \$5.2 trillion. The Federal Reserve Board and the Federal Home Loan Bank also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

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

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

- examines, supervises, and regulates state member banks, bank holding companies, and Edge and agreement corporations; approves or denies applications for mergers, acquisitions, and changes in control by state member banks and bank holding companies; and
- approves or denies applications for foreign operations of member banks and has residual supervisory responsibility for U.S. offices of foreign banks.

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

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

The Federal Deposit Insurance Corporation (FDIC)

The FDIC was created in 1933. 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 during his or her tenure as Comptroller.

The FDIC directs a federal deposit insurance program for the U.S. banking system. Present deposit coverage generally extends to all deposit accounts up to an aggregate total of \$100,000 at each insured commercial bank, including all domestic branches of the bank, and certain federal savings banks and industrial banks. To protect against losses, the FDIC has built up an insurance fund financed by income from investments in U.S. government securities and from annual assessments paid by insured banks. In addition, the FDIC has authority to borrow up to an additional \$3 billion from the U.S. Treasury under emergency situations.

National banks and state banks that are members of the Federal Reserve System automatically have FDIC insurance. Insurance for state-chartered banks that are not members of the Federal Reserve System is voluntary under federal law but in practice is generally required by law or policy in most states. In addition, U.S. branches of foreign banks are eligible for FDIC insurance.

The FDIC has authority to examine insured banks either directly or in cooperation with state or other federal authorities. The FDIC also acts on applications for structural or corporate changes, and rules on applications for insurance. For the most part, its regulatory and supervisory authority is confined to insured state banks that are not members of the Federal Reserve System. The FDIC is organized into eight supervision regions and five liqui-

dation regions, each of which is headed by a regional director.

In order to protect depositors of failed banks and maintain public confidence and stability in the banking system, the Corporation may provide assistance in a number of ways. These include making deposit payoffs, arranging purchase and assumption transactions, effecting insured-deposit transfers, providing open-bank assistance, and creating bridge 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 by the FHLBB and the chartering state. In addition, title XII of Public Law 95-630 provided for a new, limited class of federal institutions, the federal mutual savings bank. These institutions are chartered and regulated by the FHLBB, and their deposits are insured by the FSLIC.

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

System districts, are employees of the Federal Home Loan Banks. Supervisory agents, the enforcement personnel of the agency, are employed by the district Federal Home Loan Banks. Personnel in the Office of Regulatory Activities, which was formerly the Office of Examinations and Supervision, are also part of the Federal Home Loan Bank System.

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

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

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

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

The National Credit Union Administration (NCUA)

The NCUA is the agency that heads the nation's federal credit union system established by an Act of Congress in 1934. The Agency is managed by a three-member bipartisan Board ap-

pointed by the President for six-year terms. The President selects a member to serve as Chairman of the Board.

The NCUA—

- charters, examines, and supervises over 9,200 federal credit unions nationwide;
- administers the National Credit Union Share Insurance Fund. The Fund insures 95 percent of member share accounts in nearly 15,000 of the country's federal and state-chartered credit unions; and
- manages the Central Liquidity Facility, a central bank for credit unions that provides financial stability to the credit union system.

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

NCUA has six regional offices across the country that administer the Agency's responsibility to charter and supervise credit unions. NCUA examiners conduct on-site examinations of each federal credit union annually.

Tax dollars do not fund NCUA. The Agency is supported by the credit unions it regulates and insures.

The Office of the Comptroller of the Currency (OCC)

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

The OCC is the regulator and supervisor of the national banking system. There are currently about 4,500 national banks, with over \$1.8 trillion total assets, representing almost 60 percent of the total assets of U.S. commercial banks. The OCC is the only federal banking agency with authority to charter commercial banks. The OCC

shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters, for the establishment of branches, and for mergers of national banks.

The national interest requires that there be a safe and stable financial system that preserves public confidence and makes available a wide variety of financial services in a competitive marketplace. The Office of the Comptroller of the Currency serves this interest

by maintaining and promoting a system of bank supervision and regulation that—

- promotes safety and soundness by requiring that national banks adhere to sound management principles and comply with the law and
- encourages banks to satisfy customer and community needs while remaining efficient competitors in the financial services markets.

The principal supervisory tools of the

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

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

ASSETS, LIABILITIES AND NET WORTH of U.S. Commercial Banks and Thrift Institutions¹ as of June 30, 1988
Billions of dollars

	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Savings Banks	FSLIC-Insured Institutions			Credit Unions ³	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Total Assets	5,229	1,802	541	711	483	229	530	430	330	113	60
Total loans and lease receivables (net)	3,340	1,144	306	415	227	156	417	308	262	68	37
Loans secured by real estate ⁴	1,731	383	70	184	18	131	392	289	234	20	10
Consumer loans ⁵	502	222	45	90	†	12	22	16	21	48	26
Commercial and industrial loans	759	377	118	108	119	11	8	9	8	1	*
All other loans and lease receivables ⁶	412	194	84	39	93	2	*	*	*	‡	‡
LESS: Allowance for possible loan and lease losses	67	32	11	6	3	1	5	6	2	1	*
Federal funds sold and securities purchased under agreements to resell	159	81	28	29	16	5	†	†	†	‡	‡
Cash and due from depository institutions ⁷	477	198	73	69	112	6	6	5	5	2	1
Securities and other obligations ⁸	793	250	73	162	36	52	64	62	36	38	20
U.S. Gov't obligations ⁹	423	167	43	109	12	32	18	16	9	11	6
Obligations of state and local gov'ts ¹⁰	114	59	20	33	†	2	†	†	†	‡	‡
Other securities	256	24	10	20	24	18	46	46	27	27	14
Other assets ¹¹	461	129	61	36	92	11	43	55	27	5	2
Total Liabilities	4,970	1,699	511	656	483	211	512	423	313	106	56
Total deposits and shares ¹²	3,880	1,361	396	597	218	183	402	328	237	103	55
Federal funds purchased and securities sold under agreements to repurchase	396	169	46	28	55	9	31	36	21	1	*
Other borrowings ¹³	448	102	40	20	99	17	69	52	48	1	*
Other liabilities ¹⁴	247	67	29	11	111	2	10	8	7	1	1
Net Worth¹⁵	259	103	30	55	‡	18	18	7	17	7	4
Memorandum: Number of institutions reporting	31,554	4,489	1,072	7,794	523	471	1,220	1,306	566	9,275	4,838

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 FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excluding bank holding companies.

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

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

7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. FSLIC-insured institutions data are for cash and demand deposits only. Time deposits are included in "Other securities."

8. Government and corporate securities, including mortgage-backed securities and loans to states and political subdivisions and to U.S. government agencies and cor

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for the 12 months ending June 30, 1988
Billions of dollars

	Total	U.S. Commercial Banks			U.S. Branches and Agencies of Foreign Banks ¹⁶	Savings Banks	FSLIC-Insured Institutions			Credit Unions	
		National	State Member	State Non-Member			Savings and Loan Associations		Savings Banks	Federal Charter	State Charter
							Federal Charter	State Charter			
Operating Income	448	178	52	66		21	49	37	28	11	6
Interest and fees on loans	306	115	28	42		15	41	30	24	7	4
Other interest and dividend income	83	37	14	10		5	5	5	3	3	1
All other operating income	48	26	10	5		1	3	2	1	*	*
Operating Expenses	427	163	44	59		19	52	47	28	10	5
Salaries and benefits	61	27	8	10		2	5	3	3	2	1
Interest on deposits and shares	208	72	20	30		12	28	23	15	6	2
Interest on other borrowed money	54	22	7	3		2	8	7	5	*	*
Provision for loan and lease losses	36	14	3	4		*	5	9	1	*	*
All other operating expenses	71	28	10	12		3	6	5	4	2	1
Net Operating Income	21	15	8	7		2	(3)	(10)	0	1	1
Securities Gains and Losses	*	*	*	*		*	*	*	*	*	*
Income Taxes	12	5	2	2		1	1	*	1	‡	‡
Net Income	11	10	6	5		1	(4)	(10)	*	2	1
Memorandum: Number of institutions reporting	31,031	4,489	1,072	7,794		471	1,220	1,306	566	9,275	4,838

porations. For FSLIC-insured institutions, also includes time deposits and excludes mortgage-backed securities.

9. U.S. Treasury securities and securities of, and loans to, U.S. government agencies and corporations.
10. Securities issued by states and political subdivisions and public authorities, except for savings and loan associations and U.S. branches and agencies of foreign banks that do not report these securities separately. Loans to states and political subdivisions and public authorities are included in "All other loans and lease receivables."
11. Customers' liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related

institutions. For FSLIC-insured institutions, also includes equity investment in service corporation subsidiaries.

12. Demand, savings, and time deposits, including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks, and 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, and share draft accounts. For U.S. commercial banks, includes deposits in foreign offices, branches in U.S. territories and possessions, and Edge and agreement subsidiaries.
13. Interest-bearing demand notes issued to the U.S. Treasury, borrowing from Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-life

preferred stock, and other non-deposit borrowing.

14. Depository institutions' own mortgage borrowing, liability for capitalized leases, liability on acceptances executed, various accrual accounts, and miscellaneous liabilities. For U.S. branches and agencies of foreign banks, also includes net due to head office and other related institutions.
15. Capital stock, surplus, capital reserves and undivided profits. (Regulatory capital for FSLIC-insured institutions.)
16. U.S. branches and agencies of foreign banks are not required to file reports of income.

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



Appendixes



A. Relevant Statutes

Title X of Public Law 95-360

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

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

Purpose

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

Definitions

Sec 1003. As used in this title—

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

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

(3) the term "financial institution" means a commercial bank, a savings

bank, a trust company, a savings and loan association, a building and loan association, a homestead association, a cooperative bank, or a credit union.

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

Sec 1005. One-fifth of the costs and

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

Functions of the Council

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

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

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

(c) The Council shall develop 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, memoranda, papers, things, and property belonging to or in use by Federal financial institutions regulatory agencies, including reports of examination of financial institutions or their holding companies from whatever source, together with workpapers and correspondence files related to such reports, whether or not a part of the report, and all without any deletions.

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)."

Excerpts From Title III of Public Law 94-200

The following are applicable Sections of Title III—Home Mortgage Disclosure impacting upon the Federal Financial Institutions Examination Council.

Findings and Purpose

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

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

Maintenance of Records and Public Disclosure

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

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

Compilation of Aggregate Data

Sec 310. (a) Beginning with data for calendar year 1980, The Federal Financial Institutions Examination Council shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate data by census tract for all depository institutions which are required to disclose under section 304 or which are exempt pursuant to section 306(b). The Council shall also produce tables indicating, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not

comprised of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level and racial characteristics.

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

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



B. 1988 Audit Report

To the Federal Financial Institutions
Examination Council:

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses and fund balance and of cash flows present fairly, in all material respects, the financial position of the FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL at December 31, 1988 and 1987, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Council's management;

our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards and the financial audit standards in *Government Auditing Standards* issued by the Comptroller General. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



Washington, D.C.
February 24, 1989

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheets as of December 31, 1988 and 1987

ASSETS		<u>1988</u>	<u>1987</u>
CURRENT ASSETS			
Cash, held by Board of Governors of the Federal Reserve System		\$145,389	\$ 48,592
Accounts receivable from member organizations		206,189	287,903
Other accounts receivable		<u>18,255</u>	<u>14,869</u>
Total current assets		<u>369,833</u>	<u>351,364</u>
FURNITURE AND EQUIPMENT			
Furniture and equipment, at cost		101,584	108,415
Less accumulated depreciation		<u>54,273</u>	<u>55,888</u>
Total furniture and equipment		<u>47,311</u>	<u>52,527</u>
LEASEHOLD IMPROVEMENTS, net of amortization		<u>3,564</u>	<u>7,128</u>
Total assets		<u>\$420,708</u>	<u>\$411,019</u>
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts payable to member organizations		\$172,464	\$258,406
Other accounts payable and accrued liabilities		130,783	45,418
Accrued annual leave		<u>22,761</u>	<u>26,018</u>
Total current liabilities		<u>326,008</u>	<u>329,842</u>
FUND BALANCE		<u>94,700</u>	<u>81,177</u>
Total liabilities and fund balance		<u>\$420,708</u>	<u>\$411,019</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Fund Balance for the Years Ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
REVENUES		
Lodging facility rental	\$ 998,007	\$1,154,199
Assessments to member organizations	936,000	810,200
Tuition	301,796	306,631
Uniform Bank Performance Report reimbursement	124,695	112,946
Total revenues	<u>2,360,498</u>	<u>2,383,976</u>
EXPENSES		
Lodging facility rental	961,043	1,091,302
Salaries and related benefits	616,618	624,227
Rental of office space	267,654	189,457
Data processing	174,591	83,342
Travel	59,391	41,385
Printing	37,492	74,376
Books and subscriptions	36,684	70,108
Administrative fees	35,743	31,743
Professional fees	30,330	39,487
Depreciation and amortization	27,499	17,505
Rental and maintenance of office equipment	27,396	14,090
Office and other supplies	19,417	38,283
Telephone	15,802	9,257
Postage	14,904	17,458
Miscellaneous	22,411	24,671
Total expenses	<u>2,346,975</u>	<u>2,366,691</u>
REVENUES OVER EXPENSES	13,523	17,285
FUND BALANCE, Beginning of year	<u>81,177</u>	<u>63,892</u>
FUND BALANCE, End of year	<u>\$ 94,700</u>	<u>\$ 81,177</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Cash Flows for the Years Ended December 31, 1988 and 1987

	1988	1987
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 13,523	\$ 17,285
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,499	17,505
(Decrease) in accrued annual leave	(3,257)	(799)
Decrease (Increase) in accounts receivable	78,328	(21,685)
(Decrease) in accounts payable	(577)	(137,509)
Net cash provided by operating activities	<u>115,516</u>	<u>(125,203)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of furniture and equipment	3,369	201
Capital expenditures	<u>(22,088)</u>	<u>(24,604)</u>
Net cash used in investing activities	<u>(18,719)</u>	<u>(24,403)</u>
NET INCREASE (DECREASE) IN CASH	96,797	(149,606)
CASH BALANCE, Beginning of year	48,592	198,198
CASH BALANCE, End of year	<u>\$145,389</u>	<u>\$ 48,592</u>

The accompanying notes are an integral part of these statements.

**Notes to Financial Statements as of
 December 31, 1988 and 1987**

(1) Significant Accounting Policies

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

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

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

(2) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$187,200 in 1988 and \$162,000 in 1987.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost to the Council of \$31,700 for 1988 and \$31,700 for 1987. Additional administrative support services were provided to the Council by the Federal Deposit Insurance Corporation at a cost of \$4,000 for 1988.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$455,200 in 1988 and \$328,000 in 1987 for these items.

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

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

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

The Council subleases office space from the National Credit Union Administration under an operating lease which expires January 30, 1990. The lease contains a renewal option for 58 months. Future minimum lease payments under this lease are \$43,700 in 1989 and \$3,600 in 1990.

The Council subleases office space from the Federal Deposit Insurance Corporation under an operating lease which expires June 30, 1990. Future minimum lease payments under this lease are \$167,800 in 1989 and \$83,900 in 1990.

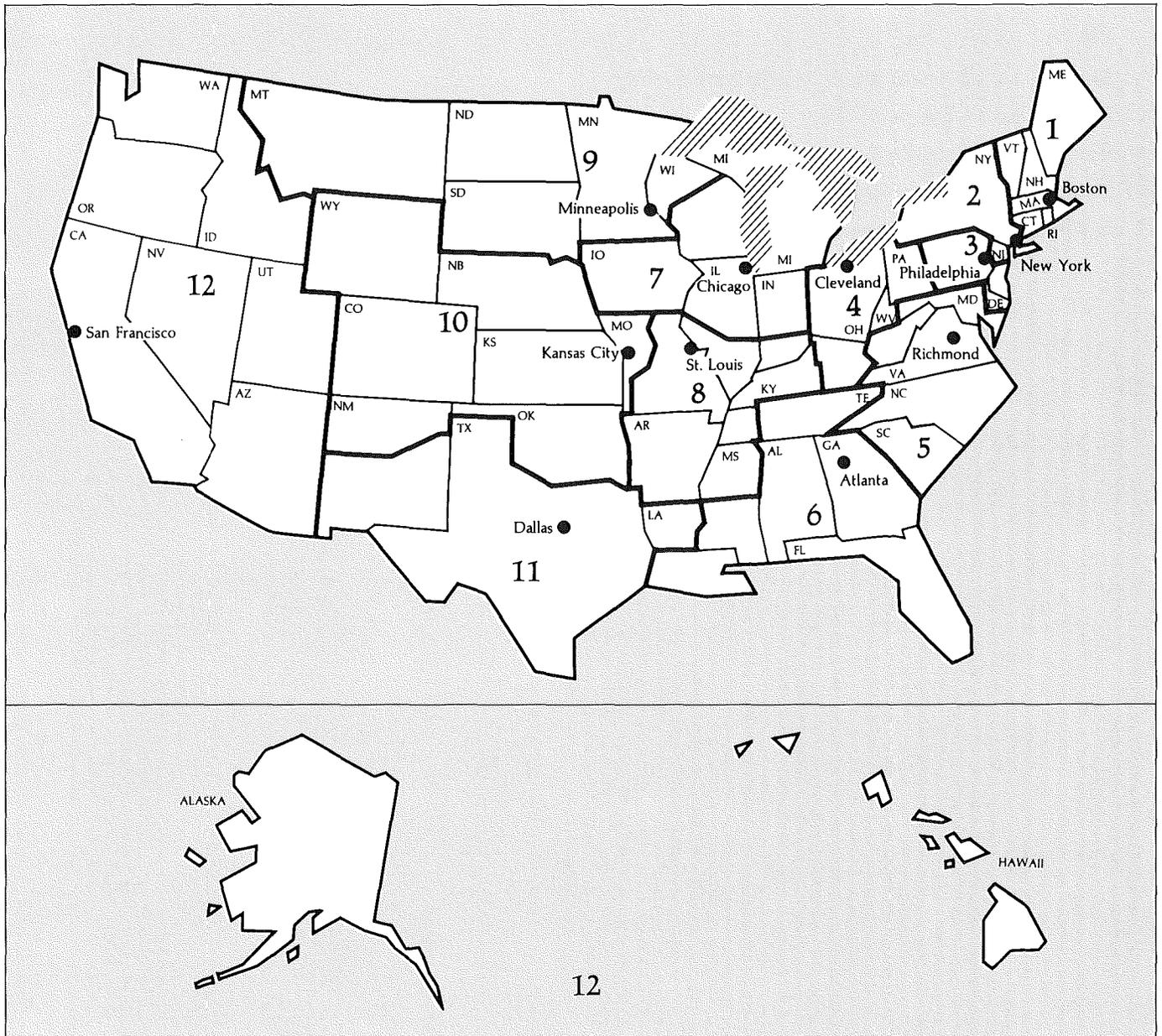
(3) Commitments

In addition to the commitments described in the preceding paragraphs the Council leased efficiency units for participant lodging and was reimbursed by the member organizations in proportion to their usage of the facility. The lease agreement expired December 31, 1988.

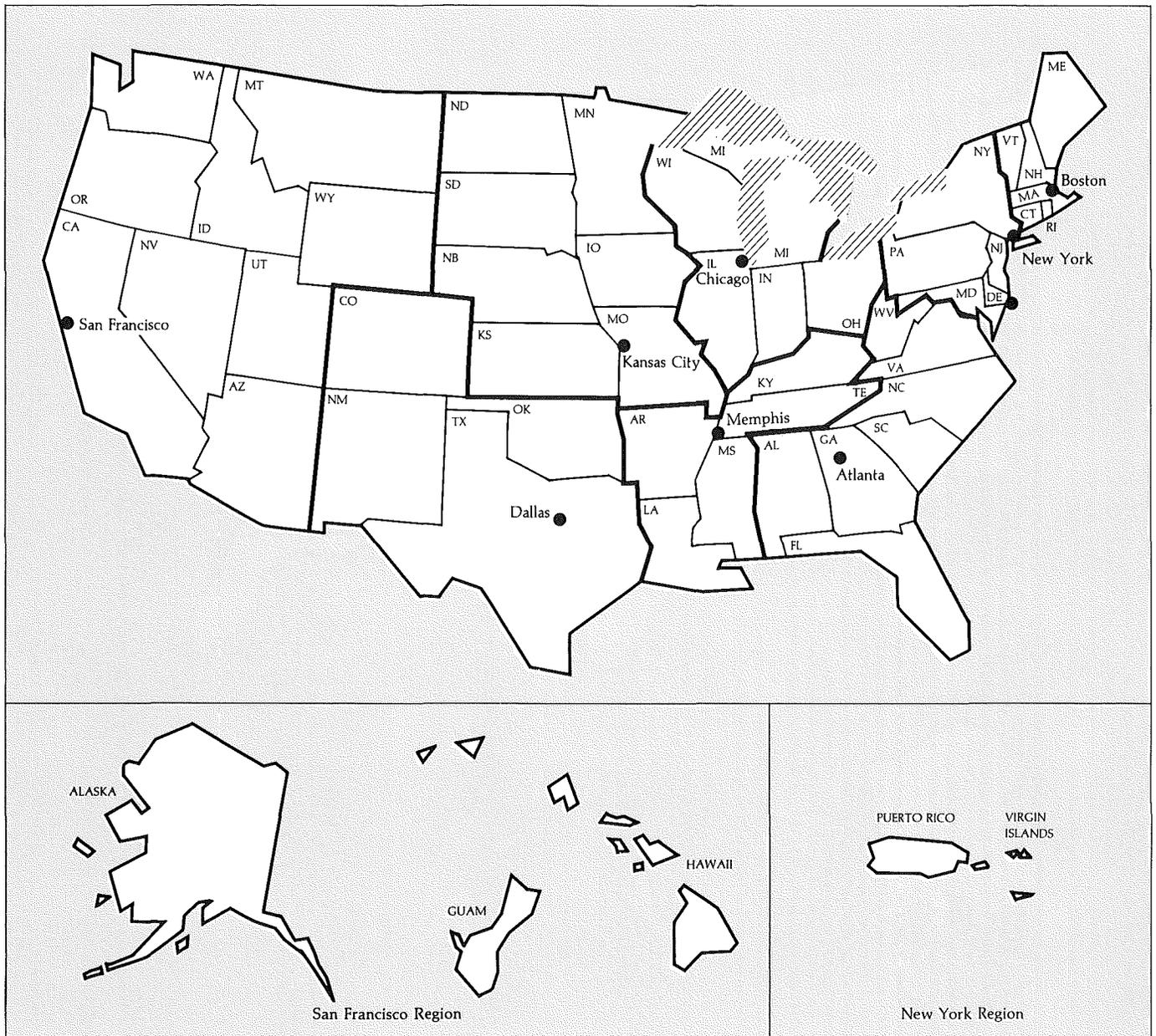
C. Maps of Agency Regions and Districts

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

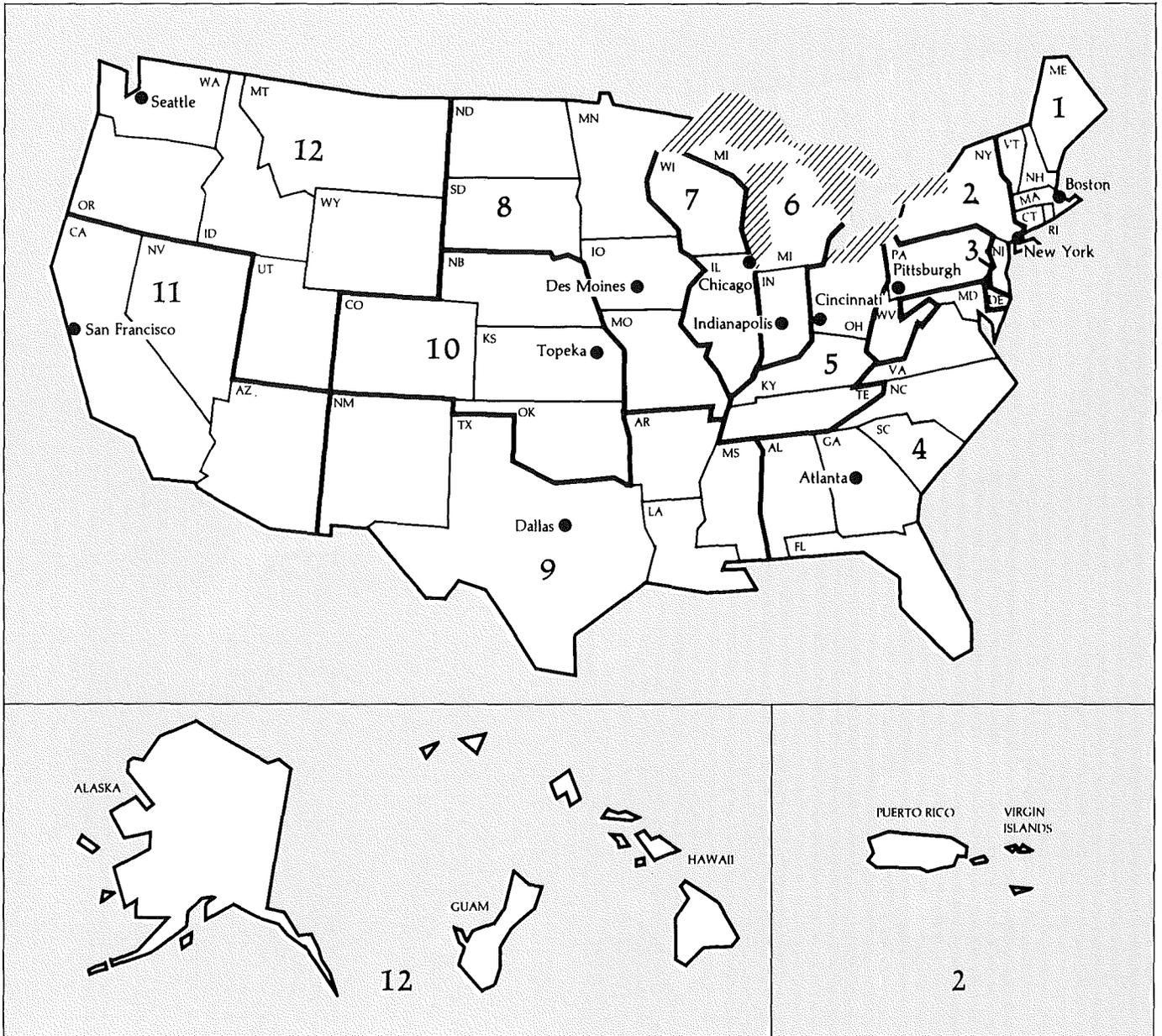
The Federal Reserve System Districts



Federal Deposit Insurance Corporation Regions (Supervision)



Federal Home Loan Bank Districts



Comptroller of the Currency District Organization

