ANNUAL REPORT 1998
Annual Report 1998
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Ellen Seidman
Director
Office of Thrift Supervision
Federal Financial Institutions
Examination Council
Washington, DC
March 24, 1999

The President of the Senate
The Speaker of the House of Representatives


Sincerely,

John D. Hawke, Jr.
Chairman
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I am pleased to report on the activities of the Federal Financial Institutions Examination Council (FFIEC). This has been another busy and productive year for the Council and its member agencies.

In 1998, the Council continued to focus on the Year 2000 project to ensure that our financial institutions are ready for the century date change. Since 1997, the Council has played a pivotal role in keeping the tempo of Year 2000 activities moving forward at a steady pace, recognizing the need to provide concise guidance and ensure strict enforcement to minimize date change disruptions. The Council’s efforts have included examination guidance, examiner training, joint examinations, and industry outreach. Few situations have arisen in the Council’s history that have called for as large an effort, involving so many people from the five member agencies.

Throughout 1998, the Council’s Task Force on Supervision issued guidance to financial institutions to assist them in their Year 2000 remediation efforts. These issuances provided guidelines on: assessing Year 2000-related risks associated with service providers, software vendors, and institutions’ customers; testing for Year 2000 readiness and establishing key milestones that must be met to prepare for the date change; evaluating potential risks associated with institutions’ fiduciary services; developing contingency plans to mitigate potential risks; and responding to customer inquiries about the Year 2000 date change. The Council also developed a brochure entitled The Year 2000 Date Change, which addresses commonly asked questions on how the date change might impact federal deposit insurance, steps financial institutions and the regulatory agencies are taking to minimize potential disruption, and steps customers should take to prepare for the Year 2000. The Council made this brochure available to financial institutions so that they could keep their customers informed about this issue. Council members and agency representatives also continued their extensive outreach activities, participating in numerous industry conferences, trade association seminars, and software vendor meetings across the country.

The Council’s Task Force on Supervision also oversaw development and issuance of the Year 2000 Phase II Work Program. This program provides member agencies’ examiners with the tools necessary to evaluate the progress financial institutions are making in preparing for the Year 2000. It was designed for examiners to use during a second round of Year 2000-related examinations, which began in the summer of 1998. These examination procedures focus on risk and help examiners determine whether an institution has addressed Year 2000 problems embedded in many computer software, hardware, and environmental systems.

As the following report will show, the Council and its interagency staff task forces and working groups also undertook numerous other initiatives in addition to Year 2000 projects. I am especially proud of the Council’s Consumer Compliance Task Force’s effort to revise the Uniform Fair Lending examination procedures. These procedures, which address issues such as redlining and discriminatory steering, will enhance supervisory efforts and provide examiners with extensive assistance in setting the scope of their examinations. The Council also established a high-
level interagency steering committee on capital to review U.S. banking agencies’ capital requirements. The Council also took steps to make the Uniform Bank Performance Reports for all commercial and savings banks available on its World Wide Web site. These reports will be posted in 1999.

In closing, I would like to express the Council’s appreciation of Joe M. Cleaver, who retired in May 1998, after seven years of dedicated service to the Council. Joe served the Council admirably during his tenure as executive secretary and we are grateful for the leadership he provided. I am happy to announce that Keith Todd has been appointed as the Council’s new executive secretary.

I feel confident the Council will continue the fine record of interagency cooperation and accomplishment so vital to the supervision and promotion of the safety and soundness of our nation’s financial system.
The Federal Financial Institutions Examination Council (Council) was established on March 10, 1979, pursuant to title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), Public Law 95-630. The purpose of title X, entitled the Federal Financial Institutions Examination Council Act of 1978, was to create a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of Comptroller of the Currency, and Office of Thrift Supervision and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the non-financial-institution subsidiaries of those institutions and holding companies. It conducts schools for examiners employed by the five agencies represented on the Council and makes those schools available to employees of state agencies that supervise financial institutions. The overall intent of the legislation was that the Council promote consistency in federal examinations and progressive and vigilant supervision. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Council was also authorized to develop and administer training seminars in risk management for the employees of the agencies represented on the Council and the employees of insured financial institutions. The Council was given additional statutory responsibilities by section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities are the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area (MSA). In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Council. The functions of the subcommittee are (1) monitoring the requirements, including a code of professional responsibility, established by states for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related transactions; (2) monitoring the appraisal standards established by the federal financial institutions regulatory agencies and the Resolution Trust Corporation; (3) maintaining a national registry of appraisers who are certified and licensed by a state and who are also eligible to perform appraisals in federally related transactions; and (4) monitoring the practices, procedures, activities, and organizational structure of the Appraisal Foundation, a nonprofit educational corporation established by the appraisal industry in the United States. The Council has five members: the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, a member of the Board of Governors of the Federal Reserve System appointed by the Chairman of the Board, the Chairman of the National Credit Union Administration Board, and the Director of the Office of Thrift Supervision. In addition, to encourage the application of uniform examination principles and standards by the state and federal supervisory authorities, the Council has established, in accordance with the requirement of the statute, an advisory State Liaison Committee composed of five representatives of state supervisory agencies.
The following section is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1998 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978, Public Law 95−630; section 304 of the Home Mortgage Disclosure Act (HMDA), Public Law 94−200; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA), Public Law 103−325.

January 7

Action. A request to collect Call Report data was not approved. The voting was one approval, three disapprovals, and one abstention.

Explanation. Additional data were requested to monitor bank affiliate transactions and compliance with section 23A of the Federal Reserve Act.

March 12


Explanation. An extensive analysis of home loan growth to minorities and patterns of denial rates was adopted and approved for a Council press release.

March 13

Action. Unanimously approved the appointment of two at-large members to the State Liaison Committee.

Explanation. Mr. Bill C. Houston, Tennessee, was appointed and Mr. Thomas Curry, Massachusetts, was re-appointed to the State Liaison Committee for two-year terms. Under the Council’s Rules of Operation, the Council directly appoints two of the five members of the State Liaison Committee.

March 13

Action. Unanimously approved the appointment of six task force chairs.

Explanation. The chairs for all six standing task forces are approved annually and are drawn from management or senior staff of the five member agencies.

March 13

Action. Unanimous approval of the release of two papers on the Year 2000 readiness issue.

Explanation. A paper describing due diligence expectations and efforts in connection with service providers and software vendors was approved. While the FFIEC agencies will conduct examinations of service providers and inspect software vendors, no public Year 2000 certification will be developed. A paper detailing the impact of Year 2000 readiness on three broad classes of customers was also approved.

March 13

Action. Directed the working group to revise the draft policy on Uniform Classification of Consumer Installment Credit.

Explanation. Substantial progress has been made in rewriting the Council’s 1980 policy. Additional language addressing a consistent charge-off policy at 150 days and requiring implementation by January 1, 2001, was requested.

March 13

Action. Unanimous approval of the nonvoting participation of the State Liaison Committee in the activities of the Supervision Task Force.

Explanation. The ongoing participation of state banking agencies in
Council task force meetings has resulted in a greater exchange of information between federal and state bank supervisors and is encouraged by the Council.

March 13
Action. Approved initiating a project by the Supervision Task Force to review the Interagency Statement on Retail Sales of Nondeposit Investment Products.

Explanation. A working group will review the 1994 statement and make recommendations on whether the statement needs to be updated, whether its scope should be expanded to include insurance sales activities, and whether all or parts of the statement should be codified.

June 1
Action. Unanimous approval of an office space lease for Council operations at 2000 K Street, Suite 310, Washington, D.C.

June 4
Action. Unanimous approval of the release of nonpublic Consumer Reinvestment Act data to the Department of Justice.

Explanation. The Department of Justice sought and the Council approved release of incoming, nonaggregated Community Reinvestment Act data collected from financial institutions.

September 11
Action. The Council directed the Capital Working Group to develop two issue papers for the next meeting.

Explanation. The Capital Working Group will develop a paper exploring options for treating recourse and direct credit substitutes. The group will also develop an outline of issues for the capital treatment in smaller institutions.

September 11
Action. Unanimous concurrence to reduce the number of Risk-Management Seminars from two to one per year.

Explanation. Falling attendance has resulted in the need to consolidate seminars. The Task Force on Examiner Education will explore ways to refocus the seminar.

September 11
Action. The Council directed the Task Force on Examiner Education to explore the feasibility of conducting trust, consumer compliance, and bank information systems training on an interagency basis.

Explanation. Conducting basic training on an interagency basis may offer opportunities for reducing course redundancies among agencies.

September 29
Action. Unanimous approval of the appointment of Keith J. Todd as Executive Secretary for the Council.

December 4
Action. Unanimously approved the revised Uniform Fair Lending Examination Procedures.

Explanation. The new procedures retain many core elements while adding explicit procedures dealing with issues such as redlining and steering. An extensive new section on scoping was also added. The Council agreed that this project was a significant step forward in an important area of bank supervision.

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

Task Force on Consumer Compliance
- February 12—Approved the Fair Credit Reporting Act Inter-Agency Policy letter.

Task Force on Reports
- September 18—Approved Federal Register notice covering revisions to the March 31, 1999, bank Call Report.

Task Force on Supervision

January 28—Approved policy statement and Federal Register notice on revisions to the FFIEC Trust Rating System.

January 28—Approved Federal Register notice on FFIEC policy statement covering External Auditing Programs of Banks and Savings Associations.

March 6—Rescinded the 1992 Policy Statement on Securities Activities that included high-risk tests and approved the revised policy statement.

March 6—Approved Year 2000 paper on Guidance Concerning Institution Due Diligence in Connection with Service Provider and Software Vendor Readiness. Approval was conditioned on the approval of agency principals and the full Council.

March 6—Approved Year 2000 paper on Guidance Concerning the Year 2000 Impact on Customers. Approval was conditioned on the approval of agency principals and the full Council.

March 20—Approved the revised Interagency Policy Regarding the Assessment of Civil Money Penalties by Federal Financial Institution Regulatory Agencies.

April 8—Approved retention of the Policy on Interagency Information Systems Examination and Report Distribution.

April 8—Approved the Year 2000 paper on Guidance Concerning Testing for Year 2000 Readiness.

May 6—Approved Year 2000 paper on FFIEC Guidance on Year 2000 Customer Awareness Programs and the customer awareness brochure.

May 6—Approved Year 2000 paper on Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness.

May 12—Approved the Year 2000 paper on Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness.

May 26—Approved Federal Register notice on proposed revisions to the Information Systems Examination Rating System.

June 29—Approved the Year 2000 Phase II Work Program.

June 29—Approved Federal Register publication of the Proposed Revisions for Classification of Consumer Installment Credit Based on Delinquency.

August 27—Approved the Year 2000 Safety and Soundness Guidelines to strengthen enforcement powers previously released.

August 27—Approved the paper on Year 2000 Fiduciary Guidance.

August 27—Approved publication of Questions and Answers Concerning FFIEC Year 2000 Policy.

October 5—Approved the modifications to the MDPS and SASRs examination procedures to allow a focus on Year 2000 risk.

October 5—Approved the revisions to the Trust Examination Rating System.

December 10—Approved publication of Questions and Answers Concerning Year 2000 Contingency Planning.

December 18—Approved revisions to the Information Technology Rating System.
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, which allows the SLC members to be fully informed of Council matters and to participate in all Council activities, including task force assignments and other projects.

**Organization**

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

In 1998, the State Liaison Committee actively participated in several key projects having a long-term impact on the financial industry. The Council’s project on the Year 2000 problem has had the continued input and support of the entire SLC. SLC Chairman Thomas Curry notes the continued cooperation of state and federal banking agencies to expand industry and public knowledge of the issues involving the Year 2000 problem. Some states coordinate closely with federal agencies while others act on their own initiative.

As a way of enhancing state involvement in addressing the Year 2000 problem and other supervisory issues, the State Liaison Committee sought and received unanimous Council approval to participate in the Supervision Task Force as a non-voting member. This opportunity for further information sharing in the critical area of bank supervision policy will benefit all involved. State supervisors also participate in the Task Force on Information Sharing, which is charged with facilitating the sharing of electronic information, ensuring that information quality meets the agencies’ consistency requirements, and improving the way information is collected and shared by the agencies.

The core Call Report project now under way with the Task Force on Reports has benefitted greatly from the input of several states. An extensive survey defining current uses of and possible enhancements to the Call Report was completed by several states. The Conference of State Bank Supervisors coordinated this effort.

The State Liaison Committee is looking forward to continued cooperation of state and federal efforts and is deeply interested in expanding state participation in other areas of joint financial industry supervision.
Regular meetings of the Council are held quarterly. Special meetings may be scheduled whenever matters of high priority must be considered without delay.

The Council’s activities are funded in several ways. Most of the Council’s funds derive from semiannual assessments on its five constituent agencies. The Council also receives reimbursement for the services it provides to support preparation of the quarterly Uniform Bank Performance Report (UBPR). It receives tuition fees from nonagency attendees to cover some of the costs associated with its examiner-education program.

The Federal Reserve Board provides budget and accounting services to the Council, and the Federal Reserve’s Associate Director for Management serves as the Council’s Controller. The Council is supported by a small full-time administrative staff in its operations office, and its examiner-education program is administered by Council staff located at its Examiner Training Facility in Arlington, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council. All Council employees are in the Office of the Executive Secretary. The major responsibilities of the Office of the Executive Secretary are the following:

- scheduling Council meetings, preparing agendas for Council meetings, preparing minutes of Council meetings, and 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, Council, and interagency staff groups
- coordinating public information activities, including preparation and distribution of Council press releases
- maintaining liaison with the Congress and with federal departments and agencies
- preparing the Council’s annual report to the Congress
- coordinating the production and distribution of the quarterly UBPR and related data
- coordinating the collection, production, and distribution of Home Mortgage Disclosure Act data
- managing the Council’s examiner-education program

Six 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 agency staff members perform on behalf of the Council and for reports and policy recommendations prepared for Council consideration. In addition, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for coordinating the efforts of their respective agencies’ staff members in support of the Council. The Executive Secretary of the Council is an ex officio member of the six interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1998 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 1998 would have been impossible.
Organization, December 31, 1998

Members of the Council
John D. Hawke, Jr., Chairman
Comptroller of the Currency
Office of the Comptroller of the Currency (OCC)

Laurence H. Meyer, Vice Chairman
Member
Board of Governors of the Federal Reserve System (FRB)

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

Donna Tanoue
Chairman
Federal Deposit Insurance Corporation (FDIC)

Ellen Seidman
Director
Office of Thrift Supervision (OTS)

State Liaison Committee
Thomas J. Curry, Chairman
Commissioner of Banks
Massachusetts

Gavin M. Gee, Jr.
Director, Department of Finance
Idaho

Bill C. Houston
Commissioner of Financial Institutions
Tennessee

G. Edward Leary
Commissioner of Financial Institutions
Utah

James L. Pledger
Commissioner Savings & Loan Department
Texas

Council Staff Officers
Keith J. Todd,
Executive Secretary

John M. Smullen,
(Acting) SLC Coordinator and Assistant Executive Secretary

Interagency Staff Groups
Agency Liaison Group
Roger T. Cole (FRB)
Nicholas J. Ketcha Jr. (FDIC)
David M. Marquis (NCUA)
John C. Price (OTS)
Emory W. Rushton (OCC)

Legal Advisory Group
Julie L. Williams, Chairman (OCC)
Carolyn B. Buck (OTS)
Robert M. Fenner (NCUA)
Douglas H. Jones (FDIC)
J. Virgil Mattingly (FRB)

Consumer Compliance Task Force
Stephen J. Cross, Chairman (OCC)
Timothy R. (Tim) Burniston (OTS)
Glenn E. Loney, (FRB)
Carmen J. Sullivan (FDIC)
Jodee J. Wuerker (NCUA)

Examiner Education Task Force
Mark Nishan, Chairman (OCC)
Ronald H. Ball (FDIC)

Information Sharing Task Force
William Schneider, Chairman (FRB)
Jim Dudine (FDIC)
William Shively (OTS)
Nancy Wentzler (OCC)

Reports Task Force
Robert F. Storch, Chairman (FDIC)
Patrick G. Berbakos (OTS)
Zane D. Blackburn (OCC)
Gerald A. Edwards, Jr. (FRB)
Polly Kennedy (NCUA)

Supervision Task Force
Nicholas J. Ketcha Jr., Chairman (FDIC)
Stephen E. Austin (NCUA)
Richard M. Riccobono (OTS)
Emory W. Rushton (OCC)
Richard Spillenkothen (FRB)

Surveillance Systems Task Force
Marty Wiseman, Chairman (OCC)
Kevin M. Bertsch (FRB)
Charles W. Collier (FDIC)
Polly Kennedy (NCUA)
William Shively (OTS)

Members of the Appraisal Subcommittee
Herbert S. Yolles, Chairman (NCUA)
John C. Price (OTS)
David Gibbons (OCC)
Virginia Gibbs (FRB)
Mark W. Holman (HUD)
Jesse G. Snyder (FDIC)
Section 1006 of Public Law 95-630 sets forth the functions of the Council. Briefly summarized, these functions are the following:

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

To effectively administer projects in all of those functional areas, the Council established six interagency staff task forces, each of which includes one senior official from each agency:

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

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

**Task Force on Consumer Compliance**

The Task Force on Consumer Compliance promotes policy coordination and uniform enforcement of consumer laws by the five agencies represented on the Council. It consists of senior personnel with knowledge in consumer compliance matters. The task force identifies and studies problems concerning consumer compliance and fosters uniformity in the policies and procedures used by member agencies.

The task force is responsible for those laws and regulations that protect consumers who conduct business with insured depository institutions. The task force also addresses other legislation, regulations, or policies at the state and federal levels that could affect agencies’ consumer compliance responsibilities. During 1998, the task force had five standing subcommittees: automation, Community Reinvestment Act, electronic banking, examination procedures, Home Mortgage Disclosure Act. There were also two issue-specific working groups: one working on the development of an interagency consumer-contacts database and another working on development of interagency fair lending examination procedures.

**Automation Subcommittee**

The Automation Subcommittee provides the task force with technical support by undertaking projects that require coordination with other automation groups by the developing of applications for FFIEC benefit. In August 1998, the subcommittee completed the development of a searchable FFIEC CRA ratings database and provided public access to the database through the FFIEC website. During 1999, the subcommittee will continue to analyze the technical and functional feasibility of developing a secure “extranet” for compliance staff of member agencies to use to share information. The subcommittee will also enhance the searchable FFIEC CRA ratings database in response to consumer and agency recommendations.
Community Reinvestment Act Subcommittee

The Community Reinvestment Act Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with the agencies’ implementation of the Community Reinvestment Act. During 1998, the CRA subcommittee devoted the majority of its time to working on several initiatives to promote consistency in the CRA examination process. During the first quarter, the subcommittee worked to complete a three-part project to further promote consistent implementation of the examination procedures for large institutions. To meet this goal, a review of performance evaluations of institutions that were examined under the lending, investment, and service tests was completed. In the third quarter, the subcommittee completed its coordination of eight joint CRA examinations and began reviewing emerging issues. In the fourth quarter, the subcommittee organized a CRA forum with examiners from the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and representatives from community groups and banks. During the forum, findings from the joint performance review and joint examinations were communicated, and recommendations for increased consistency in implementing the large institution examination procedures were gathered.

The subcommittee anticipates that the interagency effort to foster consistent implementation of the CRA examination procedures will be the focus of its work well into 1999. It will also develop interpretive guidance for the task force to consider on any examination issues that arise.

Electronic Banking Subcommittee

The Electronic Banking Subcommittee helps develop uniform policies, principles, and standards associated with member agencies’ implementation of the consumer protection and fair lending laws and regulations as they relate to emerging electronic banking technology. The subcommittee serves as an ongoing interagency working group to conduct research and analysis, produce interagency reports and recommendations, and educate the industry and general public on developments in electronic banking technology and regulatory matters.

During 1998, the subcommittee worked on completion of its five initiatives for the year: (1) reviewing consumer regulations, (2) updating the compliance examination procedures, (3) delivering interagency electronic banking compliance training, (4) studying CRA and electronic banking, and (5) briefing the task force on the Consumer Electronics Payments Task Force report. The subcommittee decided to postpone the review of consumer regulations until after the Federal Reserve Board issues its final rules concerning “electronic communications” on various consumer regulations. In July 1998, the task force approved and the FFIEC issued industry guidance entitled “Guidance on Electronic Financial Services and Consumer Compliance.” The subcommittee also isolated all changes to regulations regarding electronic services and provided the Examination Procedures Subcommittee with recommendations for updating the procedures. Throughout the year, the subcommittee has monitored the progress of the interagency CRA policy group on the issue of remote banking and has met with senior staff working on the project. Based on the progress of the interagency group, the subcommittee provided input into that group’s work product in lieu of developing a separate document. In December 1998, the subcommittee presented training on its “Guidance on Electronic Financial Services and Consumer Compliance” at the FFIEC Cyberbanking Conference.

In 1999, the subcommittee anticipates developing uniform interagency compliance-examination procedures that will incorporate changes to the consumer protection regulations reflecting developments in electronic banking and, if appropriate and necessary, organizing interagency training for compliance examiners.

Examination Procedures Subcommittee

The Examination Procedures Subcommittee is responsible for maintaining updated interagency examination procedures for the compliance and consumer protection laws the agencies enforce. During 1998, the subcommittee completed and the task force approved a revised Truth in Lending Policy Statement and Fair Credit Reporting Act Policy Statement. The subcommittee worked on developing new Fair Credit Reporting Act examination procedures, which are being vetted throughout the member agencies for review and comment. In November 1998, the subcommittee presented a draft Truth in Lending Act Questions and Answers document to the task force for consideration.

During 1999, the subcommittee anticipates it will finalize the examination procedures for the Fair Credit Reporting Act and the Truth in Lending Act Questions and Answers and work on developing examination procedures for the Truth in Savings Act and the Expedited Funds Availability Act.

Home Mortgage Disclosure Act Subcommittee

The Home Mortgage Disclosure Act (HMDA) Subcommittee supervises the collection and dissemination of HMDA data reported to the agencies and aggregated by the Council. During 1998, the Council processed approximately 16 million reported loans and applications. The sub-
and dissemination of HMDA data. nate paper products in the collection resubmissions, and work to elimi
establish guidelines for HMDA elimi- nations from the public about HMDA, cases. The Fair Lending Examination 
committee updated and published a HMDA technical guide, “Getting it Right,” including questions con- cerning the new asset threshold that exempts institutions with assets of less than $28 million from HMDA requirements.

During 1999, the HMDA Subcommit-
tee will continue to work on matters related to the toll-free assistance line that answers questions from the public about HMDA, resubmissions, and work to eliminate paper products in the collection and dissemination of HMDA data.

Community Contacts Automated Systems Working Group

During 1998, the Community Con- tacts Automated Systems Working Group completed testing and provided recommendations for enhancement and further development of a database of community-contact forms. Using Internet technology, the Federal Deposit Insurance Corporation has taken the lead in developing the system for the member agencies, with funding from the FFIEC. During 1999, the working group anticipates completing and testing the beta system in all member agencies before completion of the final system with Internet capabilities.

Fair Lending Examination Procedures Working Group

The Fair Lending Examination Procedures Working Group was formed in 1996 to draft a set of interagency fair lending examination procedures. In 1998, the working group completed its development of interagency fair-lending procedures and presented them to the task force for consideration. In the fourth quarter, the Council approved the procedures and began to prepare a press release to announce their completion and availability.

In 1999, the new interagency fair lending examination procedures will be posted on the FFIEC website for public access, and the working group will provide recommendations on future training on the procedures.

Task Force on Examiner Education

The mission of the Federal Financial Institutions Examination Council is to promote consistency in the examination of financial institutions. The Task Force on Examiner Education was established by the Council to support one of its three original statutory functions, examiner training. Accordingly, the mission of this task force is to:

- promote training efficiency by encouraging consistency of examiner education, which is accomplished by jointly sponsoring interagency training;
- develop, maintain, and deliver timely, state-of-the-art inter-agency training;
- serve as a clearinghouse for training opportunities offered by the member agencies; and
- provide support to the initiatives of the Council and its task forces.

During 1998, the Council conducted training for the five member agencies, state financial institution regulatory agencies, other federal agencies, and several attendees from foreign central banks. The Council offers a wide variety of courses and conferences, which are primarily aimed at the needs of examiners who have completed the commissioning process within their agencies. However, some noncommissioned examiners also attend Council programs.

Oversight and guidance for curricula and programs are provided by the task force, which is composed of examiner training directors from each of the member agencies. Inter-agency course-development com-

1998 Initiatives

During the year, a major effort was made to refine and develop the new programs approved in 1997. Accordingly, four new examiner training programs were successfully piloted:

- Advanced White-Collar Crime Conference
- Advanced Credit Analysis Conference
- Syndicated Loan Seminar
- Lunchtime Speaker Services

The following programs were approved for development; however, considerable work needs to be done before they can be added to the curriculum:

- A course on Computer-Assisted Presentations
- A program on Internet delivery of examiner education information and short courses.

One video teleconference on cyberbanking was transmitted to FDIC regional offices, with other member agencies invited to attend at those offices. This two-hour segment, part of a larger two-day conference, was broadcast from the FDIC Seidman Center, with examiners from all five member agencies in attendance.

Courses

Most courses are 4½ days long and conducted in groups of 20 to 35 participants. Courses offered in 1998 were Instructor Training, Information Systems Symposium, Testifying...
### 1998 Regulatory Attendance at FFIEC Courses by Agency—Actual

<table>
<thead>
<tr>
<th>Courses/Conferences</th>
<th>No of Sessions</th>
<th>FDIC</th>
<th>OTS</th>
<th>FRB</th>
<th>NCUA</th>
<th>OCC</th>
<th>FCA</th>
<th>Other</th>
<th>Total</th>
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<tbody>
<tr>
<td>Advanced Credit Analysis</td>
<td>3</td>
<td>100</td>
<td>⋱</td>
<td>46</td>
<td>⋱</td>
<td>128</td>
<td>2</td>
<td>⋱</td>
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<tr>
<td>Advanced White Collar Crime</td>
<td>3</td>
<td>83</td>
<td>5</td>
<td>119</td>
<td>1</td>
<td>28</td>
<td>⋱</td>
<td>1</td>
<td>237</td>
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<tr>
<td>Capital Markets</td>
<td>4</td>
<td>161</td>
<td>⋱</td>
<td>83</td>
<td>8</td>
<td>118</td>
<td>1</td>
<td>1</td>
<td>382</td>
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<tr>
<td>CRA Forum (Consumer)</td>
<td>1</td>
<td>6</td>
<td>11</td>
<td>21</td>
<td>⋱</td>
<td>18</td>
<td>⋱</td>
<td>⋱</td>
<td>56</td>
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<td>Cyberbanking</td>
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<td>27</td>
<td>13</td>
<td>18</td>
<td>2</td>
<td>25</td>
<td>3</td>
<td>⋱</td>
<td>88</td>
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<tr>
<td>Emerging Issues—Community</td>
<td>7</td>
<td>273</td>
<td>56</td>
<td>128</td>
<td>⋱</td>
<td>160</td>
<td>4</td>
<td>⋱</td>
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<td>Emerging Issues—Multinational</td>
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<td>⋱</td>
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<td>⋱</td>
<td>36</td>
<td>2</td>
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<td>Information Systems &amp; Technology</td>
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<td>58</td>
<td>23</td>
<td>68</td>
<td>1</td>
<td>92</td>
<td>10</td>
<td>⋱</td>
<td>152</td>
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<td>Instructor Training</td>
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<td>45</td>
<td>1</td>
<td>38</td>
<td>1</td>
<td>15</td>
<td>1</td>
<td>⋱</td>
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<td>International Banking Conference</td>
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<td>21</td>
<td>⋱</td>
<td>59</td>
<td>⋱</td>
<td>14</td>
<td>1</td>
<td>⋱</td>
<td>95</td>
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<tr>
<td>International Banking School</td>
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<td>19</td>
<td>⋱</td>
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<td>⋱</td>
<td>14</td>
<td>⋱</td>
<td>32</td>
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<td>International Banking Self Study</td>
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<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>17</td>
<td>⋱</td>
<td>⋱</td>
<td>18</td>
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<tr>
<td>Payment Systems Risk</td>
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<td>109</td>
<td>⋱</td>
<td>56</td>
<td>3</td>
<td>81</td>
<td>1</td>
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<td>Syndicated Loan Seminar</td>
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<td>14</td>
<td>⋱</td>
<td>59</td>
<td>1</td>
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<td>⋱</td>
<td>11</td>
<td>⋱</td>
<td>18</td>
<td>1</td>
<td>⋱</td>
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<td>10</td>
<td>63</td>
<td>⋱</td>
<td>75</td>
<td>⋱</td>
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<tr>
<td>White Collar Crime</td>
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<td>74</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>14</td>
<td>3</td>
<td>⋱</td>
<td>91</td>
</tr>
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<td>Y2K Training—General</td>
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<td>9</td>
<td>5</td>
<td>69</td>
<td>39</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Y2K Training—Advanced</td>
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<td>100</td>
<td>9</td>
<td>53</td>
<td>8</td>
<td>2</td>
<td>5</td>
<td>38</td>
<td>121</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<td><strong>1,238</strong></td>
<td><strong>137</strong></td>
<td><strong>872</strong></td>
<td><strong>93</strong></td>
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<td><strong>51</strong></td>
<td><strong>90</strong></td>
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<td><strong>Risk Management Planning</strong></td>
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<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>428</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56</strong></td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td>⋱</td>
<td><strong>3,863</strong></td>
</tr>
</tbody>
</table>

FFIEC conferences provide the member agencies with programs aimed entirely at the needs of the financial institution regulatory community, whereas conferences provided by nongovernment organizations often provide a wider array of topics, some of which are outside the needs of examiners.

**Conference for Bankers**

In response to a statutory mandate (see appendix A of this Annual Report), the Council conducts Risk-Management Planning conferences for bankers and other financial institution managers. In 1998, two conferences were offered, one in San Antonio, Texas, and one in San Francisco, California. One session is planned for November 1999, to be held in Washington, D.C. A periodically updated draft of the Risk-Management Planning conference program agenda is available on the FFIEC Internet site (www.ffiec.gov), which allows potential attendees to see the program before deciding to attend.

**Costs**

Costs for training programs are kept low by renting classrooms and auditoriums on an as-needed basis. Approximately half of the instructors provide their services free of charge.

**Facilities**

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

Course Catalogue and Schedule

The 1999 course catalogue and schedule are available from the Council training office. To obtain a copy contact:

FFIEC Examiner Education  
3501 Fairfax Drive, Room 3086  
Arlington, VA 22226-3550  
Phone: (703) 516-5588  
Fax: (703) 516-5487

The FFIEC training catalog, schedule, and other information are also available on the Internet at http://www.ffiec.gov.

The course catalogue for the year 2000 will be available in May 1999.

Task Force on Information Sharing

The Information Sharing Task Force was organized in December 1997 to facilitate the sharing of electronic information among the FFIEC agencies, which in turn supports the supervision, regulation, or insuring of banking organizations. The task force is a forum for the regulatory agencies to promote efficient and effective mechanisms for interagency information sharing. While significant issues are referred, with recommendations, to the Council for action, the task force has delegated authority from the Council to take certain actions.

Task force members consist of representatives from the constituent agencies. Monthly meetings are held to address and resolve issues related to information sharing. The task force has established work groups to address specific structure data and technology development issues.

Initiatives Addressed in 1998

Guiding principles for sharing information. The task force developed guiding principles to protect the privacy, security, and integrity of shared information.

Data-exchange inventory. The task force developed a matrix document depicting all data files shared among the regulatory agencies. The information includes file name, file description, security classification, technical and data content contacts, data frequency, and media form.

Structure data reconciliation. The Structure Data Reconciliation Work Group was created to reconcile structure data for banking institutions to ensure consistency and accuracy among the regulatory agencies. The group has established a quarterly reconciliation process that has led to the resolution of numerous data discrepancies. Thus far the group has reconciled data for December 1997 and March, June, and September 1998.

Technology issues. A technical work group was formed to oversee the development of more efficient processes to share information among the regulatory agencies. The immediate focus of this group was to research and analyze the means to convert data transfers from tape to electronic media. Currently, the group is working on the initiative to automate the transfer of exam data from the FDIC to the FRB. This requires the installation of a T1 communications line between the two agencies to accommodate large-volume transfers. Program and software changes are also under way at each sight to facilitate the exchange.

Initiatives to be Addressed in 1999

Testing and implementation of the automated transfer of FDIC exam data to the FRB is the primary initiative for 1999. The target date for implementation is March 31.

Upon completion of the automated transfer process between the FDIC and FRB, the work group’s focus will shift to developing similar links for the OCC and OTS. The target completion date for the OCC is the end of the second quarter of this year, with the OTS transfer process to be completed thereafter.

The Structure Data Reconciliation Group focus for 1999 is to broaden the scope of the reconciliation.
progress to include bank branch data. Efforts to automate the entire reconciliation process will also begin.

Preliminary investigation has been started to identify the additional data needs of each regulatory agency that are not currently being met through established data exchanges. The initial focus of this effort is on information gaps relating to the ownership of depository institutions and their nondeposit affiliates. Much discussion on these matters will be required to identify viable solutions. This initiative is still in its infancy and therefore no completion date has been established.

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 developing interagency uniformity in reporting of the of the periodic information needed for effective supervision. The task force is thus concerned with issues such as the development and interpretation of reporting instructions; the application of accounting standards to specific transactions; the development and application of processing standards; the monitoring of data quality; the assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and the Independence Standards Board. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help it carry out its responsibilities, working groups are organized as needed to handle accounting, reporting, instructional, and processing matters that are specialized or technical.

Activities of the Task Force

During 1998, the task force's principal activities involved two reports: (1) the Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks, and (2) a common core report for banks, savings associations, and bank holding companies, the development of which is mandated by section 307 of the Riegle Community Development and Regulatory Improvement Act of 1994 (the Riegle Act). Other task force activities pertained to the regulatory report prepared by U.S. branches and agencies of foreign banks, a foreign currency report completed by U.S. banks, a report on insider indebtedness to correspondent banks, and the banking and thrift agencies' policies on intercompany income tax remittances.

After approval by the U.S. Office of Management and Budget (OMB), a modest number of revisions to the bank Call Reports (Forms FFIEC 031, 032, 033, and 034) took effect in the first quarter of 1998. Because of the nature of these changes, most banks were not expected to experience an increase in the reporting burden imposed by the Call Report. The changes included reducing from quarterly to annually the frequency with which all banks report their “preferred deposits” and reducing the level of detail in the trading assets and liabilities schedule filed by larger banks. In the regulatory capital schedule, new items were added for low-level recourse transactions and, for larger banks, market-risk capital requirements. In addition, the Council clarified the reporting requirements relating to allowances and provisions for credit losses, changed the reporting basis used to report available-for-sale securities in the domestic office assets and liabilities schedule completed by banks with foreign offices, and revised the instructions for reporting certain types of vehicle loans in two securitized consumer loan items completed annually by larger banks.

OMB also approved two changes to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (Form FFIEC 002) for implementation as of the March 31, 1998, report date. The Council added new items to this report to distinguish balances due from banks in the branch’s or agency’s home country from balances due from banks in other foreign countries, and to identify the amount of a branch’s or agency’s pledged securities.

On May 12, 1998, the task force, acting under delegated authority, approved the elimination of the Monthly Consolidated Foreign Currency Report of Banks in the United States (Form FFIEC 035) after the December 31, 1998, report date. The Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) have used the data collected in the FFIEC 035 to monitor the foreign exchange activities of individual U.S. banking institutions, but the agencies determined that these activities can be monitored through other supervisory means.

On July 1, 1998, the FRB, OCC, and FDIC jointly requested public comment on a proposal to extend the use of the Report of Indebtedness of Executive Officers and Principal Shareholders and Their Related Interests to Correspondent Banks (Form FFIEC 004) for three years without revision. The agencies received four comment letters containing several suggested changes to the information that executive officers and principal shareholders must provide in the report. However, certain suggested changes are inconsistent with the governing statute and the agencies’ regulations. Before proposing any
changes, the task force, in December 1998, requested the Council’s Task Force on Supervision to review the agencies’ regulations to determine whether any of the suggested changes are consistent with the statute and with safety-and-soundness concerns. If so, corresponding changes to the FFIEC 004 report would be proposed.

Section 303 of the Riegle Act directed the Council’s member agencies to review and update their regulations and policies to promote consistency and uniformity. In 1997, the task force established a working group to review the banking and thrift agencies’ separate but similar policies on income tax remittances between depository institutions and parent holding companies. During 1998, this working group prepared a single interagency policy statement to replace the four agencies’ policies. On October 9, 1998, the task force, acting under delegated authority, approved the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure and recommended its adoption by the four banking and thrift agencies. The agencies jointly published the policy statement on November 23, 1998. The policy provides uniform guidance to all FDIC-insured depository institutions on the allocation and payment of taxes. It reiterates that, in general, intercorporate tax settlements between a depository institution and its parent company should be conducted in a manner that is no less favorable to the institution than if it was a separate taxpayer.

On December 29, 1998, the taskforce (acting under delegated authority), the Federal Reserve Board, and the Office of Thrift Supervision issued interim guidance explaining how a banking organization should report derivatives in the bank Call Report, the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), and the Thrift Financial Report after adopting Financial Accounting Standards Board Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” (FAS 133). For regulatory reporting purposes, all banking organizations must adopt FAS 133 for fiscal years beginning after June 15, 1999, with early adoption permitted. For banking organizations with a calendar year fiscal year that do not elect early adoption, the March 31, 2000, reports will be the first that must be completed in accordance with FAS 133. The interagency issuance also describes the appropriate interim regulatory capital treatment of derivatives for banking organizations.

On October 1, 1998, the banking agencies requested public comment on a limited number of proposed Call Report revisions that would take effect as of March 31, 1999. The agencies’ joint Federal Register notice described the reporting changes that the task force had approved under its delegated authority in September. The task force proposed to delete outdated items pertaining to “high-risk mortgage securities” and, for small banks, deferred agricultural loan losses. In response to the June 1998 issuance of FAS 133 on derivative instruments and hedging activities, two new items for accumulated net gains (losses) on cash-flow hedges would be added to the Call Report. As a result of the banking and thrift agencies’ August 1998 revision of the regulatory capital treatment of servicing assets, a new or revised item would distinguish nonmortgage-servicing assets from other intangible assets. The task force also proposed to make a number of instructional changes, primarily to incorporate recent changes in accounting standards, to further conform with generally accepted accounting principles in other areas, and to improve the reporting of certain regulatory capital information. To the extent applicable, corresponding revisions to the FFIEC 002 report for U.S. branches and agencies of foreign banks were proposed on November 19, 1998, for implementation in 1999.

The agencies received two comment letters on the bank Call Report proposal. After considering the comments, the task force, acting under delegated authority, decided to proceed with the proposed changes. For nonmortgage-servicing assets, the task force chose the proposed option of revising an existing item rather than adding a new item. Banks were notified about the changes in reporting requirements for 1999 in a January 21, 1999, letter from the Council.

Section 307 of the Riegle Act requires the four federal banking and thrift agencies to work jointly to develop a single form for the filing of core information by banks, savings associations, and bank holding companies. Section 307 also directs the agencies to (1) review the information they collect from these three types of institutions that supplements the core information and (2) eliminate those reporting requirements that are not warranted for safety-and-soundness or other public purposes. In this regard, the task force and the agencies regularly review existing reporting requirements to identify items that are no longer sufficiently useful to warrant their continued collection. Since 1995, these reviews have led to the elimination of numerous items and reductions in the level of detail in several areas of the bank Call Report.

In addition, the Council and the three banking agencies have, as part of their section 307 efforts, adopted generally accepted accounting principles as the reporting basis for the Call Report; combined the four sets of Call Report instructions into a single, comprehensive set; developed an index to the instructions; made the Call Report forms, instructions, and data available on the Internet; and implemented an electronic filing requirement for the Call Report. The Council, the
task force, and the banking agencies are currently surveying Call Report users within the agencies and are continuing to review the uses of individual Call Report items in order to ascertain their relative importance to the agencies. These actions are part of the agencies’ ongoing effort to eliminate Call Report information with the least practical utility and to increase uniformity among regulatory reports.

Task Force on Supervision

The jurisdiction of the Task Force on Supervision includes all matters relating to the supervision and examination of depository institutions. It provides a forum for the regulatory agencies of financial institutions to promote quality, consistency, and effectiveness of examination and supervisory practices and to reduce regulatory burden. While significant issues are referred, with recommendations, to the Council for action, the Council has delegated to the task force the authority to make certain decisions, provided all task force members are in agreement.

Task force members are the senior supervisory officials of the constituent agencies. Meetings are held regularly to address and resolve common supervisory issues. The task force has a standing subcommittee to address information system and technology issues as they relate to financial institution supervision. In addition, a task force subcommittee was formed to review issues pertaining to regulatory capital; Its mission is to coordinate interagency efforts to enhance the agencies’ regulatory capital regimes in light of the significant evolution in the financial services industry. In addition, ad hoc working groups are created as needed to handle particular projects and assignments.

Activities of the Task Force

During 1998, the task force, its various ad hoc working groups, and subcommittees were involved in numerous projects and activities, taking action on 19 items. Major accomplishments in 1998 were achieved in matters concerning Year 2000 and revisions to the agencies’ various examination rating systems.

Year 2000

The Year 2000 Interagency Working Group was created to address Year 2000 issues, develop industry guidance for financial institutions, and assess the banking industry’s readiness for the Year 2000. The supervisory program established by the working group focuses on the industry’s efforts to ensure that financial institutions’ automated systems will be able to correctly calculate date-dependent information after the century date change. During the year, the member agencies continued to assess the Year 2000 readiness of financial institutions, service providers, and software vendors to help curtail any Year 2000-related computer problems and major service disruptions to customers and the banking system. As part of the agencies’ efforts, a series of guidance papers on important aspects of Year 2000 readiness were issued:

- Guidance Concerning Institution Due Diligence in Connection with Service Provider and Software Vendor Year 2000 Readiness (March 17, 1998)
- Guidance Concerning the Year 2000 Impact on Customers (March 17, 1998)
- Guidance on Year 2000 Customer Awareness Programs (May 13, 1998)
- Guidance Concerning Continuity Planning in Connection with Year 2000 Readiness (May 13, 1998)
- Questions and Answers Concerning FFIEC Year 2000 Policy (August 31, 1998)
- Guidance Concerning Fiduciary Services and Year 2000 Readiness (September 2, 1998)
Questions and Answers Concerning Year 2000 Contingency Planning (December 11, 1998).

These guidance statements were incorporated into the agencies’ Year 2000 evaluations to enhance their reviews of federally supervised financial institutions, service providers, and software vendors. To assist financial institutions in their understanding of the various Year 2000 guidance statements and the Year 2000 review process, the agencies have conducted hundreds of banker and community outreach programs throughout the country. These programs have focused on the many aspects of supervisory expectations for Year 2000, conveying a consistent message from the agencies to the institutions and the public.

Finally, the member agencies of the FFIEC participated in The President’s Council on Year 2000 Conversion, which is coordinating the federal government’s efforts to address Year 2000 issues. The President’s Council, made up of representatives from more than 30 major federal executive and regulatory agencies, has enlisted agencies to serve as “sector coordinators” to promote action on the Year 2000 problem within their policy areas.

Policy Statement on Investment Securities and End-User Derivatives Activities

In April 1998, the FFIEC issued the Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities, which rescinded the 1992 FFIEC Supervisory Policy Statement on Securities Activities. The 1998 policy statement advances sound practices for managing the market, credit, liquidity, operational, and legal risks of investment and end-user activities and reflects the agencies’ move to a more risk-focused approach to supervision. This approach considers the appropriateness of an instrument held for investment or end-user purposes in light of a variety of factors, including management’s ability to measure and manage the risks of the institution’s holdings and the impact of those holdings on aggregate portfolio risk. The policy statement reflects a supervisory focus on evaluating and controlling risks on an investment-portfolio or an institution-wide basis.

Uniform Interagency Trust Rating System

In October 1998, the task force, under delegated authority, adopted revisions to update the Uniform Interagency Trust Rating System (UITRS), which became effective for all examinations commencing on or after January 1, 1999. The UITS is a supervisory rating system, originally adopted in 1978, to promote consistency among the federal banking agencies when they evaluate the fiduciary activities of institutions under their supervisory jurisdiction. The major revisions to the UITRS include (1) modifications to the rating definitions to better align them with the language and tone of the Uniform Financial Institutions Rating System rating definitions, commonly referred to as the CAMELS rating system; (2) combining the “Account Administration” and “Conflict of Interest” rating components into a new “Compliance” component; (3) requiring a rating of “Earnings” only for those institutions with trust assets of more than $100 million; and (4) greater emphasis on risk-management processes.

Uniform Retail Credit Classification and Account-Management Policy

In June 1998, the task force approved for comment the Uniform Retail Credit Classification and Account-Management Policy. Once adopted, the policy will update and expand on the existing guidance that dates back to 1980. The proposed policy will also provide guidance on the treatment of retail accounts affected by fraud, bankruptcy, and the death of a borrower. In addition, the guidance will detail criteria for account re-aging and will provide classification guidance for residential and home equity loans. The final version of the revised policy statement is expected to be published in early 1999.

Revisions to Regulatory Capital Regulations

Although each of the four federal banking and thrift agencies has its own capital regulations, the task force and several of its working groups have worked to develop numerous planned revisions to these rules. This coordinated effort among the agencies promotes the joint issuance of capital rules, thereby minimizing interagency differences and, consequently, reducing the potential burden on
the banking industry. During 1998, these capital-related initiatives included the following:

- **Servicing assets.** In August 1998, the agencies issued a final rule amending their capital guidelines to address the accounting treatment of servicing assets on both mortgage assets and financial assets other than mortgages. The final rule reflects the changes in accounting standards for servicing assets in the Financial Accounting Standards Board Statement No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (FAS 125).

- **Derivative instruments and hedging activities.** In December 1998, the agencies issued a joint release that described the appropriate interim regulatory capital treatment of derivatives for those banking organizations choosing early adoption of Financial Accounting Standards Board Statement No. 125, “Accounting for Derivative Instruments and Hedging Activities” (FAS 125). This new accounting standard requires that all derivatives be recorded on the balance sheet as assets or liabilities at fair value. It also requires that a specific portion of cash-flow hedges be reflected as a separate component of equity. Moreover, FAS 133 significantly alters the accounting for derivatives used for hedging purposes and for financial instruments with specific types of embedded derivatives.

### 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, an analytical tool created for supervisory purposes, 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, Federal Deposit Insurance Corporation, or the Office of the Comptroller of the Currency.

During 1998, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Updated the tax-equivalency section of the earnings analysis in the UBPR. The tax schedule, loss carryback and error analysis components were revised. This new computation should enhance bank-to-bank analysis.

- Revised peer group analysis in the UBPR. Averages of peer group balance sheet and earnings components are displayed in the UBPR for comparative purposes. The peer group calculation basis was switched to a weighted average from a trimmed ratio average to provide a more inclusive picture of peer group data trends.

- Reviewed the core Call Report proposed by the Reports Task Force and performed an extensive analysis of all UBPR ratios to determine impact. Coordinated survey responses from state bank supervisors on the core Call Report.

- Completed conversion of the UBPR to a data warehouse, with reduced production costs as an immediate benefit. Enhanced flexibility in ratio design and peer group analysis and display of the UBPR on a public website are some of the longer term benefits of this project.

- Produced and distributed four quarterly versions of the UBPR ahead of schedule. The federal banking agencies each received UBPR data in electronic format. State banking agencies were provided two sets of printed UBPRs for banks in their respective states. Some of the state banking agencies which are developing information systems may ultimately substitute UBPR data from either website and/or tape delivery for the printed copies currently provided to them.

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

- Expanded the list of regulators using early Call Report data. One Federal Home Loan Bank was added to the list of state banking regulators currently using the early Call report data download facility. This facility provides Call Report data throughout the editing cycle, which is similar to that received by the federal bank regulators.

- Redesigned and reprinted the UBPR User’s Guide. Copies were distributed to all banks and federal and state banking authorities and made available on the FFIEC website.

Several projects are planned for 1999 which should provide further enhancements to the UBPR:

- Revise, produce, and distribute the UBPR in a timely fashion.

- Establish a working group to re-evaluate the design of the UBPR.

- Determine what changes are needed in the UBPR to accurately reflect banks that have elected subchapter “S” treatment for taxes.
• Develop miscellaneous other new analyses of bank data.
• Revise the UBPR User’s Guide to incorporate all changes that are planned for 1999. This will be the fifth annual complete reprinting in perfect-bound format and it will be distributed to banking regulators and banks.
• Study the impact of changing the UBPR system to accommodate a common core Call Report for all banks and thrift institutions. The reporting changes required by the Riegle Community Development and Regulatory Improvement Act will expand and enhance data used in the UBPR, but significant programming changes may be needed to take advantage of the revised information.
• Develop and implement a public website to permit the entire UBPR for all commercial and savings banks to be viewed online. Council approval for this project was granted in the fourth quarter of 1998.
• Analyze and possibly revise current peer groupings in the UBPR. Possible new peer groups could include line of business (credit card, trust company, agricultural) or changed asset groupings. The task force will also consider the relevance of structural factors.
• Produce four quarterly versions of the UBPR. Distribute copies to federal and state agencies, banks, and the general public.
• Adjust UBPR data for the effect of push-down accounting.
• Determine whether alternative methods of distributing UBPR data could be used.

While the UBPR is primarily a supervisory tool for the three federal banking agencies, it is also used extensively by other groups. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below in the distribution policy. In addition to the several thousand UBPRs distributed in printed form, several institutions have acquired UBPR data in electronic form. A major goal of the task force is to ensure timely production and distribution of UBPRs and related data. The following distribution policy will continue:
• Each insured bank will receive one copy of the current UBPR per quarter.
• UBPR data will be provided to each federal banking agency.
• 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. A User’s 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. The UBPR User’s Guide and selected other information may also be obtained on the FFIEC website at www.ffiec.gov

Standardized UBPR quarterly data on magnetic tape are available for $400.00. Information on ordering items may be obtained by calling (202) 872-7500, e-mail to SMULLENJ@FRB.GOV, or writing the Council:
Federal Financial Institutions Examination Council
2000 K Street, NW, Suite 310
Washington, DC 20006
The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 22,000 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1998, these financial institutions held total assets of more than $7.5 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

The three banking agencies on the Council have authority to oversee the operations of U.S. branches and agencies of foreign banks. The International Banking Act of 1978 (IBA) authorizes the Office of the Comptroller of the Currency (OCC) to license federal branches and agencies of foreign banks and permits U.S. branches that accept only wholesale deposits to apply for insurance with the Federal Deposit Insurance Corporation (FDIC). According to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), foreign banks that wish to operate insured entities in the United States and accept retail deposits must organize under separate U.S. charters. Existing insured retail branches may continue to operate as branches. The IBA also subjects those U.S. offices of foreign banks to many provisions of the Federal Reserve Act and the Bank Holding Company Act. The IBA gives primary examining authority to the OCC, the FDIC, and various state authorities for the offices within their jurisdictions, and gives the FRB residual examining authority over all U.S. banking operations of foreign banks.

Board of Governors of the Federal Reserve System (FRB)

The FRB was established in 1913. It is headed by a seven-member Board of Governors, each member of which is appointed by the President, with the advice and consent of the Senate, for a 14-year term. Subject to confirmation by the Senate, the President selects two Board members to serve four-year terms as Chairman and Vice Chairman. The FRB’s activities that are most relevant to the work of the Council are

- examining, supervising, and regulating state member banks, bank holding companies, Edge Act and agreement corporations, and, in conjunction with the licensing authorities, the U.S. offices of foreign banks; and
- approving or denying applications for mergers, acquisitions, and changes in control by state member banks and bank holding companies, applications for foreign operations of member banks and Edge Act and agreement corporations, and applications by foreign banks to establish or acquire U.S. banks and to establish U.S. branches, agencies, or representative offices.

Policy decisions are implemented by the FRB and the 12 Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. Each Reserve Bank has a president and other officers. Among other responsibilities, a Reserve Bank employs a staff of bank examiners who examine state member banks and Edge Act and agreement corporations, inspect bank holding companies, and examine the offices of foreign banks located within its District.

National banks, which must be members of the Federal Reserve System, are chartered, regulated, and supervised by the Office of the Comptroller of the Currency. State-chartered banks may apply and be accepted for membership to the Federal Reserve System, after which they are subject to the supervision and regulation of the Federal Reserve. Insured state-chartered banks that are not members of the Federal Reserve System are regulated and supervised by the Federal Deposit Insurance Corporation. The Federal Reserve has overall responsibility for foreign banking operations, including both U.S. banks operating abroad and foreign banks operating branches in the United States.

The Federal Reserve covers the expenses of its operations with revenue it generates principally from interest received on Treasury and federal-agency securities held as assets by the Reserve Banks. The funding for these investments is derived partially from non-interest-earning reserves that member banks and other depository institutions are required to hold at the Reserve Banks and partially from non-interest-bearing Federal Reserve notes (currency) issued by the Reserve Banks. The Reserve Banks pay assessments to the Federal Reserve Board, which are used to meet its expenses. Excess revenues are turned over to the Treasury general fund and categorized as interest on Federal Reserve notes.

Federal Deposit Insurance Corporation (FDIC)

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

The FDIC’s supervisory activities are conducted by the Division of Supervision (DOS) and the Division of Compliance and Consumer Affairs (DCA). Each of these divisions is organized into eight regional offices headed by a DOS regional director and a DCA regional director (DCA). Bank liquidation activities are handled by the Division of Resolutions and Receiverships.

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, receives assessment premiums from insured savings associations. SAIF assessment rates and BIF assessment rates are currently the same—ranging from zero to 27 cents for every $100 of assessable deposits, depending on the degree of risk to the respective deposit insurance fund.

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

The FDIC has primary federal regulatory and supervisory authority over insured state-chartered banks that are not members of the Federal Reserve System, and it has the authority to examine for insurance purposes any insured financial institution, either directly or in cooperation with state or other federal supervisory authorities. FDICIA gives the FDIC backup enforcement authority over all insured institutions; that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if deemed necessary.

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

**National Credit Union Administration (NCUA)**

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

The main responsibilities of the NCUA are the following:

- charters, examines, and supervises more than 6,500 federal credit unions nationwide
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures 96 percent of member share accounts in nearly 11,300 U.S. federal and state-chartered credit unions
- manages the Central Liquidity Facility, a central bank for credit unions, which provides liquidity to the credit union system

The NCUA has six regional offices across the United States that administer its responsibility to charter and supervise credit unions. Its examiners conduct annual, on-site examinations of each federal credit union. The NCUA is funded by the credit unions it regulates and insures.

**Office of the Comptroller of the Currency (OCC)**

The OCC is the oldest federal bank regulatory agency, 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 Neighborhood Reinvestment Corporation and a Director of the Federal Deposit Insurance Corporation.

The OCC is the charterer, regulator, and supervisor of the national banking system. As such, it currently regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of...
foreign banks in the United States, accounting for 58 percent of the nation's banking assets. As the only federal banking agency with authority to charter commercial banks, the OCC shapes the structure of the national banking system through its authority to approve or deny applications for new bank charters and new bank activities, the establishment of branches, relocations of head offices, and mergers of national banks.

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

- promoting safety and soundness by requiring that national banks adhere to sound banking and management principles and that they comply with the law
- supporting banks’ ability to compete fairly in the financial marketplace
- increasing OCC efficiency and reducing unnecessary regulatory burden consistent with safety and soundness
- ensuring fair and equal access to financial services for all Americans

The principal supervisory tools of the OCC are on-site examination activities and ongoing analysis of national bank operations. As appropriate, the OCC issues rules, legal interpretations, and corporate decisions concerning banking, bank investments, and other aspects of bank operations.

To meet its objectives, the OCC is organized into eight main areas described below.

- Bank Supervision Operations oversees examinations and other supervision activities in the OCC’s six districts; the Large Bank Supervision Department, which supervises the largest national banks and oversees operations in the OCC’s London office; Compliance Operations; and the Continuing Education and Supervision Support departments. Specific responsibilities include directing programs for the examination and regulation of national banks and overseeing supervision of national trust companies, federal branches and agencies of foreign banks, and the international banks with global operations.

- Bank Supervision Policy formulates and disseminates the OCC’s supervision policies to promote national banks’ safety and soundness and compliance with laws and regulations. Specific responsibilities include issuing policy, guidance, and examination procedures related to national banks’ commercial, asset-management, capital-markets, bank information systems, and consumer compliance activities; and coordinating the OCC’s participation in Federal Financial Institutions Examination Council activities.

- International Affairs oversees the OCC’s international activities. Specific responsibilities include: providing policy advice and technical expertise to the OCC and Treasury Department on international banking and financial matters; formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks; and serving as liaison to the international financial community and foreign supervisory organizations.

- Economic and Policy Analysis provides economic research and analysis on the condition of the banking industry and trends in financial services. It also supplies on-site technical assistance to field examiners on quantitative risk models and measurement tools and coordinates efforts to monitor electronic money and banking activities in the marketplace.

- Public Affairs manages the OCC’s external relations with the general public, bank customers, community organizations, the Congress, the news media, and trade associations. It disseminates information about the OCC’s initiatives, policies, and activities and works to increase public understanding of the OCC’s mission.

- The Chief Counsel advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. Specific responsibilities include drafting regulations, responding to requests for legal interpretations, and representing the OCC in all legal matters and proceedings. The Chief Counsel oversees corporate application activities, including establishing corporate policies and processing corporate applications from national banks. The Chief Counsel also oversees the community development activities of national banks.

- Administration is responsible for the efficient and effective administrative functioning of the OCC. The office supervises the Human Resources, Financial Services, Management Improvement, and Organizational Effectiveness divisions. The Senior Deputy Comptroller or Administration also serves as Chief Financial Officer and oversees the OCC’s Equal Employment programs.

- The Ombudsman’s office oversees the national bank appeals process. The office resolves individual appeals from national banks and acts as a liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities. The Ombudsman also oversees the Customer Assistance Group, a centralized function that handles all customer complaints.
The OCC's six geographic districts are headquartered in New York, NY; Atlanta, GA; Chicago, IL; Kansas City, MO; Dallas, TX; and San Francisco, CA. The agency is funded through assessments on the assets of national banks.

Office of Thrift Supervision (OTS)

The OTS was established as a bureau of the Treasury Department on August 9, 1989. OTS has the authority to charter federal thrift institutions. It is the primary regulator of all federal and many state-chartered thrifts.

The mission of the OTS is to:

- effectively and efficiently supervise thrift institutions;
- maintain the safety and soundness and viability of the industry; and
- encourage a competitive industry to meet America’s housing, community credit and financial services needs, and to provide access to financial services for all Americans.

OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, (3) taking appropriate action to enforce compliance with federal laws and regulations, and (4) acting on applications to charter or acquire a savings association. In addition to over-seeing thrift institutions themselves, OTS also has the authority to regulate, examine, and supervise companies that own thrifts, and controls the acquisition of thrifts by such holding companies.

OTS is headed by a Director appointed by the President, with the advice and consent of the Senate, to serve a five-year term. The Director determines policy for the OTS and makes final decisions on regulations governing the industry as a whole and on measures affecting individual institutions. The Director also serves as a member of the board of the Federal Deposit Insurance Corporation and the Neighborhood Reinvestment Corporation. The Office of the Director also includes the Office of Equality and Workplace Principles, the Ombudsman, and liaison with the FDIC.

The Deputy Director of OTS assists the Director in managing various agency programs with an emphasis on regulatory issues. In particular, the Deputy Director oversees OTS' five regional offices, the Office of Supervision and Examinations, and the Office of Compliance Policy and Speciality Examinations. Major responsibilities of these offices include the supervision and examination of OTS-regulated thrifts to ensure safety and soundness of the industry, compliance with consumer protection, Community Reinvestment Act and fair lending requirements, the development of policies affecting those functions, applications of all types, and the agency’s accounting policies. The Deputy Director also oversees the Office of Information Systems, which manages the agency’s information systems, and the agency’s financial management, human resources, training and procurement programs.

The other major functions of OTS are:

- Chief Counsel is responsible for overseeing the legal activities of the agency. This includes representing OTS on pending litigation; preparing the record for final agency action in accordance with legal requirements; pursuing enforcement actions relating to thrift institution; providing legal advice and opinions; and drafting support on regulatory projects, statutes, and regulations.

- Research and Analysis office which is composed of four units: Risk Management, Economic Analysis, Industry Analysis, and Financial Reporting. The office develops and maintains surveillance systems for monitoring and reporting the condition of the thrift industry and assists in identifying the impact of emerging issues. The office also collects data, analyzes trends, and reports on the exposure of individual institutions to interest-rate risk. This information is used by the institution’s management and by OTS examiners.

- External Affairs function manages congressional matters and press relations. It interacts with members of Congress as well as with executives of other federal agencies to accomplish the legislative and regulatory objectives of the OTS. The office convenes press conferences; distributes news releases; and communicates and explains policy directives, objectives, and actions of the agency to the Congress, the press, the thrift industry, other government agencies, and employees.

The OTS's five geographic regional offices are located in Jersey City, NJ; Atlanta, GA; Chicago, IL; Dallas, TX; and San Francisco, CA.

The OTS uses no tax money to fund its operations. Its expenses are funded through fees and assessments levied on institutions it regulates.
## ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks and Thrift Institutions as of June 30, 1998

### Billions of dollars

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>7,547</td>
<td>2,962</td>
<td>1,294</td>
<td>938</td>
<td>936</td>
<td>753</td>
<td>34</td>
<td>258</td>
<td>226</td>
<td>146</td>
</tr>
<tr>
<td>Total loans and lease receivables (net)</td>
<td>4,450</td>
<td>1,952</td>
<td>602</td>
<td>596</td>
<td>367</td>
<td>516</td>
<td>22</td>
<td>157</td>
<td>143</td>
<td>95</td>
</tr>
<tr>
<td>Loans secured by real estate</td>
<td>2,037</td>
<td>733</td>
<td>227</td>
<td>335</td>
<td>23</td>
<td>470</td>
<td>20</td>
<td>143</td>
<td>50</td>
<td>36</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>745</td>
<td>364</td>
<td>65</td>
<td>116</td>
<td>470</td>
<td>1</td>
<td>9</td>
<td>92</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial loans</td>
<td>1,094</td>
<td>552</td>
<td>190</td>
<td>106</td>
<td>225</td>
<td>11</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>LESS: Allowance for possible loan and lease losses</td>
<td>640</td>
<td>339</td>
<td>130</td>
<td>49</td>
<td>119</td>
<td>1</td>
<td>2</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Federal funds sold and securities purchased under agreements to resell</td>
<td>362</td>
<td>95</td>
<td>141</td>
<td>33</td>
<td>78</td>
<td>7</td>
<td>1</td>
<td>7</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Cash and due from depository institutions</td>
<td>446</td>
<td>204</td>
<td>82</td>
<td>46</td>
<td>80</td>
<td>18</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Securities and other obligations</td>
<td>1,359</td>
<td>455</td>
<td>197</td>
<td>221</td>
<td>117</td>
<td>167</td>
<td>8</td>
<td>77</td>
<td>73</td>
<td>44</td>
</tr>
<tr>
<td>U.S. government obligations</td>
<td>643</td>
<td>127</td>
<td>75</td>
<td>106</td>
<td>71</td>
<td>147</td>
<td>7</td>
<td>57</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>Obligations of state and local governments</td>
<td>83</td>
<td>37</td>
<td>15</td>
<td>29</td>
<td>1</td>
<td>*</td>
<td>1</td>
<td>*</td>
<td>1</td>
<td>*</td>
</tr>
<tr>
<td>Other securities</td>
<td>632</td>
<td>291</td>
<td>107</td>
<td>86</td>
<td>46</td>
<td>18</td>
<td>1</td>
<td>19</td>
<td>38</td>
<td>26</td>
</tr>
<tr>
<td>Other assets</td>
<td>930</td>
<td>256</td>
<td>272</td>
<td>42</td>
<td>294</td>
<td>46</td>
<td>1</td>
<td>8</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

| **Total liabilities** | 6,965 | 2,700 | 1,201 | 846 | 936 | 689 | 30 | 232 | 201 | 130 |
| Total deposits and shares | 4,988 | 2,023 | 771 | 711 | 455 | 488 | 27 | 188 | 197 | 128 |
| Federal funds purchased and securities sold under agreements to repurchase | 597 | 219 | 131 | 46 | 142 | 43 | * | 14 | 2 | * |
| Other borrowings | 752 | 306 | 112 | 73 | 87 | 143 | 3 | 27 | 1 | * |
| Other liabilities | 628 | 152 | 186 | 16 | 252 | 15 | * | 3 | 2 | 2 |
| **Net worth** | 582 | 262 | 93 | 92 | * | 64 | 4 | 26 | 25 | 16 |

### Footnotes to Tables

1. The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the Federal Deposit Insurance Corporation or National Credit Union Savings Insurance Fund. All branches and agencies of foreign banks in the United States, but excluding any in Puerto Rico and U.S. territories and possessions, are covered whether or not insured. The table excludes Edge Act and agreement corporations that are not subsidiaries of U.S. commercial banks.


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

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**Notes continue on the next page**
### INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions

**For the Twelve Months Ending June 30, 1998**

**Billions of dollars**

<table>
<thead>
<tr>
<th>Item</th>
<th>U.S. Commercial Banks</th>
<th>Thrift Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>573</td>
<td>281</td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>332</td>
<td>161</td>
</tr>
<tr>
<td>Other interest and dividend income</td>
<td>118</td>
<td>52</td>
</tr>
<tr>
<td>All other operating income</td>
<td>122</td>
<td>68</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>464</td>
<td>224</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>90</td>
<td>43</td>
</tr>
<tr>
<td>Interest on deposits and shares</td>
<td>165</td>
<td>70</td>
</tr>
<tr>
<td>Interest on other borrowed money</td>
<td>61</td>
<td>29</td>
</tr>
<tr>
<td>Provision for loan and lease losses</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>All other operating expenses</td>
<td>123</td>
<td>68</td>
</tr>
<tr>
<td>Net operating income</td>
<td>110</td>
<td>57</td>
</tr>
<tr>
<td>Securities gains and losses</td>
<td>2</td>
<td>*</td>
</tr>
<tr>
<td>Income taxes</td>
<td>38</td>
<td>22</td>
</tr>
<tr>
<td>Net income</td>
<td>73</td>
<td>35</td>
</tr>
</tbody>
</table>

**Memorandum: Number of institutions reporting**

|------------------------------------|-------|----------|--------------|------------------|-----------------|---------------|---------------------|----------------|--------------|
| Demand deposits only; time deposits are included in “Other securities.”
8. Government and corporate securities, including mortgage-backed securities and obligations of states and political subdivisions and of U.S. government agencies and corporations. For SAIF-insured institutions, also includes time deposits and excludes mortgage-backed securities.
10. Securities issued by states and political subdivisions and public authorities, except for savings and loan associations and U.S. branches and agencies of foreign banks that do not report these securities separately. Loans to states and political subdivisions and public authorities are included in “All other loans and lease receivables.”
11. Customers’ liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For SAIF-insured institutions, also includes equity investment in service corporation subsidiaries.
12. Demand, savings, and time deposits, including certificates of deposit at commercial banks, U.S. branches and agencies of foreign banks, and savings banks; credit balances at U.S. agencies of foreign banks; and share balances at savings and loan associations and credit unions, including certificates of deposit, NOW accounts, and share draft accounts. For U.S. commercial banks, includes deposits in foreign offices, branches in U.S. territories and possessions, and Edge act and agreement corporation subsidiaries.
13. Interest-bearing demand notes issued to the U.S. Treasury, borrowing from Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-life preferred stock, and other nondeposit borrowing.
14. Depository institutions' own mortgage borrowing, liability for capitalized leases, liability on acceptances executed, various accrual accounts, and miscellaneous liabilities. For U.S. branches and agencies of foreign banks, also includes net owed to head office and other related institutions.
15. Capital stock, surplus, capital reserves, and undivided profits for SAIF-insured institutions.
16. U.S. branches and agencies of foreign banks are not required to file reports of income.
17. Data for thrifts regulated by OTS are unconsolidated, except for operating and finance subsidiaries.

NOTE: Because of rounding, details may not add to totals.
Title X of Public Law 95–630

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

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

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

Functions of the Council

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

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

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

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

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

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

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

State Liaison

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

Administration

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

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

(c) In addition, the Council may

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

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

Access to Information by the Council

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

Risk Management Training

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

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

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

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

Audit by the Comptroller General

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

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

(2) striking out in subsection (e)(2) "and (C)" and inserting in lieu thereof "(C), and (D)."
Sec. 1011. Establishment of Appraisal Subcommittee

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

Excerpts from Title III of Public Law 94–200

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

Findings and Purpose

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

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

Maintenance of Records and Public Disclosure

Sec.304. (f) The Federal Financial Institutions Examination Council in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such system shall include arrangements for a central depository of data in each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas. Disclosure statements shall be made available to the public for inspection and copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 306(b)) and which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas.

Compilation of Aggregate Data

Sec. 310. (a) Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate data by census tract for all depository institutions which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area, for a central depository of data in each primary metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas.

Sec. 311. Establishment of Appraisal Subcommittee

There shall be within the United States 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 XI of Public Law 101–73

Sec. 1103. Functions of Appraisal Subcommittee.

(a) In General. The Appraisal Subcommittee shall

(i) 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 which federally related transactions under their jurisdiction, and

(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: 1998 AUDIT REPORT

To the Federal Financial Institutions Examination Council

We have audited the accompanying balance sheet of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1998, and the related statements of revenues and expenses and changes in fund balance, and of cash flows for the year then ended. These financial statements are the responsibility of the Council’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Council for the year ended December 31, 1997, were audited by other auditors whose report, dated March 6, 1998, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 1999, on our tests of the Council’s compliance with certain provisions of laws, regulations, contracts, and grants and our consideration of the Council’s internal control over financial reporting.

February 19, 1999

Deloitte & Touche LLP

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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheet as of December 31, 1998 and 1997

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$319,844</td>
<td>$486,595</td>
</tr>
<tr>
<td>Accounts receivable from member organizations</td>
<td>724,021</td>
<td>765,290</td>
</tr>
<tr>
<td>Other accounts receivable</td>
<td>194,449</td>
<td>107,955</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>25,319</td>
<td>0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,263,633</td>
<td>1,359,840</td>
</tr>
<tr>
<td>FURNITURE AND EQUIPMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment, at cost</td>
<td>257,091</td>
<td>257,091</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>237,470</td>
<td>215,271</td>
</tr>
<tr>
<td>Net furniture and equipment</td>
<td>19,621</td>
<td>41,820</td>
</tr>
<tr>
<td>LEASEHOLD IMPROVEMENTS, net of amortization</td>
<td>0</td>
<td>9,907</td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,283,254</td>
<td>$1,411,567</td>
</tr>
</tbody>
</table>

| LIABILITIES AND FUND BALANCE | |
| Accounts payable and accrued liabilities to member organizations | $901,303 | $839,757 |
| Other accounts payable and accrued liabilities | 69,225 | 112,848 |
| Accrued annual leave | 48,625 | 59,019 |
| Total current liabilities | 1,019,153 | 1,011,624 |
| DEFERRED RENT (Note 5) | |
| Total liabilities and fund balance | $1,283,254 | $1,411,567 |

See notes to financial 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 sub-committee 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.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications—Certain 1997 disclosures have been reclassified to conform with the 1998 presentation.

(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. Annual assessment for each member organization was $248,800, $228,200.

The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member agencies in the amount $1,172,456, $1,267,444.

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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Revenues and Expenses and Fund Balance for the Years Ended December 31, 1998 and 1997

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments to member organizations</td>
<td>1,244,000</td>
<td>1,141,000</td>
</tr>
<tr>
<td>Tuition</td>
<td>1,365,656</td>
<td>1,501,494</td>
</tr>
<tr>
<td>Other revenue (Note 4)</td>
<td>2,814,718</td>
<td>2,707,759</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>5,424,374</td>
<td>5,350,253</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and related benefits</td>
<td>1,263,700</td>
<td>1,408,595</td>
</tr>
<tr>
<td>Data processing</td>
<td>2,922,678</td>
<td>2,694,856</td>
</tr>
<tr>
<td>Rental of office space</td>
<td>728,452</td>
<td>640,281</td>
</tr>
<tr>
<td>Travel</td>
<td>112,242</td>
<td>112,758</td>
</tr>
<tr>
<td>Professional fees</td>
<td>106,070</td>
<td>98,277</td>
</tr>
<tr>
<td>Printing</td>
<td>94,805</td>
<td>102,798</td>
</tr>
<tr>
<td>Other seminar expenses</td>
<td>85,251</td>
<td>88,330</td>
</tr>
<tr>
<td>Rental and maintenance of office equipment</td>
<td>74,758</td>
<td>123,999</td>
</tr>
<tr>
<td>Administrative fees</td>
<td>54,199</td>
<td>53,236</td>
</tr>
<tr>
<td>Office and other supplies</td>
<td>46,968</td>
<td>32,904</td>
</tr>
<tr>
<td>Depreciation</td>
<td>32,107</td>
<td>39,911</td>
</tr>
<tr>
<td>Postage</td>
<td>12,881</td>
<td>21,994</td>
</tr>
<tr>
<td>Telephone</td>
<td>5,998</td>
<td>12,776</td>
</tr>
<tr>
<td>Books and subscriptions</td>
<td>3,453</td>
<td>14,779</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>36,069</td>
<td>12,446</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>5,579,631</td>
<td>5,457,940</td>
</tr>
<tr>
<td><strong>REVENUES OVER (UNDER) EXPENSES</strong></td>
<td>(155,257)</td>
<td>(107,687)</td>
</tr>
<tr>
<td><strong>FUND BALANCE, Beginning of year</strong></td>
<td>350,901</td>
<td>458,588</td>
</tr>
<tr>
<td><strong>FUND BALANCE, End of year</strong></td>
<td>$ 195,644</td>
<td>$ 350,901</td>
</tr>
</tbody>
</table>

See notes to financial statements.


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

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, are disbursed on behalf of the Council and are reimbursed in full to these organizations. The Council does not have any postretirement or postemployment benefit liabilities since 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

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Mortgage Disclosure Act</td>
<td>1,517,598</td>
<td>1,378,370</td>
</tr>
<tr>
<td>Uniform Bank Performance Report</td>
<td>266,824</td>
<td>253,494</td>
</tr>
<tr>
<td>Appraisal Subcommittee</td>
<td>156,594</td>
<td>161,952</td>
</tr>
<tr>
<td>Rental</td>
<td>158,965</td>
<td>157,751</td>
</tr>
<tr>
<td>Community Reinvestment Act</td>
<td>714,696</td>
<td>719,427</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>41</td>
<td>36,765</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,814,718</td>
<td>2,707,759</td>
</tr>
</tbody>
</table>

The Council received the following from the Mortgage Insurance Companies of America for performing HMDA related work for them: $153,138 in 1998 and $169,661 in 1997.

The balance of the HMDA revenue for 1998 and 1997 was received from sales to the public: $33,891 in 1998 and $54,649 in 1997.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received the following for operating expenses incurred in support of the UBPR project: $266,824 in 1998 and $253,494 in 1997.

Notes continue on the following page.
Appraisal Subcommittee

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received the following from the Appraisal Subcommittee for these services:

<table>
<thead>
<tr>
<th>Office Space</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>156,594</td>
<td>161,952</td>
</tr>
</tbody>
</table>

(5) Deferred Rent

In 1992 and 1998, the Council entered into leases for office space. These leases contain rent abatements and scheduled rent increases, which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

<table>
<thead>
<tr>
<th>Deferred Rent</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>After 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$299,380</td>
<td>$306,331</td>
<td>$313,281</td>
<td>$320,232</td>
<td>$3,282,247</td>
</tr>
</tbody>
</table>

(6) Commitments

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 1998, are as follows:

<table>
<thead>
<tr>
<th>Commitments</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>After 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$299,380</td>
<td>$306,331</td>
<td>$313,281</td>
<td>$320,232</td>
<td>$3,282,247</td>
</tr>
</tbody>
</table>

Rental expenses under these operating leases and the operating lease which expired in 1998 were $478,690 and $392,718 in 1998 and 1997, respectively.

Community Reinvestment Act

In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The Council received the following from participating member agencies for operating expenses incurred in support of the CRA project:

<table>
<thead>
<tr>
<th>Community Reinvestment Act</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>714,696</td>
<td>719,427</td>
</tr>
</tbody>
</table>
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