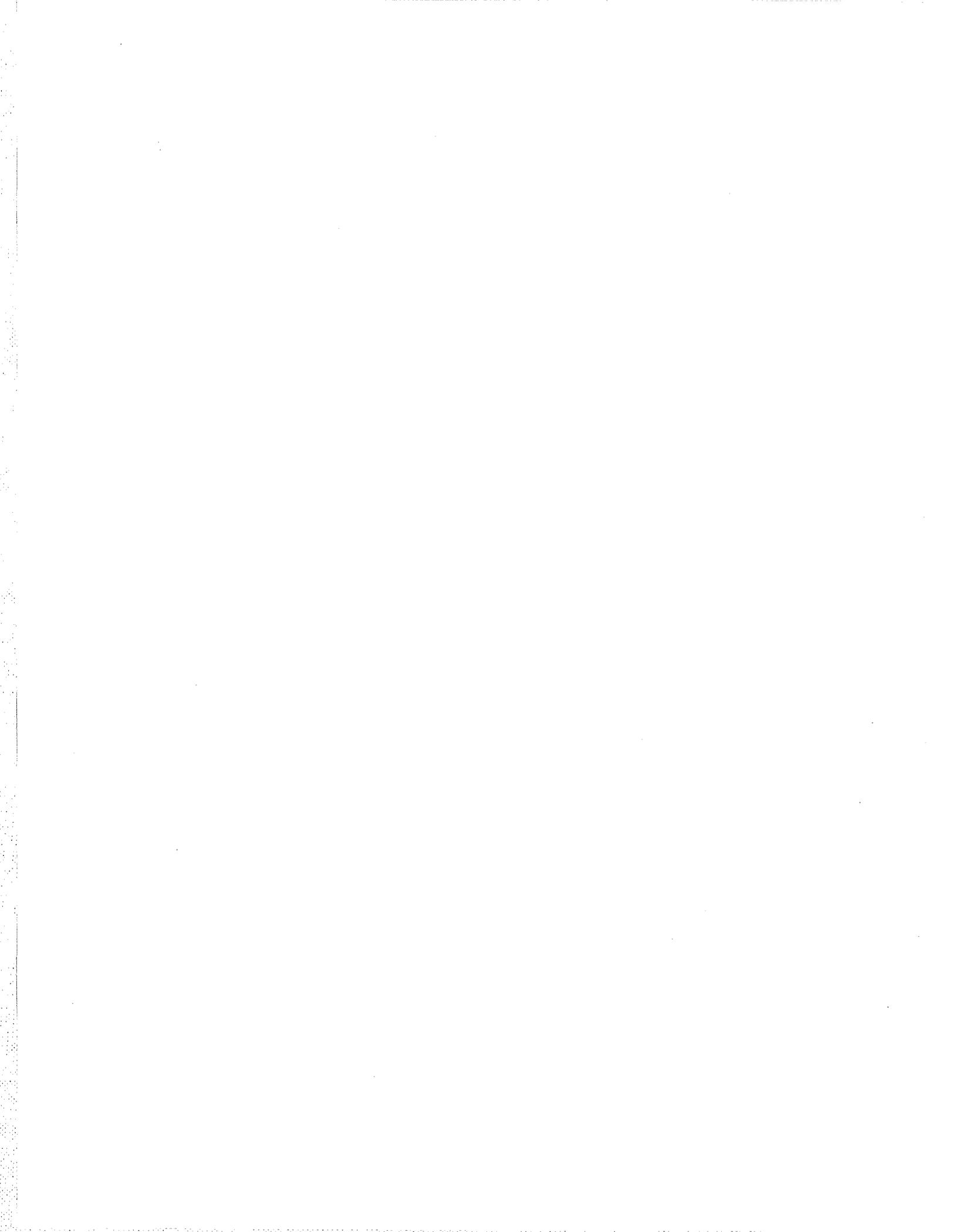




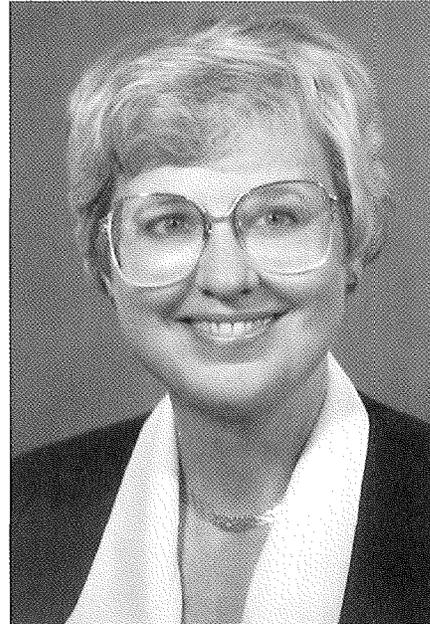
ANNUAL REPORT 1997



MEMBERS OF THE COUNCIL



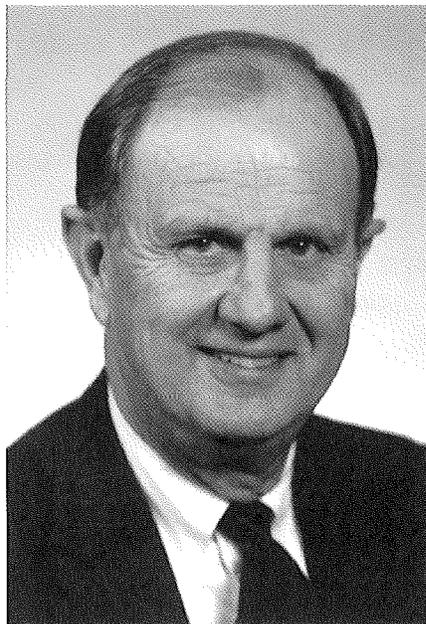
Eugene A. Ludwig, *Chairman*
Comptroller of the Currency
Office of the Comptroller of the Currency



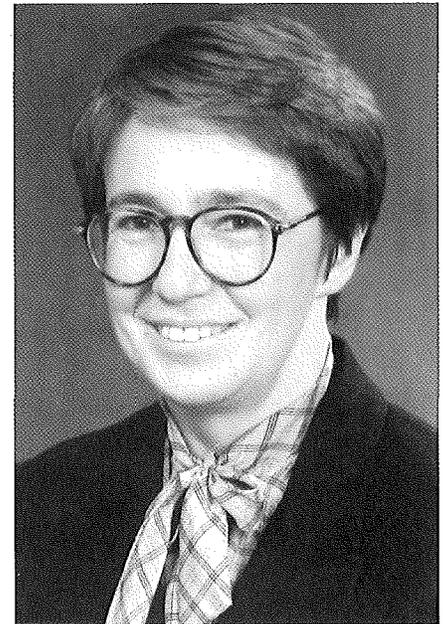
Susan M. Phillips, *Vice Chairman*
Member
Board of Governors of the
Federal Reserve System



Norman E. D'Amours
Chairman
National Credit Union Administration



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



Ellen Seidman
Director
Office of Thrift Supervision



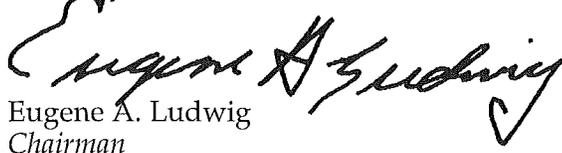
LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC
March 30, 1998

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

Pursuant to the provisions of section 1006(f) of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (12 USC 3305), I am pleased to submit the 1997 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

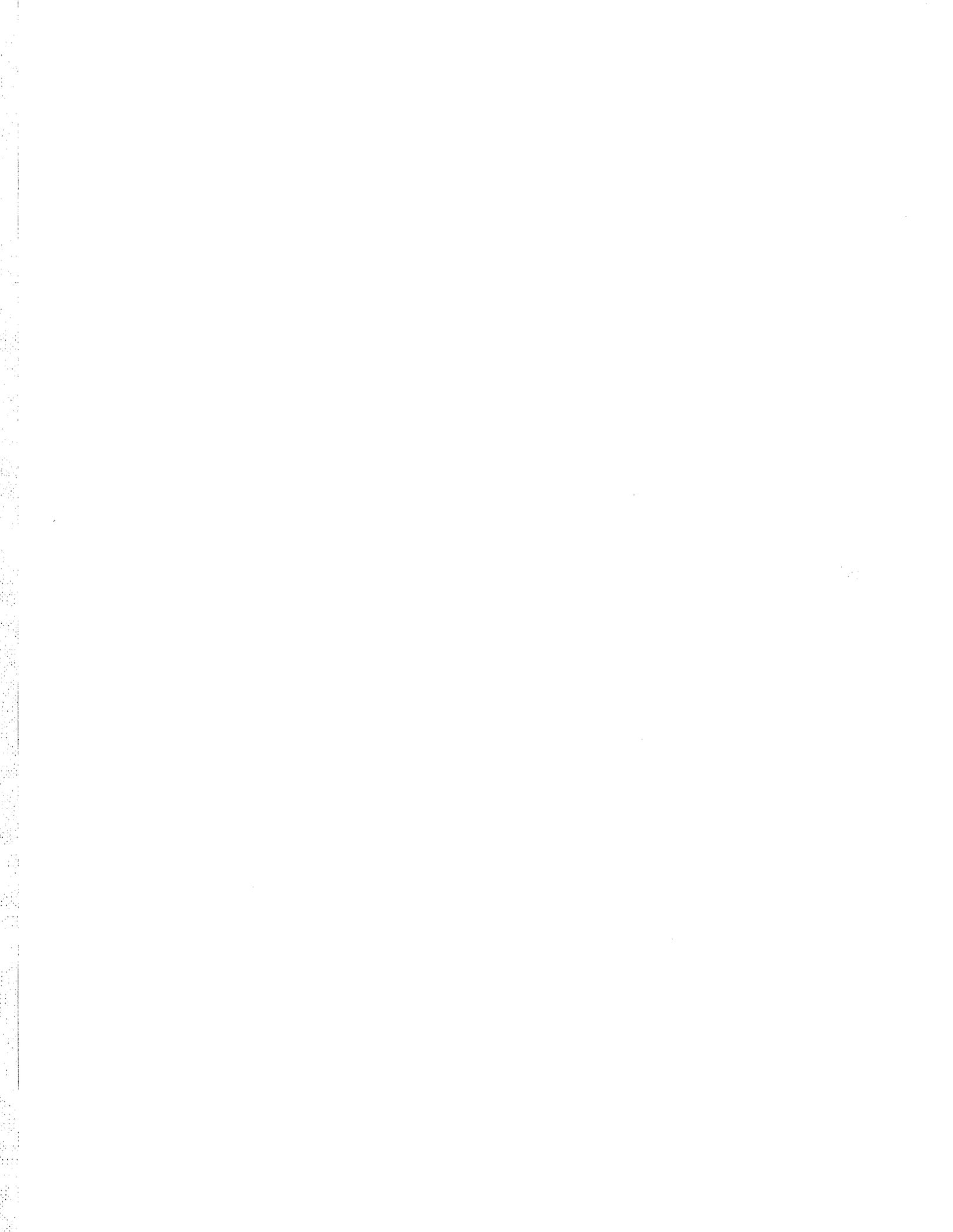


Eugene A. Ludwig
Chairman



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MESSAGE FROM THE CHAIRMAN



Eugene A. Ludwig

My tenure as chairman of the Federal Financial Institutions Examination Council (FFIEC) will end on April 4, 1998, when I will leave public service and return to the private sector. At the outset of my term as FFIEC chairman in June 1997, I set forth several priorities for the Council that continue its tradition of providing leadership on important issues. The Council's actions in these priority areas over the past year constitute a record of which all FFIEC member agencies can be proud.

Foremost, is the focus and performance of all the FFIEC agencies in working to ensure that financial institutions address the impact of the century date change on every aspect of their operations. The year 2000 problem is a critical safety and soundness challenge for the financial services industry. The FFIEC has played and will continue to play a central role in providing guidance to federal depository institutions and examiners on how to meet this challenge. Specifically, the Council's

Task Force on Supervision established a year 2000 subcommittee to accelerate and coordinate the agencies' efforts.

In 1997, the FFIEC issued guidance on year 2000 project management and business risks. Throughout the year, senior staff members from the FFIEC agencies worked with financial institution representatives and trade associations to raise industry awareness of the year 2000 problem, and to promote greater cooperation in planning, testing and remediation strategies by industry participants. The FFIEC established a world wide web page on the Internet to provide a central catalog of year 2000 initiatives across the spectrum of regulators and the private sector.

1998 is a critical year for meeting year 2000 preparation deadlines. Financial institutions and their vendors will be completing renovations to their automated systems and, before year end, should be testing those systems and their connections with the systems of business partners and customers. The Council is coordinating the regulatory agencies' examinations of vendors of data processing products and services, and overseeing the development of additional guidance for financial institutions on vendor management, testing, and credit risks associated with the year 2000 readiness of significant corporate clients. The FFIEC agencies also are working together to develop system-wide contingency plans, in the event financial institutions encounter serious problems in preparing their systems for the year 2000 transition.

In 1997 the Council also stepped up its continuing review of the regulators' approach to industry capital requirements. The reassessment of regulatory capital requirements has

become increasingly more important in light of continuing innovations in the financial markets, evolving supervision-by-risk examination procedures, and the use of internal capital allocation models by a growing number of financial institutions. To kick off this effort, the Council held a conference in December 1997 to elicit the views of bankers, analysts, and academicians. As I noted in my remarks at that conference, the issues and complexities of this subject are such that we cannot expect to reach a consensus in a few short meetings or conferences. Nonetheless, there are few issues more important to the

industry or to supervisors than a capital regime that ensures all institutions have reliable, substantial and tangible capital that takes into account the genuine risks financial institutions face.

During the past year the Council made great progress in streamlining Community Reinvestment Act and fair lending examination procedures as part of our continuing commitment to reduce reporting burden while at the same time ensuring industry compliance with laws and regulations. Feedback from depository institutions

on these changes suggests we are on the right track. Consumer compliance issues will continue to receive special attention by the Council to ensure that the entire banking public has equal access to financial services.

As the following reports show, the FFIEC accomplished much in the past year. As my tenure as chairman draws to a close, I am confident the Council will continue to provide oversight and leadership in fostering consistency among supervisors and promoting progressive and vigilant supervision.

THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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 Examination 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.



RECORD OF ACTIONS OF THE COUNCIL



The Examination Council in Session.

The following section is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1997 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978 Public Law 95-630; section 304 of Home Mortgage Disclosure Act (HMDA), Public Law 94-200 ; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCRDIA), Public Law 103-325.

February 12

Action. Unanimously approved the 1996 annual report of the Council to the Congress.

Explanation. The legislation establishing the Council requires that, not later than April 1 of each year, the

Council publish an annual report covering its activities during the preceding year.

March 6

Action. Unanimously approved recommending that the agencies publish a notice of proposed rule making entitled "Risk-Based Capital—Recourse and Direct Credit Substitutes."

Explanation. The Council supported the development of consistent practices in the approach taken by member agencies toward recourse and the impact it has upon risk-based capital.

May 12

Action. Approved by a 4-0-1 vote the change in filing method for

bank Reports of Condition and Income (Call Reports).

Explanation. The Council proposed the phase-in of the required format in which the banking agencies would accept Call Reports. Banks would be required to submit Call Reports in electronic format, or arrange to have a third party convert paper reports to an automated form. The agencies' direct acceptance of paper Call Report forms would end September 30, 1997, for banks with \$50 million or more in assets and December 31, 1997, for all other banks.

June 4

Action. Unanimously approved the recommendation to delete three courses and add seven courses and

conferences to the interagency examiner education curriculum.

Explanation. The joint task force Steering Committee on Examiner Education completed a zero-based review of interagency courses and conferences offered. The subsequent report to the Council included the recommendation to eliminate outdated courses and add new relevant courses and conferences.

June 4

Action. Unanimously approved the appointment of Bill Houston, Tennessee Bank Commissioner, to the State Liaison Committee for the period May 1, 1997, to April 30, 1998.

Explanation. Under the Council's Rules of Operation, the Council directly appoints two of the five members of the State Liaison Committee to two-year terms. Mr. Houston succeeds former New York Banking Superintendent Neil Levin, who completed his term on the Committee.

June 4

Action. Directed the Supervision Task Force to form a new capital subcommittee to study various alternative approaches to regulatory capital.

Explanation. The Council recognized the need to review and study alternative approaches to regulatory capital given the changes in market forces, technology, and activities of financial institutions. The Council agreed that the subcommittee should serve as the focal point for various studies of, and initiatives on capital issues.

August 6

Action. Directed the Compliance Task Force to form an interagency working group to analyze the 1996 HMDA data.

Explanation. The Council requested further analysis of the 1996 HMDA data to better understand the potential causes for some of the trends noted in the 1996 data.

September 5

Action. Unanimously approved publishing for public comment a proposal to include in the Call Report certain data on banks' section 23A transactions with affiliates.

Explanation. Under the proposal, the Call Report would include the outstanding amount of all covered section 23A transactions as of the Call Report date and the maximum amount during the calendar quarter, whether or not the transactions are subject to the collateral requirements of the statute. The section 23A proposal and the other proposed Call Report changes are to be published in the *Federal Register* along with a specific request for comment on potential ways to reduce the burden of any final reporting requirements.

September 5

Action. Unanimously approved referring the issue of lenders' liability following disclosure of an environmental problem on a developed site to the Council's Legal Advisory Group for a recommendation.

Explanation. Environmental issues can have an adverse impact on lenders to the point of discouraging lending. Because lenders need clarity in this area, the agencies may issue guidance or a joint rule on environmental liability.

September 5

Action. Approved a FFIEC-sponsored conference on regulatory capital.

Explanation. The capital conference, held December 12, 1997, served as a forum to solicit the views and insights of bankers, analysts, acade-

micians and supervisors on the current regulatory capital framework and ways to adapt that framework to the continually evolving bank and thrift industry.

September 5

Action. Unanimously approved publishing a notice and request for comment on changes to the 1980 Uniform Policy for Classification of Consumer Instalment Credit.

Explanation. Revisions to the 1980 policy statement may be needed to more accurately reflect the changing nature of risk in today's retail credit environment. Before developing a revised policy, the Council sought public comment on areas in the existing policy that may need to be revised and the potential business and financial impact of such changes.

December 5

Action. Unanimously disapproved a request for a full-time staff position for the Consumer Compliance Task Force.

Explanation. The majority of the activities of Council task forces are accomplished by staff of member agencies. The full-time staff position to support the Consumer Compliance Task Force activities was deemed unnecessary. The Council placed a greater emphasis on member agency support of staff participation in Council activities.

December 5

Action. Unanimously approved the establishment of an interagency Task Force on Information Sharing.

Explanation. The Council recognized the need to have an effective mechanism to support an exchange of interagency information. The task force is charged with facilitating the sharing of electronic information effectively and efficiently, ensuring

that information quality meets the agencies' requirements of consistency, and improving the way information is collected and shared by the agencies.

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

Task Force on Consumer Compliance

- February 1997—Approved inter-agency examination procedures for the Electronic Funds Transfer Act.
- June 1997—Approved inter-agency examination procedures for the Truth in Lending Act.
- June 1997—Approved inter-agency examination procedures for the Fair Debt Collection Practices Act.
- June 5—Approved interagency examination procedures for the Community Reinvestment Act (CRA).
- July 23—Published Flood Insurance Questions and Answers in the *Federal Register*.
- August 25—Approved inter-agency examination procedures for the Real Estate Settlement Procedures Act (RESPA).
- September 11—Approved the review, update, and publication of the HMDA guide "Getting It Right".

Task Force on Reports

- May 29—Approved the FFIEC's entering into an extension of the Electronic Data Systems Corporation (EDS) contract.
- August 15—Approved the publication in the *Federal Register* of a few proposed revisions to the



Task Force on Reports meeting.

Call Reports for implementation as of March 31, 1998.

- October 28—Approved the publication in the *Federal Register* of proposed revisions to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (form FFIEC 002) for implementation as of March 31, 1998.

Task Force on Supervision

- January 15—Approved the recommendation to rescind the FFIEC Statement of Policy on Supervision of U.S. Branches and Agencies of Foreign Banks.
- January 15—Approved the recommendation to retain the Interagency Policy Statement on Coordination and Communication Between External Auditors and Federal Examiners.
- February 19—Approved the Subcommittee on Supervision and Information Technology charter.
- February 19—Approved the recommendation to rescind the FFIEC Uniform Guideline on Internal Control for Foreign Exchange in Commercial Banks.
- February 26—Approved the Joint Interagency Common Questions and Answers on the Revised Uniform Financial Institutions Rating System.
- March 26—Approved the Information Systems examination of MasterCard under the FFIEC Multi-Regional Data Processing Servicer Program.
- March 26—Approved revisions to the Interagency Statement on Corporate Business Resumption and Contingency Planning.
- March 26—Approved for public comment proposed revisions to the CDRI section 303 review of capital adequacy standards.
- April 23—Approved and recommended agencies' approval of a the final rule on section 208 of the Riegle Act regarding small-business loans transferred with recourse.
- April 23—Approved the joint preamble to the notice of proposed rulemaking for the Interagency Recourse Project.
- April 23—Approved bringing the Interagency Report of Examination Working Group under the auspices of the Task Force on Supervision.
- May 1—Approved the inter-agency statement Year 2000 Project Management Awareness, the examiner questionnaire, and the examination procedures.
- May 28—Approved and recommended agencies' approval of an interagency proposal on the capital treatment of mortgage servicing rights.



Task Force on Supervision meeting.

- *July 2*—Approved the revised Interagency Policy Statement on Securities Lending.
- *August 12*—Approved and recommended Council's approval of a *Federal Register* notice and

request for comment on changes to the 1980 Uniform Policy for Classification of Consumer Instalment Credit.

- *August 13*—Approved and recommended agencies' approval

of the notice of proposed rule-making on the risk-based capital treatment of unrealized revaluation gains on certain equity securities.

- *September 26*—Approved publishing for comment the revised Policy Statement Regarding Repurchase Agreements of Depository Institutions with Securities Dealers and Others.
- *September 26*—Approved the revised Policy Statement on Securities Activities.
- *November 14*—Approved the *Federal Register* notice for revisions to the Interagency Bank Merger Act Application for Affiliated/Nonaffiliated Transactions.
- *December 9*—Approved the interagency safety and soundness guidelines concerning Year 2000 as a business risk.

STATE LIAISON COMMITTEE REPORT

In Section 1007 of Public Law 95-630, the Congress authorized the establishment of the State Liaison Committee (SLC) "to encourage the application of uniform examination principles and standards by state and federal supervisory agencies." The SLC carries out this responsibility by assuming an active advisory role in all Council

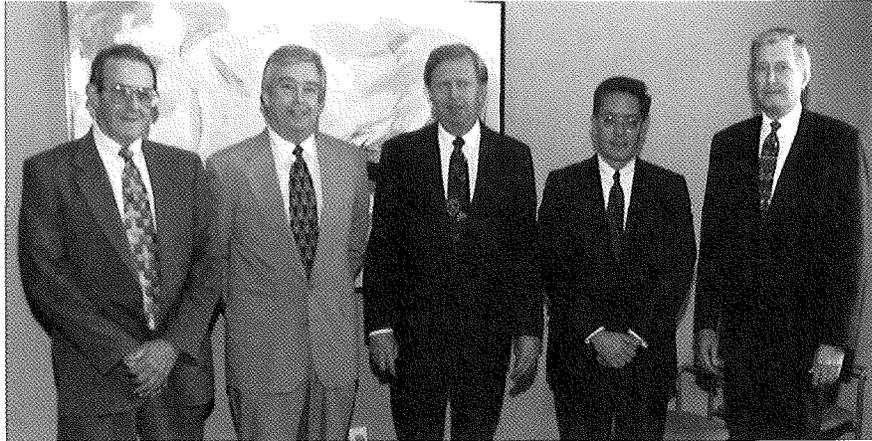
deliberations, especially when matters pertaining directly to joint state and federal regulatory concerns or jurisdictional overlaps are at issue. The primary objectives of the SLC are to foster communication and cooperation between state and federal supervisory authorities and to reduce redundant supervisory procedures.

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

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

Organization

The SLC consists of five representatives of state agencies that supervise



State Liaison Committee members L-R: Tennessee Commissioner of Financial Institutions, Bill Houston; Texas Commissioner of Savings and Loans, James Pledger; Idaho Department of Finance Director, Gavin Gee (Chairman); Massachusetts Commissioner of Banks, Tom Curry; Missouri Commissioner of Finance, Earl Manning

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 1997, 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 Gee suggested

an increased level of cooperation between states and the federal agencies to enhance awareness of the Year 2000 problem, noting that some states coordinate closely with federal/agencies while other states act on their own initiative. The SLC is also aggressively involved in planning the review of small computer services, to be accomplished in the first half of 1998.

As an adjunct to the increased state and federal involvement in the Year 2000 problem, the SLC suggested that state observers be allowed to directly participate with the Council's new Task Force on Information Sharing. The SLC requested and received permission from the Council to appoint a state representative from each of the banking, thrift, and credit union industries to serve with the new task force, which is charged with facilitating the sharing of electronic information, ensuring that information quality meets the agencies' requirements of consistency, and improving the way information is collected and shared by the agencies. This marks the first time state representatives will be actively participating in a Council's task force deliberations on an on-going frequent basis.

The State Liaison Committee was also involved in the Council's development of the Policy Statement on External Audits for Small Institutions. State representatives

participated in meetings with agency staff, industry trade group officials, and bankers and attended key presentations by outside audit organizations that focused on audit tests. The participation of state representatives brought to light the need for state legislative changes to implement the federal policy. Because the timing of state implementation of federal changes can depend upon state-legislated

changes, it is critical that state representatives be involved in the earliest stages of Council projects affecting states.

The State Liaison Committee is looking forward to a continuation of the cooperative state and federal efforts and is deeply interested in expanding state participation in other areas of joint financial-industry supervision.

ADMINISTRATION OF THE COUNCIL

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

The Council's activities are funded in several ways. Most of the Council's funds 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 Controller serves as the Council's Controller. The Council is supported by a small full-time administrative staff in its operations office, and its examiner-education program is administered by Council staff located at its Examiner Training Facility in 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



Council Chairman Ludwig and Assistant Executive Secretary Todd

- 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

Five interagency staff task forces, the Legal Advisory Group (LAG), and the newly formed Information Sharing Task Force provide most of the staff support in the substantive areas of concern to the Council. The task forces and the LAG are responsible for the research and other investigative work done by agency staff members on behalf of the Council and for reports and policy recommendations prepared for consideration by the Council. In addition, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for the overall coordination of efforts by their respective agencies' staff members in support of the Council. The Executive Secretary of the Council is an ex officio member of the six interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1997 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 1997 would have been impossible.

Organization, December 31, 1997

Members of the Council

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

Susan M. Phillips, *Vice Chairman*
Member
Board of Governors of the Federal
Reserve System (FRB)

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

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

Ellen Seidman
Director
Office of Thrift Supervision (OTS)

State Liaison Committee

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

Thomas J. Curry
Commissioner of Banks
Massachusetts

Bill C. Houston
Commissioner of Financial
Institutions
Tennessee

Earl Manning
Commissioner of Finance
Missouri

James L. Pledger
Commissioner Savings &
Loan Department
Texas

Council Staff Officers

Joe M. Cleaver,
Executive Secretary

Keith J. Todd,
*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, *Chair* (OCC)
Carolyn B. Buck (OTS)
Robert M. Fenner (NCUA)
Douglas H. Jones (FDIC)
J. Virgil Mattingly (FRB)

Consumer Compliance Task Force

Glenn E. Loney, *Chairman* (FRB)
Timothy R. Burniston (OTS)
Stephen J. Cross (OCC)
Carmen J. Sullivan (FDIC)
Jodee J. Wuerker (NCUA)

Examiner Education Task Force

Mark Nishan, *Chairman* (OCC)
Ronald H. Ball (FDIC)

Martin F. Kushner (NCUA)
Robert E. Leibowitz (FRB)
David Smith (OTS)

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)
John C. Price, Jr. (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)
Diana L. Garmus (OTS)
David Gibbons (OCC)
Virginia Gibbs (FRB)
Mark W. Holman (HUD)
Jesse G. Snyder (FDIC)

ACTIVITIES OF THE INTERAGENCY STAFF GROUPS

Section 1006 of Public Law 95-630 sets forth the functions of the Council. Briefly summarized, these functions are 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 Task Force
- Reports
- Supervision
- Surveillance Systems



Task Force Chairs (L-R): Glenn Loney, Consumer Compliance; Julie Williams, Legal Advisory Group; Robert Storch, Reports; Nick Ketcha, Supervision; Marty Wiseman, Surveillance Systems; Mark Nishan, Examiner Education

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 who are knowledgeable in consumer compliance matters. The task force identifies and studies problems concerning consumer compliance and fosters uniformity in the policies and procedures used by member agencies.

The task force is responsible for those laws and regulations that protect consumers who conduct business with 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 1997 there were five standing subcommittees of the task force: automation subcommittee, CRA subcommittee, electronic banking subcommittee, examination procedures subcommittee, HMDA subcommittee. There were also two issue-specific working groups: one working on the development of an interagency consumer-contacts database and another working group 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 as well as the development of applications for FFIEC benefit. During 1997, the subcommittee undertook two projects: developing a searchable FFIEC CRA-ratings database, and analyzing the technical and functional feasibility of developing a secure extranet for compliance staff to share information among the member agencies. These projects are scheduled for completion during the first half of 1998.

Community Reinvestment Act Subcommittee

The CRA Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with the agencies' implementation of the Community Reinvestment Act (CRA). During 1997, the CRA subcommittee issued revised large-bank examination procedures and worked on several initiatives to promote consistency in the CRA examination process.

The subcommittee organized an interagency CRA examiner round table in January 1997. Examiners from the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision met for three days to discuss the small-institution examination process and develop recommendations for improving it. As a result of the round table, revisions have been made to the small-institution public-evaluation format and examination procedures. The subcommittee is continuing to work on other suggestions made by roundtable participants, such as adopting uniform sampling procedures and baseline data elements to be reviewed in conducting examinations.

The subcommittee developed interagency CRA training on conducting CRA evaluations for large institutions. Between March and July 1997, 293 examiners attended three interagency CRA training sessions. The materials developed for this school were further used by the individual agencies in their CRA training.

The subcommittee created an FFIEC CRA Web site and coordinated with the four agencies to link their public CRA sites to the new FFIEC page. The site contains the regulations, an interagency staff question-and-answer document, examination procedures and schedules, interagency staff interpretive letters, and links to some agencies' performance evaluations and ratings, data collection

procedures and resource materials, and small business/small farm aggregated data reports.

During the fourth quarter of 1997, the subcommittee began a three-part project to further foster consistent implementation of the large-institution examination procedures. First, the subcommittee is conducting a review of performance evaluations of institutions examined under the lending, investment, and service tests. Second, the subcommittee is organizing eight joint examinations that will be conducted during the first quarter of 1998. Third, the subcommittee will organize another interagency training. This training will focus on the results of the interagency examinations and the public-evaluation review. The CRA subcommittee will develop examiner guidance or revised examination procedures, if needed, based on what the agencies learn from these initiatives.

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 1998. It will also produce interpretive guidance for consideration by the task force on any examination issues that arise.

Electronic Banking Subcommittee

The Electronic Banking Subcommittee assists in the development of 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 1997, the subcommittee began a review of consumer protection regulations to determine whether revisions are needed in light of developments in electronic banking technology. Additionally, the subcommittee began drafting a document designed to give the financial-institution industry guidance on compliance issues related to electronic banking. The subcommittee also reported to the task force on the work of other federal interagency and intra-agency groups and activities focusing on electronic banking developments.

The subcommittee anticipates that in 1998 it will complete the industry-guidance document on electronic banking and offer it for dissemination by member agencies. The subcommittee will also work on 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, organize interagency compliance-examiner training.

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 1997, the subcommittee developed revised examination procedures for the Real Estate Settlement Procedures Act, the Electronic Fund Transfer Act, the Truth in Lending Act, and the Fair Debt Collection Practices Act. The revised procedures were approved by the task force for adoption by the member agencies. In addition, the Interagency Joint Statement of Policy on the Administrative Enforcement of the Truth in Lending Act-Restitution was reviewed and revised. This policy was

approved by the task force for adoption by the member agencies.

During 1998, the subcommittee will work on revisions to the examination procedures for the Fair Credit Reporting Act, 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 1997, the Council processed approximately 14.8 million reported loans and applications, an increase of about 32 percent from the previous year. This increase primarily reflects a very large increase (68 percent) in refinancing in calendar year 1996. The subcommittee also continued to work on matters related to the toll-free assistance line that answers questions from the public about HMDA, a technical guide entitled "Getting it Right," updated versions of the data-collection software distributed by the Council, and questions concerning the new asset threshold that exempts institutions with assets under \$28 million from the requirements of HMDA.

During 1998, the HMDA Subcommittee will release a newer edition of the technical guide consistent with the upcoming technical changes to the Federal Reserve Board's Regulation C and the new asset threshold of \$29 million for 1998 data, and will offer a new line of HMDA automation products. The subcommittee will continue to modify the file specifications for 1999 and the year 2000.

Community Contacts Automated Systems Working Group

During 1997, the Community Contacts Automated Systems Working Group tested and provided recom-

mendations for enhancement and further development of a community-contact-form database that has been developed by the community affairs personnel of the Federal Reserve Bank Atlanta. The working group has agreed that this system has applicability for use by all of the agencies.

Funding for completion of the enhancements to this system was approved by the FFIEC and included in its 1998 budget. Implementation of the system by the agencies is projected for third quarter 1998 and will include development of data-sharing procedures for the agencies. During 1998, the working group will continue work on, and investigation of the possibilities for, an interagency shared automated community-contacts system. That investigation will include exploration of Internet and extranet technology.

Fair Lending Examination Procedures Working Group

In response to instructions from the task force in October 1996, the Fair Lending Examination Procedures Working Group submitted a draft set of interagency fair-lending examination procedures to the task force in April 1997. After a preliminary task force review, the working group was directed to submit the draft procedures for field testing by constituent agencies. Field testing was performed over the summer and early fall and was followed by debriefing sessions, at which modifications for several components of the draft procedures were recommended. Following the working group's evaluation and incorporation of many of the recommended modifications, a revised draft was submitted to the task force on December 15, 1997. If adopted, the new procedures will be implemented during 1998.

1996 HMDA Data Review

When the 1996 HMDA were

released, the Council asked the Task Force to review the data in order to see whether explanations could be determined for the lower increase in lending and high denial rates for blacks reflected in the data. The Task Force established a group of economists to review the data for possible reasons for these results. The economists reviewed the data and presented their findings to the Task Force, which then drafted a report and presented it to the Council members for comment at the Council's December meeting. A final report is expected during the first quarter of 1998.

Task Force on Examiner Education

One of the four major statutory functions of the Council, enumerated in the Federal Financial Institutions Examination Council Act of 1978, is to conduct training for member agency examination staff and to make such training available to the staffs of state and foreign financial institution supervisors. The goals of the training program are to—

- foster uniformity of examiner education through joint sponsorship of interagency training,
- develop and offer seminars and conferences that meet the training needs of financial institution examiners, and
- provide training opportunities for the staff of state and foreign financial institution supervisory agencies.

During 1997, the Council conducted training for the five member agencies, state financial institution regulatory agencies, other Federal agencies, and several attendees from foreign central banks.

Oversight and guidance for curricula and programs is provided by the Task Force on Examiner Education, composed of examiner-training directors from each of the member agencies. Interagency

course-development committees provide specific guidance for each program. These committees ensure that programs, which are aimed at agency training needs, are kept current. The program calendar is developed in the fall of the year in response to needs surveys conducted in each of the participating agencies. Attendance by regulatory staff totaled 4,298 for the year. The table below provides details of attendance by course and by agency.

1997 Initiatives

An overall evaluation of the training program, conducted at the recommendation of the Task Force on Examiner Education, was completed by an independent steering committee appointed by the Task Force on Supervision. The work of the committee was divided into two steps. The first step, largely completed in 1996, was to evaluate existing programs. As a result, four programs were discontinued, two were expanded, and the remainder were retained with changes. The second part of the process consisted of evaluating future examiner-training needs to determine the types of training needs that can be effectively met on an interagency basis. It is expected that 1998 will be a year of realignment of existing programs and development of new programs, as outlined above.

As a result of the Steering Committee recommendations, the following programs were phased out:

- Conducting Meetings with Management
- Executive Forum
- Management Workshop
- Real Estate Lending Conference

During 1998 the following new programs will be developed and introduced:

- Advanced White Collar Crime
- Advanced Credit Analysis Conference

- Syndicated Loan Seminar
- Computer Assisted Presentations
- Internet delivery of examiner education information and short courses

Lunchtime speaker series (one- to two-hour occasional video conference to member agencies' regional and Washington offices).

Programs

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.

Courses

Most courses are 4 1/2 days long and are conducted in groups of 20 to 35 participants. Courses offered in 1997 were Instructor Training, Management Workshop, Information Systems Symposium, Testifying, and International Banking. An

International Banking self-study course is maintained by the Council and administered to individuals in the regional offices of the banking agencies.

Conferences

Conferences are generally conducted in an agency auditorium for groups of 100 attendees. Some conferences are aimed at safety-and-soundness examiners, such as Emerging Issues, White Collar Crime, Capital Markets, Payment Systems Risks, and Real Estate Lending. Specialized conferences are available for those who examine trust departments, information systems, and international banking activity. Most conferences last three to four days. Upon demand, courses and conferences are conducted at the regional locations of member agencies.

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



Rep. Jim Leach, Chairman of the Banking and Financial Services Committee, delivering the keynote address at a Council Risk Management Conference.

1997 Regulatory Attendance at FFIEC Courses by Agency—Actual

Courses/Conferences	No of Sessions	FDIC	OTS	FRB	NCUA	OCC	FCA	Other	Total
Capital Markets	7	363	3	151	20	77	13	...	627
Cyberbanking	1	18	4	25	6	29	...	1	83
Emerging Issues—Community	9	441	41	213	...	137	5	...	837
Emerging Issues—Multinational	3	62	...	94	...	52	...	...	208
Information Systems Symposium	1	8	4	6	7	4	...	...	29
Information Systems & Technology	1	55	11	74	6	62	6	1	215
International Banking Conference	0	...	...	...	...	...	...	...	...
International Banking School	3	33	...	8	...	11	1	31	84
International Banking Self-Study	0	82	...	27	...	36	...	...	145
Instructor Training	13	71	3	78	2	17	1	...	172
Large Institution CRA Training	3	161	34	62	...	36	...	...	293
Management Workshop	2	...	10	21	...	...	3	...	34
Payment Systems Risk	4	141	...	4	33	...	...	...	247
Real Estate Lending	2	35	...	36	10	20	9	...	110
Testifying	3	17	3	9	...	12	...	...	41
Trust Conference	1	62	8	90	...	61	...	...	221
White Collar Crime	5	254	...	125	53	13	4	...	449
Subtotal	58	1,803	121	1,091	151	623	43	36	3,868
Risk Management Planning	2	...	...	...	...	...	...	...	476
Total	60	...	...	...	...	...	...	...	4,344

array of topics, some of which are outside the needs of examiners.

Conference for Bankers

In response to a statutory mandate (see appendix A), the Council conducts Risk Management Planning conferences for bankers. In 1997, it conducted two of these conferences. Two conferences are planned for 1998, one in San Antonio, Texas, and one in San Francisco, California. A periodically updated draft of the Risk Management Planning conference program agenda is available on the FFIEC Internet site (www.ffiec.gov). This permits bankers to assess the program before deciding to attend.

Costs

Costs are kept low by renting classrooms and auditoriums on an as-needed basis and by obtaining

approximately two-thirds of the instructors free of charge.

Facilities

The Council training office and classrooms are located in the FDIC Seidman Center in Arlington, Virginia. Offices, classrooms, and lodging facilities are rented at approximately market rates from the FDIC. This facility offers convenient access to a 100-seat auditorium, numerous classrooms, and a lodging facility. 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 1998 course catalogue and schedule are available from the Council's training office. To obtain a copy contact:

John P. Newton, Manager
FFIEC Examiner Education
3501 Fairfax Drive, Room 3086
Arlington, VA 22226-3550

Phone: (703) 516-5588
Fax: (703) 516-5487
Internet: jnewton@fdic.gov

The FFIEC training catalog, schedule, and other information are available on the Internet:

<http://www.ffiec.gov>

Task Force on Reports

Section 1006(c) of Public Law 95-630 requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports, which has also been assigned other responsibilities related to the development of interagency uniformity

in the reporting of periodic information needed for effective supervision. The task force is thus concerned with such issues as 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 the liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help it carry out its responsibilities, working groups are organized as needed to handle accounting, reporting, instructional, and processing matters of a specialized or technical nature.

Activities of the Task Force

During 1997, the task force's activities centered on the Reports of Condition and Income (Call Report) filed by insured commercial banks and FDIC-supervised savings banks. The task force's Call Report activities consisted of implementing revisions to the reporting requirements during the first and second quarters, including conforming the reporting requirements to generally accepted accounting principles (GAAP); introducing an electronic filing requirement; publishing an updated instruction book; and developing proposed revisions for 1998. To a more limited extent, the task force continued its efforts to develop a common core report for banks, savings associations, and bank holding companies as mandated by section 307 of the Riegle Community Development and Regulatory Improvement Act of 1994 (the Riegle Act). Other task force activities involved the regulatory reports filed by foreign branches of U.S. banks and by U.S.

branches and agencies of foreign banks, a report to Congress on reporting requirements, and the agencies' policies on intercompany income tax remittances.

After approval by the U.S. Office of Management and Budget (OMB), several revisions to the bank Call Report requirements took effect in the first and second quarters of 1997. Certain corresponding changes also were made to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (Form FFIEC 002) in the first quarter. A number of the Call Report revisions represented steps that will help the banking agencies as they move toward a common core report. In particular, GAAP became the reporting basis for recognition and measurement purposes on the balance sheet, income statement, and related Call Report schedules in March 1997. This fundamental change in bank regulatory reporting produced greater consistency in the information collected in regulatory reports and general-purpose financial statements and reduced reporting burden. It also brought the Call Report into conformity with the GAAP reporting basis already used for savings association Thrift Financial Reports and Federal Reserve bank holding company FR Y Reports. To implement this reporting change, the task force revised the Call Report instructions that had previously departed from GAAP. In addition, a small number of new items were added to the Call Report to meet supervisory data needs resulting from the adoption of GAAP.

Other changes designed to reduce reporting burden in the first quarter of 1997 included deletions of several existing Call Report items and reductions in the detail required in certain schedules. New items were added to the Call Report in that same quarter to identify banks electing Subchapter S status for federal income tax purposes, support the FDIC's calcula-

tion of banks' assessable deposits, and determine bank usage of credit derivatives. Revisions to the data related to interest-rate risk that banks disclose in the Call Report took effect as of June 30, 1997. This improved information enhances the banking agencies' ability to identify, from off-site, banks that have either minimal or potentially high interest-rate risk and, as a consequence, the agencies' allocation of examiner resources and setting of examination priorities.

On May 12, 1997, the Council approved an electronic filing requirement for the Call Report, which was phased in over the September and December 1997 reports based on a bank's size. In approving this change in filing method, the Council made certain modifications to the original proposal which the banking agencies had published on November 4, 1996, after considering comments received on it. Under this filing change, the banking agencies will no longer accept Call Reports that are filed directly with them in paper form. Instead, each bank must file its Call Reports in one of two ways. First, a bank may use computer software to prepare its reports and then file the reports directly with the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS). The Call Report data file can be sent to EDS electronically by modem or on a computer diskette. Alternatively, the bank may complete its reports in paper form and arrange with EDS, a Call Report software vendor, or another party to convert its paper reports to electronic form. If a party other than EDS performs this service, that party must electronically transmit the bank's Call Report data file to EDS. The electronic filing requirement took effect on September 30, 1997, for banks with \$50 million or more in assets and on December 31, 1997, for all other banks. Data on the filing of the first-quarter 1997 Call Reports indicated that over 87 percent

of all banks used Call Report software, which enables them to file electronically. On August 28, 1997, the banking agencies received OMB's approval of this change under the Paperwork Reduction Act.

In September, the task force published a revised Call Report instruction book for use beginning with the reports for the third quarter. The book contains the instructions for all four versions of the Call Report forms (FFIEC 031, 032, 033, and 034) in a single volume, replacing four separate instruction books published in 1989 and updated 20 times thereafter, and an index. It incorporates the portions of all the instructional updates issued by the Council through June 1997 that remain in effect and also conforms certain other instructions with GAAP and the other reporting changes implemented in March 1997. The revised instructions also correct cross-references to specific items on the Call Report forms and clarify several instructions. The revised Call Report instruction book is available on both the Examination Council's and the FDIC's Web site. The task force invited banks to comment by November 10, 1997, on the accuracy, adequacy, and clarity of the revised instructions and specifically requested comment on whether any instructions appear inconsistent with GAAP.

On October 2, 1997, the banking agencies published for comment a modest number of proposed Call Report revisions that would take effect as of March 31, 1998. The agencies' joint *Federal Register* notice described the reporting changes that the task force had approved in August under its delegated authority and one revision that the Council approved on September 5, 1997. The banking agencies proposed reducing the reporting frequency for one deposit item and the level of detail collected on trading assets; replacing existing items for "high-risk mortgage secu-

rities" and "structured notes" with items for securities with significant price volatility; and adding new items for transactions with affiliates, low-level recourse transactions, and market-risk capital requirements. Other proposed changes involved the reporting of domestic office available-for-sale securities by banks with foreign offices, allowances and provisions for credit losses, and securitized consumer loans. The agencies received 14 comment letters on the overall proposal. After considering the comments, the task force and the Council decided not to proceed with the proposed changes relating to securities with significant price volatility and transactions with affiliates. The task force also agreed to simplify the instructions for reporting industrial development bonds in response to a comment it had received on the revised instruction book. Banks were notified about the changes in reporting requirements for 1998 in a January 20, 1998, 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 previous years, the task force completed a comparison between existing regulatory reporting requirements and the reporting and disclosure requirements set forth in GAAP and other public reporting requirements. It also met with bank and thrift industry representatives to discuss the core report project, issues related to reporting burden, and the lead time needed for regulatory reporting systems changes. In late 1996, the task force discussed with the Council's Sur-

veillance Task Force a draft of common bank-bank holding company report schedules and separate supplemental schedules for banks and bank holding companies.

Because other bank Call Report projects during 1997 took more of the task force's time than anticipated, work on the core report project did not resume until the fourth quarter. The task force prepared a working draft of a core balance sheet and income statement which largely mirrors the balance sheet and income-statement formats that banking and thrift organizations use for public financial reporting purposes. This balance sheet and income statement represent the highest level of aggregation for the data that all institutions would report in common. It will serve as a framework for developing core supporting schedules for banks, savings associations, and bank holding companies, but the level of detail in the supporting schedules has yet to be determined. In this regard, the task force has begun to compile information on the specific uses for which each existing regulatory report item is collected. This information will assist the task force in evaluating the relative importance to the agencies of the numerous data elements institutions must currently report and in determining the content of supplemental schedules.

In December 1996, the three banking agencies published for comment proposed changes to the Foreign Branch Report of Condition (Form FFIEC 030) that the task force had approved under delegated authority. Under the proposal, new report items were to be added to this report to enhance the agencies' ability to monitor asset quality and the usage of off-balance-sheet transactions and to revise the reporting of securities held for purposes other than trading. In addition, the proposal would have revised the criteria used to determine whether a foreign branch files this report of condition on a quarterly basis. These revisions

were to take effect as of June 30, 1997, for quarterly filers and as of December 31, 1997, for annual filers. During April and May, the task force considered the two comments received on the proposal and consulted with agency staff who use this report. As a result, the task force determined that further study of the banking agencies' data needs in this area would be appropriate and agreed not to proceed with the proposed changes.

On October 28, 1997, the task force approved under delegated authority the publication of three proposed changes to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (Form FFIEC 002) for March 1998 implementation. The 60-day comment period began November 4. The first proposed change would, as on the bank Call Report, replace the existing items for "high-risk mortgage securities" and "structured notes" with items for securities with significant price volatility. The task force also proposed adding one item for balances due from banks in the reporting institution's home country and another for pledged securities. No comments were received on the proposal. Nevertheless, for consistency with its decision on the proposed revision to the Call Report for securities with significant price volatility, the task force decided not to implement this proposed change on the Report of Assets and Liabilities.

In March 1997, the task force completed a report to the House and Senate Banking Committees describing actions by the banking and thrift agencies to eliminate or conform inconsistent or duplicative requirements applicable to "reports of condition" filed by FDIC-insured depository institutions. This report was required by section 2607 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The four agencies transmitted this joint report to Congress on March 28.

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. The task force established a working group to review the banking and thrift agencies' separate policies on income tax remittances between depository institutions and parent holding companies. Although the four policies differ somewhat in scope and wording, the agencies' practices in this area are essentially the same. The working group agreed in December 1997 to prepare a single uniform interagency policy to replace the four separate policies. The interagency policy should be completed during the first quarter of 1998.

Finally, revisions to the Country Exposure Report (Form FFIEC 009) took effect on March 31, 1997. The revisions primarily related to the reporting of information on an institution's country exposure resulting from revaluation gains on foreign-exchange and derivative contracts held for trading purposes. Corresponding changes were made to the Country Exposure Information Report (Form FFIEC 009a). The Council approved these revisions in July 1996 after the banking-agency staffs and representatives of major banks crafted modifications to an earlier Council proposal. The revisions incorporated banker suggestions and reduced reporting burden while continuing to provide the additional country exposure information necessary for supervisory and analytical purposes.

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 as well as reduce regulatory burden. While significant issues are referred, with recommendations, to the

Council for action, the Council has delegated to the task force authority to make certain decisions, provided all task force members agree.

Task force members are the senior supervisory officials of the constituent agencies. Meetings are held to address and resolve common supervisory issues. The task force has standing subcommittees to address information system and supervision and technology issues. In addition, the Council requested that the task force broaden its scope with regards to regulatory capital and establish a subcommittee to explore how it may be enhanced in light of the significant changes in the risks for which depository institutions are exposed. Ad hoc working groups are created as needed to handle particular projects and assignments.

Activities of the Task Force

The task force, with its various ad hoc working groups and subcommittees involved in numerous projects and activities, took action on 24 items. Major accomplishments were achieved on Year 2000 issues, capital regulations, and guidance on securities activities. A symposium to obtain feedback on regulatory capital issues was also held. In addition to these efforts, the Information System subcommittee also updated the interagency statement on Resumption and Contingency Planning and made significant progress in revising the Information Systems Examination Rating System. Substantial progress was also achieved by task force working groups on matters relating to revisions to the Uniform Interagency Trust Rating System, and to the Riegle Neil Community Development and Regulatory Improvement Act of 1994. With regards to the latter, only four projects remain that require task force action.

Year 2000

The Year 2000 Interagency Working

Group was created to address emerging Year 2000 issues and develop industry guidance for financial institutions. The first inter-agency statement, issued on June 17, 1996, outlined the potential effects of the Year 2000 problem on computer systems. More comprehensive guidance was issued on May 5, 1997, which provided a framework for Year 2000 project management. On December 17, 1997, another interagency statement highlighting the critical nature of the problem and the corporate-wide implications for insured financial institutions was issued. Additional interagency statements planned for release in the first quarter of 1998 will focus on vendor management techniques, testing renovated systems, and the credit-risk implications of the Year 2000 date change.

The working group met with financial institution trade associations to explore how the FFIEC and trade associations could collaborate in helping the industry become "Year 2000 ready." The meetings proved effective and have spurred several initiatives which promote ongoing, open communication between the regulatory agencies, trade associations, and financial institutions. The FFIEC has also sponsored a conference for software providers and data processing service company representatives to discuss issues and communicate regulators' expectations of vendors as they prepare for the new millennium.

Revisions to Regulatory Capital Regulations

Although each of the four federal banking agencies has separate capital regulations, the task force and several of its working groups have done considerable work 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 1997,

these capital-related initiatives included the following:

- *Servicing assets.* An August 1997 proposal would ease certain restrictions on the amount of mortgage-servicing assets that may be recognized in computing regulatory capital.
- *Unrealized gains on equities.* Under an October 1997 proposal, limited amounts of unrealized gains of equity securities would be counted as part of an institution's tier 2 capital under the agencies' risk-based capital guidelines.
- *Elimination of interagency capital differences.* An October 1997 proposal would eliminate differences among the agencies in how they risk weight certain assets, including pre-sold construction loans, real estate loans secured by junior liens, and mutual fund investments. This proposal also would eliminate inconsistencies in how the agencies define their minimum leverage capital standards.
- *Small-business loans sold with recourse.* Under an October 1997 final rule, the amount of risk-based capital that qualifying institutions must maintain on certain small-business loans and leases that are sold with recourse is reduced.
- *Recourse transactions and direct credit substitutes.* A November 1997 proposal would make consistent the risk-based capital standards that the agencies apply to recourse arrangements and direct credit substitutes. The proposal would also require different amounts of capital for different risk positions in asset securitization transactions.

Interagency Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities

In September 1997, the task force approved for comment the Supervisory Policy Statement on Investment Securities and End-User

Derivatives Activities that will replace the 1992 policy statement. The new statement contains a set of sound practices that focus on the risk management of investment activities. The intent of the approach is to encourage financial institutions to identify, measure, monitor, and control the risks associated with investment activities on an investment-portfolio or institution-wide basis. The final version of the new statement is expected to be published early in 1998.

FFIEC Symposium on Examining Financial Institutions' Regulatory Capital Framework

After the Capital Subcommittee was established in September 1997, its first project was conducting a capital conference to explore the current framework and to examine possible changes to that framework. The conference, "Examining Financial Institutions Regulatory Capital Framework," was held in Washington, D.C., on December 12, 1997. Regulatory capital was discussed from three perspectives: the banker's perspective, Wall Street's perspective, and the international and academic community's perspective. These perspectives were provided by the following distinguished panelists and speakers:

John T. Chesko (Vice Chairman, Chief Risk and Credit Officer, Mellon Bank Corporation); Richard Daniel (Vice Chairman, CFO, Bankers Trust), Charles Koch (Chairman, President, CEO, Charter One Bank); Frank Rhea (President, The Carthage Bank); Tanya Azarchs (Director, Standard and Poors); Rodgin Cohen, Esquire (Sullivan and Cromwell); James McDermott (President, Keefe, Bruyette, and Woods); John Heimann (Chairman, Global Financial Institutions, Merrill Lynch and Company); William M. Isaac (Chairman, The Secura Group); John Drzik (President, Oliver-Wyman & Company); Edward J. Kane (Professor of

Finance, Boston College); Jason Kravitt, Esquire (Mayer, Brown, and Platt); Robert E. Litan (Director Economics Studies Program, The Brookings Institution); Claes Norgren (Director General, Financial Supervisory Authority, Sweden); Dr. Lawrence J. White (Professor of Economics, Stern School of Business, NYU) and John G. Medlin (Chairman of the Board, Wachovia Corporation).

Task Force on Surveillance Systems

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

During 1997, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Revised the analysis of interest-rate risk in the UBPR to take advantage of the expanded information on asset and liability maturity collected in the Call Report. This new information analyzes longer-term assets and liabilities, reflects the federal banking agencies' emphasis on market risk, and replaces the static gap report.
- Added a one-quarter annualized earnings analysis to the UBPR.

Five sequential quarters of earnings information are displayed to emphasize the source of short-term income and expense changes. This information replaces the rolling four-quarters earnings analysis.

- Reviewed the core Call Report proposed by the Task Force on Reports and provided extensive commentary on its effect on bank analysis for supervisory purposes.
- Completed the ratio-output and format-testing phase of the project to convert UBPR to the FDIC data warehouse.
- 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. It is anticipated that some of the state banking agencies which are developing information systems will ultimately request UBPR data in electronic format as a replacement for the printed copies currently provided.

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 that is similar to data received by the federal bank regulators.
- Redesigned and reprinted the Uniform Bank Performance Report User's Guide. Copies were distributed to all banks

and federal and state banking authorities.

Several projects are planned for 1998 which should provide further enhancements to the UBPR:

- Re-evaluate and change as needed the analysis of derivatives.
- Determine what changes are needed in the UBPR to accurately reflect banks that have elected Subchapter S treatment for taxes.
- Develop other new ratios, including the "efficiency ratio," to more fully analyze non-interest income and expense.
- Implement changes to peer-group-average methodology and tax-equivalency calculations. The peer-group averaging will be changed to a weighted average. The changes will be scheduled to occur with the conversion of the UBPR to a data warehouse, currently scheduled to take place with the March 31, 1998, UBPR.
- Revise the UBPR User's Guide to incorporate all changes that are planned for 1998. This will be the fourth 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 CDRIA will expand and enhance data used in the UBPR, but significant programming changes may be needed to take advantage of the revised information.
- Convert the UBPR to FDIC data warehouse. Significant cost savings are projected after conversion and testing is complete.
- Produce four quarterly versions of the UBPR and distribute copies to federal and state agencies, banks, and the general public.

- Adjust UBPR data to account 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 others. 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 also acquired UBPR data in electronic form.

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

- Each insured bank will receive

one copy of the current UBPR per quarter.

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

Copies of UBPRs may be purchased by the general public for \$45. A User's Guide, which describes the content of the report and defines ratio calculations, is available for \$25. The peer-group report, showing average ratios for all peer groups,

is available for \$65. The State Average Report is available for a charge of \$45. Peer Group and State Average Percentile Distribution Reports are available for \$65 and \$45, 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. Information on ordering items may be obtained by calling

(202) 634-6526,

e-mailing to

smullenj@frb.gov,

or writing the Council:

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



THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over about 22,900 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1997, these financial institutions held total assets of more than \$7.1 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

The three banking agencies on the Council have authority to oversee the operations of U.S. branches and agencies of foreign banks. The International Banking Act of 1978 authorizes the Office of the Comptroller of the Currency (OCC) to license federal branches and agencies of foreign banks and permits U.S. branches that accept only wholesale deposits to apply for insurance with the Federal Deposit Insurance Corporation (FDIC). 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 International Banking Act of 1978 also subjects those U.S. offices of foreign banks to many provisions of the Federal Reserve Act and the Bank Holding Company Act. The Act gives primary examining authority to the OCC, the FDIC, and 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. 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 regional director (DOS) and a 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 (FSLIC), 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 by, and approval by the FDIC. After considering the applicant's condition, financial history, capital adequacy, prospects for future earnings, management prac-

tices, 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 7,000 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 also has statutory authority to examine and supervise NCUSIF-insured, state-chartered credit unions in coordination with state agencies.

The NCUA has six regional offices across the 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, having been established as a bureau of the Treasury Department by the National Currency Act of 1863. It is headed by the Comptroller, who is appointed to a five-year term by the President with the advice and consent of the Senate. The Comptroller also serves as a Director of the 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, with total assets of about \$2.7 trillion, which account for 57 percent

of total assets of all U.S. commercial banks. 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 reduces 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:

- Bank Supervision Operations is responsible for examinations and other supervision activities in the OCC's six districts and for the Large Bank Supervision Department, which supervises the larg-

est national banks and oversees operations in the OCC's London office. Its other responsibilities include continuing education and supervision support. The Special Supervision unit supervises troubled banks and coordinates the OCC's Shared National Credit Program.

- Bank Supervision Policy formulates and disseminates the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. It is responsible for OCC supervision policy related to national banks' commercial, consumer, fiduciary, and community compliance activities. It develops OCC policies on the capital markets activities of national banks, including derivatives, other bank investments, and emerging markets.
- International Banking and Finance oversees the supervision of federal branches and agencies and maintains relationship with the international financial community and foreign supervisory organizations.
- Economic and Policy Analysis conducts economic research and analysis, including statistical analysis of national banks' performance. It also provides analysis on policy-related issues and supplies technical assistance to field examiners on quantitative risk models and measurement tools, fair lending and consumer compliance issues, and banks' use of technology.
- 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. The Chief Counsel also directs all OCC legal functions, including 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 provides operational support for OCC's activities. This support includes human resources, management improvement, organizational effectiveness, the Office of Diversity, and financial services.
- The Ombudsman manages the OCC's customer assistance program and considers appeals from national banks that disagree with an OCC supervisory finding.

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 221 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

- support the industry's efforts to meet housing and other community credit and financial services needs.

OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, and (3) taking appropriate action to enforce compliance with federal laws and regulations. In addition to overseeing thrift institutions themselves, OTS also regulates, examines, and supervises 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 Office of the Director also includes Minority Affairs and the Ombudsman.

The OTS is organized around five major units:

- Supervision oversees the operations of OTS's five regional offices, supervision policy, corporate activities, compliance policy, and accounting policy. It is responsible for the supervi-

sion and examination of OTS-regulated thrift institutions to ensure the safety and soundness of the industry and compliance with the Community Reinvestment Act and fair lending requirements, the development of policies affecting those functions, applications of all types, and the agency's accounting policies.

- Administration is responsible for the agency's financial management and information systems. It administers the agency's human resources, training, procurement, information technology, office facilities, and records management and dissemination programs.
- 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 institutions; providing legal advice and opinions; and drafting support on regulatory projects, statutes, and regulations.
- Research and Analysis 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 manages congressional matters, press relations, and liaison with the FDIC. It interacts with members of Congress as well as with executives at 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, 1997¹
Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks	Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member		OTS-Regulated ¹⁷		Other FDIC-Insured	Federal Charter	State Charter
						Federal Charter	State Charter				State Savings Banks
Total assets	7,077	2,678	1,202	910	913	737	33	259	213	132
Total loans and lease receivables (net)	4,216	1,764	566	582	394	503	22	162	136	87
Loans secured by real estate ⁴	1,947	687	201	320	35	465	20	144	45	30
Consumer loans ⁵	749	364	70	123	*	33	1	12	90	56
Commercial and industrial loans	1,012	466	188	103	237	9	1	6	1	1
All other loans and lease receivables ⁶	571	283	118	46	122	1	*	1	*	*
LESS: Allowance for possible loan and lease losses	62	32	11	10	*	5	*	2	1	1
Federal funds sold and securities purchased under agreements to resell	332	96	125	23	76	6	*	4	2	*
Cash and due from depository institutions ⁷	471	198	82	46	116	15	1	6	4	3
Securities and other obligations ⁸	1,295	393	191	217	129	173	8	77	68	39
U.S. government obligations ⁹	647	130	63	110	76	147	8	59	36	18
Obligations of state and local governments ¹⁰	76	34	14	26	*	1	*	1	‡	‡
Other securities	571	229	114	81	53	25	*	16	32	21
Other assets ¹¹	766	227	238	42	198	40	1	10	6	4
Total liabilities	6,548	2,466	1,117	823	913	678	30	234	190	117
Total deposits and shares ¹²	4,775	1,872	718	700	464	495	26	197	187	116
Federal funds purchased and securities sold under agreements to repurchase	562	207	137	44	118	40	*	14	2	*
Other borrowings ¹³	692	240	106	65	127	131	3	20	*	*
Other liabilities ¹⁴	518	127	156	14	204	12	*	3	1	1
Net worth¹⁵	529	232	85	87	*	59	3	25	23	15
Memorandum: Number of institutions reporting	22,939	2,646	987	5,641	486	1,049	221	582	7,068	4,259

Symbols Appearing in Tables

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

Footnotes to Tables

1. The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the 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.

2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.
3. The credit union data are for federally-insured credit unions only.
4. Loans secured by residential property, commercial property, farmland (including improvements), and unimproved land; and construction loans secured by real estate. For SAIF-insured institutions, also includes mortgage-backed securities.
5. Loans, except those secured by real estate, to individuals for household, fam-

ily, 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

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for the Twelve Months Ending June 30, 1997
Billions of dollars

Item	Total	U.S. Commercial Banks ²			Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member	OTS-Regulated ¹⁷		Other FDIC-Insured	Federal Charter	State Charter
					Federal Charter	State Charter	State Savings Banks		
Operating income	531	242	97	85	56	2	20	17	11
Interest and fees on loans	317	143	46	53	39	2	14	12	8
Other interest and dividend income	112	46	27	16	12	*	5	4	2
All other operating income	102	53	24	16	6	*	1	1	1
Operating expenses	429	189	79	67	52	2	16	15	9
Salaries and benefits	84	38	17	14	7	*	3	3	2
Interest on deposits and shares	153	59	25	24	22	2	9	7	5
Interest on other borrowed money	54	24	15	6	9	*	*	*	*
Provision for loan and lease losses	22	11	2	5	2	*	1	1	*
All other operating expenses	115	57	20	18	11	*	3	4	2
Net operating income	102	53	18	18	5	*	4	2	2
Securities gains and losses	1	*	*	*	1	*	*	*	*
Income taxes	34	19	6	6	2	*	1	‡	‡
Net income	69	34	12	12	4	*	3	2	2
Memorandum: Number of institutions reporting	22,453	2,646	987	5,641	1,049	221	582	7,068	4,259

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.

9. U.S. Treasury securities and securities of, and loans to, U.S. government agencies and corporations.

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

11. Customers' liabilities on acceptances,

real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For 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.

APPENDIX A: RELEVANT STATUTES

Title X of Public Law 95-630

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

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

Audit by the Comptroller General

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

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

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

Sec. 1011. Establishment of Appraisal Subcommittee

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

Excerpts from Title III of Public Law 94-200

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

Findings and Purpose

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

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are 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 are required to disclose under section 304 or which are exempt pursuant to section 306(b). The Council shall also produce tables indicating, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level and racial characteristics.

(b) The Board shall provide staff

and data processing resources to the Council to enable it to carry out the provisions of subsection (a).

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

Excerpts from Title XI of Public Law 101-73

Sec. 1103. Functions of Appraisal Subcommittee.

(a) In General. The Appraisal Subcommittee shall

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

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

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

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

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

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

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

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

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

APPENDIX B: 1997 AUDIT REPORT

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1997 and 1996, and the related statements of revenues and expenses and fund balance and of cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 1998 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with provisions of laws and regulations.

Price Waterhouse LLP

March 6, 1998
Arlington, Virginia

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Balance Sheet as of December 31, 1997 and 1996

ASSETS		1997	1996
CURRENT ASSETS			
Cash		\$ 486,595	\$ 821,043
Accounts receivable from member organizations		689,363	540,205
Other accounts receivable		183,882	255,113
Prepaid expenses		0	222
Total current assets		1,359,840	1,616,583
FURNITURE AND EQUIPMENT			
Furniture and equipment, at cost		257,091	251,088
Less accumulated depreciation		215,271	191,775
Net furniture and equipment		41,820	59,313
LEASEHOLD IMPROVEMENTS, net of amortization			
		9,907	26,322
Total assets		\$ 1,411,567	\$ 1,702,218
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities to member organizations		\$ 839,757	\$ 1,006,789
Accounts payable and accrued liabilities		112,848	90,700
Accrued annual leave		59,019	48,058
Total current liabilities		1,011,624	1,145,547
DEFERRED RENT (Note 5)		49,042	98,083
FUND BALANCE		350,901	458,588
Total liabilities and fund balance		\$ 1,411,567	\$ 1,702,218

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Statement of Revenues and Expenses and Fund Balance for the Years Ended December 31, 1997 and 1996

	1997	1996
REVENUES		
Assessments to member organizations	\$ 1,141,000	\$ 1,123,000
Tuition	1,501,494	1,462,130
Other revenue (Note 4)	2,707,759	2,734,752
Total revenues	<u>5,350,253</u>	<u>5,319,882</u>
EXPENSES		
Salaries and related benefits	1,408,595	1,403,434
Data processing	2,694,856	2,779,681
Rental of office space	640,281	628,583
Travel	112,758	148,816
Professional fees	98,277	131,336
Printing	102,798	170,467
Rental and maintenance of office equipment	123,999	43,139
Office and other supplies	32,904	40,955
Administrative fees	53,236	51,200
Depreciation	39,911	40,065
Postage	21,994	36,705
Telephone	12,776	14,805
Books and subscriptions	14,779	10,012
Miscellaneous	100,776	82,374
Total expenses	<u>5,457,940</u>	<u>5,581,572</u>
REVENUES OVER (UNDER) EXPENSES	(107,687)	(261,690)
FUND BALANCE, Beginning of year	458,588	720,278
FUND BALANCE, End of year	<u>\$ 350,901</u>	<u>\$ 458,588</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

(1) Organization and Purpose

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

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

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

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

(2) Significant Accounting Policies

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

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

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

(3) Transactions with Member Organizations

The five member organizations are each assessed one-fifth of the expected cash needs

based on the annual operating budget. Each member organization was assessed \$228,200 in 1997 and \$224,600 in 1996.

Member agencies provides seminars in the Washington area and at regional locations throughout the country for member agency examiners and others. The Council received tuition payments from member agencies of \$1,501,494 in 1997 and \$1,462,130 in 1996.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$53,236 for 1997 and \$51,200 for 1996.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$2,891,245 in 1997 and \$2,800,012 in 1996.

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, disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any postretirement or postemployment benefit

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Statement of Cash Flows
Increase (Decrease) in Cash for the Years Ended December 31, 1997 and 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ (107,687)	\$ (261,690)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	39,911	40,065
Increase in accounts receivable	(77,927)	(71,384)
Decrease in prepaid expense	222	13,465
Increase in accounts payable and accrued liabilities	(144,884)	150,811
Increase in accrued annual leave	10,961	15
Decrease in deferred rent	(49,041)	(39,277)
Net cash provided (used) by operating activities	<u>(328,445)</u>	<u>(167,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(6,003)</u>	<u>(2,643)</u>
Net cash used in investing activities	<u>(6,003)</u>	<u>(2,643)</u>
NET INCREASE (DECREASE) IN CASH	(334,448)	(170,638)
CASH BALANCE, Beginning of year	821,043	991,681
CASH BALANCE, End of year	<u>\$ 486,595</u>	<u>\$ 821,043</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements—continued

liabilities due to the fact that Council employees are included in the plans of the member organizations.

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

(4) Other Revenue

	1997	1996
Home Mortgage Disclosure Act	\$1,154,060	\$1,233,979
Uniform Bank Performance Report	253,494	258,226
Appraisal Subcommittee	161,952	175,342
Mortgage Insurance Companies of America	169,661	138,418
Rental	157,751	127,104
Community Reinvestment Act	719,427	720,79
Sale of HMDA Data	54,649	78,363
Miscellaneous	36,765	2,525
	<u>\$ 2,707,759</u>	<u>\$ 2,734,752</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act

(HMDA). The Council received \$248,054 in 1997 and \$259,469 in 1996 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The Council received \$169,661 in 1997 and \$138,418 in 1996 from the Mortgage Insurance Companies of America for performing HMDA related work for them. The balance of the HMDA revenue for 1997 and 1996 was received from the member agencies.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$253,494 in 1997 and \$258,226 in 1996 for operating expenses incurred in support of the UBPR project.

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received \$161,952 in 1997 and \$175,342 in 1996 from the Appraisal Subcommittee for these services.

The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received \$157,751 in 1997 and \$127,104 in 1996 in rent from the Board.

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 \$719,427 in 1997 and \$720,795 in 1996

from participating member agencies for operating expenses incurred in support of the CRA project.

(5) Deferred Rent

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

(6) Commitments

The Council has entered into operating leases to secure office and classroom space for periods ranging from two to six years. Minimum future rental commitments under those operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 1997, are as follows:

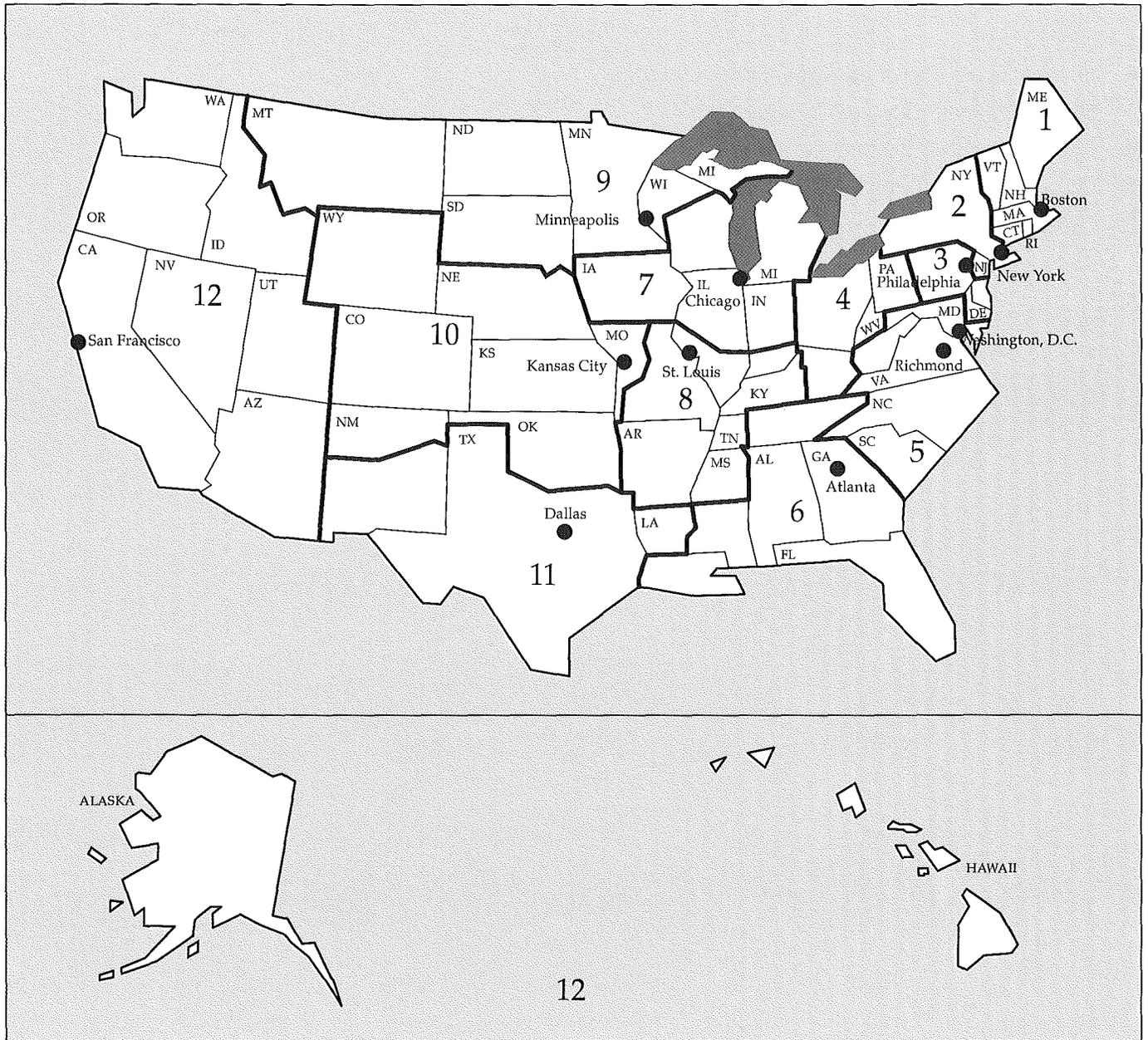
1998	437,836
	<u>\$437,836</u>

Rental expenses under these operating leases were \$610,275 and \$652,865 in 1997 and 1996, respectively.

APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

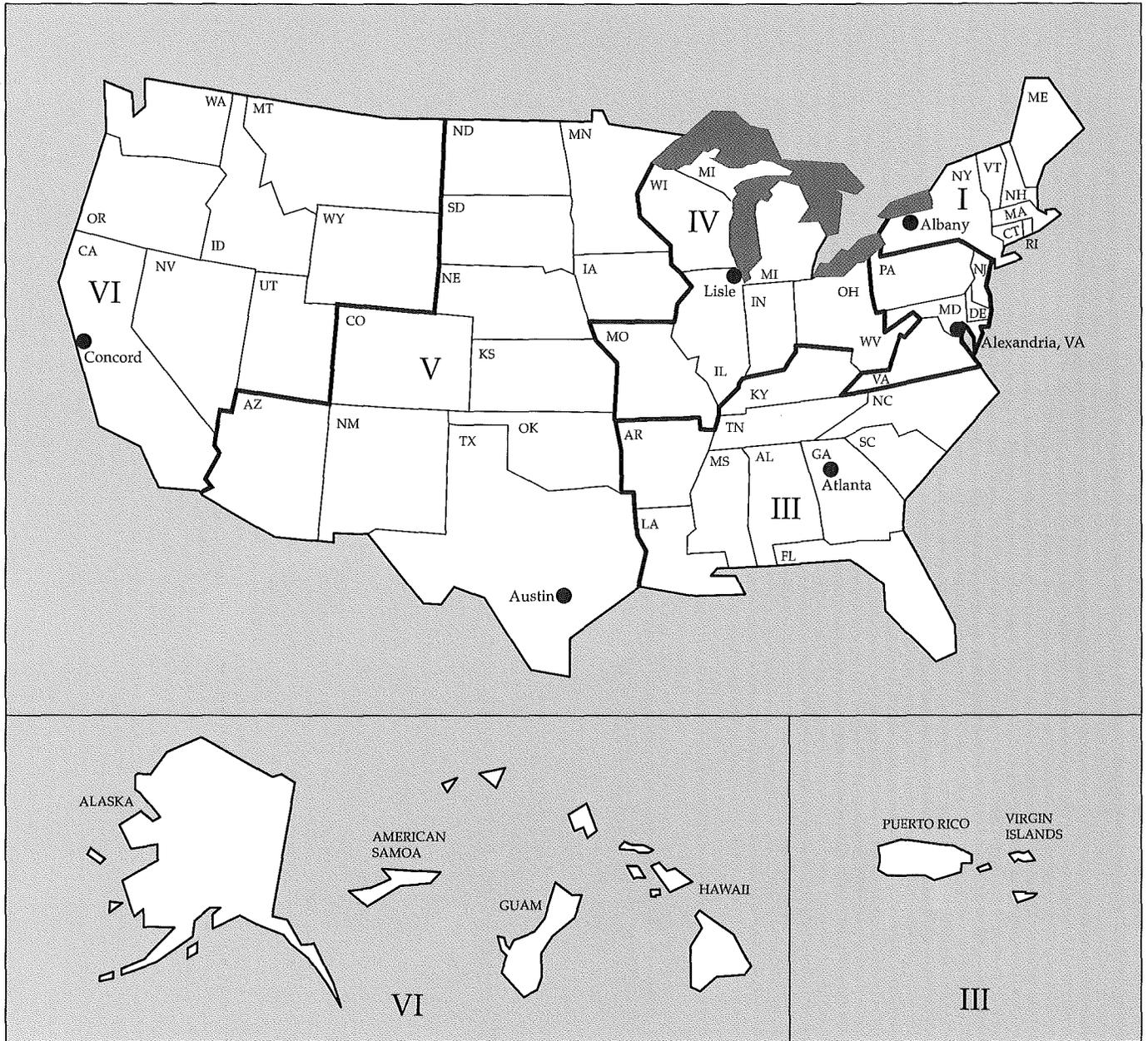
THE FEDERAL RESERVE SYSTEM DISTRICTS



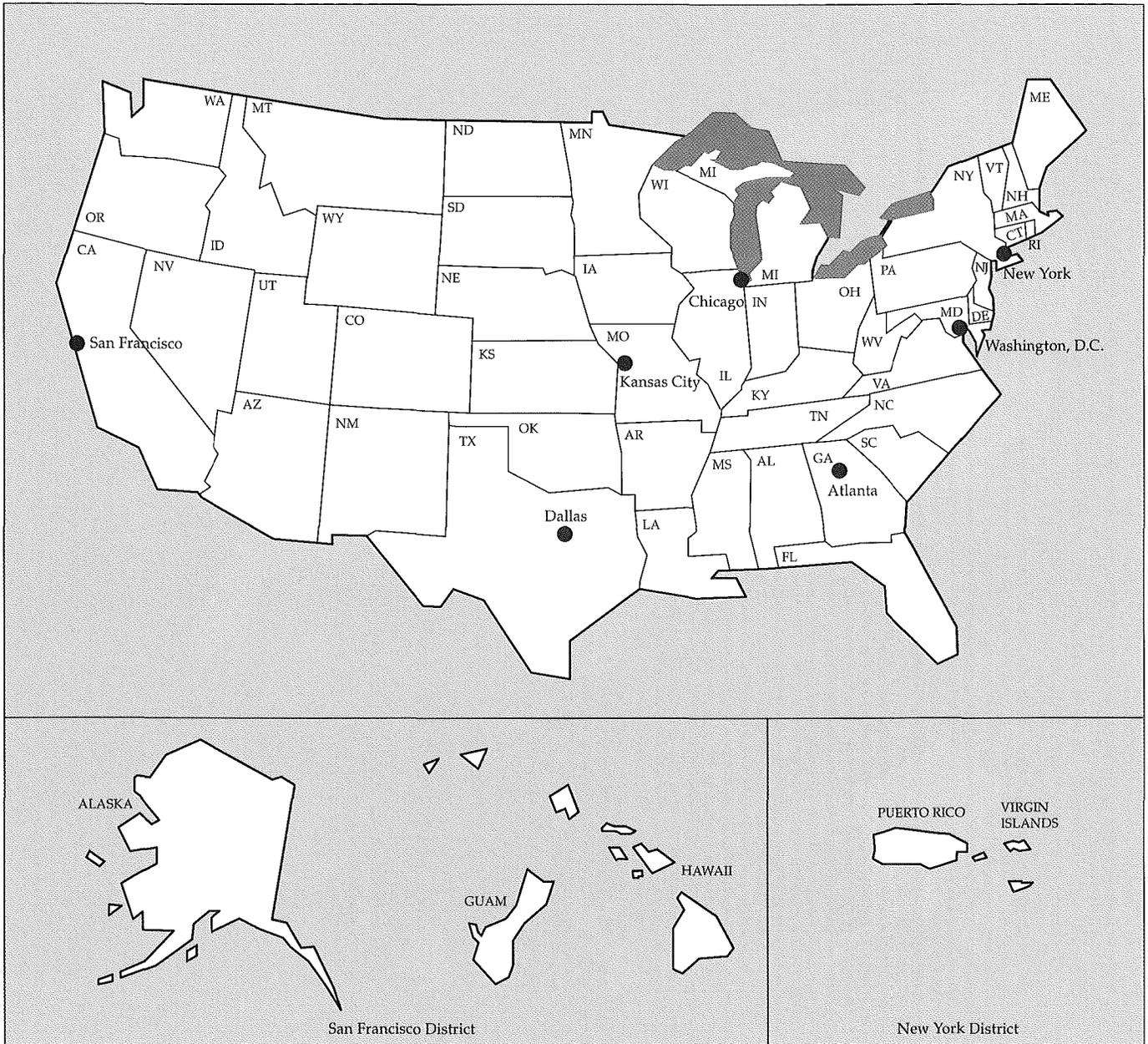
FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION AND COMPLIANCE)



NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT OFFICES



OFFICE OF THRIFT SUPERVISION

