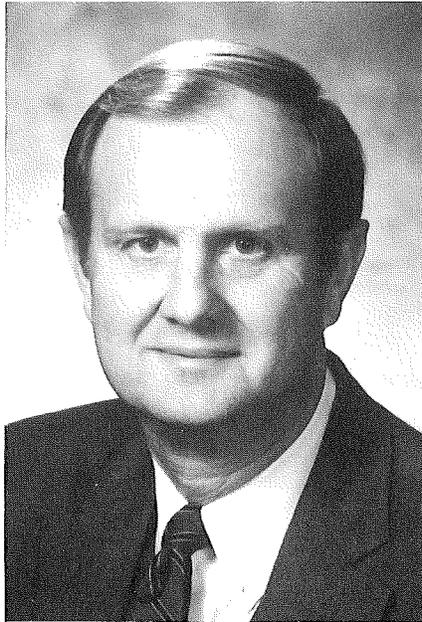


ANNUAL REPORT 1993



MEMBERS OF THE COUNCIL



Andrew C. Hove, Jr., *Chairman*
Acting Chairman
Federal Deposit Insurance Corporation



Jonathan L. Fiechter, *Vice Chairman*
Acting Director
Office of Thrift Supervision



John P. LaWare
Member
Board of Governors of the
Federal Reserve System



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



Norman E. D'Amours
Chairman
National Credit Union Administration



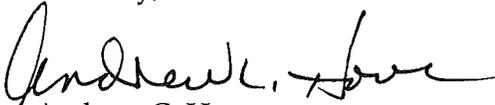
LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, D.C.
March 25, 1994

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 1993 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in cursive script that reads "Andrew C. Hove". The signature is written in dark ink and is positioned above the printed name and title.

Andrew C. Hove
Chairman



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MESSAGE FROM THE CHAIRMAN



Andrew C. Hove, Jr.

The Federal Financial Institutions Examination Council (FFIEC) experienced a year of change in 1993. Following the death of William Taylor, Chairman of the Federal Deposit Insurance Corporation (FDIC), and pursuant to the Council's regular two-year rotation of the Chairmanship, I became Chairman of the FFIEC as well as Acting Chairman of the FDIC. During this transitional period I requested that the task force chairs and members of the State Liaison Committee temporarily remain in their capacities in as much as there were tasks to accomplish within a rapidly changing regulatory environment.

With the assistance of agency and state representatives, the Council

operated successfully in 1993. Major accomplishments during the year include the Policy Statement on the Allowance for Loan and Lease Losses as well as significant progress toward an agreement for the capital implications of "recourse" arrangements. These projects had been underway for several years and we believe the extensive development time contributed to quality products.

Finally, I would like to offer a note of appreciation to the hard work of the many dedicated staff members of the FFIEC, the five constituent agencies, and the State Liaison members. It is with this commitment that I believe 1994 will also be a successful and productive year for the Council.



THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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

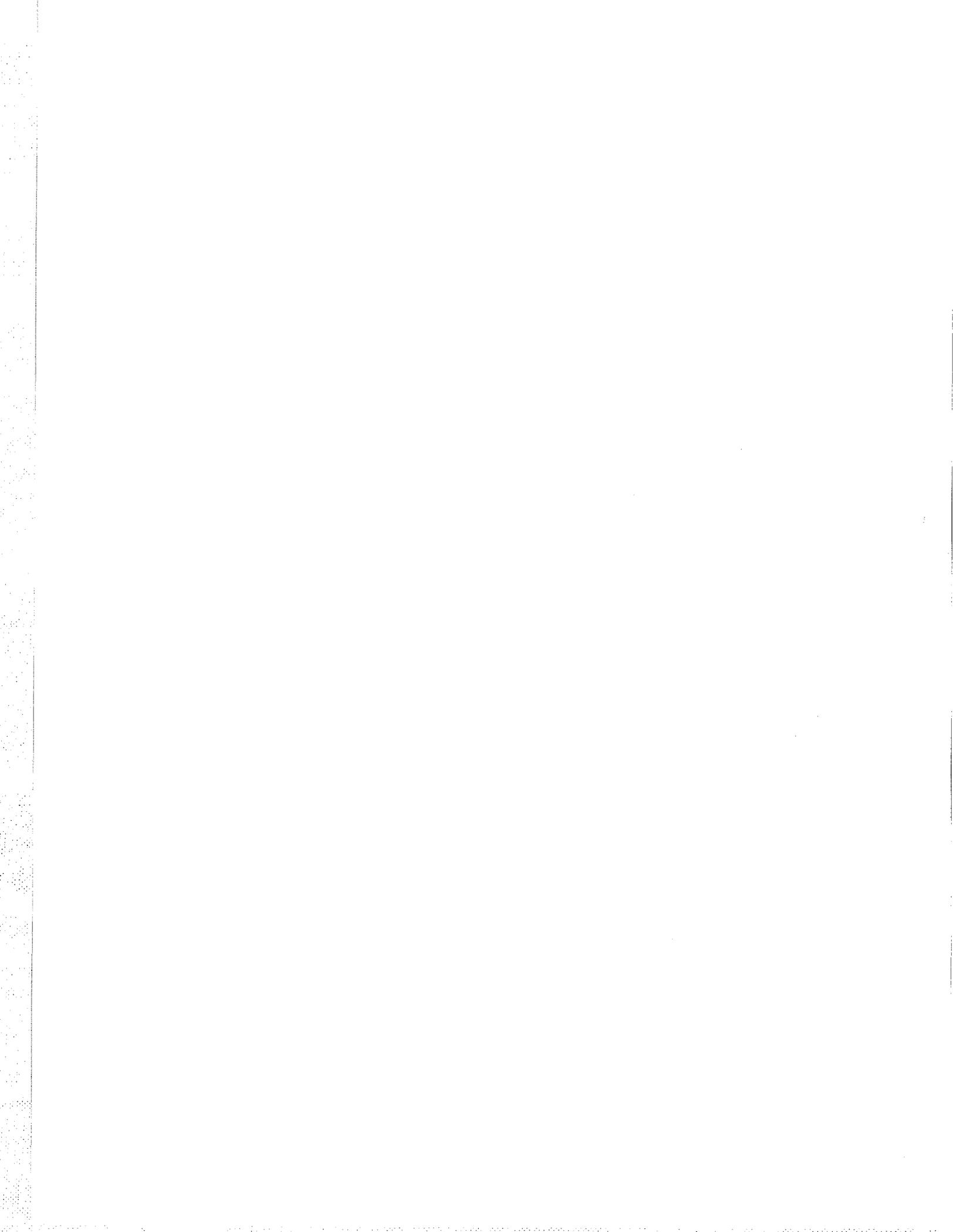
the Council promote consistency in federal examinations and progressive and vigilant supervision overall. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Council was authorized also to develop and administer training seminars in risk management for the employees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

The Council was given additional statutory responsibilities under the Housing and Community Development Act of 1980 (section 340 of Public Law 96-399, October 8, 1980). Among these responsibilities are the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

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

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

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



RECORD OF ACTIONS OF THE COUNCIL



The Examination Council in Session 1993.

The following section is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1993 pursuant to sections 1006, 1007, 1009A of Public Law 95-630, the Federal Financial Institutions Examination Council Act of 1978; sections 121 and 122 of Public Law 102-242, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA); and section 304 of Public Law 94-200, the Home Mortgage Disclosure Act (HMDA).

February 9

Action. Unanimously approved the 1992 annual report of the Council to the Congress.

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

March 31

Action. Unanimously approved publishing a request for public comment on certain issues pertaining to the disclosure of supplement-

tal fair value information by insured depository institutions in annual reports filed pursuant to the audit and reporting requirements of Section 36 of the Federal Deposit Insurance Act and in "reports of condition" filed with the Council's four banking agencies.

Explanation. Section 121 of FDICIA requires the federal banking agencies to jointly develop a method for insured depository institutions to provide supplemental fair market value disclosures for their assets and liabilities, to the extent feasible and practicable, in certain reports filed with the agencies.

Section 1006(c) of the Federal Financial Institutions Examination Council Act authorizes the Council to develop uniform reporting systems for federally supervised financial institutions. In addition, section 121 of FDICIA indicates that the agencies shall maintain uniform accounting standards.

August 10

Action. Unanimously approved the request by the Mortgage Insurance Companies of America (MICA) to

submit its 1993 mortgage insurance application data for processing and distribution along with the Council's HMDA data.

Explanation. Section 304(f) of HMDA requires the Council to implement a system to facilitate access to data required to be disclosed on home mortgage financing characteristics for each metropolitan statistical area. Availability of the disclosure data for the mortgage insurers' estimated 1.2 million annual applications is expected to enable researchers to determine the extent to which declinations by mortgage lenders are the result of mortgage insurers' refusal to provide insurance against default in locations considered risky.

December 16

Action. Unanimously approved recommending that the four federal banking agencies seek public comment on a Notice of Proposed Rulemaking and an Advance Notice of Proposed Rulemaking concerning the regulatory capital treatment of recourse arrangements and direct credit substitutes.

Explanation. The Notice of Proposed Rulemaking the Council recommends to the agencies would formally define the term "recourse" and expand the definition of the term "direct credit substitute" and would reduce the risk-based capital charge for low-level recourse arrangements. The proposal would require higher amounts of risk-based capital to be maintained against certain direct credit substitutes. The recommended Advance Notice of Proposed Rulemaking sets forth a ratings-based "multi-level" approach that would base a financial institution's risk-based capital charge on its relative risk of loss in certain asset securitizations.

December 16

Action. Unanimously approved recommending that the four federal banking agencies adopt the Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL).

Explanation. The Interagency Policy Statement discusses the nature and purposes of the ALLL, the responsibilities of an institution's board of directors and management to maintain an adequate ALLL, and the factors they should consider in the

estimation of credit losses. The policy also describes examiner responsibilities for assessing the ALLL, including quantitative guidance that can be used by examiners to check the reasonableness of an institution's ALLL methodology. The goal of the Interagency Policy Statement is to provide uniform guidance for determining adequate allowances and to ensure that all insured institutions and examiners understand the agencies' allowance policies.

December 16

Action. Unanimously approved a request by the State Liaison Committee to provide state banking departments access to Call Report data in the same format and at the same time the electronically submitted data is currently available to the Council agencies.

Explanation. State banking departments sought to expand their early warning analysis capabilities by obtaining early access to electronically submitted Call Report data. Previously, state banking departments relied upon information that had been reformatted by the federal agencies, with the attendant delays associated with editing and refor-

matting. The approved system is expected to significantly reduce these delays and enhance the overall state/federal early warning systems.

December 16

Action. Unanimously approved clarifications to the instructions for the reporting of information on small business loans and small farm loans and the deferral of changes in the format of the small business and farm loan schedule in the "reports of condition" filed by insured depository institutions with the four federal banking agencies until after revised Community Reinvestment Act (CRA) regulations are adopted by the agencies.

Explanation. In 1992 the "reports of condition" filed by insured banks, thrifts, and U.S. branches of foreign banks were revised to provide for the annual collection of data on small business loans and small farm loans as mandated by Section 122 of FDICIA. A review of the initial data reported as of June 30, 1993, revealed that certain adjustments to the reporting requirements and certain instructional clarifications would improve the quality of the loan data gathered. Because proposed changes in information gathered for CRA may indicate the need for revisions to the data collected in the "reports of condition," interim revisions to the reporting requirements were deferred to limit the burden of regulatory reporting changes.

December 16

Action. Unanimously approved proposed changes to the bank Call Reports for 1994.

Explanation. The Council approved recommendations for information to be collected by the banking agencies, which primarily affect the following areas of the Call Reports: (1) reporting of bank holdings of secu-



Council discussion.

rities to incorporate the effects of Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities;" (2) the collection of data on sales of mutual funds and annuities; and (3) additional information about off-balance sheet derivative contracts and the trading positions of larger banks. The approved recommendations also included revised instructional guidance on the offsetting of on-balance sheet amounts associated with off-balance sheet derivative contracts and on reorganizations.

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

Task Force on Consumer Compliance

- February 16—Adopted revised Interagency Questions and Answers Regarding Community Reinvestment to provide useful guidance to agency personnel, financial institutions, and the public.
- July 29—Approved Truth in Savings procedures covering accounts held by consumers at depository institutions. These procedures implement the Truth

in Savings Act enacted in Title II of FDICIA on December 19, 1991.

- November 15—Rescinded the 1980 policy statement that outlined specific requirements of the CRA when a revised CRA statement published in 1989 superseded the original statement.

Task Force on Reports

- April 16—Approved optional tax worksheets to assist banks, particularly small banks, in the calculation of reasonable estimates of their net deferred tax assets and/or liabilities and their applicable income taxes for Call Report purposes in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes," that took effect in 1993.

- August 10—Announced that insured banks and thrifts should adopt Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FASB 115), for regulatory reporting purposes in 1994, with early adoption permitted in 1993.

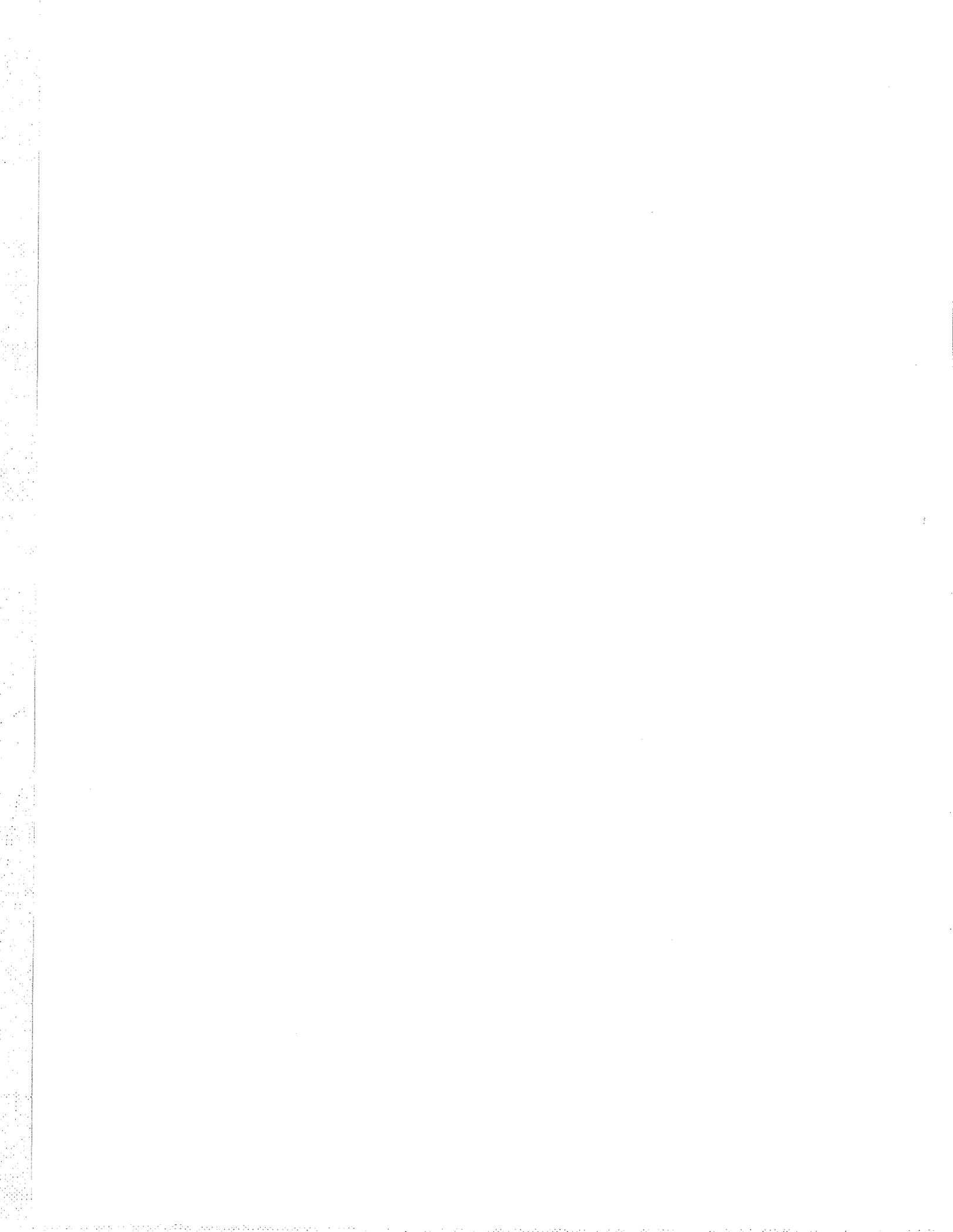
This new accounting standard provides that for financial reporting purposes, depository institutions should divide their

securities holdings among three categories: held-to-maturity, available-for-sale, and trading securities. The accounting standard provides a different accounting treatment for each category.

- October 4—Approved a revision to the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (form FFIEC 019) that will reduce reporting burden. The revision raises the threshold for reporting exposures to foreign nations other than the branch or agency's home country from a total adjusted exposure of \$5 million to \$20 million, effective March 31, 1994.

Task Force on Supervision

- April 7—Adopted a policy statement on electronic funds transfer (EFT) switches and network services to alert financial institutions to the risks associated with switch and network services in retail EFT systems.
- December 20—Adopted a supervisory issuance to alert senior management of each Council agency and all examining personnel to the risks associated with electronic imaging systems in financial institutions.



STATE LIAISON COMMITTEE REPORT

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

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

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

Organization

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



*State Liaison Committee
Back row: Gavin Gee (left), Idaho; Margie Muller, Maryland; Jim Gilleran, California; front row: Harold Lee, Wisconsin; and Sarah Hargrove, Pennsylvania.*

may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as chair for twelve months. Of the five members, two are selected by the Council. The other three are designated by the American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the National Association of State Credit Union Supervisors (NASCUS). A list of the SLC members appears on page 10 of this report.

Participation in Examination Council Activities

During 1993, the SLC remained active in Council initiatives, often working through their constituent

organizations during a period of uncertainty and change within the member agencies.

The SLC was successful in initiating and obtaining approval for a project that will give state banking agencies electronic access to federal Call Report data, in the same format and at the same time as the data is available to their federal counterparts. This data will now allow state bank regulators to develop their own early warning systems, as well as speed the process of identifying potential problem situations. The system development and implementation is expected to be completed and on-line for state use in early 1994.

The SLC also participated in the development of the Interagency Policy Statement on the Allowance for Loan and Lease Losses by recommending key revisions regarding the internal review function conducted by lending institutions.

The committee was also involved in discussions on consumer compliance issues, including the proposed revisions to the Community Reinvestment Act, and the implementation of changes to the Home Mortgage Disclosure Act mandated by FDICIA.

Throughout 1993 the SLC continued to participate with the Council, offering advice and the state perspective on a wide range of matters brought before the Council. The SLC remains firmly committed to continued cooperation between state and federal regulatory authorities.



ADMINISTRATION OF THE COUNCIL



Council Chairman Hove and Executive Secretary Cleaver

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

The Council's activities are funded in several ways. Most of the Council's funds derive from semi-annual assessments on the five agencies represented on the Council. The Council is reimbursed for the services it provides to support preparation of the quarterly Uniform Bank Performance Report. It also receives tuition fees from nonagency attendees to cover some of the costs associated with its examiner-education program.

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

Training Facility in Arlington, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council.

All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are the following:

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

The five interagency staff task forces and the Legal Advisory Group (LAG) provide most of the staff support in the substantive areas of concern to the Council. The task forces and the LAG are responsible for the research and other investigative work done by agency staff members on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. Also, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of efforts by their respective agencies' staff members in support of the Council. The Executive Secretary of the Council is an ex officio member of the five interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1993 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 1993 would have been impossible.

Organization, December 31, 1993

Members of the Council

Andrew C. Hove, *Chairman*
(Acting) Chairman
Federal Deposit Insurance
Corporation (FDIC)

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

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

John P. LaWare
Member
Board of Governors of the
Federal Reserve System (FRB)

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

State Liaison Committee

Margie H. Muller, *Chair*
State Bank Commissioner
Maryland

Gavin M. Gee
Bureau Chief, Financial
Institutions Bureau
Idaho

James E. Gilleran
Superintendent of Banks
California

Sarah H. Hargrove
Secretary of Banking
Pennsylvania

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

Council Staff Officers

Joe M. Cleaver
Executive Secretary

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

Interagency Staff Groups

Agency Liaison Group

Susan F. Krause (OCC)
John C. Price, Jr. (OTS)
D. Michael Riley (NCUA)
John W. Stone (FDIC)
Frederick M. Struble (FRB)

Legal Advisory Group

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

Consumer Compliance Task Force

Janice M. Smith, *Chairwoman*
(FDIC)
Timothy R. Burniston (OTS)
Stephen M. Cross (OCC)
Glenn E. Loney (FRB)
William P. Ryan (NCUA)

Examiner Education Task Force

Sidney M. Sussan, *Chairman*
(FRB)
Paul J. Barsnica (OCC)
Martin F. Kushner (NCUA)
Dave Smith (OTS)
Georgia S. Smith (FDIC)

Reports Task Force

Robert F. Storch, *Chairman*
(FDIC)
Gary H. Christensen (OCC)

Gerald A. Edwards (FRB)
David H. Martens (OTS)
Alonzo S. Swann (NCUA)

Supervision Task Force

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

Surveillance Systems Task Force

Jack P. Jennings, *(Acting) Chairman*
(FRB)
Richard W. Jones (FDIC)
Renee Valliere (NCUA)
Nancy A. Wentzler (OTS)
Michael P. Yuenger (OCC)

Members of the Appraisal
Subcommittee

Fred D. Finke, *Chairman*
(OCC)
Morris Carter (HUD)
Diana L. Garmus (OTS)
Robert F. Mialovich (FDIC)
Rhoger H Pugh (FRB)
Alonzo S. Swann (NCUA)

ACTIVITIES OF THE INTERAGENCY STAFF GROUPS



Back row: Doug Jones (left), Chairman of the Legal Advisory Group; Fred Finke, Chairman of the Appraisal Subcommittee; John Price, Chairman of the Supervision Task Force; Bob Storch, Chairman of the Reports Task Force; front row: Jack Jennings, Acting Chairman of the Surveillance Systems Task Force; and Sid Sussan, Chairman of the Examiner Education Task Force.

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

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

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

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

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

Task Force on Consumer Compliance

The Task Force on Consumer Compliance promotes policy 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 fosters uniformity in the policies and procedures used by member agencies.

The task force is responsible for those laws and regulations that protect consumers who conduct business with financial institutions. The task force also addresses other legislation, regulations, or policies at the state and federal levels that potentially affect agencies' consumer compliance responsibilities.

Throughout 1993, the task force undertook projects to enhance the supervisory agencies' efforts to assist examiners, financial institutions, and community groups in their attempts to implement and comply with the Community Reinvestment Act (CRA), the Home Mortgage Disclosure Act (HMDA), and the fair-lending laws.

The CRA Subcommittee responded to numerous comments and requests during 1993 from the financial institutions industry and community organizations regarding CRA concerns and uniform policy positions. The CRA Subcommittee updated and reorganized the "Interagency Questions and Answers Regarding CRA" during the second quarter of 1993. This document, which is an expansion of questions and answers revised in 1992, was well received again in 1993 and has become a frequently used communication device.

The CRA Subcommittee will be actively involved throughout 1994 with President Clinton's CRA Reform Initiative. In response to the President's mandate, which emphasizes performance over process, the financial institution regulatory agencies jointly issued proposed changes to the CRA regulations in the fourth quarter of 1993. Upon approval of final regulations in 1994, the Subcommittee will revise the current CRA examination procedures and continue to provide uniform guidance to financial institutions and examiners.

During 1993, the HMDA Subcommittee supervised the collection of a greatly expanded database. More than 12 million records of loans and applications were reported—a 57% increase over 1991 data—due primarily to refinancings spurred by low interest rates. To facilitate public access to this mass of data, the records were made available to Central Depositories nationwide in microfiche, in addition to paper reports. Because continuing high rates of refinancings have prompted expectations of a similarly dramatic increase in the data for 1993, the Subcommittee has developed two new CD-ROM products that will make 1992 raw data available to the public by April 1994 and will have 1992 individual

disclosure statements and MSA aggregate reports in each Central Depository by May 1994.

The 1992 data were the first to be based on the 1990 census. Delays were experienced by the U.S. Census Bureau in publishing all census materials needed by HMDA reporting institutions. To promote accurate reporting, the HMDA Subcommittee produced a 1993 update of "A Guide to HMDA Reporting; Getting It Right!" As a result of this and other steps to encourage error-free reporting—such as provision of free software to many FFIEC agencies' reporting institutions—the rate of detectable errors in the final aggregate data was lower than 0.4%, well below the 4.4% error rate of the 1991 data.

In addition to the new CD-ROM data products, the HMDA Subcommittee's plans for 1994 include publication by the FFIEC of data submitted by the Mortgage Insurance Companies of America (MICA). More than 1.2 million insurance records are expected to be reported annually by MICA's eight member insurers, revealing the same approval versus rejection ratios by race, gender, and income as HMDA data. MICA's data will be published alongside HMDA data; it will not be aggregated with HMDA data. MICA's 1994 disclosure will include only data for the fourth quarter of 1993.

During 1993, a consultant engaged in 1992 by the FFIEC reviewed existing fair lending examination procedures and training programs of each member agency. The final report, including recommendations for procedures in situations where enforcement action seems warranted, was issued and is being evaluated. Uniform Fair Housing Act and Equal Credit Opportunity Act examination procedures are expected to be adopted and implemented as appropriate during 1994.

Early in 1993, in response to FDICIA, the Consumer Compliance

Task Force sponsored, under FFIEC auspices, the first interagency conference to provide training for senior compliance examiners. This advanced training program focused on compliance examination issues involving CRA, HMDA, fair lending, appraisals, community development lending, adjustable rate mortgages, and the Truth in Savings regulation. Speakers discussed current rules and procedures of these often controversial issues and highlighted trends and expectations for future regulatory changes.

The Examination Procedures Subcommittee issued uniform Truth in Savings examination procedures that were adopted and implemented by all agencies during 1993.

Task Force on Examiner Education

The purpose of the interagency training program is to provide high-quality training that fosters uniformity among examiners of different agencies. Courses and conferences, which are developed and overseen by interagency working groups, include the expertise and opinions of numerous specialists. All programs are produced under the guidance of the interagency Task Force on Examiner Education.

The Council is increasingly offering banker outreach seminars. Under the auspices of the Council, the five member agencies provide seminars on risk management. The Council has authorized fair lending/CRA seminars for 1994. (More information is provided on these seminars below—see Program Initiatives.)

The Council develops and offers various conferences and courses aimed at examiners of financial institutions and other agency staff members. Conferences enable examiners to better understand the banking innovations they encounter and to keep abreast of legal and regulatory changes. Workshops aid



Janice Smith, Chairwoman of the Consumer Compliance Task Force

in transferring skills needed by examiners. Programs are open to state and foreign financial-institution examiners. State examiners generally register through a member agency but may register directly with the Council. Staff members from the Farm Credit Administration and, occasionally, from the Secret Service and the Treasury Department also attend the programs. The Council has offered seminars for bankers since 1990.

Since its inception in 1979, the Council has provided training to 39,039 students. This number includes 1,697 attendees at Risk Management Planning seminars since the program began in 1990. Except for the latter program, students have been federal and state regulators and foreign bank regulators. In recent years, the Council's training volume has ranged from 4,000 to 5,000 students each year. During 1993, a curriculum of seventeen courses and conferences was available. The cadre of instructors con-

sists of examiners and other staff members from the member agencies, the states, and other participating agencies. Industry specialists serve as guest speakers in many of the programs. Interagency course development committees provide guidance on the selection of topics and guest speakers.

The goals of the training program are the following:

- To foster uniformity of examiner education through joint sponsorship of interagency training.
- To develop and offer high-quality courses, seminars, and conferences that meet the needs of financial-institution examiners.
- To provide training opportunities for state and foreign supervisory agencies of financial institutions.
- To promote efficiency in training by eliminating duplication where agencies' training needs coincide.

Programs are produced on a cooperative basis. When many agencies are involved, the pool of potential instructors is larger, selecting the appropriate specialist is easier, and the quality of instruction is greatly enhanced. A large pool of instructors also reduces the teaching burden on an individual agency. An agency with little expertise in a new, specialized area has quick and inexpensive access to the needed training.

Several courses and conferences are offered numerous times during the year. This makes it easier to schedule individual examiners to take training when it is timely for the student. It also provides a choice of session dates so the examiner can be absent from an examination at the least detrimental time.

Costs

With interagency training, offering one course for several agencies is often less costly than each agency

Actual Student Training at FFIEC Courses, by Agency, 1993

Course	FDIC	OCC	FRB	OTS	NCUA	FCA	Other	Total
Conducting Meetings with Management	...	...	...	5	...	...	...	5
EDP Symposium	...	4	3	3	...	1	...	11
Information Systems & Technology	44	63	42	13	...	3	3	168
Instructor Training	48	94	56	...	...	2	...	200
International Banking School	13	21	123	...	...	...	2	159
Management Workshop	257	141	44	56	1	8	...	507
Testifying	17	21	14	9	...	1	...	62
Emerging Issues	120	126	90	...	...	5	...	341
E-Issues Multi-national	11	38	36	...	...	...	...	85
Income Property Lending	278	148	122	...	6	13	...	567
Off-Balance-Sheet Risk	212	143	289	54	6	32	4	740
Trust	39	86	42	7	...	...	...	174
White-Collar Crime	321	120	200	62	11	9	...	723
International Banking Self-Study	28	43	85	...	...	...	...	156
Payment Systems Risk	52	18	176	5	3	...	...	254
Consumer Compliance	29	67	46	16	1	4	...	163
Subtotal	1,469	1,133	1,368	230	28	78	9	4,315
Risk Management	...	52	11	...	...	...	...	63
Total Agency Training	1,469	1,185	1,379	230	...	78	9	4,378

FFIEC Training: Number of Sessions and Total Enrollment, 1979-93

Year	Number of Sessions	Total Enrollment
1979	6	120
1980	62	1,350
1981	85	1,702
1982	83	1,622
1983	88	1,816
1984	80	1,799
1985	81	1,842
1986	102	2,296
1987	126	3,446
1988	107	3,174
1989	90	2,784
1990	110	3,780
1991	84	3,153
1992	85	4,143
1993	88	4,315
Total	1,277	37,342

Risk Management Planning Program

1990	1	Bankers	110
		Examiners	0
1991	3	Bankers	411
		Examiners	17
1992	3	Bankers	637
		Examiners	53
1993	2	Bankers	406
		Examiners	63
Total	1,286		39,039

developing and conducting courses on the same subject. Participating agencies provide instructors free of charge and in proportion to their enrollment, so costs are kept low. Each agency provides financial support for the school in proportion to its planned utilization. This enrollment-based, cost-sharing plan is used in lieu of a stated rate of tuition.

For 1993, the average training cost was approximately \$270 per attendee. State financial-institution supervisors paid a rate based on the estimated agency cost. Attendees from agencies other than those of the states and the members of the Council paid \$350 for each course attendee and \$450 for each conference attendee. At the end of the fiscal year a budgetary surplus was credited to the member agencies.

Facilities

Beginning in April 1991, the Council training staff moved its operations to the FDIC facility near the Virginia Square Metro Station in Arlington, Virginia. This facility offers convenient access to a 100-seat auditorium and to lodging. The Council leases its office and classroom space at market rates.

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

Program Initiatives

At its December meeting, the Council approved a new seminar for bankers called Fair Lending/CRA. The purpose of the seminar is to educate top management of financial institutions regarding the need for improved methods to ensure fair lending and compliance with regulations. This seminar will be held in major cities around the country.

Risk Management Training for Industry Executives

In response to section 1218 of FIRREA, the Council conducted two seminars for bankers in 1993 on risk-management planning.

These seminars were aimed primarily at chief executive officers of insured financial institutions; they

were also open to senior examiners. The seminars had three goals:

- To encourage top management to evaluate its present risk-management systems and make improvements if needed.
- To provide a conceptual framework in which financial institutions can develop a systematic approach to managing risk on a bankwide basis.
- To encourage full dialogue between executive management and boards of directors regarding their institution's system of managing risks.

Although topics changed somewhat from session to session, the following areas were discussed:

- The Risk-Management Process: Identifying, Assessing, and Controlling Risk
- Risk Management Is a Profit-Generating Process
- Risk/Return Analysis of Bank Products
- Risk of Fraud and Insider Abuse
- The Impact of FDICIA on Interest Rate Risk Management
- Credit Risk Management
- Merger and Acquisition Risks
- Managing Securities Risks
- Credit Risk and Documentation
- Creating a Risk-Management Organization

During 1993, seminars were held in Cincinnati and Los Angeles. Approximately 200 senior bank executives attended each session. For 1994, sessions will be conducted in Houston and New York City.

The New York session of Risk-Management Planning will address the leading edge of risk-management practice. The session will emphasize newer risk-management information systems and measuring and pricing the risk component of bank products, especially loans.

During 1993 there was also increased specialization and better targeted conferences. For example, an Emerging Issue Conference for Multinational Examiners was offered in addition to several sessions of Emerging Issues—Community and Regional, which were aimed at examiners of smaller institutions.

International Banking Curriculum

The international banking curriculum was extensively revised. Because its objectives were almost entirely knowledge-based, the basic international banking course, International Bank I, was replaced with a self-study course. This is a cost-saving substitute for classroom training, and more than 150 course manuals were provided to the member agencies. International Banking II and International Capital Markets were replaced by a new intermediate level International Banking School. Since 1988, the OCC has conducted the Advanced Foreign Exchange School and has made the sessions available to the other member agencies.

Courses Offered in 1993

Conducting Meetings with Management

This one-week course gives participants practice and confidence in organizing and leading meetings with financial institution management. Emphasis is on the final "exit meeting" conducted at the close of many examinations. Each attendee leads three meetings with small groups in which other participants role-play as officers and directors of an institution. Difficult meeting circumstances and problem reports are the subjects of the exercises. Videotaped replays are used in post-presentation critiques. The targeted audience for the course is commissioned examiners who are beginning to lead final discussions with

management and others who want to improve their skills in leading meetings.

EDP Symposium

The EDP Symposium is a week-long meeting of senior data-processing examiners who address an emerging area of supervisory concern chosen by the EDP Subcommittee of the Task Force on Supervision. The symposium is not a course in the usual sense: the primary flow of information is from the participants to the course leaders. During the week, participants develop and refine a consensus report. The report is submitted to the Task Force on Supervision, which weighs its possible effects on examination policies and procedures. Attendance is limited to twelve leading EDP examiners per session. The session conducted in 1993 addressed the Impact of Changing Technology on the Regulatory Examination Process.

Instructor Training

This course prepares examiners for teaching in agency and Council schools. Participants plan and give

three presentations during the week. Some presentations are videotaped for critical review. The course provides guidance in instructional techniques, lesson planning, and use of audiovisual aids. This course has a considerable multiplier effect in terms of its effect on numerous other courses. All potential instructors for Council schools who have no teaching experience must take this course before beginning their teaching duties. Ten sessions were conducted during the year.

Management Workshop

This workshop is a one-week, general skill-building course designed to strengthen and expand the practical application of basic management concepts. Attendees bring assessments of their skills completed by themselves and by colleagues or subordinates and administer self-assessment questionnaires in class. These assessments are scored and evaluated on scales that present a picture of each attendee's management ability and style. Basic concepts are presented through lectures, videotapes, and small group discussions. The desired results are



Betty Mills of FDIC teaching the Management Workshop course

an improved self-perception as a manager, greater knowledge of good management techniques, and improved management practices. As a prerequisite, participants should have between three and ten years' examining experience. Approximately thirty sessions, including numerous regional ones, are provided yearly.

Testifying

This workshop is designed for commissioned examiners who are likely to testify at a hearing or trial in the foreseeable future. Only those who are scheduled to testify imminently are encouraged to attend. Attorneys who role-play as prosecutors, defense counsel, and judges conduct a mock trial of an actual case. Instructors report that they also benefit from participating in the course. Examiners review their testimony by videotape and receive critiques from trial attorneys. Special thanks are due to the Department of Justice for providing many of the attorney-instructors. In 1993, the highlight of many sessions was a summary meeting in the chambers of the Honorable Stanley Sporkin, U.S. District Judge for the District of Columbia. Four sessions are planned for 1994.

Conferences

Consumer Compliance

A conference on consumer compliance was offered for the first time in 1993. Its purpose was to update senior compliance examiners on current and prospective developments in the area of regulation. Speakers were nationally recognized leaders from industry and senior staff members from the regulatory agencies. The Consumer Compliance Task Force provides leadership in the selection of topics and speakers. It is expected that this conference will be offered in alternate years.

Emerging Issues

This conference, aimed at senior examiners, provides authoritative analysis of contemporary and emerging technical issues confronting the regulatory and banking communities. It is attended by many field office managers. The first two sessions were offered in 1992. In 1993 two versions of the conference were available, one for examiners of multinational and super-regional institutions and one for examiners of community and regional institutions. Nine sessions of this four-and-one-half-day conference will be conducted in 1994. The following will be among the topics:

- Changing Aspects of FDICIA
- A Banker's View of Emerging Issues
- FASB 114 and 115
- Mutual Funds
- Mortgage Securities Update
- Mortgage Servicing Rights
- Fair Lending
- Derivatives
- Where Is the Economy Going?
- Common Report of Examination
- Update on Interest Rate Risk Management
- Evaluating the Newly Merged Institution
- Globalization of White Collar Crime

Income Property Lending

This conference aims to provide examiners with the skills needed to assess the assumptions built into real estate market studies, feasibility studies, and appraisals. It emphasizes appraisal analysis, construction lending, construction loan disbursements, workout situation, and problem-solving. Topics change from time to time, but sessions have frequently included real

estate law and environmental issues. The conference is open only to commissioned examiners who have considerable involvement with commercial real estate lending. Conference length may vary but is generally three and one-half days. Most attendees are assumed to have had a basic course in real estate finance or appraisal.

Information Systems and Technology

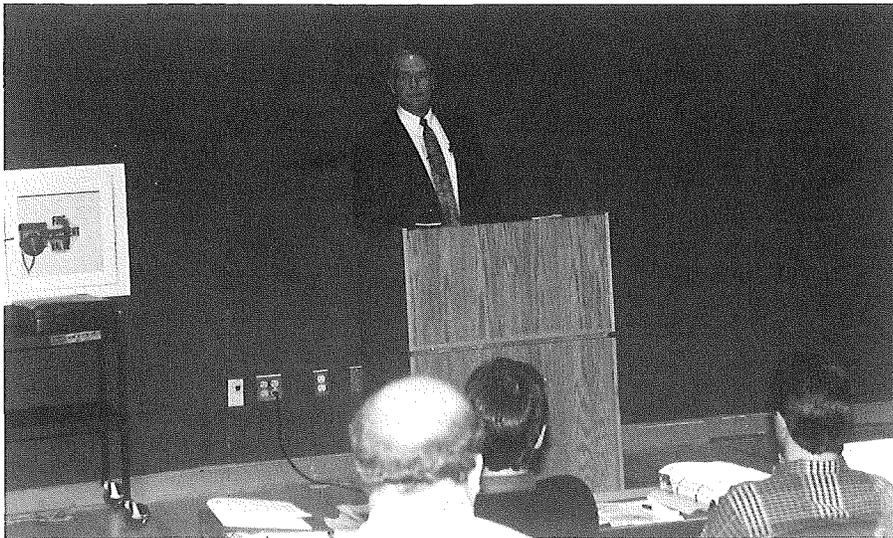
The Information Systems and Technology conference is designed to update senior data-processing examiners on current developments in data processing, software, systems development, security controls, telecommunications, networks, auditing, computer fraud, switches, data center operations, and many other topics. The conference features guest speakers who are recognized authorities in their fields. Topics vary from session to session. One session, which ran for four and one-half days, was conducted in 1993, and another will be conducted in 1994.

International Banking

The International Banking conference is a two-day, advanced program dealing with international credit, legislative and regulatory issues, and recent international banking innovations. Speakers are leading international bankers and senior staff members of the banking regulatory agencies. The conference is designed for those specialized examiners who have ongoing responsibilities in the international banking or financial arenas. This conference is conducted as needed.

Off-Balance-Sheet Risk

The purpose of this conference is to improve examiners' understanding of the incentives and risks of financial institutions' off-balance-sheet activities. Risk assessment of standby letters of credit, loan commitments, financial futures and options, foreign exchange, interest



Richard Hewitt addressing the FFIEC White Collar Crime Conference

rate swaps, and a wide range of other capital-market products is emphasized. In 1993, the Task Force on Examiner Education agreed that there was a need for a more advanced edition of this program. In 1994, in addition to the seven regular programs, two Off-Balance Sheet Risk Conferences with Emphasis on Capital Market Issues will be conducted. The first advanced program will be held in New York.

Payment Systems Risk

This conference improves examiners' understanding of the risks involved in payment systems, the methods used to minimize these risks, and the means of evaluating these risks in the examination process. Topics include functions of payment/settlement/message systems, risks associated with wire transfers, risks associated with daylight overdrafts, legal considerations, and potential insurance risks. This program has been extensively revised to incorporate all of the regulatory changes that went into effect January 1, 1994. To facilitate attendance at both conferences, some sessions of Payment Systems Risk are conducted immediately

after an Off-Balance-Sheet Risk conference.

Trust

The Trust conference emphasizes new initiatives affecting trust banking. Topics vary from session to session, and the sessions feature guest speakers who are recognized leaders in the trust industry.

Attendance is limited to senior examination personnel who specialize in fiduciary activities. Topics covered in the 1993 session were corporate trust, trust department fraud, corporate trust risk, recent Department of Labor enforcement activity, new rules for deposit insurance for trust departments and employee benefit plans, a trustee's perspective of securitization, environmental risk management, regulation of trust department's trust companies from a state's perspective, and bank mutual fund activities, including current trust department practices and activities and a legislative and regulatory update.

White Collar Crime

This one-week conference became an interagency project several years ago as a result of the agencies' in-

creased emphasis on detection of fraud and insider abuse. It is generally attended by senior examiners, although it is open to any examiner with at least two years' examining experience. It covers major types of fraudulent activity and insider abuse, including real estate fraud, investment securities fraud, computer fraud, and money laundering and the Bank Secrecy Act. Detection and investigation techniques are stressed. Red flags signaling institutional and individual types of fraud are discussed. Each attendee gains familiarity with the relevant criminal statutes as well as the preservation of evidence, interviewing, testifying, and the prevention of fraud. Numerous sessions are conducted each year and one regional session was conducted in 1993.

Course Catalogue and Schedule

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

FFIEC Examiner Education
3501 Fairfax Drive
Room 3086
Arlington, Virginia 22226-3550

Task Force on Reports

Section 1006(c) of Public Law 95-630 requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports, which has also received other responsibilities related to the development of inter-agency uniformity in the reporting of periodic information needed for effective supervision. The task force is thus concerned with such issues as the development and interpretation of reporting instructions; the application of accounting standards to specific transactions; the publication and distribution of reports; the development and application of

processing standards; the monitoring of data quality; the assessment of reporting burden; and the liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help carry out its responsibilities, working groups are organized as needed to handle accounting, reporting, instructional, and processing matters of a specialized or technical nature.

Activities of the Task Force

During 1993, the task force's activities were focused primarily on the Reports of Condition and Income (Call Report), both with respect to the information collected in the report and the instructions for its preparation. The Call Report is filed by insured commercial banks and FDIC-supervised savings banks. The task force also continued to examine the disclosure of fair values in reports filed with the regulatory agencies. In addition, the task force, in conjunction with the Task Force on Supervision, began to identify and evaluate the effect of a new accounting standard on loan impairment on the regulatory agencies' supervisory policies and reporting requirements.

After approval by the U.S. Office of Management and Budget (OMB), a number of revisions to the Call Report took effect in the first and second quarters of 1993. Many of the revisions resulted from provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The first quarter Call Report changes covered off-balance-sheet assets, preferred deposits, uninsured deposits, past-due and nonaccrual loans and leases that are partially or wholly guaranteed by the U.S. govern-

ment, deferred tax assets in excess of a proposed regulatory capital limit, and intangible assets that have been grandfathered for regulatory capital purposes. New annual reporting requirements for small business and small farm lending data, which had been developed pursuant to section 122 of FDICIA, became effective for all insured banks, thrifts, and U.S. branches of foreign banks as of June 30, 1993. Banks received advance notification about all of the new Call Report requirements and the related instructions at year-end 1992. Updated pages for the Call Report instruction books were distributed to banks with their first quarter 1993 Call Report forms. The updated pages also included other instructional revisions necessitated by a new accounting standard on accounting for income taxes, FASB Statement No. 109, that banks had to adopt for Call Report purposes in 1993.

To assist smaller banks with the reporting of deferred taxes and applicable income taxes in their Call Reports in accordance with FASB Statement No. 109, the task force developed income tax worksheets. These worksheets, which smaller banks were encouraged but not required to use, were distributed to banks in April 1993 while they were completing their first quarter Call Reports.

Interagency guidance on the reporting of in-substance foreclosures and on returning certain nonaccrual loans to accrual status was released on June 10, 1993, as part of the administration's credit availability initiatives. As another part of these initiatives, the Call Report instructions were revised as of June 30, 1993, to eliminate an instruction that was not consistent with generally accepted accounting principles that had required selling banks to report certain loans for the purchase of foreclosed property as "other real estate owned." Revised Call Report instructions incorporat-

ing the June 10, 1993, guidance on in-substance foreclosures and nonaccrual loans were issued to banks as part of their third quarter 1993 Call Report materials.

On December 16, 1993, the Council approved several changes to the Call Report for 1994 that the banking agencies have since submitted to OMB for its approval. A number of these revisions in the Call Report requirements result from a new accounting standard governing the accounting for investments in debt and equity securities (FASB Statement No. 115), which banks must adopt in 1994. Other revisions are intended to identify the extent of bank involvement in the sale of mutual funds and annuities and the amount of income derived from these nondeposit investment products. As a first step toward improved disclosures about interest rate, foreign exchange rate, and other commodity and equity contracts, larger banks will provide limited additional data pertaining to these off-balance-sheet derivative contracts. Information will also be collected on trading liabilities and on the original maturities of other borrowed money. In addition, the Council approved, on an interim basis, the offsetting by banks of on-balance-sheet amounts associated with derivative contracts in their Call Reports in accordance with FASB Interpretation No. 39 pending clarification of an interpretive issue under Interpretation No. 39.

In approving certain new derivatives disclosures in the Call Reports for larger banks on December 16, 1993, the Council also requested the task force to identify the additional Call Report disclosures about banks' use of derivatives that are needed for effective supervision of these activities. The task force was directed to complete its study by February 15, 1994, to enable these additional Call Report requirements for derivatives to be implemented as early as June 30, 1994, if considered appropriate by the Council. An inter-

agency derivatives working group is assisting the task force in this assignment.

At the request of OMB, the task force performed an assessment of the practical utility of the annual reporting requirements for loans to small businesses and small farms that became effective as of June 30, 1993, for insured banks, thrifts, and U.S. branches of foreign banks. From an initial review of the data reported at that date, the task force found no reason to change the basis of reporting for small business and small farm loans. The review also revealed the need for certain instructional clarifications that should improve the quality of the data when they are next reported in 1994. At its December 16, 1993, meeting, the Council approved the assessment prepared by the task force and the recommended instructional clarifications. The agencies submitted the assessment to OMB in early 1994.

On October 4, 1993, the task force, acting under delegated authority, approved a revision to the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (form FFIEC 019) that will reduce reporting burden. The revision raises the threshold for reporting exposures to foreign nations other than the branch or agency's home country from a total adjusted exposure of \$5 million to \$20 million, effective March 31, 1994.

Section 121 of FDICIA requires the federal banking and thrift agencies to jointly develop a method for insured banks, thrifts, and U.S. branches of foreign banks to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in reports that these insured institutions file with the agencies. At its March 31, 1993, meeting, the Council approved the publication of a request for public comment on several issues pertaining to fair market value disclosure

in certain regulatory reports. These reports are the Call Report, the Thrift Financial Report, and the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, as well as the annual reports filed by insured institutions subject to the audit and reporting requirements of section 112 of FDICIA. Based on its review of the nearly 190 comment letters received and further discussion by the task force, recommendations concerning how the agencies should proceed with fair market value disclosure will be submitted to the Council in 1994.

Following the May 1993 issuance of a new accounting standard on loan impairment, FASB Statement No. 114, an interagency working group was established to assist the task forces on Supervision and Reports in addressing the supervisory and regulatory reporting implications of the standard that takes effect in 1995. The working group has identified a series of implementation issues along with recommended approaches for dealing with these issues. The decisions that are reached on the issues of a supervisory nature will affect the regulatory reporting guidance and impairment-related disclosures for the Call Report and Thrift Financial Report that will be developed by the Task Force on Reports in 1994.

Task Force on Supervision

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

Task force members are the senior

supervisory officials of the constituent agencies. Meetings are held periodically to address and resolve common supervisory issues. The task force has a standing subcommittee to address electronic-data-processing (EDP) issues. Ad hoc working groups are created as needed to handle particular projects and assignments.

Activities of the Task Force

During 1993, the task force and its working groups were involved in a number of projects. The standing subcommittee produced several products, and the ad hoc subcommittees, which are formed to deal with a specific issue, were also active.

The subcommittee on EDP was officially established in 1979. The subcommittee sponsors symposiums, maintains the FFIEC EDP Examination Handbook, manages the examination of Multiregional Data Processing Servicers (MDPS), and coordinates the Shared Application Software Review (SASR) program. Each year, the subcommittee also sponsors a conference on information systems and technology. The July 1993 conference focused on current developments in EDP and featured nationally recognized experts as speakers.

As a result of subcommittee recommendations, the task force approved an Interagency Supervisory Statement on EFT Switches and Network Services and an Interagency Document on Control and Security Risks in Electronic Imaging Systems.

In 1993, eight MDPS examinations were conducted of service bureaus that provide data processing to approximately 3,000 financial institutions. Three SASR reviews of turnkey software products were also conducted during the year. In September 1993, the subcommittee held a symposium on the impact of changing technology on the regula-

tory examination process. The recommendations made as a result of this symposium will be implemented by the subcommittee in 1994.

During 1993, a working group, operating under the auspices of the task force, completed the development of common interagency guidance on the allowance for loan and lease losses (ALLL). The policy statement discussed the nature and purpose of the allowance, the responsibilities of an institution's board of directors and management to maintain an adequate allowance, and the responsibilities of examiners in assessing the allowance, including quantitative guidance that can be used to check the reasonableness of an institution's allowance methodology. The quantitative guidance provided in the policy statement was:

- 50% of doubtful assets
- 15% of substandard assets and
- for nonclassified assets, in general, estimated credit losses over the upcoming twelve months.

The goal of the interagency policy statement was to provide uniform guidance for the determining adequate allowances and to ensure that all federally-insured banking and thrift institutions and examiners understand the agencies' allowance policies. The policy statement was adopted by the Council on December 16, 1993.

Also during 1993, another working group operating under the oversight of the task force completed work on a proposal to develop capital rules for recourse transactions that are consistent among the agencies. The proposed rule would revise the risk-based capital standards to address the regulatory capital treatment of recourse arrangements and direct credit substitutes that expose banks, bank holding companies, and savings associations to credit risk. A separate preliminary

proposal also would use ratings to match the risk-based capital assessment more closely to an institution's relative risk in certain asset securitizations. On December 16, 1993, the Council approved issuing the recourse proposal for public comment.

Work continues in other areas. One working group is reviewing issues relating to the implementation of Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan." Another working group, which formed in mid-1992 to examine the feasibility of developing capital standards for trust operations, is continuing its efforts.

Task Force on Surveillance Systems

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

During 1993, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Expanded the analysis of loan charge-offs and loan mix analysis to incorporate detailed infor-

mation on the composition of other real estate owned. This schedule provides details on other real estate owned by type.

- Added an analysis section on mortgage servicing activities.
- Updated risk-based capital in the UBPR to incorporate changes in the calculation of capital and risk-based assets. Specifically, grandfathered intangible assets and disallowed deferred tax assets have been included in the risk-based capital analysis. The UBPR continues to use the FDIC risk-based premium assessments methodology for estimating risk-based capital for banks that are not required to report all data on Call Report Schedule RC-R. Currently estimated risk-based capital data is not provided on printed UBPRs, but only in electronic form to the banking supervisors.
- Revised the calculations for securities yields and volatile liability dependence. The definitions of securities yields were changed to allow use of 90-day averages in all calculations. Volatile liability dependence was changed by expanding the definition of temporary investments.
- Revised the capital analysis page. All references to primary and secondary capital were removed and replaced by additional information on intangible assets and details on the causes of changes in total equity. While risk-based capital was adopted as the regulatory standard in 1990, detail on primary and secondary capital was kept in the UBPR for three years to provide some historical perspective.
- Produced and distributed four quarterly versions of the UBPR. The federal banking agencies each received UBPR data in electronic format. State banking agencies received two sets of UBPRs for banks in their respec-

tive states. Some state banking agencies have begun developmental work on systems to receive UBPR data in electronic form. Additionally, printed UBPR reports were sent to all banks. More than 9,000 copies of individual bank UBPRs were provided to the general public.

- The task force obtained Council approval of a system to distribute Call Report data electronically to the state banking agencies. This system will provide state agencies access to edited Call Report information in the same time frames that the federal agencies have access.
- One supplement to the UBPR Users Guide was distributed to the regulatory agencies and banks, detailing the enhancements and revisions noted above.
- The task force decided to reprint the Users Guide annually in a perfect bound format to ensure that all users have a complete and up-to-date guide.

Several projects are planned for 1994 that should provide further enhancements to the UBPR:

- Enhance the UBPR treatment of interest rate sensitivity by incorporating duration analysis data to be collected for risk-based capital purposes.

- Review and modify the tax equivalency calculation in the UBPR.
- Rewrite the UBPR Users Guide (in perfect bound format) to incorporate all previous updates.
- Review and consider redefining current peer group definitions.
- Develop new end-user reports from existing UBPR data.
- Convert the UBPR to a revised database if cost savings can be shown.

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

While the UBPR is primarily a supervisory tool for the three federal banking agencies, it is also used extensively by others. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below. In addition to the 9,000 UBPRs distributed in printed form, several institutions have also acquired UBPR data in electronic form.

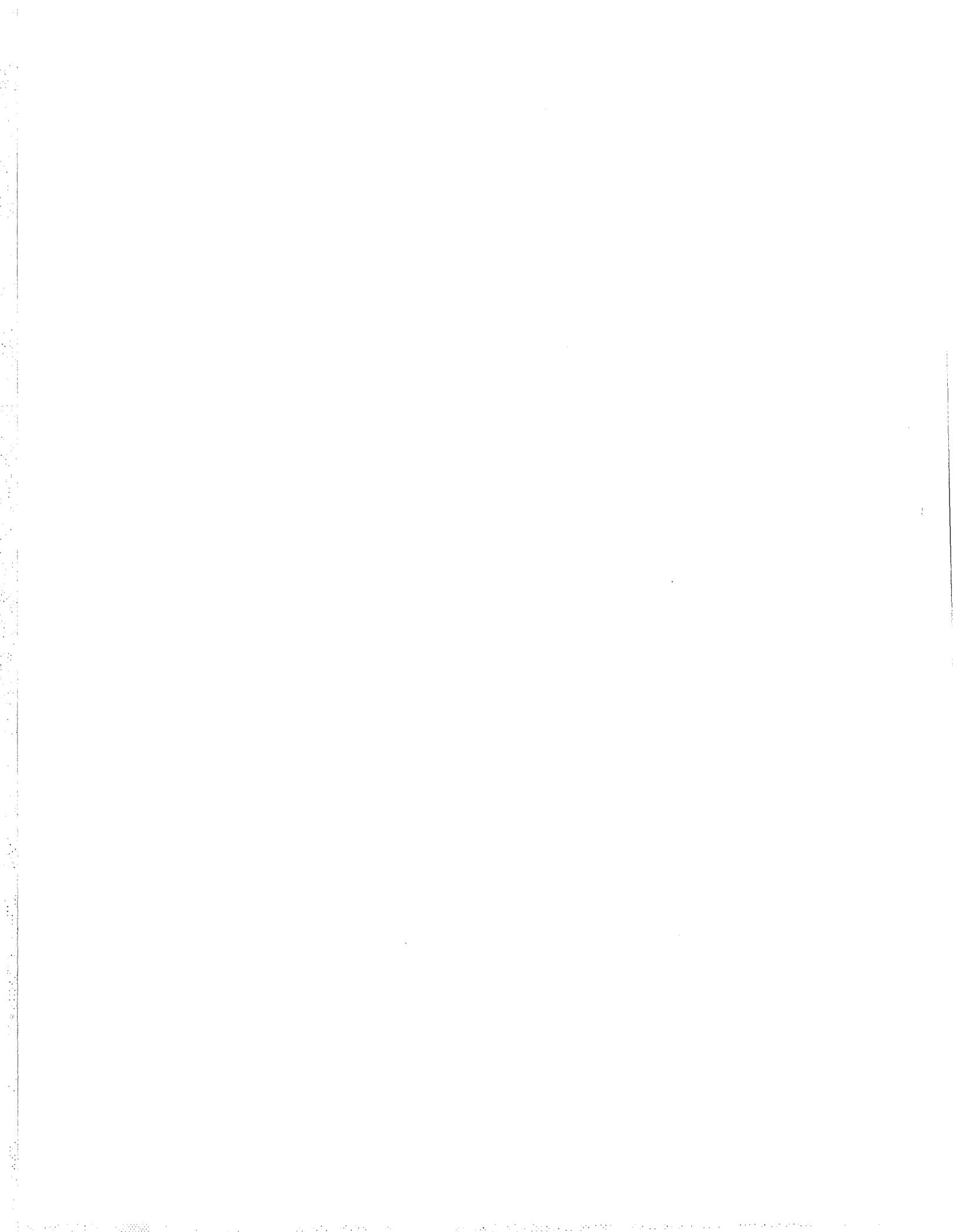
A major goal of the task force is to ensure timely production and distribution of UBPRs and related data. The following distribution policy will continue:

- Each insured bank will receive one copy of the current UBPR per quarter.

- UBPR data will be provided to each federal banking agency each quarter.
- Two copies of the UBPRs will be made available to state bank supervisors for banks in their state. Alternatively, the printed reports may be requested in tape form.
- State banking agencies may also purchase UBPR data files in electronic form.
- UBPRs and Call Report data will be made available to the public for a fee.

Copies of UBPRs may be purchased by the general public for \$45.00. The UBPR Users Guide, which describes the content of the report and defines ratio calculations, is available for \$25.00. The peer group report, showing average ratios for all peer groups, is available for \$65.00. The state average report is available for \$45.00. Peer group and state average percentile distribution reports are available for \$65.00 and \$45.00, respectively. Standardized UBPR quarterly data on magnetic tape are available for \$400.00. Information on ordering items may be obtained by calling (202) 634-6526 or by writing the Council:

Federal Financial Institutions
Examination Council
2100 Pennsylvania Avenue, N.W.
Suite 200
Washington, D.C. 20037



THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 26,300 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1993, these financial institutions held total assets of more than \$5.4 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies respectively.

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

The Board of Governors of the Federal Reserve System

The FRB was established in 1913. It is headed by a seven-member

board of governors. Each member is appointed by the President, with the advice and consent of the Senate, for a fourteen-year term. Subject to confirmation by the Senate, the President selects two board members to serve four-year terms as Chairman and Vice Chairman. The FRB's activities that are most relevant to the work of the Council are the following:

- 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.
- Approves or denies applications for foreign operations of member banks.
- Supervises U.S. offices of foreign banks.

Policy decisions are implemented by the FRB and by the twelve Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. Each Reserve Bank has a president and other officers 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 deposi-

tory 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

The Congress created the FDIC in 1933 with a mission to insure bank deposits and reduce the economic disruptions caused by bank failures. Management of the FDIC is vested in a Board of Directors, which consists of five members. Three of the directors are appointed by the President, with the advice and consent of the Senate, for six-year terms. One of these three is designated by the President as Chairman for a term of five years and another is designated as Vice Chairman. The other two Board members are the Comptroller of the Currency and the Director of the Office of Thrift Supervision. No more than three Board members may be of the same political party.

The FDIC's supervisory activity is organized into eight regions, each of which is headed by a regional director. Bank liquidation activities are divided among four regions, each of which is also headed by a regional director (liquidation).

The FDIC administers two federal deposit insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The basic insured amount for a depositor is \$100,000 at each insured depository institution. The BIF is funded through assessments paid by insured commercial banks, certain federal and state savings banks, and industrial banks, as well

as through income from investments in U.S. government securities. The SAIF, which was created in 1989 as a successor to the former Federal Savings and Loan Insurance Corporation (FSLIC), receives assessment premiums from insured savings associations. The FDIC sets assessment rates, which had historically been fixed at the same rate for all institutions insured by the BIF and likewise similar rates for all institutions insured by the SAIF. Effective January 1, 1993, the FDIC established a risk-based assessment system for all depository institutions insured by BIF or SAIF as required under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Administrative and supervisory expenses of the FDIC are charged to the BIF or to the SAIF as appropriate. The Secretary of the Treasury will provide such amounts as may be needed to cover losses incurred by the SAIF through fiscal year 1998, provided that the required certifications are made. Also, the FDIC's authority to borrow from the U.S. Treasury was increased by FDICIA to \$30 billion for the use of both funds. The FDIC has the authority to impose special assessments to provide sufficient income to repay borrowings from the Treasury if it determines that such assessments are necessary.

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

The FDIC has primary federal regulatory and supervisory authority over insured state-chartered banks that are not members of the Federal Reserve System; however, it has the authority to examine for insurance purposes any insured financial institution, either directly or in cooperation with state or other federal supervisory authorities. FDICIA gives the FDIC back-up enforcement authority over all insured institutions, that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if the primary supervisory agency fails to do so. The FDIC's supervisory authority has been expanded to permit it to deny authorization for insured state-chartered banks to engage in any activity impermissible for a national bank if it determines that the activity would pose a significant risk to the BIF or if the institution is not in compliance with applicable capital standards. The FDIC may also prohibit activities that pose a serious threat to the SAIF and otherwise limit the powers of state-chartered savings associations to those permitted for a federal savings association. The FDIC has, in consultation with other federal supervisory agencies, established minimum capital levels below which institutions are deemed to be "critically undercapitalized" and, as such, are subject to seizure and/or closure if no longer viable.

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

Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 relieved the FDIC of its management responsibilities for the Resolution Trust Company (RTC), the agency charged through at least January 1, 1995, with resolving failure cases involving institutions that were formerly insured by the FSLIC. The FDIC Chair is a member of the Thrift Depositor Protection Oversight Board, which oversees RTC operations, and RTC employees are on assignment from the FDIC.

The National Credit Union Administration

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

The main responsibilities of the NCUA are the following:

- It charters, examines, and supervises more than 7,700 federal credit unions nationwide.
- It administers the National Credit Union Share Insurance Fund (NCUSIF), which insures 97 percent of member share accounts in nearly 12,400 of the country's federal and state-chartered credit unions.
- It 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.

The NCUA has six regional offices across the country that administer its responsibility to charter and supervise credit unions. Its examiners

conduct annual, on-site examinations of each federal credit union. Tax dollars do not fund NCUA; it is supported by the credit unions it regulates and insures.

The Office of the Comptroller of the Currency

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

The OCC is the regulator and supervisor of the national banking system. As such, it currently regulates and supervises about 3,400 national banks, with total assets of about \$2.0 trillion, representing about 57 percent of the total assets of all U.S. commercial banks. It is the only federal banking agency with authority to charter commercial banks. It shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters, for the establishment of branches, and for mergers of national banks.

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

- Promotes safety and soundness by requiring that national banks adhere to sound management principles and comply with the law.
- 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 examination activities and ongoing 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.

Office of Thrift Supervision

The OTS was established as a bureau of the Treasury Department in August 1989 and became operational in October 1989 as part of a major reorganization of the regulatory structure for thrift institutions mandated by FIRREA. In that act, the Congress gave OTS authority to charter federal thrift institutions and serve as the primary regulator of the approximately 1,750 federal and state-chartered thrift institutions belonging to the SAIF. The OTS carries out this responsibility by adopting regulations governing the savings and loan industry, by examining and supervising thrift institutions and their affiliates, and by taking whatever action is necessary to enforce their compliance with federal law and regulations. Besides overseeing thrift institutions, the OTS also regulates, examines, and supervises holding companies that own thrift institutions and controls their acquisition of thrift institutions.

The OTS is headed by a Director appointed by the President and confirmed by the Senate to serve a five-year term. The OTS Director also serves on the boards of the FDIC and the RTC and is also a director of the Neighborhood Reinvestment Corporation.

To carry out its mission, the OTS is organized into five main divisions:

- Washington Operations includes supervisory operations, policy, information resources management, and the administration program areas of OTS. This division develops national policy guidelines to enhance statutes and regulations, establishes programs to implement new policies and laws, develops and maintains surveillance systems that monitor the condition of the industry and assist in identifying emerging supervisory problem areas, develops and maintains financial management and information systems, maintains human resources programs, processes thrift institution applications, provides special supervision of selected thrift institutions, and performs other related functions.
- Regional Operations conducts the examination and supervision of thrift institutions in the five OTS regions to ensure the safety and soundness of the industry. It also oversees the training and development of federal thrift regulators through accredited programs. The regional offices are headquartered in Jersey City, Atlanta, Chicago, Dallas, and San Francisco.
- The Chief Counsel provides a full range of legal services to the agency, including drafting regulations, representing the agency in court, and taking enforcement actions against savings institutions that violate laws or regulations. This office also processes corporate filings required by the Securities Exchange Act of 1934.
- Congressional Affairs interacts with members of the Congress, congressional staff members, and committee members on behalf of the OTS as well as executive-level personnel at other federal agencies to accomplish the legislative objectives of the agency. This division disseminates

nates information to the Congress pertaining to supervisory, regulatory, and enforcement activities and policies of the OTS and manages congressional-liaison programs.

- Public Affairs oversees the release of information concerning OTS regulations, policies, and key developments within the agency. It convenes press conferences and distributes news releases to the public. It communicates and explains policy

directives, objectives, and actions of the agency by establishing and maintaining effective liaisons with the media, the general public, the thrift industry, all government agencies, and other key constituencies. This division provides a full range of audiovisual services, including creation of original designs for agency publications, graphics, desktop publishing, and editorial and production assistance. The division also maintains an archive of business records and

documented actions of the OTS and its predecessor, the Federal Home Loan Bank Board; responds to Freedom of Information Act requests; and maintains a public reference room for viewing securities filings and other public documents.

The OTS is a nonappropriated agency and thus uses no tax money to fund its operations. Its expenses are met by fees and assessments on the thrift institutions it regulates.

ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks and Thrift Institutions as of June 30, 1993¹
Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	BIF-Insured Savings Banks	SAIF-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	5,492	2,008	688	850	698	254	155	93	476	169	101
Total loans and lease receivables (net)	3,202	1,195	343	499	295	165	120	70	373	89	53
Loans secured by real estate ⁴	1,664	501	121	259	50	154	117	67	345	31	19
Consumer loans ⁵	520	229	50	108	*	7	3	3	28	58	34
Commercial and industrial loans	713	337	98	100	165	5	1	1	4	1	1
All other loans and lease receivables ⁶	368	160	84	43	80	1	†	†	†		
LESS: Allowance for possible loan and lease losses	63	32	10	11	*	2	1	1	4	1	1
Federal funds sold and securities purchased under agreements to resell	199	91	22	31	42	5	1	2	3	2	*
Cash and due from depository institutions ⁷	427	160	55	52	134	11	1	1	7	4	2
Securities and other obligations ⁸	1,112	395	136	226	85	63	22	14	59	70	42
U.S. government obligations ⁹	804	339	111	187	49	40	8	5	17	30	18
Obligations of state and local governments ¹⁰	76	32	13	28	*	3	*	*	*	‡	‡
Other securities	232	24	12	11	36	20	14	9	42	40	24
Other assets ¹¹	552	167	132	42	142	10	11	6	34	5	3
Total liabilities	5,117	1,853	641	774	698	234	143	86	442	154	92
Total deposits and shares ¹²	3,994	1,524	450	688	355	211	114	75	335	151	91
Federal funds purchased and securities sold under agreements to repurchase	366	155	62	41	75	7	6	2	16	2	*
Other borrowings ¹³	435	112	76	34	112	14	20	7	60	*	*
Other liabilities ¹⁴	322	62	53	11	156	2	3	2	31	1	1
Net worth¹⁵	373	155	47	76	*	20	12	7	34	14	8
Memorandum: Number of institutions reporting	26,338	3,442	969	6,760	583	410	501	473	765	7,804	4,631

Symbols Appearing in Tables

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

Footnotes to Tables

1. The tables cover institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the FDIC 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 included whether or not insured. The tables exclude Edge Act and Agreement Corporations that are not subsidiaries of U.S. commercial banks.
2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.
3. 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 SAIF-insured institutions, also includes mortgage-backed securities.
5. Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.
6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.
7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. SAIF-insured institutions data are for cash and demand deposits only; time deposits are included in "Other securities."
8. Government and corporate securities, including mortgage-backed securities and

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions for the Twelve Months Ending June 30, 1993¹

Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks ¹⁶	BIF-Insured Savings Banks	SAIF-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			
Operating income	401	184	57	68	...	10	13	8	40	13	8
Interest and fees on loans	249	104	27	46	...	7	11	7	32	9	6
Other interest and dividend income	73	38	13	11	...	2	1	1	3	2	2
All other operating income	78	42	17	11	...	1	1	*	5	1	*
Operating expenses	335	154	47	55	...	8	11	7	36	11	6
Salaries and benefits	67	32	11	13	...	1	1	1	5	2	1
Interest on deposits and shares	121	50	14	20	...	4	5	4	16	5	3
Interest on other borrowed money	33	17	5	3	...	1	2	1	4	*	*
Provision for loan and lease losses	32	15	6	6	...	1	*	*	3	1	*
All other operating expenses	80	40	11	13	...	1	2	1	8	2	2
Net operating income	66	30	10	13	...	2	2	1	4	2	2
Securities gains and losses	*	*	*	*	...	*	*	*	*	*	*
Income taxes	20	9	3	4	...	1	1	1	1	‡	‡
Net income	46	21	7	9	...	1	1	1	3	2	1
Memorandum: Number of institutions reporting	25,755	3,442	969	6,760	...	410	501	473	765	7,804	4,631

obligations of states and political subdivisions and of U.S. government agencies and corporations. For SAIF-insured institutions, also includes time deposits and excludes mortgage-backed securities.

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

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

11. Customers' liabilities on acceptances, real property owned, various accrual ac-

counts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For SAIF-insured institutions, also includes equity investment in service corporation subsidiaries.

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

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

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

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

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

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

APPENDIX A: RELEVANT STATUTES

Title X of Public Law 95-630

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

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

(b) The members of the Council shall select the first chairman of the Council. Thereafter the 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 and employees of the Federal Housing Finance Board under condition specified by the Council.

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

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

State Liaison

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

a reasonable allowance for necessary expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may—

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

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

Access to Information by the Council

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

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

Risk Management Training

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

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

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

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

Audit by the Comptroller General

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

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

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

Sec. 1011. Establishment of Appraisal Subcommittee

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

Excerpts from Title III of Public Law 94-200

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

Findings and Purpose

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

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are 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 facili-

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

Compilation of Aggregate Data

Sec. 310 (a) Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not composed 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 composed of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level and racial characteristics.

(b) The Board shall provide staff and data processing resources to

the Council to enable it to carry out the provisions of subsection (a).

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

Excerpts from Title XI of Public Law 101-73

Sec. 1103. Functions of Appraisal Subcommittee.

(a) In General. The Appraisal Subcommittee shall—

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

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

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

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

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

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

(b) Monitoring and Reviewing Foundation. The Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

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

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

APPENDIX B: 1993 AUDIT REPORT

To the Federal Financial Institutions
Examination Council

In our opinion, the accompanying balance sheet 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, 1993, and the results of its operations and its cash flows for the year 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 statements based on our audit. We conducted our audit of these state-

ments in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for the opinion expressed above. The financial statements of the Federal Financial Institutions Examination Council for the year ended December 31, 1992, were audited by other independent accountants whose report dated February 12, 1993, expressed an unqualified opinion on those statements.



Price Waterhouse
Washington, D.C.
February 25, 1994

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheet as of December 31, 1993 and 1992

ASSETS		
	1993	1992
CURRENT ASSETS		
Cash, held by Board of Governors of the Federal Reserve System	\$ 1,098,600	\$ 38,966
Accounts receivable from member organizations	322,851	551,278
Other accounts receivable	122,168	292,015
Total current assets	1,543,619	882,259
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	203,776	190,500
Less accumulated depreciation	124,708	103,278
Net furniture and equipment	79,068	87,222
LEASEHOLD IMPROVEMENTS, net of amortization	75,567	83,848
Total assets	\$ 1,698,254	\$ 1,053,329
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable to member organizations	\$ 621,692	\$ 397,797
Other accounts payable and accrued liabilities	38,235	103,297
Accrued annual leave	43,187	51,904
Total current liabilities	703,114	552,998
DEFERRED RENT (Note 5)	154,074	132,914
FUND BALANCE	841,066	367,417
Total liabilities and fund balance	\$ 1,698,254	\$ 1,053,329

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Revenues and Expenses and Fund Balance for the Years Ended December 31, 1993 and 1992

	1993	1992
REVENUES		
Assessments to member organizations	\$ 1,856,000	\$ 1,621,500
Tuition	1,214,216	1,183,541
Other revenue (Note 4)	1,737,469	1,377,949
Total revenues	<u>4,807,685</u>	<u>4,182,990</u>
EXPENSES		
Salaries and related benefits	1,142,748	1,110,798
Data processing	1,828,609	1,347,345
Rental of office space	608,080	549,479
Professional fees	194,603	139,959
Travel	140,672	106,147
Printing	78,280	103,588
Rental and maintenance of office equipment	67,086	66,871
Office and other supplies	51,829	43,961
Administrative fees	44,800	43,000
Postage	36,847	34,528
Depreciation	35,404	24,788
Books and subscriptions	21,150	46,513
Telephone	19,207	20,863
Miscellaneous	64,721	92,525
Total expenses	<u>4,334,036</u>	<u>3,730,365</u>
REVENUES OVER EXPENSES	473,649	452,625
FUND BALANCE, Beginning of year	<u>367,417</u>	<u>(85,208)</u>
FUND BALANCE, End of year	<u>\$ 841,066</u>	<u>\$ 367,417</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

(1) Organization and Purpose

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

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

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

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

(2) Significant Accounting Policies

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

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

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

(3) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$371,200 in 1993 and \$324,300 in 1992.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$44,800 for 1993 and \$43,000 for 1992.

Member organizations provide office space, data processing, and printing services to the Council. The Council paid member organizations \$2,073,900 in 1993 and \$1,606,100 in 1992 for these items.

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

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

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Cash Flows
Increase (Decrease) in Cash for the Years Ended December 31, 1993 and 1992

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 473,649	\$ 452,625
Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities:		
Depreciation	35,404	24,788
Decrease (increase) in accounts receivable and prepaid expenses	398,274	(482,023)
Increase (decrease) in accounts payable and accrued liabilities	158,833	(93,766)
(Decrease) in accrued annual leave	(8,717)	(12,687)
Increase in deferred rent	21,160	132,914
Net cash provided by operating activities	<u>1,078,603</u>	<u>21,851</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of furniture and equipment	—	6,470
Capital expenditures	<u>(18,969)</u>	<u>(154,862)</u>
Net cash used in investing activities	<u>(18,969)</u>	<u>(148,392)</u>
NET INCREASE (DECREASE) IN CASH	1,059,634	(126,541)
CASH BALANCE, Beginning of year	<u>38,966</u>	<u>165,507</u>
CASH BALANCE, End of year	<u>\$ 1,098,600</u>	<u>\$ 38,966</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements—continued

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

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

(4) Other Revenue

	1993	1992
Home Mortgage Disclosure Act	\$1,117,980	\$ 822,850
Uniform Bank Performance Report	217,935	202,619
Appraisal Subcommittee	179,548	159,825
Rental	124,542	91,957
Sale of HMDA Data	86,122	92,450
Miscellaneous	11,342	8,248
	<u>\$1,737,469</u>	<u>\$1,377,949</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received \$299,294 in 1993 and \$226,136 in 1992 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The balance of the HMDA revenue for 1993 and 1992 was received from the member agencies.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$217,935 in 1993 and \$202,619 in 1992 for operating expenses incurred in support of the UBPR project.

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received \$179,548 in 1993 and \$159,825 in 1992 from the Appraisal Subcommittee for those services.

The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received \$124,542 in 1993 and \$91,957 in 1992 in rent from the Board.

(5) Deferred Rent

During 1992 the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases which, in accordance with generally accepted accounting prin-

ciples, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) Commitments

The Council has entered into operating leases to secure office and classroom space for periods ranging from two to six years. Minimum future rental commitments under those operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 1993, are as follows:

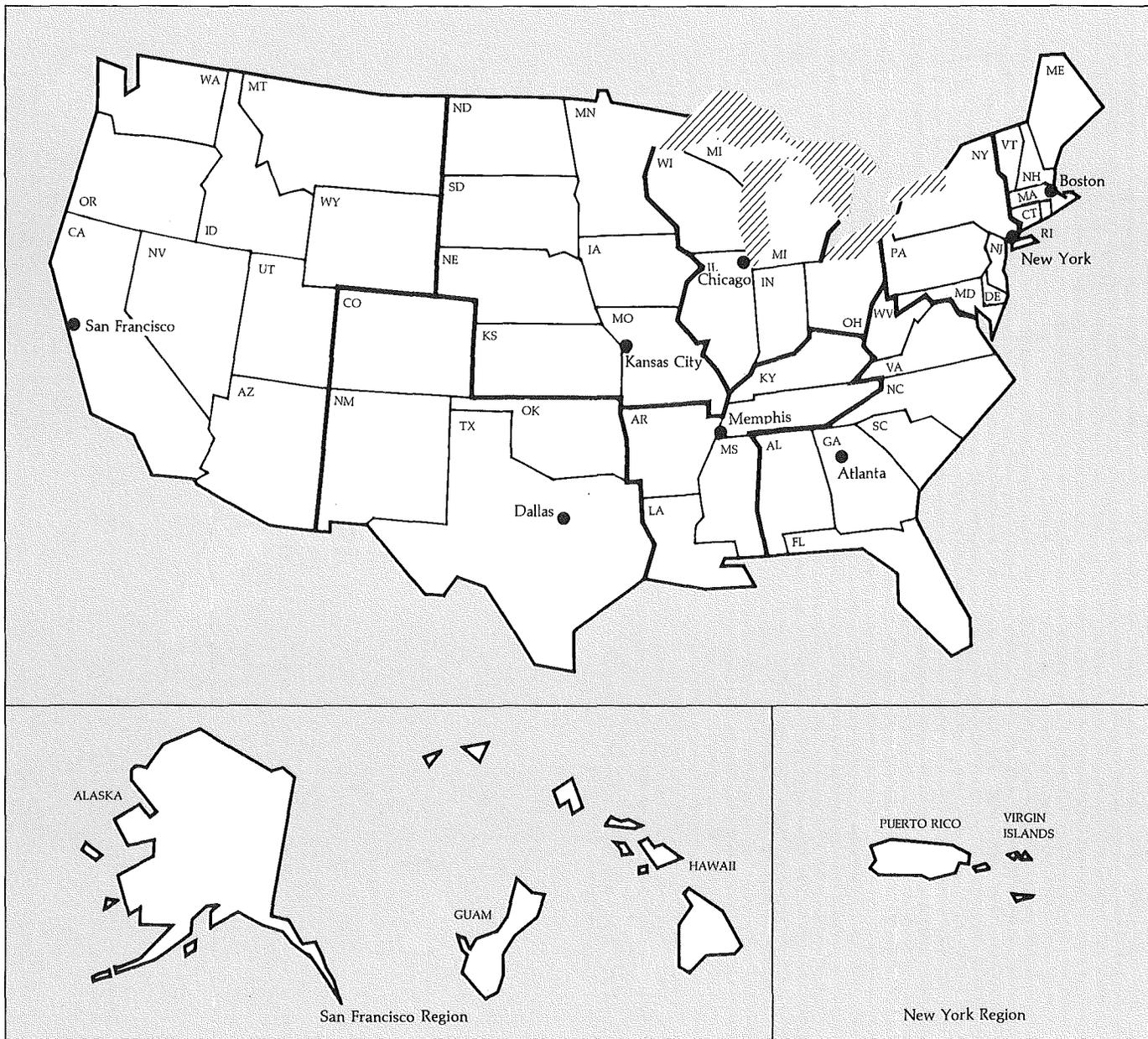
1994	\$ 601,160
1995	489,336
1996	456,039
1997	429,627
1998	429,627
	<u>\$2,405,789</u>

Rental expenses under these operating leases were \$593,300 and \$506,100 in 1993 and 1992, respectively.

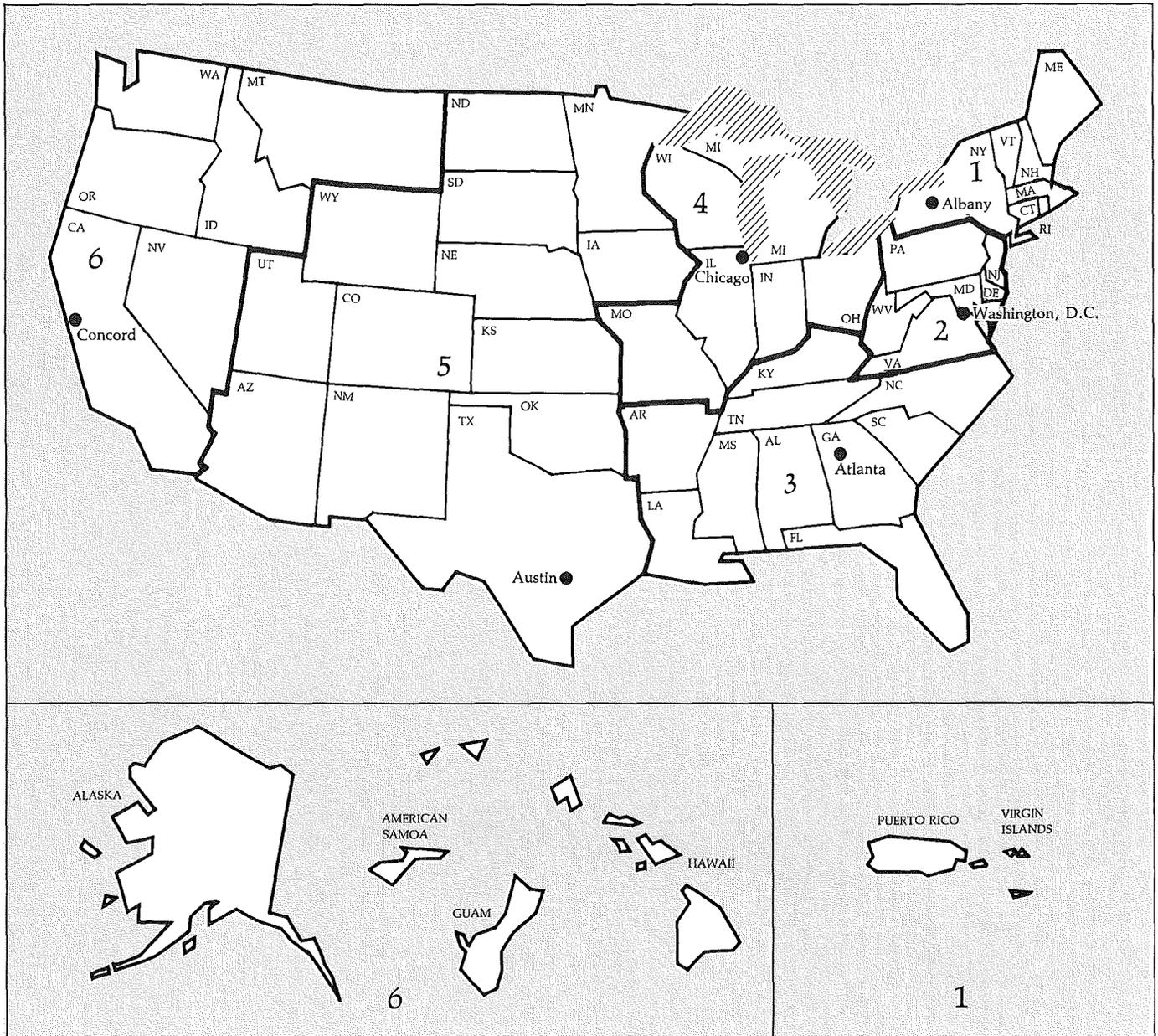
APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION)



NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION

