



ANNUAL REPORT 1999



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Office of Thrift Supervision



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Chairman
National Credit Union Administration

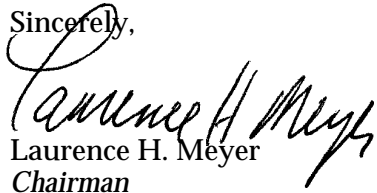
LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC
March 24, 2000

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 1999 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,



Laurence H. Meyer
Chairman

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MESSAGE FROM THE CHAIRMAN



Laurence H. Meyer

Nineteen ninety-nine was a productive year for the Federal Financial Institutions Examination Council, highlighted by the successful completion of its multi-year initiative to prepare both member agencies and financial institutions for the Year 2000 date change and by the continued success of its policy and examiner training initiatives.

The Council exercised proactive leadership in addressing the major challenge of preventing Year 2000 rollover-related disruptions in the financial system, providing unified supervisory information and guidance to the banking industry. The Council's five member agencies, together with their state regulatory counterparts, worked to supervise industry preparation for the Year 2000 date change and to ensure the continued operation of the agencies' own systems. Because of the global significance of the issue and the potential severe negative ramifications of financial system failure, the Council's member agencies dedicated substantial staff and other resources to this initiative.

The Council took the initiative in addressing Year 2000 date change issues beginning in mid-1997, developing examination guidance, making industry outreach efforts, providing examiner training, and conducting joint examinations. Where these efforts identified shortfalls or weaknesses in a segment of the industry, member agencies worked quickly to address the problems. The Year 2000 initiative was an unprecedented endeavor for the

Council and its member agencies, as it was for the banking and financial industries. Its successful outcome demonstrates, however, that the United States' banking industry and the agencies that supervise it were well prepared for the century date change.

In addition to its concerted work on the Year 2000 issue, the Council continued to make progress on a range of projects in 1999. These projects include revising the capital treatment of securitizations, eliminating differences in the agencies' capital rules, identifying ways to reduce reporting burden, and developing a revised retail credit classification policy. The Council also conducted examiner training on a broad range of topics and developed its first web-connected training CD-ROM. The Council's task forces issued uniform policy guidance on a number of topics, including subprime lending, retained interests in securitization, external audits, various consumer issues, and other topics within the Council's areas of responsibility. The agencies' staffs showed their continuing dedication and commitment to our nation's financial system through their industrious and innovative work on this diverse supervisory agenda.

I am pleased to have served as the Chairman of the Council during this exciting period and am equally pleased with the Council's record of outstanding accomplishment during 1999 as highlighted in this report.

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 (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) and to make recommendations to promote uniformity in the supervision of financial institutions. The Council is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the nonfinancial-institution subsidiaries of those institutions and holding companies. It conducts schools for examiners employed by the five agencies represented on the Council and makes those schools available to employees of state agencies that supervise financial institutions. The overall intent of the legislation was

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

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

In 1989, title XI of FIRREA established the Appraisal Subcommittee within the Council. The functions of the subcommittee are (1) monitoring the requirements, including a code of professional responsibility, established by states for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related

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

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

RECORD OF ACTIONS OF THE COUNCIL

The following section is a chronological record of the official actions taken by the Federal Financial Institutions Examination Council during 1999 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978, Public Law 95-630; section 304 of the Home Mortgage Disclosure Act (HMDA), Public Law 94-200; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA), Public Law 103-325.

February 2

Action. Unanimously approved the *Federal Register* notice for revisions to the Uniform Retail Credit Classification and Account Management Policy.

Explanation. The Uniform Retail Credit Classification and Account Management Policy is a supervisory policy that the agencies use for uniform classification and treatment of retail credit in financial institutions. The 1980 policy recognized the statistical validity of determining losses based on past-due status. The agencies undertook a review of the 1980 policy and believed that the policy should be revised because of changes within the industry.



The Examination Council in Session.

March 4

Action. Unanimously approved the deletion of two obsolete Community Reinvestment Act (CRA) issuances.

Explanation. The Council approved withdrawing the 1990 Rating Guidelines and the 1991 Lending Analyses Policy Statement. Both issuances had been made obsolete by the 1995 revisions to the regulations implementing the CRA.

March 5

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

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

March 5

Action. Unanimously approved the reappointment of Herbert S. Yolles, National Credit Union Administration, to an additional one-year term as chairman of the Appraisal Subcommittee.

Explanation. The Council is directed by Title XI of FIRREA to select a chairperson from among senior staff of the five member agencies and of the Department of Housing and

Urban Development (HUD), to serve a two-year term as chair of the Appraisal Subcommittee.

March 5

Action. Directed the Task Force on Reports to identify the most relevant Call Report items used by the agencies for safety and soundness and other public policy purposes and to recommend Call Report items for potential elimination based on their relative degree of usefulness for these purposes.

Explanation. As part of the Council's continuing effort to improve the relevance of the Call Report, the Task Force on Reports conducted a comprehensive review of the agencies' uses for each item in the report. Based on the findings of this review, the Task Force determined that Call Report items have varying degrees

of usefulness for safety and soundness and other public purposes. The Council directed the Task Force to rigorously review the justifications provided by the agencies' users and explore ways of reducing reporting burden in the Call Report while balancing the agencies' supervisory and other informational needs.

March 5

Action. Approved, subject to final staff edits, the issuance of a joint interagency letter to financial institutions on the allowance for loan-loss reserves.

Explanation. The working group charged with developing a joint letter to financial institutions regarding interagency initiatives on the allowance for loan losses, sought clarification from the Council on the SEC's request that the publication of the final letter be a joint issuance incorporating changes suggested by the SEC.

March 24

Action. Unanimously approved the 1998 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.

June 1

Action. Directed the Task Force on Supervision to revisit the interagency policy statement on external auditing programs and to develop stronger language regarding supervisory access to audit work papers and results.

Explanation. The agencies noted that the existence of a financial institution's external audit program did not ensure that the supervising



Chairman Meyer.

examining authority would have access to audit work papers and results.

June 1

Action. Directed the Capital Steering Subcommittee of the Task Force on Supervision to prepare a draft of an advance notice of proposed rule-making addressing a separate capital program (bifurcation) for small, noncomplex financial institutions.

Explanation. In December 1998, the Council had directed the Task Force on Supervision to develop a separate capital program addressing issues and options for alternative capital treatment for small, noncomplex institutions (bifurcated capital proposal). The Capital Steering Committee discussed and recommended to the Council the desirability of preparing and issuing an advance notice of proposed rule-making that would outline a capital scheme based on a modified leverage ratio approach.

June 1

Action. Directed the Task Force on Supervision to obtain sufficient facts

to form the basis for an interagency policy statement addressing credit-reporting problems.

Explanation. Member agencies have noted that certain bank and nonbank financial institutions do not report selected information for some consumers to consumer credit bureaus, specifically data on credit card limits and balances and on subprime customers with improved payment records. The task force sought Council guidance in the development of a joint policy issuance to the industry.

June 1

Action. Unanimously approved intra-quarterly Council meetings to consider Y2K issues.

Explanation. The Council discussed the need to meet more frequently to consider relevant Y2K issues and to ensure that appropriate interagency Y2K supervisory actions are progressing in a timely manner.

July 15

Action. Unanimously approved a memorandum of understanding defining the agreement between

the Council, the FRB, the FDIC, and the OCC for production and distribution of the Uniform Bank Performance Report (UBPR) for 1999–2001.

Explanation. The memorandum of understanding is an agreement among the three federal banking agencies and the Council that sets forth the duties and responsibilities for producing and distributing the UBPR. The current agreement expired on December 31, 1998, and the new agreement covers three years beginning January 1, 1999. Under the agreement, the FDIC is responsible for producing the UBPR, distributing UBPRs to state bank supervisory agencies, and selling UBPRs to the public. The Council provides general staff support to the UBPR effort, and the three federal bank-supervisory agencies share equally the total costs and revenues generated by the UBPR activities.

September 1

Action. Unanimously approved the motion that the Task Force on Supervision proceed with revising the preamble to the recourse or securitization rule-making project.

Explanation. The Council directed that the preamble be revised to include information on domestic and international discussions about increased disclosure of capital to be held against retained recourse. The revised preamble also will note that the agencies will proceed quickly to a final rule after they review the comments and that banks must be able to fully assess the retained risk in their portfolios.

October 21

Action. Unanimously approved the funding request by the Task Force on Examiner Education for the first stage of interagency training on subprime lending.

Explanation. The proposed project is to provide the Council with the ability to assemble existing and planned agency and Council training modules and materials on subprime lending and to distribute this material in a CD-ROM format with compatible Internet delivery to examiners from individual agencies.

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

Task Force on Consumer Compliance

- *May 6*—Issued in the *Federal Register* “Interagency Community Reinvestment Act Questions and Answers.” The interagency questions and answers contain informal staff guidance for agency personnel, financial institutions, and the public on CRA-related issues and sought public comment on three new or revised questions and answers.
- *September 14*—Approved for interagency use examination procedures for the Fair Credit Reporting Act (FCRA).

Task Force on Information Sharing

- *May 28*—Completed the interagency Structure Data Reconciliation Report for December 1998 data.

Task Force on Reports

- *January 13*—Approved the publication by the OCC, the FRB, and the FDIC of a *Federal Register* notice requesting comment on the agencies’ request that the U.S. Office of Management and Budget approve, without revision, an extension of the information collection entitled Report of Indebtedness of Executive Officers and Principal Shareholders and their

Related Interests to Correspondent Banks (form FFIEC 004).

- *January 19*—Approved revisions to the Reports of Condition and Income (Call Report) that will take effect on March 31, 1999.
- *June 30*—Added a text field for a bank’s Internet home page address, if any, to the Call Report effective June 30, 1999.

Task Force on Supervision

- *January 21*—Approved for publication in the *Federal Register* revisions to the uniform rating system for information technology examinations to conform with CAMELS.
- *February 17*—Issued Year 2000 Guidance on Customer Communications.
- *March 3*—Issued Interagency Guidance on Subprime Lending.
- *April 22*—Approved a memorandum of understanding concerning the sharing of examiners and staff by and among the agencies of the FFIEC to meet Year 2000-related demands. The memorandum was part of the agencies’ Year 2000 contingency planning arrangements.
- *May 6*—Issued additional Questions and Answers Concerning Year 2000 Business Resumption Contingency Planning.
- *June 29*—Approved interagency forms for Change in Control, for Change in Director and Senior Executive Officer, and for biographical and financial information.
- *July 1*—Approved document on Year 2000-Related Fraud Prevention addressed to Financial Institutions.
- *July 1*—Approved Year 2000-Related Fraud Advisory for Consumers.
- *August 5*—Completed and forwarded the Report to the Con-

gress on the Status of Riegle Community Development and Regulatory Improvement Act of 1994 Section 303 projects.

- *August 19*—Approved FFIEC Policy Statement on External Auditing Programs of Banks and Savings Associations.
- *October 8*—Issued Interagency Guidelines on High Loan-to-

Value Residential Real Estate Lending.

- *October 15*—Approved a letter to the directors and chief executive officers of companies that provide computer services and software to insured financial institutions regarding the FFIEC’s activities to assess their Year 2000 readiness during the fourth

quarter and century date rollover period.

- *November 19*—Issued advisory on Year 2000 Information Security Precautions.
- *December 13*—Issued Interagency Guidance on Asset Securitization Activities.

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 of Council matters and to participate in all Council activities, including task force assignments and other projects.

Organization

The SLC consists of five representatives of state agencies that supervise

financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as chair for twelve months. The Council selects two of the five members. 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) designate the other three. A list of the SLC members appears on page 10 of this report.

Participation in Examination Council Activities

In 1999, the State Liaison Committee actively participated in several key projects having a long-term effect 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 G. Edward Leary notes that effective communications between state and federal regulators and the banking industry played a significant role in the successful remedying of the Year 2000 conversion problem. He also stresses the important role that regulators played in reassuring bank customers about the Y2K readiness of banks.

The SLC continues to participate actively in the Supervision Task Force as a nonvoting member. As a result, communications between state and federal supervisors on core policy issues are greatly enhanced. State supervisors also participate in the Task Force on Information Sharing, which is charged with facilitating the sharing of electronic information, ensuring that information quality meets the agencies' consistency requirements, and improving the way information is collected and shared by the agencies.

The combined Call Report project continues to benefit from the involvement of several states. An extensive proposal to reduce regulatory burden received detailed comments from several state supervisors of financial institutions. The Conference of State Bank Supervisors actively supported this effort. The SLC is looking forward to continued cooperation of state and federal regulators and is 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 are derived from semiannual assessments on its five constituent agencies. The Council also receives reimbursement for the services it provides to support preparation of the quarterly Uniform Bank Performance Report (UBPR). It receives tuition fees from nonagency attendees to cover some of the costs associated with its examiner-education program.

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

- scheduling Council meetings, preparing agendas for Council meetings, preparing minutes of Council meetings, and reviewing all material for Council consideration
- monitoring the work of all inter-agency staff groups involved in the Council's activities and helping staff groups set priorities and define key issues
- undertaking special projects and studies as requested by the Council
- working closely with members of the State Liaison Committee to ensure adequate communication among the members, Council, and interagency staff groups
- coordinating public information activities, including preparation and distribution of Council press releases
- maintaining liaison with the Congress and with federal departments and agencies
- preparing the Council's annual report to the Congress
- coordinating the production and distribution of the quarterly UBPR and related data
- coordinating the collection, production, and distribution of Home Mortgage Disclosure Act data

- managing the Council's examiner-education program.

Six interagency staff task forces and the Legal Advisory Group (LAG) provide most of the staff support in the substantive areas of concern to the Council. The task forces and the LAG are responsible for the research and other investigative work that agency staff members perform on behalf of the Council and for reports and policy recommendations prepared for Council consideration. In addition, the Council has established the Agency Liaison Group, an interagency group of senior officials responsible for coordinating the efforts of their respective agencies' staff members in support of the Council. The Executive Secretary of the Council is an ex officio member of the six interagency staff task forces as well as the Agency Liaison Group. The staff time and other resources expended on Council-related projects in 1999 were provided by the five agencies without reimbursement and are not reflected in the Council budget. Without those contributions by the agencies and individual staff members, significant progress on Council projects during 1999 would have been impossible.

Organization, December 31, 1999

Members of the Council

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

Donna Tanoue, *Vice Chairman*
Chairman
Federal Deposit Insurance
Corporation (FDIC)

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

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

Ellen M. Seidman
Director
Office of Thrift Supervision (OTS)

State Liaison Committee

G. Edward Leary, *Chairman*
Commissioner of Financial
Institutions
Utah

Thomas J. Curry
Commissioner of Banks
Massachusetts

James E. Forney
Superintendent of Credit Unions
Iowa

Bill C. Houston
Commissioner of Financial
Institutions
Tennessee

James L. Pledger
Commissioner of Savings & Loan
Department
Texas

Council Staff Officers

Keith J. Todd,
Executive Secretary

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

Interagency Staff Groups

Agency Liaison Group

Roger T. Cole (FRB)
David M. Marquis (NCUA)
John C. Price (OTS)
Emory W. Rushton (OCC)
James L. Sexton (FDIC)

Legal Advisory Group

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

Consumer Compliance Task Force

Ralph Sharpe, *Chairman* (OCC)
Ronald F. Bieker (FDIC)
Timothy R. Burniston (OTS)
Glenn E. Loney, (FRB)
Jodee J. Wuerker (NCUA)

Examiner Education Task Force

Sidney M. Sussan, *Chairman* (FRB)
William R. Casey (OTS)

Simona L. Frank (FDIC)
Jennifer Kelly (OCC)
Marcia Sarrazin (NCUA)

Information Sharing Task Force

William Schneider, *Chairman* (FRB)
Roger Blake (NCUA)
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

Richard Spillenkothen,
Chairman (FRB)
Richard M. Riccobono (OTS)
Emory W. Rushton (OCC)
Marcia Sarrazin (NCUA)
James L. Sexton (FDIC)

Surveillance Systems Task Force

Charles W. Collier, *Chairman* (FDIC)
Kevin M. Bertsch (FRB)
Dan Brail (OCC)
Polly Kennedy (NCUA)
William Shively (OTS)

**Members of the Appraisal
Subcommittee**

Herbert S. Yolles, *Chairman* (NCUA)
David Gibbons (OCC)
Virginia Gibbs (FRB)
Mark W. Holman (HUD)
John C. Price (OTS)
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 those functional areas, the Council established six interagency staff task forces, each of which includes one senior official from each agency:

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

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

Task Force on Consumer Compliance

The Task Force on Consumer Compliance promotes policy coordination and uniform enforcement of consumer laws by the five agencies represented on the Council. It consists of senior personnel with knowledge of 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 1999, the task force had six standing subcommittees:

automation, Community Reinvestment Act, electronic banking, examination procedures, Home Mortgage Disclosure Act, and fair lending. Also, one issue-specific working group worked on implementing an interagency consumer-contacts database.

Automation Subcommittee

The Automation Subcommittee provides the task force with technical support by undertaking projects that require coordination with other automation groups and by developing applications for FFIEC benefit. In 1999, the subcommittee enhanced the FFIEC CRA Ratings database to synchronize agency updates to ensure reporting consistency. In 2000, the subcommittee plans to continue to enhance the FFIEC CRA ratings database in response to consumer and agency recommendations.



Task Force on Consumer Compliance meeting.

Community Reinvestment Act Subcommittee

The Community Reinvestment Act (CRA) Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with the agencies' implementation of the CRA. During 1999, the CRA Subcommittee focused on the interagency effort to foster consistent implementation of the CRA and to develop standardized tables for use in CRA public evaluations. In 2000, the subcommittee will continue its efforts to ensure more consistent application of CRA policies among the agencies.

Electronic Banking Subcommittee

The Electronic Banking Subcommittee helps develop uniform policies, principles, and standards associated with member agencies' implementation of the consumer protection and fair lending laws and regulations as they relate to emerging electronic banking technology. The subcommittee serves as an ongoing interagency working group to conduct research and analysis, produce interagency reports and recommendations, and educate the industry and general public on developments in electronic banking technology and regulatory matters. In 2000, the subcommittee will continue its efforts to reduce costs and increase efficiencies in electronic applications of technology relating to consumer compliance.

Examination Procedures Subcommittee

The Examination Procedures Subcommittee is responsible for maintaining updated interagency examination procedures for the compliance and consumer protection laws that the agencies enforce. In 1999, the subcommittee revised Truth in Lending Act Questions and Answers and the Fair Credit Reporting Act procedures and

drafted new Homeowner's Protection Act examination procedures. In 2000, the subcommittee plans to revise consumer leasing examination procedures and consider emerging issues.

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. In 1999, the subcommittee focused on researching methods to increase efficiency in HMDA processing and responding to consumer and agency recommendations.

Fair Lending Subcommittee

The Fair Lending Subcommittee provides technical, programmatic, and policy support to the task force on issues associated with fair housing and fair lending. In 1999, the subcommittee tracked the implementation of the interagency fair lending examination procedures and developed for discussion drafts of an interagency policy on fair lending enforcement.

In 2000, the subcommittee plans to report on the implementation of fair lending examination procedures, submit a proposed enforcement policy for approval by the agencies, and promote consistency in the use of statistical modeling by those agencies that use modeling in their fair lending examinations.

Task Force on Examiner Education

The mission of the Federal Financial Institutions Examination Council is to promote consistency in the examination of financial institutions. The Council established the Task Force on Examiner Education to support one of its three original statutory functions—examiner

training. Accordingly, the mission of this task force is to

- promote training efficiency by encouraging consistency of examiner education through joint sponsorship of interagency training
- develop, maintain, and deliver timely, state-of-the-art interagency training
- serve as a clearinghouse of training opportunities offered by the member agencies
- provide support to the initiatives of the Council and its task forces.

During 1999, the Council conducted training for the five member agencies, state financial institution regulatory agencies, other federal agencies, and several attendees from foreign central banks.

The task force, composed of officials from each of the member agencies, provides oversight and guidance for curricula and programs. Interagency course-development committees provide specific guidance for each program and ensure that the programs, aimed at examiner training needs, are kept current and relevant. The program calendar is developed in the fall in response to needs surveys conducted in each of the participating agencies. For 1999, attendance by regulatory staff totaled 3,294. The table on page 13 provides details of attendance by course and by agency.

1999 Initiatives

The major initiative was development of the Council's first web-connected CD-ROM and the associated infrastructure. This product will facilitate the quick-response training of the nation's federal financial institution examiners. The topic of the first CD-ROM was subprime lending. In the future, when the Council issues policy statements or examination guidance, the examiners of all five member agencies can, if the Council chooses,

1999 Regulatory Attendance at FFIEC Courses by Agency—Actual

Courses/Conferences	Number of Sessions	FDIC	OTS	FRB	NCUA	OCC	FCA	Other	Total
Advanced Credit Analysis	3	168	...	21	...	61	9	2	261
Advanced White Collar Crime	5	167	26	93	43	50	3	...	382
Capital Markets	4	126	4	90	12	56	7	4	299
Cyberbanking	2	29	20	70	19	43	3	1	185
Emerging Issues—Community	7	269	44	126	...	118	4	...	561
Emerging Issues—Multinational	2	27	...	90	...	41	2	...	160
Information Systems and Technology	1	66	29	89	6	125	13	2	330
Instructor Training	8	24	2	59	6	19	...	...	110
International Banking School	2	24	1	14	...	9	2	29	79
International Banking Self Study	...	81	...	35	...	20	1	40	177
Payment Systems Risk	4	100	4	63	36	54	...	...	257
Syndicated Loan Seminar	3	48	2	24	...	20	4	...	98
Tax Analysis	1	2	...	8	15	101	...	...	126
Testifying	3	13	...	1	...	16	...	1	31
Trust Conference	1	88	19	74	...	55	...	2	238
Subtotal	46	1,232	151	857	137	778	48	81	3,294
Risk Management Planning(Bankers)	1	...	...	1	...	...	...	...	237
Total	47	1,232	151	858	137	788	48	81	3,531

quickly be given uniform relevant information.

The disk provides up-to-date information and also gathers in one place many of the member agencies' training modules, selected agency documents, and industry publications. Examiners can sort this information by agency, by subtopic, and by date. The source of each document is clearly indicated.

The CD-ROM is open-ended, and additions can be made as needed. The content on the CD-ROM is easily transportable for Internet access. When the web portion becomes operable, updates will be available without issuing a new CD. Provision has been made in the 2000 Examiner Education budget for development of web-connected CD-ROMs on other topics.

One significant new course, Cash Flow Construction and Analysis from Federal Tax Returns, was added to the curriculum. This course gives examiners powerful aids in evaluating the basis of loans.

The Council continues to provide interactive videoteleconferences each year. These have provided leading-edge information on cyber-banking. During 1999, teleconference capability was expanded to four of the five member agencies.

Courses and Conferences

The Council offers a wide variety of courses and conferences, which are aimed primarily at examiners who have completed the commissioning process within their agencies. However, some noncommissioned exam-



Instructor training course.

iners also attend Council programs. Development of courses and conferences is guided by interagency course-development groups. This interagency cooperation has resulted in a curriculum of approximately twenty courses and conferences. The Council has earned a reputation as an efficient provider of high-quality training programs.

Most courses are 4½ days long and are conducted in groups of twenty to thirty-five participants. Courses offered in 1999 were Instructor Training, 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.

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

Conferences are generally conducted in an agency auditorium for groups of 100 attendees. Most conferences are aimed at safety-and-soundness examiners, with topics such as emerging issues, advanced white-collar crime, capital markets, and payment system risk. Specialized conferences are available for those who examine trust departments, information systems, and international banking activity.

Most conferences are for 3½ days. Upon demand, courses and conferences are conducted at the regional locations of member agencies.

Conference for Bankers

In response to a statutory mandate (see appendix A of this Annual Report), the Council conducts Risk-Management Planning conferences for bankers and other financial institution managers. For 1999, one ses-



“Web Banking and Payment Systems Risks” conference.

sion was held in Washington, D.C. One session is planned for June 1-2, 2000, in Chicago, Illinois. A periodically updated draft of the Risk Management Planning conference program agenda is available on the FFIEC Internet site (www.ffiec.gov), which allows potential attendees to see the program before deciding whether to attend.

Costs

Costs are kept low by renting classrooms and auditoriums as needed and by obtaining about half of the instructors free of charge. For 1999, costs were roughly \$400 per student.

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 2000 course catalogue and schedule are available from the Council 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>

The course catalogue for the year 2001 will be available in May 2000.

Task Force on Information Sharing

The Information Sharing Task Force facilitates the sharing of electronic information among the FFIEC agencies to support the supervision, regulation, or insuring of banking organizations. It provides a forum for the regulatory agencies of financial institutions to promote efficient and effective mechanisms to support interagency information shar-



Task Force on Information Sharing meeting.

ing. While significant issues are referred, with recommendations, to the Council for action, the task force has delegated authority from the Council to take certain actions.

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

Initiatives Addressed in 1999

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

Structure data reconciliation. The Structure Data Reconciliation Group reconciles structure data for banking institutions to ensure consistency and accuracy among the regulatory agencies. In 1999 the group continued with the established quarterly reconciliation process that has resolved numerous data dis-

crepancies. Thus far the group has successfully reconciled data for fourth quarter 1997 through the second quarter 1999.

Technology issues. A primary initiative of the task force is to identify and implement technologies that will improve efficiency in the sharing of interagency data. To that end, T1 communication lines were installed linking the FDIC, the FRB, and the OCC. These links will eventually allow the electronic transfer of large data files and will replace the current use of tapes. The initial focus was on the automation of data transfers between the FDIC and the FRB with a target for completion of fourth quarter 1999.

Initiatives to be Addressed in 2000

The task force will continue with the twice-yearly review of the Data-Exchange Inventory document.

The completed automated transfer of data between the FDIC and the FRB will serve as a model for addressing the needs of the other agencies. The transition to electronic transmission between the OCC and the FRB will occur in the first quarter of 2000. A target of the first quar-

ter of 2000 has also been set for the implementation of electronic data transmission between the OCC and the FDIC. Following that, the task force will focus on the OTS and possibly on the NCUA.

The Structure Data Reconciliation Group focus for 2000 is to broaden the scope of the reconciliation process to include credit union data and possibly bank branch data. Efforts to automate the entire reconciliation process will also begin.

The task force will continue to explore opportunities to improve on the current information-sharing technologies.

Task Force on Reports

The law establishing the Council and defining its functions requires the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports, which has also received other responsibilities related to the development of 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, including responding to inquiries about the instructions from reporting institutions and the public; the application of accounting standards to specific transactions; the development and application of processing standards; the monitoring of data quality; the assessment of reporting burden; and liaison with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and the Independence Standards Board. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help it carry out its responsibilities,

working groups are organized as needed to handle accounting, reporting, instructional, and processing matters of a specialized or technical nature.

Activities of the Task Force

During 1999, the task force's principal activities involved the Reports of Condition and Income (Call Report) filed quarterly by insured commercial banks and FDIC-supervised savings banks. Its work included further steps to fulfill the requirements of section 307 of the Riegle Community Development and Regulatory Improvement Act of 1994 (the Riegle Act) as they relate to bank regulatory reporting requirements. The task force also addressed the quarterly regulatory report for U.S. branches and agencies of foreign banks and the Country Exposure Report.

In March 1999, the U.S. Office of Management and Budget (OMB) approved the implementation of a limited number of revisions to bank regulatory reporting requirements that took effect in that quarter's Call Report (Forms FFIEC 031, 032, 033, and 034). Banks had been notified about these changes in a January 21, 1999, letter from the Council after the task force had approved the revisions under its delegated authority. The principal changes were the deletion of outdated items pertaining to high-risk mortgage securities, the addition of new items for accumulated net gains or losses on cash flow hedges, and a revision in the reporting of nonmortgage servicing assets in the items for intangible assets. Instructional revisions also taking effect as of March 31, 1999, incorporated recent changes in accounting standards and other modifications to further conform the Call Report with generally accepted accounting principles.

The OMB also approved corresponding reporting and instruc-

tional revisions to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (Form FFIEC 002) in March 1999. As part of their first quarter 1999 reporting materials, U.S. branches and agencies received a revised instruction book for this report. The task force also arranged to make this instruction book available on the Internet after its revision and reissuance in March 1999.

To supplement the Call Report's fields for each bank's physical address, the task force added a field for the bank's Internet home page address, if any, effective with the report for June 30, 1999. Through year-end 1999, these home page addresses have not been included in the Call Report information that is disclosed to the public. In the inter-agency letter accompanying the December 31, 1999, Call Report materials, the three banking agencies advised banks that home page addresses would become publicly available beginning with the first quarter of 2000 reports. In August 1999, the task force agreed that no revisions to the Call Report requirements should be proposed for implementation in March 2000. In reaching this decision, the task force determined that banks should not have to divert their attention and systems resources from Year 2000 initiatives in order to plan for first quarter 2000 regulatory reporting changes. The Council and the agencies advised banks that no new items would be added to the Call Report for that quarter in the inter-agency letters accompanying the September 30 and December 31, 1999, Call Report materials.

The task force prepared a Call Report instruction book update that the banking agencies distributed to each bank as part of its Call Report materials for September 30, 1999. The updated instructions are also available on the Internet. The principal changes in this limited update included conforming the instructions for reporting extensions of

credit to insiders with definitional revisions that had been made to Federal Reserve Regulation O and updating the Glossary entry on loan impairment for recent guidance issued by the Financial Accounting Standards Board. In addition, banks received a revised index to their instruction book.

In 1999, the task force continued to build on the efforts of the Council and the banking and thrift agencies over the previous four years to implement the provisions of section 307 of the Riegle Act. Section 307 in part directs the banking agencies to review the information they collect in the Call Report and eliminate reporting requirements that are no longer warranted for safety and soundness or other public purposes. The task force's reviews of existing reporting requirements have, in recent years, resulted in the elimination of numerous items and reductions of detail in several areas of the Call Report. As 1999 began, the task force was concluding a comprehensive review of the uses of individual Call Report items after surveying the various user groups within the agencies and state banking authorities.

In March, the task force discussed its findings with the Council, which directed the task force to explore ways of reducing reporting burden while balancing the agencies' supervisory and other information needs regarding these users. During the second and third quarters, the task force considered the information it had gained about the uses of the Call Report items, statistical data on individual items, and comments about reporting burden previously received from bankers. After weighing these factors, the task force developed an extensive proposal for improving the relevance of the information that the agencies currently collect from banks by streamlining their regulatory reports. The task force then consulted with the agencies' users concerning the merits of the proposal during the fourth quarter of 1999 and also sought



Task Force on Supervision meeting.

their assistance in identifying the agencies' most critical new needs for supervisory information. From these ongoing discussions and from separate efforts to identify and narrow regulatory reporting differences among banks, savings associations, and bank holding companies, the task force expects to propose revisions to the existing bank regulatory reporting requirements for the Council's consideration in the first quarter of 2000. These reporting changes would be targeted for implementation in March 2001.

Finally, on September 3, 1999, the three banking agencies requested public comment on a proposal to extend their authority under the Paperwork Reduction Act of 1995 to collect the Country Exposure Report and the Country Exposure Information Report (Forms FFIEC 009 and 009a) and to clarify the instructions that relate to credit derivatives. The agencies received one comment letter about the treatment of credit derivatives. The task force is currently working with the agencies' international supervisory staffs to address the commenter's recommendations in order to move forward with the proposal in the first quarter of 2000.

Task Force on Supervision

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

Task force members are the senior supervisory officials of the constituent agencies. Meetings are held regularly to address and resolve common supervisory issues. The task force has a standing subcommittee to address information system and technology issues as they relate to financial institution supervision. Another task force subcommittee reviews issues pertaining to regulatory capital. In addition, ad hoc working groups are created to handle particular projects and assignments.

Activities of the Task Force

During 1999, the task force and its various ad hoc working groups and subcommittees were involved in numerous projects and activities. Special attention was focused on, and major accomplishments were achieved in, matters concerning the rollover to the Year 2000.

Year 2000 Supervision Program

Throughout 1999, the FFIEC agencies continued their ongoing efforts to ensure the readiness of supervised financial institutions' automated information systems, and those of their customers, for the century date change. The extensive final phase of the FFIEC's Year 2000 supervisory program included the issuance of additional policy guidance, the conduct of on-site examinations and intensive monitoring of financial institutions and markets, contingency planning to respond to disruptions or problems that could occur, and event management for the year-end rollover period. The program focused on promoting industry and consumer awareness; establishing targets for the completion of testing, implementation, and contingency plans; and providing feedback to institutions, in part through examinations, regarding their progress and identification of outstanding issues.

Policy statements. Through the FFIEC, banking supervisors provided critical guidance in the form of periodic policy statements beginning in 1996. During 1999, the FFIEC issued statements on customer communications, including a consumer checklist on Year 2000 suggestions; business resumption planning; temporary growth of assets; fraud prevention; and preservation of information security.

To better understand the issues that market participants faced and to foster more effective communication, the agencies worked closely with industry trade groups, including the Bank Administration Insti-

tute and the Securities Industry Association. Significant supervisory attention was directed at consumers to ensure that financial institutions provided them with appropriate information about their Year 2000 initiatives and readiness and to maintain public confidence in the banking system

Reviews and examinations. Supervisors conducted several reviews and examinations of the Year 2000 readiness of supervised institutions. These focused on the successful completion of testing and the implementation of compliant mission-critical systems by June 30, 1999, and the progress being made by institutions that were unable to meet that deadline. Much of the second half of the year focused on the completion of contingency plans for business resumption and event management at the rollover.

When necessary, supervisors initiated appropriate enforcement actions to address issues at individual institutions. The severity of these actions was scaled to the severity of the Year 2000 problems faced by the institution. In the most serious cases, these actions were made public, so that affected consumers and counterparties could evaluate their own actions relative to the institution's problems.

Contingency planning and event management. Much of the agencies' efforts during 1999 were directed toward developing, with the industry, elaborate contingency and event management plans for the century date rollover period. Each of the agencies created a communications center to ensure effective and immediate communications and coordination among the supervised institutions, the agencies' field offices and regions, and each other during the rollover. In connection with the Financial Sector Group of the President's Council on Year 2000 Conversion, the agencies organized widely publicized summit meetings on contingency planning, consumer

awareness, and the readiness of the U.S. financial sector.

The agencies also provided direct support to the President's Council on Year 2000 Conversion, which operated an Information and Coordination Center during the rollover period. There the agencies maintained the Financial Sector Group desk and monitored the financial industry's ability to operate effectively and without disruption during and after the rollover.

Congressional reports. As in 1998, the federal banking agencies reported quarterly on Year 2000 matters to the House and Senate Banking Committees. These reports typically covered the progress of the industry's and the agencies' initiatives as well as an assessment of the agencies' internal readiness. The agencies provided congressional staff with information on technical matters, industry initiatives, and various domestic and international matters related to Year 2000.

Public affairs. The agencies and their principals participated in an extensive campaign to enhance public awareness and confidence in the banking system. Through a series of public appearances, seminars for bankers, production of videos and interviews with the press, the top tier leadership of the agencies helped foster a visible and public presence that directly contributed to the improved public understanding of the issues and the safety and soundness of the industry. These efforts relieved much of the potential for adverse public behavior that might have occurred had the public been less confident about the preparedness of their financial institutions and the safety of their money.

The FFIEC worked rigorously to ensure broad awareness of the importance and scope of the problem, both domestically and internationally, and joined with the private sector in a coordinated effort to successfully address the Year 2000 rollover. The FFIEC agencies contrib-

uted significantly to the financial industry's successful transition into the new century without serious disruption to financial services provided to the industry and the public.

Section 303(a) Report to Congress

On August 6, 1999, the federal banking agencies issued a report to the Congress detailing the agencies' progress in carrying out section 303(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRIA). The CDRIA directed the federal banking agencies to conduct a systematic review of their regulations and written policies to improve efficiency, reduce unnecessary costs, and eliminate inconsistencies and outmoded and duplicative requirements. The CDRIA also directed the agencies to work jointly to make uniform all regulations and guidelines implementing common statutory or supervisory policies.

Revisions to Regulatory Capital Regulations

Although each of the four federal banking supervisory agencies has its own capital regulations, the task force and several of its working groups coordinate efforts among the agencies to promote the joint issuance of capital rules, thereby minimizing interagency differences and consequently reducing the potential burden on the banking industry. During 1999, these capital-related initiatives included the following:

Capital adequacy standards. On March 2, 1999, the federal banking agencies issued a final rule amending their capital adequacy standards to eliminate differences among the agencies. This final rule represented a significant step in implementing section 303 of the CDRIA. The final rule revised and made consistent among the agencies the risk-based capital treatment of construction loans for presold 1-to-4-family residential properties, junior liens on 1-to-4-family residential properties,

and investments in mutual funds and simplified the agencies' leverage capital rules for banks and thrifts.

Recourse, direct credit substitutes, and securitizations. In August 1999, the task force approved submitting an interagency proposal to revise the risk-based capital treatment of recourse obligations, direct credit substitutes, and asset securitizations to the full Council for its consideration. The proposal builds on previous efforts by the agencies to improve the risk-based capital treatment of these transactions.

At its September 1999 meeting, the Council approved recommending to the agencies that they issue the revised proposal for public comment. The proposal is expected to be published in the first quarter of 2000.

Uniform Retail Credit Classification and Account Management Policy

On February 10, 1999, the FFIEC issued the Uniform Retail Credit Classification and Account Management Policy, which updates and expands the classification guidelines for consumer loans that were first issued in 1980. The policy, among other things, sets forth guidance on the treatment of loans to bankrupt borrowers, fraudulent loans, loans to deceased borrowers, delinquent residential real estate and home equity loans, and partial payments. The policy also details the criteria that must be satisfied before a depository institution may consider a delinquent account current. The policy statement becomes effective on December 31, 2000, although the agencies are giving further consideration to certain issues raised by the statement.

Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations

In September 1999, the FFIEC issued an Interagency Policy Statement on

Banks and Savings Associations. The policy statement reflects the agencies' view that accurate financial reporting is essential to an institution's safety and soundness. To help ensure that financial statements and regulatory reports are accurately and reliably prepared, the policy statement recommends that banks and savings associations with less than \$500 million in total assets establish and maintain an external auditing program as a part of their overall risk-management process. An external auditing program performed by an independent public accountant complements the internal audit function of an institution by providing an independent and objective view of the reliability of the institution's financial statements and the adequacy of its financial reporting internal control. The policy statement also encourages the board of directors of each institution to establish an audit committee consisting entirely of outside directors. The policy statement is effective for fiscal years beginning on or after January 1, 2000.

Other Areas of Coordination

Elimination of Duplicative Filings

In January 1999, the agencies implemented the Interagency Bank Merger application form, developed as part of their effort to eliminate duplicative filings as directed by section 304 of the CDRIA. The new form replaces each agency's merger application form. The agencies are also in the process of renewing the Interagency Change in Control notification form, which is filed by individuals seeking to acquire control of a bank or bank holding company.

Interagency Guidance on Subprime Lending

In February 1999, the task force approved interagency guidance on subprime lending developed by a working group composed of staff from each of the four federal bank-

ing and thrift agencies. Each agency issued the guidance in March 1999. The guidance was developed to bring greater attention to the supervisory issues related to banks' and thrifts' involvement in subprime lending and to the way these institutions should manage the unique risks associated with this activity. As discussed in the guidance, if the risks associated with subprime loans are not properly managed, the agencies consider subprime lending to be a high-risk activity that is unsafe and unsound. The 1999 interagency guidance advances sound practices for managing the risks involved in subprime lending. Institutions are expected to have policies and procedures in place to measure, monitor, and control the additional risks associated with this activity.

Joint Policy Statement Regarding Branch Closings by Insured Depository Institutions

On June 29, 1999, the agencies issued a revised joint policy statement regarding branch closings by insured depository institutions. The revised statement incorporates changes in the underlying statute made by section 106 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and section 2213 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The policy clarifies the additional steps regarding notice and consultation for proposed branch closings by interstate banks in low- or moderate-income areas and clarifies the status of automated teller machines, relocations and consolidations, and branch closings in connection with emergency acquisitions or assistance by the FDIC.

Asset Securitization Activities

On December 13, 1999, the agencies issued supervisory guidance emphasizing the importance of fundamental risk-management practices that govern securitization



Task Force on Surveillance Systems meeting.

activities. In particular, the guidance stresses the specific expectation that any securitization-related retained interest claimed and booked by a financial institution will be supported by documentation of the interest's fair value, determined by using reasonable, conservative valuation assumptions that can be objectively verified. Retained interests that lack such objectively verifiable support or that fail to meet the supervisory standards set forth in the guidance will be classified as loss and disallowed as assets of the institution for regulatory capital purposes.

High LTV Residential Real Estate Lending

In October 1999, the four banking agencies issued guidance on high loan-to-value residential real estate lending. The guidance discusses the credit risks associated with such lending and the controls needed to manage those risks. The guidance also clarifies that the agencies' 1992 real estate lending standards apply to these transactions.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems oversees the development and implementation of uniform inter-agency 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 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 FRB, the FDIC, or the OCC.

During 1999, the Surveillance Task Force and Surveillance Working Group completed the following projects:

- Revised the earnings and profitability analysis to reflect the special tax status of banks electing Subchapter S treatment for

income taxes. To improve the earnings analysis of such banks the UBPR includes an estimate of the taxes. This new computation should enhance bank-to-bank analysis.

- Revised peer group analysis in the UBPR to reflect line-of-business peer groups. This addition is part of an ongoing project to revamp peer group definitions. The task force has undertaken this change to make the peer grouping used in the UBPR more reflective of a changing banking industry.
- Revised the risk-based capital calculation to include regulatory changes to the treatment of accumulated gain or loss on cash flow hedges and made other minor changes to capital analysis.
- Reviewed the combined Call Report proposed by the Reports Task Force and performed an extensive analysis of all UBPR ratios to determine impact. Coordinated survey responses from state bank supervisors on this project.
- Tested the developmental version of the project to place the UBPR on the public web site. Agency involvement in Y2K issues resulted in the movement of final implementation to 2000. This project was approved by the Council in 1998.
- Produced and distributed four quarterly versions of the UBPR ahead of schedule. Each federal banking agency 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 that are developing information systems may ultimately substitute UBPR data from either web site or tape delivery for the printed copies currently provided. Additionally, printed UBPR reports were sent to all banks. Several thou-

sand copies of individual bank UBPR's were provided to the general public.

- Expanded the list of state regulators using early Call Report data. Throughout the editing cycle, this facility provides Call Report data that are similar to the data received by the federal bank regulators.
- Redesigned and reprinted the UBPR User's Guide. Copies were distributed to all banks and federal and state banking authorities and made available on the FFIEC web site.

Several projects are planned for 2000 that should provide further enhancements to the UBPR:

- Revise, produce, and distribute four versions of the UBPR.
- Re-evaluate the design of the UBPR in conjunction with changes resulting from the combined Call Report project. Implement the changes emanating from the proposed combined Call Report project. Significant programming changes may be needed to take advantage of the revised information.
- Review UBPR treatment of banks that have elected subchapter "S" treatment for taxes.
- Develop miscellaneous other new analyses of bank data.
- Revise the UBPR User's Guide to incorporate all changes that are planned for 2000. This sixth annual complete reprinting in perfect-bound format will be distributed to banking regulators and banks.
- Implement a public web site to permit the entire UBPR for all commercial and savings banks to

be viewed on line. The task force will also consider enhancements such as supplemental reports and customized peer group analysis.

- Analyze and possibly revise current peer groupings in the UBPR. For example, new peer groups could include line of business (trust company, agricultural, or real estate). The task force will also consider the relevance of structural factors.
- Consider ways to reduce the distribution of the UBPR in paper format. This project will take on added significance once the public web site is operational.
- Adjust ratios in the UBPR to reflect changed regulatory definitions and newly defined user needs.
- Adjust UBPR data to account for the effects of push-down accounting.

The UBPR is primarily a supervisory tool for the three federal banking agencies, but it is also used by others. Copies of the UBPR are routinely distributed to banks and state banking agencies as described below in the distribution policy. Besides the several thousand UBPRs distributed in printed form, several institutions have acquired UBPR data in electronic form.

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

- Each insured bank will receive one copy of the current UBPR per quarter.
- UBPR data will be provided to each federal banking agency each quarter.

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

Copies of UBPRs may be purchased by the general public for \$45.00. A User's Guide, which describes the content of the report and defines ratio calculations is available for a charge of \$25.00. The peer group report, showing average ratios for all peer groups, is available for \$65.00. The State Average Report is available for \$45.00. Peer Group and State Average Percentile Distribution Reports are available for \$65.00 and \$45.00 respectively.

The UBPR User's Guide and selected other information may also be obtained on the FFIEC web site at

www.ffiec.gov

Standardized UBPR quarterly data on magnetic tape are available for a charge of \$400.00. Information on ordering items may be obtained by calling

(202) 872-7500,

e-mail to

SMULLENJ@FRB.GOV,

or writing the Council:

Federal Financial Institutions
Examination Council
2000 K Street, NW, Suite 310
Washington, DC 20006

THE 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 21,500 domestically chartered banks, thrift institutions, and credit unions. On June 30, 1999, these financial institutions held total assets of more than \$7.8 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

Board of Governors of the Federal Reserve System (FRB)

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

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

Policy decisions are implemented by the FRB and the twelve 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 to and be accepted for membership in 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 FDIC. The Federal Reserve has overall responsibility for foreign banking operations, including both U.S. banks operating abroad and foreign banks operating branches in the United States.

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

Federal Deposit Insurance Corporation (FDIC)

The Congress created the FDIC in 1933 with a mission to insure bank deposits and reduce the economic disruptions caused by bank failures. Management of the FDIC is vested in a five-member Board of Directors. Three of the directors are directly

appointed by the President, with the advice and consent of the Senate, for six-year terms. One of the three directors is designated by the President as Chairman for a term of five years, and another is designated as Vice Chairman. The other two Board members are the Comptroller of the Currency and the Director of the Office of Thrift Supervision. No more than three Board members may be of the same political party.

The FDIC's supervisory activities are conducted by the Division of Supervision (DOS) and the Division of Compliance and Consumer Affairs (DCA). Each of these divisions is organized into eight regional offices headed by a DOS regional director and a DCA regional director. 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 and examination and approval by the FDIC. After considering the applicant's financial history and condition, adequacy of the capital structure, future earnings prospects,

general character of the management, risk presented to the insurance fund, convenience and needs of the community to be served, and consistency of corporate powers, 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 back-up enforcement authority over all insured institutions; that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if 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 man-

ages the NCUA. The President also selects a member to serve as Chair of the board.

The main responsibilities of the NCUA are the following:

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

The NCUA 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 Federal Deposit Insurance Corporation and as a Director of the Neighborhood Reinvestment Corporation.

The OCC is the charterer, regulator, and supervisor of the national banking system. As such, it currently regulates and supervises approxi-

mately 2,400 national banks and 58 federal branches and agencies of foreign banks in the United States, accounting for 59 percent of the nation's banking assets. As the only federal banking agency with authority to charter commercial banks, the OCC structures the national banking system through its authority over applications for new bank charters, new bank activities, the establishment of branches, relocations of head offices, and mergers of national banks.

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

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

The OCC exercises its supervisory authority through on-site examinations of banks and ongoing analysis of national bank operations. As appropriate, the OCC takes supervisory actions against banks that do not conform to laws and regulations or that otherwise engage in unsound banking practices. The OCC also 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** oversees examinations at most national banks and manages other supervision activities in the OCC's six districts. The largest national banks are supervised through the Large Bank Department, which also oversees operations in the OCC's London office. Other activities overseen by Bank Supervision Operations include Compliance Operations, OCC's Continuing Education and Supervision Support departments, and the Community Bank Activities Division. Specific responsibilities include directing programs for the examination and regulation of national banks and overseeing supervision of national trust companies, bank data processing servicers, bank data software vendors, federal branches and agencies of foreign banks, and the international activities of national banks with global operations.
- **Bank Supervision Policy** formulates and disseminates the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. Specific responsibilities include (1) issuing policy, guidance, and examination procedures related to national banks' commercial lending, asset-management, capital markets, bank technology and information systems, and consumer compliance activities and (2) coordinating the OCC's participation in Federal Financial Institutions Examination Council activities.
- **International Affairs** oversees the OCC's international activities. Specific responsibilities include providing policy advice and technical expertise to OCC and the Treasury Department on international banking and financial matters; formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks; and serving as liaison with the international financial community and foreign supervisory organizations.
- **Economic and Policy Analysis** provides economic research and analysis on the condition of the banking industry and trends in financial services. It also supplies on-site technical assistance to field examiners on quantitative risk models and measurement tools and coordinates efforts to monitor electronic money and banking activities in the marketplace.
- **Public Affairs** manages the OCC's external relations with the general public, bank customers, community organizations, the Congress, the news media, and trade associations. It disseminates information about the OCC's initiatives, policies, and activities and works to increase public understanding of the OCC's mission.
- **The Chief Counsel** advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. Specific responsibilities include drafting regulations, responding to requests for legal interpretations, and representing the OCC in all legal matters and proceedings. The Chief Counsel oversees corporate application activities, including establishing corporate policies and processing corporate applications from national banks. The Chief Counsel also oversees the community affairs operations of the agency and community development activities of national banks.
- **Administration** is responsible for the efficient and effective administrative functioning of the OCC. The office supervises the Human Resources, Administrative Services, Financial Services, Management Improvement, and Organizational Effectiveness divisions. The Senior Deputy Comptroller for Administration also serves

as Chief Financial Officer and oversees the OCC's Equal Employment programs.

- The Ombudsman's office oversees the national bank appeals process. The office resolves individual appeals from national banks and acts as a liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities. The Ombudsman also oversees the Customer Assistance Group, a centralized function that handles all customer complaints.

The OCC's six geographic districts are headquartered in New York, (N.Y.); Atlanta, (Ga.); Chicago, (Ill.); Kansas City, (Mo.); Dallas, (Tex.); and San Francisco, (Calif.). The agency is funded through assessments on the assets of national banks.

Office of Thrift Supervision (OTS)

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

The mission of the OTS is to

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

OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, (3) taking appropriate action to enforce compliance with federal laws and regulations,

and (4) acting on applications to charter or acquire a savings association. Besides overseeing the thrift institutions themselves, OTS also has the authority to regulate, examine, and supervise companies that own thrifts and controls the acquisitions of thrifts by such holding companies.

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

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

The other major functions of OTS are

- the Chief Counsel, who oversees the legal activities of the agency. This responsibility 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.
- the Research and Analysis office, which is composed of four units: Risk Management, Economic Analysis, Industry Analysis, and Financial Reporting. The office develops and maintains surveillance systems for monitoring and reporting the condition of the thrift industry and assists in identifying the impact of emerging issues. The office also collects data, analyzes trends, and reports on the exposure of individual institutions to interest-rate risk. This information is used by the institution's management and OTS examiners.
- the External Affairs function, which manages congressional matters and press relations. It interacts with members of the Congress as well as with executives of other federal agencies to accomplish the legislative and regulatory objectives of the OTS. The office convenes press conferences; distributes news releases; and communicates and explains policy directives, objectives, and actions of the agency to the Congress, the press, the thrift industry, other government agencies, and employees.

The OTS's five geographic regional offices are located in Jersey City, (N.J.); Atlanta, (Ga.); Chicago, (Ill.); Dallas, (Tex.); and San Francisco, (Calif.).

The OTS uses no tax money to fund its operations. Its expenses are funded through fees and assessments levied on the institutions it regulates.

ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks and Thrift Institutions as of June 30, 1999¹

Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks ¹⁶	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	7,829	3,117	1,308	966	845	812	35	279	240	167
Total loans and lease receivables (net)	4,551	1,996	640	604	321	542	23	170	148	107
Loans secured by real estate ⁴	2,143	770	254	349	17	485	21	151	55	41
Consumer loans ⁵	739	342	72	111	*	45	1	11	93	64
Commercial and industrial loans	1,169	610	212	114	205	15	1	8	1	3
All other loans and lease receivables ⁶	565	310	112	40	99	2	*	2	*	*
LESS: Allowance for possible loan and lease losses	66	36	10	10	*	5	*	2	2	1
Federal funds sold and securities purchased under agreements to resell	347	106	124	29	76	4	1	7	*	*
Cash and due from depository institutions ⁷	432	197	89	43	70	17	1	7	5	3
Securities and other obligations ⁸	1,541	546	217	243	112	198	8	84	81	52
U.S. government obligations ⁹	673	141	70	107	66	168	7	55	38	21
Obligations of state and local governments ¹⁰	92	39	17	32	*	2	*	2	‡	‡
Other securities	775	366	130	104	46	28	1	27	42	31
Other assets ¹¹	957	331	237	47	266	51	1	11	8	5
Total liabilities	7,228	2,906	1,210	875	845	747	31	251	214	149
Total deposits and shares ¹²	5,143	2,122	821	737	407	476	27	197	210	146
Federal funds purchased and securities sold under agreements to repurchase	658	273	128	46	134	59	*	17	1	*
Other borrowings ¹³	846	352	104	76	76	198	3	35	1	1
Other liabilities ¹⁴	579	159	157	16	228	15	*	*	2	2
Net worth¹⁵	601	271	98	91	0	65	4	28	26	18
Memorandum: Number of institutions reporting	21,569	2,409	1,001	5,262	403	932	182	539	6,707	4,134

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, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.
6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.
7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions. SAIF-insured institutions data are for cash and

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ for the Twelve Months Ending June 30, 1999
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	604	302	108	84	58	2	19	18	13
Interest and fees on loans	340	163	48	53	39	1	14	12	9
Other interest and dividend income	118	50	31	13	12	1	4	4	3
All other operating income	146	89	29	16	7	*	1	2	1
Operating expenses	490	243	88	67	48	1	15	16	11
Salaries and benefits	101	48	21	14	8	*	3	4	3
Interest on deposits and shares	163	70	27	26	19	1	7	8	6
Interest on other borrowed money	67	32	17	5	11	*	2	*	*
Provision for loan and lease losses	24	15	2	4	1	*	*	1	1
All other operating expenses	135	78	22	17	9	*	3	4	3
Net operating income	114	58	19	18	10	1	4	2	1
Securities gains and losses	4	1	*	*	2	*	*	*	*
Income taxes	38	20	8	6	4	*	1	‡	†
Net income	80	39	13	13	8	1	3	2	1
Memorandum: Number of institutions reporting	21,166	2,409	1,001	5,262	932	182	539	6,707	4,134

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), (C) and 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: 1999 AUDIT REPORT

**Deloitte &
Touche**



Deloitte & Touche LLP

1750 Tysons Boulevard
McLean, Virginia 22102-4219

Independent Auditors' Report

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheet of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1999 and 1998, and the related statements of revenues and expenses and changes in 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Council as of December 31, 1999 and 1998, 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 February 18, 2000, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP
February 18, 2000

**Deloitte Touche
Tohmatsu**

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheets as of December 31, 1999 and 1998

ASSETS

	1999	1998
CURRENT ASSETS		
Cash	\$ 689,393	\$ 319,844
Accounts receivable from member organizations	431,539	724,021
Other accounts receivable	317,553	194,449
Prepaid expenses	0	25,319
Total current assets	<u>1,438,485</u>	<u>1,263,633</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	273,849	257,091
Less accumulated depreciation	<u>253,624</u>	<u>237,470</u>
Net furniture and equipment	20,225	19,621
Total assets	<u>\$ 1,458,710</u>	<u>\$ 1,283,254</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
Accounts payable and accrued liabilities to member organizations	\$ 495,354	\$ 901,303
Other accounts payable and accrued liabilities	131,328	69,225
Accrued annual leave	<u>48,684</u>	<u>48,625</u>
Total current liabilities	675,366	1,019,153
DEFERRED RENT (Note 5)	114,036	<u>68,457</u>
FUND BALANCE	<u>669,308</u>	<u>195,644</u>
Total liabilities and fund balance	<u>\$ 1,458,710</u>	<u>\$ 1,283,254</u>

See notes to financial statements.

Notes to Financial Statements for the Years Ended December 31, 1999 and 1998

(1) Organization and Purpose

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

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

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

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

(2) Significant Accounting Policies

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

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

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

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

(3) Transactions with Member Organizations

	1999	1998
The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Annual assessment for each member organization was	\$ 326,800	\$ 248,800

The Council provides seminars in the Washington area and at regional locations through the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of

	1,526,707	1,172,456
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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Changes in Fund Balance for the Years Ended December 31, 1999 and 1998

	1999	1998
REVENUES		
Assessments on member organizations	\$ 1,634,000	\$ 1,244,000
Tuition	1,657,257	1,365,656
Other revenue (Note 4)	2,809,341	2,814,718
Total revenues	<u>6,100,598</u>	<u>5,424,374</u>
EXPENSES		
Salaries and related benefits	1,339,517	1,263,700
Data processing	2,972,811	2,922,678
Rental of office space	586,705	728,452
Professional fees	258,375	106,070
Travel	101,409	112,242
Rental and maintenance of office equipment	77,209	74,758
Printing	71,738	94,805
Administrative fees	62,400	54,199
Other seminar expenses	53,111	85,251
Office and other supplies	47,001	46,968
Depreciation and amortization	16,154	32,106
Postage	15,280	12,881
Books and subscriptions	8,753	3,453
Telephone	5,481	5,998
Miscellaneous	10,990	36,070
Total expenses	<u>5,626,934</u>	<u>5,579,631</u>
REVENUES OVER (UNDER) EXPENSES	473,664	(155,257)
FUND BALANCE, Beginning of year	<u>195,644</u>	<u>350,901</u>
FUND BALANCE, End of year	<u>\$ 669,308</u>	<u>\$ 195,644</u>

See notes to financial statements.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$ 62,400 \$ 54,199

Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations 3,424,234 3,525,945

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 post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these

contributed services has not been included in the accompanying financial statements.

(4) Other Revenue

	1999	1998
Home Mortgage Disclosure Act	\$ 1,645,563	\$ 1,517,598
Uniform Bank Performance Report	267,656	266,824
Appraisal Subcommittee	190,155	156,594
Rental	—	158,965
Community Reinvestment Act	705,864	714,696
Miscellaneous	103	41
	<u>\$ 2,809,341</u>	<u>\$ 2,814,718</u>

Home Mortgage Disclosure Act (HMDA)

	1999	1998
The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received the following from member organizations	\$ 1,108,326	\$ 1,051,492

The Council received the following from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project	306,584	279,077
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The Council received the following from the Mortgage Insurance Companies of America for performing HMDA related work for them \$ 185,741 \$ 153,138

The balance of the HMDA revenue for 1999 and 1998 was received from sales to the public 44,912 33,891

Uniform Bank Performance Report (UBPR)

	1999	1998
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The Council coordinated and provided certain administrative support to the UBPR project. The Council received the following for operating expenses incurred in support of the UBPR project \$ 267,656 \$ 266,824

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Cash Flows for the Years Ended December 31, 1999 and 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 473,664	\$ (155,257)
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,154	32,106
(Increase) decrease in accounts receivable from member organizations	292,482	41,269
(Increase) decrease in other accounts receivable	(123,104)	(86,494)
(Increase) decrease in prepaid expenses	25,319	(25,319)
Increase (decrease) in accounts payable and accrued liabilities to member organizations	(405,949)	61,546
Increase (decrease) in other accounts payable and accrued liabilities	62,103	(43,623)
Increase (decrease) in accrued annual leave	59	(10,394)
Increase (decrease) in deferred rent	45,579	19,415
Net cash provided by (used in) operating activities	<u>386,307</u>	<u>(166,751)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(16,758)	0
Net cash used in investing activities	<u>(16,758)</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	369,549	(166,751)
CASH BALANCE, Beginning of year	319,844	486,595
CASH BALANCE, End of year	<u>\$ 689,393</u>	<u>\$ 319,844</u>

See notes to financial statements.

<i>Appraisal Subcommittee</i>	1999	1998															
The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received the following from the Appraisal Subcommittee for these services	\$ 190,155	\$ 156,594	(5) Deferred Rent In 1992 and 1998, the Council entered into leases for office space. These leases contain rent abatements and scheduled rent increases, which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.														
<i>Rental Space</i>			(6) Commitments The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under														
The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received the following in rent from the Board.	—	158,965	those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 1999, are as follows:														
<i>Community Reinvestment Act</i>																	
In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The council received the following from participating member agencies for operating expenses incurred in support of the CRA project.	705,864	714,696	<table border="1"> <tbody> <tr> <td>2000</td> <td style="text-align: right;">\$ 306,331</td> </tr> <tr> <td>2001</td> <td style="text-align: right;">313,281</td> </tr> <tr> <td>2002</td> <td style="text-align: right;">320,232</td> </tr> <tr> <td>2003</td> <td style="text-align: right;">330,555</td> </tr> <tr> <td>2004</td> <td style="text-align: right;">347,624</td> </tr> <tr> <td>After 2004</td> <td style="text-align: right;"><u>1,364,844</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$2,982,867</u></td> </tr> </tbody> </table>	2000	\$ 306,331	2001	313,281	2002	320,232	2003	330,555	2004	347,624	After 2004	<u>1,364,844</u>		<u>\$2,982,867</u>
2000	\$ 306,331																
2001	313,281																
2002	320,232																
2003	330,555																
2004	347,624																
After 2004	<u>1,364,844</u>																
	<u>\$2,982,867</u>																
			Rental expenses under these operating leases and the operating lease that expired in 1999 were \$572,210 and \$710,610 in 1999 and 1998, respectively.														

**Independent Auditors' Report on Internal Control over Financial Reporting
and Compliance Based upon the Audit Performed in Accordance
with *Government Auditing Standards***

To the Federal Financial Institutions
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 1999, and have issued our report thereon dated February 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control

over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we

performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

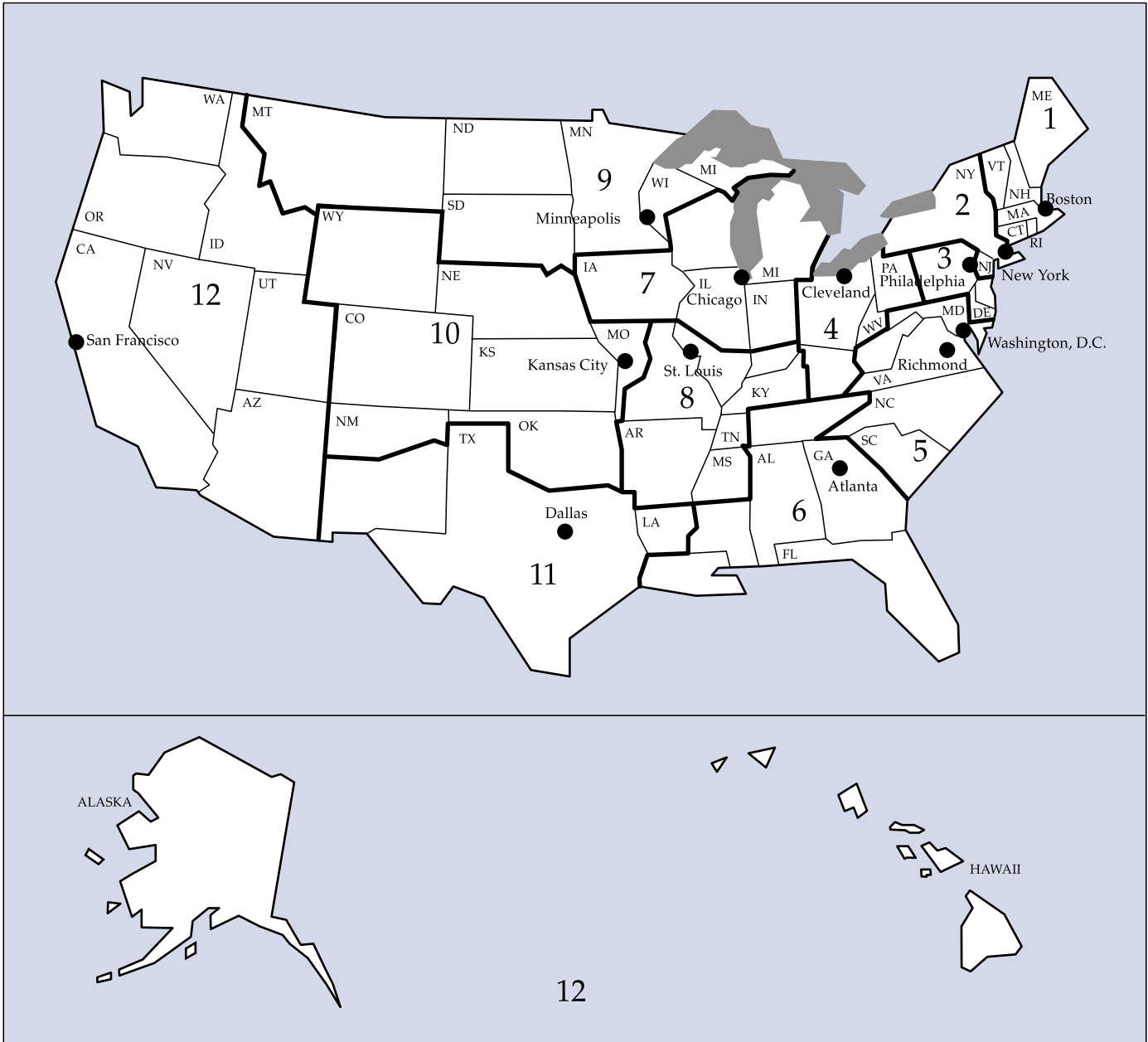
This report is intended solely for the information and use of the Members and management of the Council and the Inspector General of the Board of Governors of the Federal Reserve System, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP
February 18, 2000

APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

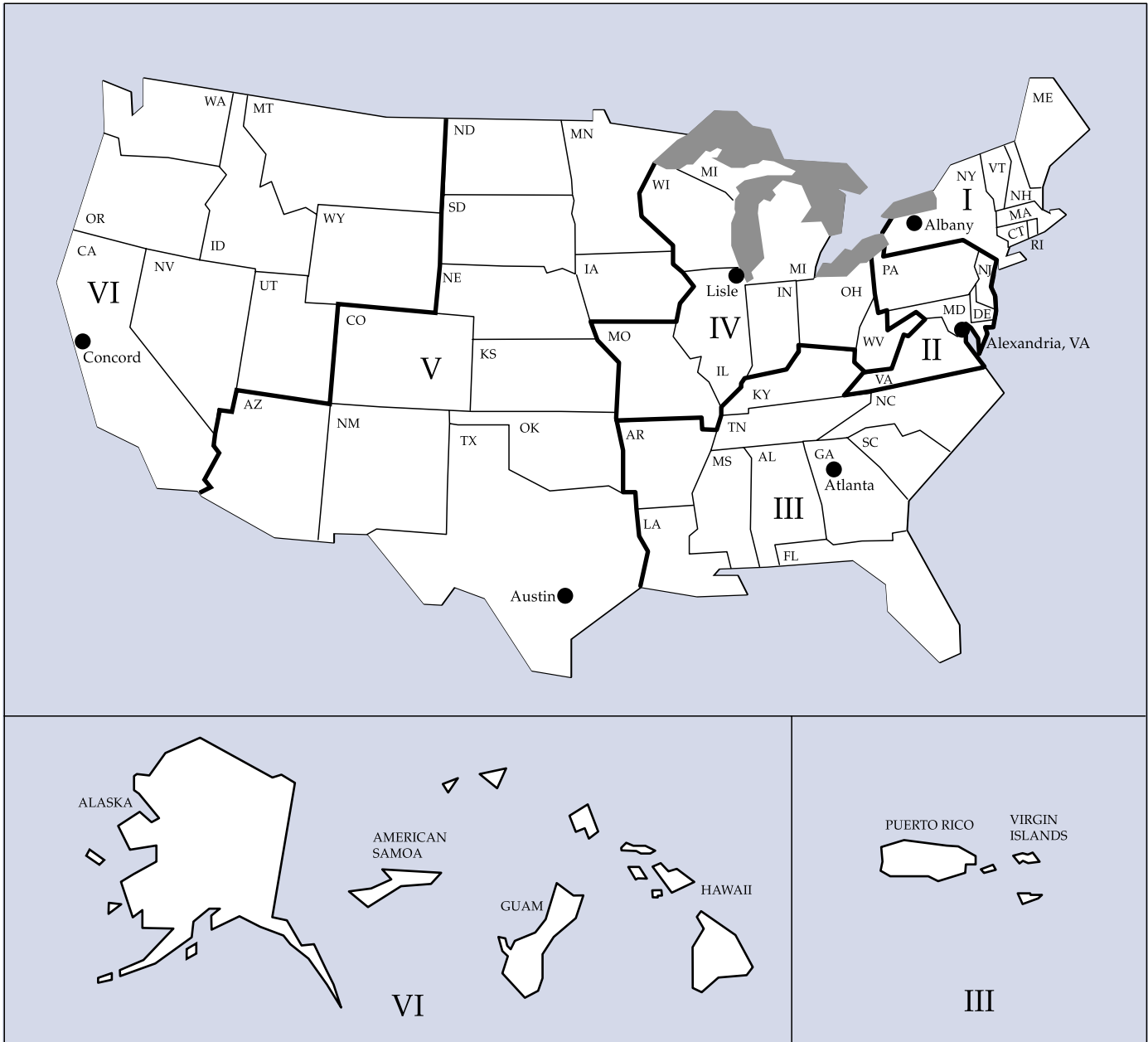
THE FEDERAL RESERVE SYSTEM DISTRICTS



FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION AND COMPLIANCE)



NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION



OFFICE OF THRIFT SUPERVISION

