



ANNUAL REPORT 2007



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LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Arlington, VA 22226
March 29, 2008

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 2007 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall A. Kroszner". The signature is written in a cursive style with a large, sweeping initial "R".

Randall Kroszner
Chairman

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MESSAGE FROM THE CHAIRMAN



Randall Kroszner

I am pleased to report that the Federal Financial Institutions Examination Council (FFIEC) continued its high level of performance and productivity throughout 2007. The Council continued to advance its mission of promoting uniformity and consistency in the supervision of financial institutions. The FFIEC also continued to foster communication, cooperation, and coordination among member banking agencies that make up the Council, its task forces, and the State Liaison Committee.

Details on the 2007 achievements are included later in this report in the Record of Council Activities and Activities of the Interagency Staff Task Forces. I would like to cite here, however, some of the most significant initiatives by the Council, its task forces, and interagency working groups during the year:

- Published a report to Congress that summarized findings related to regulations that may be outdated, unnecessary, or unduly burdensome on insured depository institutions, pursuant to Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996.
- Published a revised *Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual* to ensure it remains a current resource for examiners and bankers. In addition, updated the BSA InfoBase on the FFIEC's website to incorporate the BSA Examination Manual and additional resource documents. Developed a new conference addressing emerging risks and supervisory approaches related to BSA. Over 130 participants attended from the member banking agencies, the Financial Crimes Enforcement

Network, and the Office of Foreign Assets Control.

- Updated the FFIEC's Information Security Booklet, part of the FFIEC's Information Technology Examination Handbook. The booklet describes how a financial institution should protect and secure the systems and facilities that process and maintain information. It also includes new or revised material on authentication, risk assessments, monitoring programs, software trustworthiness, "malware," wireless technology, remote access, and trust services.
- Sponsored an information technology conference for the banking agencies' examination staff to explore emerging risks and industry best practices.
- Fostered the continued refinement of protocols for supervisory communications in emergency situations. The protocols are updated quarterly and tested at least annually with key supervisory personnel.
- Issued pandemic guidance for use by financial institutions in identifying the continuity planning that should be in place to minimize the potential adverse effects of a pandemic event.
- Approved an interagency effort to develop a more streamlined and consumer friendly approach for handling consumer questions and complaints.
- Coordinated efforts with the Federal Emergency Management Agency on policy issues concerning flood insurance coverage for condominiums and construction loans.
- Established working groups to

update examination procedures for several consumer compliance regulations.

- Began redefining the interagency consumer compliance rating system.
- Continued modifications to enhance the FFIEC's Central Data Repository (CDR) system. These enhancements included the migration of the FFIEC's Uniform Bank Performance Report (UBPR).
- Facilitated a review of the information and schedules that are required to be filed by an insured depository institution in the Call Report and Thrift Financial

Report as mandated by Section 604 of the Financial Services Regulatory Relief Act of 2006.

- Delivered training to more than 2,900 state and federal employees, including continuation of the broad-based Supervisory Updates and Emerging Issues conferences and advanced instruction on credit analysis, cash flow construction, fraud, and anti-money laundering.
- Improved access to the UBPR by making it public sooner and increased the frequency of updates via the FFIEC website. Several pages of the UBPR were updated to provide detailed

information for construction and permanent real estate loans in areas such as concentrations of credit, past due and loan commitments.

I am extremely proud of the significant accomplishments that the FFIEC and its task forces achieved in cooperation with the State Liaison Committee in 2007. I am also pleased with our continued communications with other supervisory authorities. We will continue our efforts to work together on an interagency basis to advance our mission of promoting uniformity and consistency in the supervision of our financial institutions.

OVERVIEW OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL (FFIEC) OPERATIONS

The FFIEC 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, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision and to make recommendations to promote uniformity in the supervision of financial institutions. In accordance with the Financial Services Regulatory Relief Act of 2006, a representative state regulator was added as a member of the FFIEC in October 2006. 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 member banking agencies represented on the Council and makes those schools available to employees of state banking agencies that supervise 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.

Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 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 former 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 six 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 Board of the National Credit Union Administration, the Director of the Office of Thrift Supervision, and the Chairman of the State Liaison Committee. To encourage the application of uniform examination principles and standards by the state and federal supervisory authorities, the Council established, in accordance with the requirement of the statute, an advisory State Liaison Committee.

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

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

The Council also established the Legal Advisory Group, composed of the general or chief counsel of each of the member banking agencies, to provide support to the Council and staff in the substantive areas of concern; and the Agency Liaison Group, composed of senior officials responsible for coordinating the efforts of their respective banking agencies' staff members. The task forces and the Legal Advisory Group provide research and analytical papers and proposals on the issues that the Council addresses.

Administration of the Council

The Council holds regular meetings at least twice a year. It holds other meetings whenever called by the Chairman or three or more Council members.

The Council's activities are funded in several ways. Most of the Council's funds are derived from assessments on its five constituent banking agencies. The Council also receives reimbursement for the services it provides to support preparation of the quarterly UBPR. It receives tuition fees from non-agency attendees to cover some of the costs associated with its examiner education program.

In 2007, the Federal Reserve Board provided budget and accounting services to the Council, and the Federal Reserve's Senior Associate Director for Finance served as the Council's controller. The Council is supported by a small, full-time administrative staff in its operations office and in its examiner education program, which are located at the Council's examiner training facility in Arlington, Virginia. Each Council staff member is detailed from one of the five member banking agencies represented on the Council but is considered an employee of the Council.

RECORD OF COUNCIL ACTIVITIES



The Examination Council in Session.

The following section is a chronological record of the official actions taken by the FFIEC during 2007 pursuant to the Federal Financial Institutions Examination Council Act of 1978, as amended, and the HMDA.

March 14, 2007

Action. 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 and staff of the five member banking agencies.

March 14, 2007

Action. Approved the 2006 annual report of the Council to the Congress.

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

March 16, 2007

Action. Accepted the annual external audit report.

Explanation. The Council is audited

by an outside accounting firm annually. The audit report includes a review of the Council's financial statements as well as a report on internal controls and compliance with government accounting standards.

March 26, 2007

Action. Approved the issuance of the Council's annual interagency awards.

Explanation. The Council has an interagency awards program that recognizes individuals of the member banking agencies who

have provided outstanding service to the Council on interagency projects and programs during the previous year.

March 30, 2007

Action. Approved the CDR steering committee's request to award specific task orders that will enhance the capability of the CDR regarding bank structure data, the UBPR, and new data series.

Explanation. The Council is required to approve any task order that exceeds a specific dollar amount.

June 29, 2007

Action. Approved the two-year appointment of Mick Thompson, the Oklahoma State Banking Commissioner, to serve as a member of the State Liaison Committee.

Explanation. In accordance with the FFIEC's Rules of Operations, the Council appoints two of the State Liaison Committee members. The remaining three members are designated by the Conference of State

Bank Supervisors, the American Council of State Savings Supervisors, and the National Association of State Credit Union Supervisors.

September 13, 2007

Action. Approved the formation of an interagency working group to identify best practices related to the banking agencies' consumer complaint process.

Explanation. The working group will identify areas of common approach and best practices and will explore the possibility of engaging a third party consultant to advise on the most effective and efficient system for the banking agencies to consider.

September 13, 2007

Action. Approved the CDR steering committee's request to award a task order for UBPR formulas to be moved into the CDR.

Explanation. The Council is required to approve task orders that exceed a specific dollar amount.

October 15, 2007

Action. Approved the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) report for distribution to Congress.

Explanation. The EGRPRA Report to Congress summarizes the efforts of the banking agencies to review all of their regulations, using notice and comment procedures, in order to identify those that impose unnecessary regulatory burden on insured depository institutions and eliminate such regulations, if appropriate. The banking agencies are required to perform this review every ten years.

December 4, 2007

Action. Approved the 2008 Council budget.

Explanation. The Council is required to approve the annual budget.

STATE LIAISON REPORT

The State Liaison Committee consists of five representatives of state banking agencies that supervise financial institutions. The representatives are appointed for two-year terms. A State Liaison Committee member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the State Liaison Committee elects one of its members to serve as chair for twelve months. The Council elects two of the five members. The American Council of State

Savings Supervisors, the Conference of State Bank Supervisors, and the National Association of State Credit Union Supervisors designate the other three members. A list of the State Liaison Committee members appears in Appendix D of this report.

The Financial Services Regulatory Relief Act of 2006 made the Chairman of the State Liaison Committee a voting member of the council. With the passage of this act, the State Liaison Committee appointed

state supervisors to represent the state system on all task forces and working groups. The State Liaison Committee's involvement with such groups enables state regulators to participate in substantive policy discussions on a broad range of important regulatory subjects, reflecting the spirit and intent of Congress in establishing the State Liaison Committee. The Conference of State Bank Supervisors serves as the primary liaison to the FFIEC for all administrative matters.

ACTIVITIES OF THE INTERAGENCY STAFF TASK FORCES

Task Force on Consumer Compliance

The Task Force on Consumer Compliance (TFCC) promotes policy coordination, a common supervisory approach, and uniform enforcement of consumer protection laws and regulations. The task force identifies and analyzes emerging consumer compliance issues and develops proposed policies and procedures to foster consistency among the banking agencies. Additionally, the task force addresses legislation, regulations, and policies at the state and federal level that may have a bearing on the compliance responsibilities of the five member banking agencies.

During 2007, the task force used two standing subcommittees to help promote its mission: the Community Reinvestment Act (CRA) Subcommittee and the HMDA/CRA Data Collection Subcommittee. The TFCC also creates ad hoc working groups to handle particular projects and assignments. In 2007, the task force welcomed a representative from the State Liaison Committee as a member and participant in task force matters. The task force meets monthly to address and resolve common issues in compliance supervision. While significant issues or recommendations are referred to the FFIEC for action, the FFIEC has delegated to the task force the authority to make certain decisions and recommendations.

2007 Initiatives

CRA Subcommittee Activities

The Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation adjusted the asset thresholds, based on the consumer

price index, for small- and intermediate-sized banks.

The banking agencies issued for comment revisions to the 2001 CRA interagency questions and answers (Q&As). The banking agencies reviewed the comments received and will issue the final Q&As in 2008.

HMDA/CRA Data Collection Subcommittee Activities

The subcommittee completed the revision of the FFIEC's website by enhancing the website and improving accessibility.

Flood Insurance

The banking agencies coordinated with FEMA to draft interagency questions and answers regarding flood insurance for condominiums and for construction loans. In 2008, the banking agencies will release the revised Q&As for comment.

Regulation DD

The task force established a working group to update the Regulation

DD (Truth in Savings) examination procedures. After amending the procedures for issues related to bounce protection, the working group is now incorporating changes related to electronic disclosures.

Regulation E

The task force established a working group to update the Regulation E (Electronic Funds Transfer) examination procedures.

Electronic Disclosures for Regulations M and Z Examination Procedures

The task force established a working group to update Regulation M (Consumer Leasing Act), and Regulation Z (Truth in Lending Act) examination procedures related to electronic disclosures.

Compliance Ratings Definitions

The task force assigned staff from each agency to work on redefining the interagency consumer compliance rating system used as part of the examination process. The revised



Task Force on Consumer Compliance meeting.

ratings were field tested in November 2007 and the working group is compiling the results of the test.

Fair Credit Reporting Act

The task force assigned staff from each agency to develop procedures for the sections of the Fair and Accurate Credit Transaction Act (FACTA) that become effective in 2008.

Consumer Complaints

The task force is overseeing the work of an interagency group charged with enhancing the experience of consumers who have complaints and leveraging interagency resources to maximize the efficiency of the consumer complaint processing function.

John Warner National Defense Authorization Act

The task force established a working group to develop examination procedures for the Talent-Nelson amendments to the John Warner National Defense Authorization Act.

Task Force on Examiner Education

Responsible for overseeing the FFIEC's examiner education program on behalf of the Council, the Task Force on Examiner Education promotes interagency education through timely, cost-efficient, state-of-the-art training programs for agency examiners and staff. The task force develops programs on its own initiative and in response to requests from the Council or other Council task forces. Each fall, it develops a program calendar based on training demand from the five member agencies and state financial institution regulators. The task force also oversees the delivery and evaluation of programs throughout the year. During the past year, over 2,900 regulatory staff members attended training programs. (See the table for details of participation by program and agency.) In 2007, the task force welcomed a representative from the



Task Force on Examiner Education meeting.

State Liaison Committee as a member and participant in task force matters.

tion has continued to ensure that the FFIEC's educational programs meet the needs of agency personnel, are cost-efficient, and are widely available. The task force meets monthly with the Examiner Education staff to discuss emerging topics, feedback from each course and conference,

Initiatives Addressed in 2007

The Task Force on Examiner Educa-



Dean Duelke instructs at the FFIEC's Advanced Commercial Credit Analysis School.

and to develop a framework for future conferences and courses. This partnership between the task force and the Examiner Education office continues to result in high quality, well-received training.

During 2007, the Basic International Banking Self-Study course was updated and a new CD for examiners was developed, entitled Technical Service Providers. In addition, a pilot session was held of an "Advanced BSA/AML Specialists Conference." The InfoBase architec-

ture implemented in 2001, continues to allow the FFIEC's Examiner Education office to produce training and reference materials that can be delivered on CDs directly to all examiners concurrent with, or shortly after, the issuance of inter-agency statements, Council courses, or conferences. Updates to the new BSA/AML Examination Manual and the Information Technology Examination Handbook continue to be available to examiners and the industry through its website: www.ffiec.gov.

Facilities

The Council training office and classrooms are located in the Federal Deposit Insurance Corporation Seidman Center in Arlington, Virginia. Offices, classrooms, and lodging facilities are rented from the FDIC. This facility offers convenient access to a 100-seat auditorium and a new auditorium that accommodates 250 students classroom-style. Large FFIEC conferences, formerly held in hotels around the country, are now held in this new auditorium.

2007 FFIEC Training by Agency and Sponsored—Actual, as of December 31, 2007

Event Name	FRB	FRB State Sponsored	FDIC	FDIC State Sponsored	NCUA	OCC	OTS	FCA	FHFB	Other	Total
Advanced BSA/AML Conference	31	0	29	0	10	23	9	0	0	24	126
Advanced Cash Flow Concepts & Analysis: Beyond	23	14	81	0	10	28	17	1	0	1	175
Advanced Commercial Credit Analysis	44	18	74	25	10	20	7	4	0	1	203
Anti-Money Laundering Workshop	74	42	60	46	25	0	27	0	0	25	299
Advanced Fraud Investigation Techniques for Examiners	4	1	9	0	2	2	0	0	0	0	18
Asset Management Forum	44	22	45	18	0	28	8	0	1	0	166
Capital Markets Conference	28	11	40	21	21	18	12	2	8	1	162
Capital Markets Specialists Conference	25	2	78	10	7	13	5	10	12	1	163
Cash Flow Construction and Analysis	26	12	77	22	12	26	17	1	0	2	195
Community Financial Institutions Lending Forum	14	7	3	15	7	12	8	1	0	0	67
Financial Crimes Seminar	62	37	88	27	21	0	39	0	0	9	283
Fraud Identification On-line Training	1	0	14	0	4	15	3	0	0	3	40
Information Technology Symposium	6	0	7	0	3	5	5	0	0	0	26
Information Technology Conference	78	15	41	10	22	25	26	14	3	0	234
Instructor Training School	37	3	5	0	4	13	1	1	0	1	65
International Banking School	11	2	7	1	0	4	5	0	0	0	30
International Banking (Self-Study)	7	0	7	0	0	19	10	0	0	1	44
Payment Systems Risk Conference	40	12	8	6	7	18	5	0	0	3	99
Real Estate Appraisal Review School	20	24	44	0	5	0	61	0	1	0	155
Real Estate Appraisal Review On-line	0	0	21	0	4	0	3	0	0	0	28
Supervisory Updates & Emerging Issues	104	32	28	31	14	46	36	6	5	0	302
Testifying School	1	0	21	0	1	13	0	0	0	0	36
Grand Total	680	254	787	232	189	328	304	40	30	72	2,916
Percentage	23.32	8.71	26.99	7.96	6.48	11.25	10.43	1.37	1.03	2.47	100
Combined Agency and Sponsored Percentage	32.03	NA	34.95	NA	6.48	11.25	10.43	1.37	1.03	2.47	100



Student prepares her presentation review at FFIEC's Testifying School.

Course Catalogue and Schedule

The course catalogue and schedule are available online at www.ffiec.gov/exam/education.htm.

Additionally, a printed copy of the 2008 course catalogue and schedule are available from the Examiner Education Office. To obtain a copy, contact:

Karen K. Smith, Manager
 FFIEC Examiner Education Office
 3501 Fairfax Drive, Room B-3030
 Arlington, VA 22226-3550

Phone: (703) 516-5588

Task Force on Information Sharing

The Task Force on Information Sharing promotes the sharing of electronic information among FFIEC banking agencies in support of the supervision, regulation, and deposit insurance responsibilities of financial institution regulators. The task force provides a forum for FFIEC member banking agencies to discuss and address issues affecting the quality, consistency, efficiency, and security of interagency information sharing. Significant matters are

referred, with recommendations, to the Council for action, and the task force has delegated authority from the Council to take certain actions.

To the extent possible, the banking agencies build on each other's

information databases to minimize duplication of effort and promote consistency. The banking agencies participate in a program to share, in accordance with agency policy, electronic versions of their reports of examination, inspection reports, and other communications with financial institutions. The banking agencies also provide each other with access to their organizations' structure, financial, and supervisory information on their regulated entities. The task force maintains a "Data Exchange Summary" listing the data files exchanged among FFIEC banking agencies and a repository of communications and documents critical to information sharing.

Task force members consist of representatives from FFIEC banking agencies. In 2007, the task force welcomed a representative from the State Liaison Committee as a member and participant in task force matters. Monthly meetings are held to set standards, resolve issues related to information sharing and to review the actions of its two working groups. The task force has estab-



Task Force on Information Sharing meeting.

lished one working group to address technology-development issues and another working group to perform interagency reconciliation of financial institution structure data. In addition, the task force receives demonstrations and reports on agency, financial industry, and other FFIEC initiatives pertaining to technology development, including the production and development status of the interagency CDR.

Initiatives Addressed in 2007

Technology Issues

The chief initiative of the task force is to identify and implement technologies to make the sharing of interagency data more efficient and to accommodate changes in agency databases and technologies. The task force's Technology Working Group meets monthly to develop technological solutions to common data-sharing issues among the banking agencies. The working group coordinates the automated transfer of data files among the banking agencies and suggests better and more efficient ways to share financial and supervisory data. The working group also maintains a task scope matrix to identify and provide status reports on all outstanding work group projects and an inventory of possible future technology projects. In addition, the working group continues to develop necessary links and processes to exchange electronic documents and to store documents and critical materials on interagency information exchanges in the collaborative web site repository.

High-speed T1 communication lines linking the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency have eliminated the use of magnetic tapes or disks for sharing electronic data among these banking agencies. Further research is being conducted to ensure efficiency of data utiliza-

tion through the reduction of volume and duplication of efforts. New technologies are being implemented in improving data sharing.

In 2007, the working group continued to work on long-term projects related to the Federal Reserve Board's new bulk data transfer facility, National Information Center (NIC) Architecture Redesign Initiative, and changes to NIC tables to implement the Structure Processing Application. Completed projects included a secure connection between the Federal Reserve Board and the National Credit Union Administration, a new Standards Document, and an interagency project plan integrating the banking agencies information sharing initiatives. In addition, the working group recommended standards to the interagency CDR, which were adopted.

Structure Data Reconciliation

The task force's Structure Data Reconciliation Working Group (SDRWG) continued to reconcile structure data about financial institutions regulated by FFIEC banking agencies to ensure that the infor-

mation the banking agencies report is consistent and accurate. The SDRWG's quarterly reconciliements have greatly resolved data discrepancies among the banking agencies.

Collaborative Website

The Information Sharing Task Force and its working groups use a collaborative web site to share information among the FFIEC banking agencies. In 2007, the web site license was renewed to maintain the repository of documents and other critical materials pertaining to interagency information exchanges.

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. The task force helps to develop interagency uniformity in the reporting of periodic information that is needed for effective supervision and other public policy



Central Data Repository Steering Committee meeting.

purposes. As a consequence, the task force is concerned with issues such 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; and the assessment of reporting burden. In addition, the task force works with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help the task force carry out its responsibilities, working groups are organized as needed to handle specialized or technical accounting, reporting, instructional, and processing matters. In 2007, the task force welcomed a representative from the State Liaison Committee as a member and participant in task force matters.

Initiatives Addressed in 2007

Reporting Requirements for the Consolidated Reports of Condition and Income and the Thrift Financial Report

During January 2007, the task force evaluated comments received on proposed revisions to the Call Reports for banks and the Thrift Financial Report for savings associations that had been issued for public comment in October 2006. The proposal included revisions to both reports involving data for deposit insurance assessment purposes and large denomination Individual Retirement Account and Keogh Plan time deposits. The proposal also included the addition of new Call Report data items pertaining to residential mortgages with negative amortization features as well as assets and liabilities accounted for at fair value under new fair value option accounting and measurement

standards. These proposed revisions were scheduled to take effect March 31, 2007, with a transition period until March 31, 2008, for the assessment-related changes. In response to comments, the task force agreed to make certain modifications to the proposal and to move forward with the two-step implementation schedule. In February 2007, the task force approved, and the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision (the banking agencies) published, a final Paperwork Reduction Act (PRA) Federal Register notice on these reporting revisions. The OMB approved the revisions and the implementation schedule in March 2007.

During January 2007, the task force, in consultation with the banking agencies' capital policy staffs, also developed proposed revisions to the regulatory capital schedules in the Call Report and the Thrift Financial Report for those institutions electing to adopt the banking agencies' proposed Basel IA risk-based capital rules. Under this proposal, Basel IA institutions would report the risk-weighting of on-balance-sheet assets, the credit conversion and risk-weighting of derivatives and off-balance-sheet items, and the calculation of total risk-weighted assets in separate new sections of the regulatory capital schedules in these two reports. In February 2007, the task force approved, and the banking agencies published, an initial PRA Federal Register notice on the Basel IA reporting proposal. In light of the banking agencies' July 2007 agreement to issue a proposal to adopt a standardized approach under the advanced Capital Adequacy Framework (Basel II) Accord that would replace the Basel IA proposal, agency subject matter experts will develop a new regulatory capital reporting proposal for the standardized approach under the task force's oversight in 2008.

In September 2007, the task force

approved, and the banking agencies jointly published, an initial PRA Federal Register notice requesting comment on a set of proposed revisions to the Call Report, and one instructional change to both the Call Report and the Thrift Financial Report, for implementation in March 2008. The proposed Call Report changes included adding new items related to 1–4 family residential mortgage lending, modifying the trading account definition in response to the new fair value option accounting standards, expanding the schedules for the trading account and fair value measurements, adding data items on loans not held for trading to which the fair value option is applied, and revising the threshold for reporting significant items of other noninterest income and expense. The instructional change for the two reports involved daily average deposit reporting by newly insured banks for deposit insurance assessment purposes. The comment period for these proposed revisions ended on November 13, 2007. After considering the comments received, the task force agreed not to proceed with certain new fair value-related items and to make the reporting of several new items optional for the March 31, 2008, report date and required beginning June 30, 2008. The task force approved a final PRA Federal Register notice for publication by the banking agencies in January 2008 and subsequently notified institutions about the revisions, which OMB must approve before they become final.

Under the auspices of the task force, the staffs of the banking agencies completed a review of "the information and schedules that are required to be filed by an insured depository institution" in the Call Report and the Thrift Financial Report, which was mandated by Section 604 of the Financial Services Regulatory Relief Act of 2006. The task force surveyed 165 user groups within the banking agencies and state supervisory authorities to identify the purposes for which each group uses

each reported data item, the extent of usage for each item, and the frequency with which each item is needed. The survey was completed in August and the results were evaluated by an interagency working group that presented its findings to the task force, which reported on the results of the review to the FFIEC principals in October 2007. Section 604 also requires that, after completing the review of the reports, the banking agencies are to reduce or eliminate the continued collection of information that they determine is “no longer necessary or appropriate.” In 2008, the task force will consider the information received from survey respondents on the usage of the data in these two reports to determine where possible burden-reducing revisions may be made.

The task force conducted monthly interagency conference calls during 2007 to discuss Call Report instructional matters and related accounting issues to reach uniform interagency positions on these issues.

Central Data Repository (CDR)

During 2007, the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency (the banking agencies) continued to devote significant staff resources to enhancing the CDR for processing the quarterly Call Reports filed by insured commercial banks and state-chartered savings banks. The banking agencies signed a revised Memorandum of Understanding in 2007. The most significant changes in the MOU are the inclusion of the Office of Thrift Supervision as a partner in the project and a new cost sharing agreement.

The banking agencies improved the integration of the CDR with the Federal Reserve’s National Information Center, implemented a new website that provides Call Report data more quickly to the public, improved the CDR help desk operations, deployed an online analytical processing tool to enhance analytical capabilities for

agency staff, and evaluated the use of new Internet protocols to improve data delivery to the public. The banking agencies also worked with the contractor to continue development of the UBPR within the CDR.

The banking agencies undertook significant efforts during the year to define and evaluate the costs and benefits of enhancing the CDR to allow adding new data series to the system and improve the staff’s ability to manage information within the system. In December 2007, the banking agencies decided to enhance the system’s metadata management capabilities and usability and to make other high priority changes. The banking agencies decided not to proceed with extending the CDR to handle new data series at this time.

Other Activities

During 2007, an interagency Data Collection Group of subject matter experts evaluated comments received on proposed regulatory capital reporting requirements associated with the implementation of Basel II. These reporting requirements would apply to U.S. banks, savings associations, and bank holding companies that qualify for and adopt, or are qualifying to adopt, the advanced internal ratings-based (AIRB) approach for credit risk and the advanced measurement approaches (AMA) for operational risk under Basel II. The banking agencies issued the proposed regulatory reporting requirements, designated the FFIEC 101 report, in September 2006 concurrently with the joint notice of proposed rulemaking seeking public comment on this new risk-based capital framework. After considering the comments, the Data Collection Group modified the proposed report to address concerns about reporting burden and questions raised about the reporting requirements, including eliminating three schedules and several hundred reportable data items, lengthening the submission period for the report during an institution’s parallel run

period, and allowing more data items to be reported on an optional basis. Certain changes to the reporting requirements and instructions were also made in response to changes the banking agencies made in their final rules for the AIRB and AMA risk-based capital framework.

In December 2007, the task force approved the revised Basel II reporting requirements and a final PRA Federal Register notice, which the banking agencies published in January 2008. OMB must approve these reporting requirements before the banking agencies can implement the new FFIEC 101 report beginning June 30, 2008. The reporting requirements consist of two publicly available schedules and 17 confidential schedules (one of which includes two operational risk data items that would also be publicly available). However, these data would be available for an individual reporting institution only for periods after it has completed its parallel run. The publicly available data items provide summary information about an institution’s capital elements (risk-based capital ratio numerators) and risk-weighted asset calculations (denominator). The schedules that will not be publicly disclosed contain more detailed, but still aggregated, information about the key drivers of the institution’s Basel II capital calculations.

In November 2007, the task force began considering proposed revisions to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (the FFIEC 002 report). These revisions would incorporate certain changes into the FFIEC 002 report that were previously made to the bank Call Report with respect to data on real estate loans, credit derivatives, fair value measurements, and, for Federal Deposit Insurance Corporation-insured branches, the deposit insurance assessment base. In January 2008, the task force approved, and the Federal Reserve Board published, an initial PRA Federal Register notice requesting com-

ment on these proposed revisions to the FFIEC 002 report for implementation in June 2008.

Task Force on Supervision

The Task Force on Supervision coordinates and oversees matters relating to safety-and-soundness supervision and examination of depository institutions. It provides a forum for the member banking agencies to promote quality, consistency, and effectiveness in examination and supervisory practices and to reduce unnecessary 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 agree. Meetings are held regularly to address and resolve common supervisory issues. In 2007, the task force welcomed a representative from the State Liaison Committee as a member and participant in task force matters. The task force has established and maintains supervisory communication protocols to be used in emergencies. These protocols are periodically tested through table-top exercises with task force members and key supervisory personnel.

The task force has three standing subcommittees:

- The Capital Subcommittee serves as a forum for senior policy staff members to discuss various initiatives pertaining to the banking agencies' regulatory capital standards.
- The Information Technology (IT) Subcommittee serves as a forum to address information systems and technology issues as they relate to financial institutions. The IT Subcommittee oversees and administers the FFIEC's Technology Service Provider and Shared Application Software Review (SASR) programs. Through the FFIEC's Multi-Regional Data Processing Ser-

vice (MDPS) program, the banking agencies conduct joint information technology examinations of the largest technology service providers and other entities that provide critical banking services. The SASR program provides a mechanism for the banking agencies to review and share information on mission-critical software applications, such as loans, deposits, general ledger systems, and other critical software tools that are used by a large number of financial institutions. These reviews can help the banking agencies identify potential systemic risks and provide examiners with information that can reduce time and resources needed to examine the software at each of the user financial institutions.

- The BSA/AML Working Group seeks to enhance coordination of BSA/AML training, guidance, and policy. The coordination includes continuing communication between federal and state banking agencies and the Financial Crimes Enforcement Network. The BSA/AML Working Group builds on existing efforts and works to strengthen the activities that are already being pursued by other formal

and informal interagency groups providing oversight of various BSA/AML matters. BSA/AML training, guidance, and policy includes:

- (1) procedures and resource materials for examination purposes;
- (2) joint examiner training related to the Manual;
- (3) outreach to the banking industry on BSA/AML policy matters; and
- (4) other issues related to consistency of BSA/AML supervision.

The task force also establishes ad hoc working groups to handle individual projects and assignments, as needed.

Initiatives Addressed in 2007

Pandemic Guidance

The task force formed a pandemic working group in 2006 to help coordinate planning and supervisory efforts that may be needed during a pandemic event. In December 2007, the working group issued pandemic guidance for use by financial institutions in identifying the continuity planning that should be in place to minimize the potential adverse effects of a pandemic event. This guidance expands upon the Interagency Advisory on Influenza Pan-



Task Force on Supervision meeting.

demic Preparedness issued in March 2006. The working group also completed work products that were placed into the FFIEC Emergency Communications Protocols. These work products ranged in topic from "Database Questions for Financial Institutions" to "Supervisory Tools to Mitigate or Minimize Disruption to Financial System."

The working group hosted a tabletop exercise with the task force members in February 2007 to discuss a potential pandemic scenario. The task force members discussed how each individual agency would react, as well as how the banking agencies would respond together. Issues discussed included maintaining appropriate staffing levels; altered demands on institutions; lack of basic services such as telecommunications, or electricity; and coping with subsequent waves, better or worse, of the pandemic event.

Information Technology

Financial institutions' significant use of information technology services, whether generated internally or obtained from third-party service providers, contributes to their operational risk environment in general and their data security risk in particular. A major effort of the Information Technology subcommittee and banking agencies is maintaining the FFIEC Information Technology handbook, which was first published in 1996. The handbook consists of a series of twelve topical booklets addressing issues such as business continuity planning, information security, and electronic banking.

The IT Subcommittee, in conjunction with the Task Force on Examiner Education, sponsors an annual information technology conference for the banking agencies examination staff to explore emerging risks and industry best practices. This subcommittee hosted a MDPS examiner conference in February 2007, to discuss risk trends and supervisory strategies applicable to large technology service providers and an information

technology examiner symposium in September 2007 that developed guidance on emerging technologies that are expected to affect the banking industry.

Capital Standards

Although each of the four federal banking agencies has its own capital regulations, the task force's standing Capital Subcommittee and several of its working groups often coordinate efforts among the banking agencies to promote joint issuance of capital rules and related interpretive guidance, thereby minimizing interagency differences and reducing the potential burden on the banking industry. A major focus of the federal banking agencies has been the development of Basel II.

Over most of 2007, the banking agencies focused on issuing a final rule related to the Basel II advanced approaches. That final rule was issued on December 7, 2007. Banks may begin transitioning to the new rules after they adopt an implementation plan and have systems that comply with the final rule's qualification requirements. The banking agencies decided not to finalize an earlier proposal, the Basel IA proposal, and have instead agreed to issue a new notice of proposed rule-making that would implement the Basel II standardized approach for risk-based capital. The standardized approach is designed to enhance the risk-sensitivity of the banking agencies' existing risk-based capital rules.

BSA/AML Working Group

The BSA/AML working group published a revised BSA/AML examination manual in August 2007 that clarifies supervisory expectations and incorporates regulatory changes since the manual's first release in 2005. The revisions drew upon feedback from the banking industry and examination staff. The banking agencies continued to share information with the Financial Crimes Enforcement Network and with the Office of Foreign Assets Control.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems oversees the development and implementation of uniform interagency surveillance and monitoring systems. It provides a forum for the member banking agencies to discuss best practices to be used in those systems and to consider the development of new financial analysis tools. The task force's principal objective has been to develop and produce the UBPR. UBPRs present financial statistics and peer group comparisons of individual banks for current and historical periods. These reports are important tools for completing supervisory evaluations of a bank's condition and performance, as well as for planning onsite examinations. The banking agencies also use the data from these reports in their automated monitoring systems to identify potential or emerging problems in insured banks.

UBPRs are produced for each commercial bank and insured savings bank in the United States that is supervised by the Federal Reserve Board, the Federal Deposit Insurance Corporation, or the Office of the Comptroller of the Currency. UBPR data are also available to all state bank supervisors. While the UBPR is principally designed to meet the examination and surveillance needs of the federal and state banking agencies, the task force also makes UBPRs available to banks and the public through a public web site www.ffiec.gov. In 2007, the task force welcomed a representative from the State Liaison Committee as a member and participant in task force matters.

Initiatives Addressed in 2007

UBPR Information Available Faster

The task force implemented a new process that allows UBPR data for individual banks and peer groups to be updated at least once a week. This change will allow UBPR data



Task Force on Surveillance Systems meeting.

to reflect Call Report amendments and other revisions within a week of filing. The UBPR website will continue to be updated twice weekly during the normal Call Report filing cycle. For many banks this change will reduce a 60 day delay in receiving updated UBPR data to one week. Additionally, the task force reduced the time needed to publish final UBPR data from 25 days to 18 days.

Concentrations of Credit Data Revised

The task force revised the page of information about Concentrations of Credit to the UBPR to use a revised definition of capital. Additionally, several new categories of loans were added as well as several ratios that focus specifically on banking agency policy for concentrations of credit.

Loan Commitments; Past-due Loans; Charge-offs, and Loan Mix Data Revised

The task force revised several pages to display new information about construction and permanent real estate loans.

Peer Group Definitions Improved

The task force implemented revised definitions of Metropolitan Statistical Areas (MSA) in the peer group analysis system. Revised MSA definitions will allow more precise slotting of banks in peer groups and should enhance the analytical value of peer group ratio data and percentile statistics found in the UBPR.

Enhancements Planned to the UBPR

In 2008, the task force plans several enhancements to the UBPR that will take advantage of new and existing Call Report data. The task force is also participating with the Task Force on Reports and the CDR Steering Committee in implementing a move of UBPR processing to the CDR.

Information Available on the UBPR Website

UBPR Availability

To provide broad public access to information about the financial condition of insured banks, the task

force publishes a final quarterly version of the UBPR for each institution, typically within fifteen to twenty days of the Call Report due date. Additionally, early UBPR data is typically available fifteen days before the Call Report filing date. Bankers and the general public may access these reports on the FFIEC website at no charge. In addition to publishing current reports, the task force regularly refreshes all historic UBPR data on the website.

Other UBPR Reports

Several web-based statistical reports supporting UBPR analysis are also updated on the website. These reports (1) summarize the performance of each of the UBPR's peer groups (determined by size, location, and business line), (2) detail the distribution of UBPR performance ratios for banks in each of these peer groups, (3) list the individual banks included in each peer group, and (4) compare a bank to the performance of a user-defined customer peer group.

Custom Peer Group Tool

The Custom Peer allows bankers, bank supervisors, and the general public to create custom peer groups based on financial and geographical criteria and to display all UBPR pages with peer group statistics and percentile rankings derived from a custom peer group.

Please visit <http://www.ffiec.gov/UBPR.htm> for additional information about the UBPR, including distribution schedules, descriptions of pending changes, and instructions on using online UBPR tools. Standardized UBPR quarterly data on cartridge is also available for \$400. Information on ordering items may be obtained by calling (703) 516-5732, sending an e-mail message to JSmullen@fdic.gov, or writing the Council at:

Federal Financial Institutions
Examination Council
3501 Fairfax Drive, Room D8073a
Arlington, VA 22226-3550

THE FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory banking agencies represented on the Council have primary federal supervisory jurisdiction over 17,094 domestically chartered banks, thrift institutions, and credit unions. On June 30, 2007, these financial institutions held total assets of more than \$14.9 trillion. The Board of Governors of the Federal Reserve System and the Office of Thrift Supervision also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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 to license federal branches and agencies of foreign banks and permits U.S. branches that accept only whole-sale deposits to apply for insurance with the Federal Deposit Insurance Corporation. 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 Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and various state authorities for the offices within their jurisdictions and gives the Federal Reserve Board residual examining authority over all U.S. banking operations of foreign banks.

Board of Governors of the Federal Reserve System

The Federal Reserve Board 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 Federal Reserve Board's activities that are most relevant to the work of the Council are the following:

- examining, supervising, and regulating state member banks (that is, state-chartered banks that are members of the Federal Reserve System); bank holding companies; Edge Act and agreement corporations; and, in conjunction with the licensing authorities, the U.S. offices of foreign banks;
- developing and issuing regulations, policies, and guidance applicable to organizations within the Federal Reserve Board's supervisory oversight authority; and
- approving or denying applications for mergers, acquisitions, and changes in control by state member banks and bank holding companies, applications for foreign operations of member banks and Edge Act and agreement corporations, and applications by foreign banks to establish or acquire U.S. banks and to establish U.S. branches, agencies, or representative offices.

Other supervisory and regulatory responsibilities of the Federal Reserve Board include regulating margin requirements on securities transactions, implementing certain statutes that protect consumers in credit and deposit transac-

tions, monitoring compliance with other statutes (for example, the money-laundering provisions of the Bank Secrecy Act), and regulating transactions between banking affiliates.

Policy decisions are implemented by the Federal Reserve Board and the twelve Federal Reserve Banks, each of which has operational responsibility within a specific geographical area. The twelve Reserve Bank Districts are headquartered in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. 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 the Reserve Bank's District.

National banks, which must be members of the Federal Reserve, 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 Board. Insured state-chartered banks that are not members of the Federal Reserve System are regulated and supervised by the Federal Deposit Insurance Corporation. The Federal Reserve Board 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 Board covers the expenses of its operations with revenue it generates principally from

assessments on the twelve Federal Reserve Banks.

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation is an independent agency created by Congress in 1933 to maintain stability and public confidence in the nation's financial system by insuring bank deposits and reduce the economic disruptions, examining, and supervising financial institutions and handling bank failures. Management of the Federal Deposit Insurance Corporation 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 Federal Deposit Insurance Corporation's supervisory activities are conducted by the Division of Supervision and Consumer Protection. The division is organized into six regional offices and two area offices. The regional offices are located in Atlanta, Chicago, Dallas, Kansas City, New York, and San Francisco. The two area offices are located in Boston (reports to New York) and Memphis (reports to Dallas). In addition to the regional and area offices, the Federal Deposit Insurance Corporation maintains fifty-two field territory offices for risk management and thirty-two field territory offices for compliance, with dedicated examiners assigned to the six largest financial institutions. Bank failures are handled by the Division of Resolutions and Receiverships.

The Federal Deposit Insurance Corporation insures deposits at all

insured commercial banks and savings institutions. The general coverage limit is \$100,000, with coverage for certain retirement accounts at \$250,000. The coverage limits are indexed to inflation with potential increases (in \$10,000 increments) every five years beginning January 1, 2011, if the Federal Deposit Insurance Corporation and National Credit Union Administration determine that increases are warranted. Currently, the assessment rates the Federal Deposit Insurance Corporation charges insured institutions for deposit insurance range between five and forty-three cents for every \$100 of assessable deposits. Each institution's rate depends on the degree of risk that it poses. Assessments are collected by the Deposit Insurance Fund which the Federal Deposit Insurance Corporation oversees and manages.

Any depository institution that receives deposits may be insured after application to and examination and approval by the Federal Deposit Insurance Corporation. After considering the (1) applicant's financial history and condition, (2) adequacy of the capital structure, (3) future earnings prospects, (4) general character of the management, (5) risk presented to the insurance fund, (6) convenience and needs of the community to be served, and (7) consistency of corporate powers, the Federal Deposit Insurance Corporation may approve or deny an application for insurance.

The Federal Deposit Insurance Corporation 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. The Federal Deposit Insurance Corporation has backup enforcement authority over all insured institutions; that is, the Federal Deposit Insurance Corporation can recommend that the appro-

appropriate federal agency take action against an insured institution and may do so itself if deemed necessary.

In protecting insured deposits, the Federal Deposit Insurance Corporation 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 Federal Deposit Insurance Corporation 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

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

The main responsibilities of the National Credit Union Administration are the following:

- charter, examine, and supervise more than 5,000 federal credit unions nationwide;
- administer the National Credit Union Share Insurance Fund (NCUSIF), which insures member share accounts in more than 8,100 U.S. federal- and state-chartered credit unions; and
- manage the Central Liquidity Facility, a central bank for credit unions, which provides liquidity to the credit union system.

The National Credit Union Administration also has statutory authority

to examine and supervise NCUSIF-insured, state-chartered credit unions in coordination with state banking agencies.

The National Credit Union Administration has five regional offices across the United States that administer its responsibility to charter and supervise credit unions. Its examiners conduct on-site examinations and supervision of each federal credit union and selected state-chartered credit unions. The National Credit Union Administration is funded by the credit unions it regulates and insures.

Office of the Comptroller of the Currency

The Office of the Comptroller of the Currency is the oldest federal bank regulatory agency, established as a bureau of the Treasury Department by the National Currency Act of 1863. It is headed by the Comptroller of the Currency, 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 Office of the Comptroller of the Currency was created by Congress to charter, regulate, and supervise national banks. The Office of the Comptroller of the Currency regulates and supervises approximately 1,727 national banks and trust companies and 48 federal branches of foreign banks in the United States, accounting for about 68 percent of the total assets of all U.S. commercial banks and branches of foreign banks.

The Office of the Comptroller of the Currency seeks to ensure a banking system in which national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to

financial services and fair treatment of their customers. The Office of the Comptroller of the Currency's mission-critical programs include:

- Chartering national banks and issuing interpretations related to permissible banking activities.
- Establishing and communicating regulations, policies, and operating guidance applicable to national banks.
- Supervising the national banking system through on-site examinations, off-site monitoring, systemic risk analyses, and appropriate enforcement activities.

To meet its objectives, the Office of the Comptroller of the Currency maintains a nationwide staff of bank examiners and other professional and support personnel. Headquartered in Washington, D.C., the Office of the Comptroller of the Currency has four district offices in Chicago, Dallas, Denver and New York. In addition, the Office of the Comptroller of the Currency maintains a network of 51 field offices and 24 satellite locations in cities throughout the United States, as well as resident examiner teams in the 20 largest national banking companies and an examining office in London, England.

The Comptroller receives advice on policy and operational issues from an Executive Committee, comprised of senior agency officials who lead major business units.

The Office of the Comptroller of the Currency is funded primarily by semiannual assessments on national banks, interest revenue from its investment in U.S. Treasury securities, and other fees. The Office of the Comptroller of the Currency does not receive congressional appropriations for any of its operations.

Office of Thrift Supervision

The Office of Thrift Supervision was established as a bureau of the U. S. Department of the Treasury in 1989.

The Office of Thrift Supervision charters and is the primary regulator for all federal savings associations, and shares joint responsibility with state authorities for supervision of all state savings associations. The Office of Thrift Supervision is also the primary regulator for all savings and loan holding companies, and has been affirmed by the European Union to be the consolidated, coordinating regulator for specific holding companies conducting operations in Europe.

The mission of the Office of Thrift Supervision is to supervise savings and loan associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial service needs.

The Office of Thrift Supervision carries out its mission by (1) adopting regulations governing the thrift institution industry, (2) examining and supervising savings associations 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. The Office of Thrift Supervision also has the authority to regulate, examine, supervise, and take enforcement action against savings and loan holding companies and other affiliates, as well as entities that provide services to savings associations.

The Office of Thrift Supervision 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 Office of Thrift Supervision and makes final decisions on regulations governing the industry as a whole and on measures affecting individual institutions. The Director also serves as a Director of the Federal Deposit Insurance Corporation and as a Director of the Neighborhood Reinvestment Corporation.

The agency conducts its operations from its headquarters in Washington, D.C., and five regional offices located in Jersey City, New Jersey (Northeast Region); Atlanta, Georgia (Southeast Region); Chicago, Illinois (Central Region); Dallas, Texas (Midwest Region); and Daly City, California (West Region).

The Office of Thrift Supervision uses no congressional appropriations to fund any of its operations. It draws its revenues primarily through fees and assessments levied on the institutions it regulates.

ASSETS, LIABILITIES, AND NET WORTH of U.S. Commercial Banks, Thrift Institutions and Credit Unions
as of June 30, 2007¹

Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks ⁵	Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member		OTS-Regulated ⁴		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
						Federal Charter	State Charter			
Total assets	14,877	7,058	1,434	1,914	1,880	1,490	14	347	412	328
Total loans and receivables (net)	8,360	3,928	871	1,286	475	1,079	9	208	277	227
Loans secured by real estate ⁶	4,904	2,101	531	871	30	938	9	168	138	118
Consumer loans ⁷	1,226	641	74	158	0	91	0	15	139	108
Commercial and industrial loans	1,552	829	181	209	248	55	0	25	2	3
All other loans and lease receivables ⁸	763	403	95	64	197	2	0	2	0	0
LESS: Allowance for possible loan and lease losses	85	46	10	16	0	7	0	2	2	2
Federal funds sold and securities purchased under agreements to resell	821	444	42	60	244	20	0	8	2	1
Cash and due from depository institutions ⁹	674	315	86	57	66	25	1	8	64	52
Securities and other obligations ¹⁰	2,251	1,016	269	347	191	267	3	91	51	34
U.S. government obligations ¹¹	564	91	56	132	23	135	2	57	43	27
Obligations of state and local governments ¹²	152	72	24	43	0	10	0	5	0	0
Other securities	1,533	853	188	173	168	122	0	20	8	6
Other assets ¹³	2,770	1,354	166	163	904	127	1	32	18	15
Total liabilities	13,513	6,383	1,276	1,699	1,880	1,329	12	280	365	291
Total deposits and shares ¹⁴	9,626	4,395	1,029	1,439	961	939	11	221	351	280
Federal funds purchased and securities sold under agreements to repurchase	1,187	603	87	81	332	69	0	13	2	0
Other borrowings ¹⁵	1,707	849	112	148	253	287	1	40	9	8
Other liabilities ¹⁶	996	536	48	31	334	34	0	6	4	3
Net worth¹⁷	1,363	675	158	215	0	161	2	67	48	37
Memorandum: Number of institutions reporting	17,094	1,673	881	4,784	253	756	80	429	5,118	3,120

Footnotes to Tables

- 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 Share 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. Excludes Edge Act and agreement corporations that are not subsidiaries of U.S. commercial banks.
- Reflects 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.
- Data are for federally insured natural person credit unions only.
 - Data for thrift institutions regulated by the OTS are unconsolidated except for operating and finance subsidiaries.
 - These institutions are not required to file reports of income.
 - Includes loans secured by residential property, commercial property, farmland (including improvements) and unimproved land; and construction loans secured by real estate.
 - Includes 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.
- Includes loans to financial institutions, for purchasing or carrying securities, to finance agricultural production and other loans to farmers (except those secured by real estate), to states and political subdivisions and public authorities, and miscellaneous types of loans.
 - Includes 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).

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions for Twelve Months Ending
June 30, 2007¹

Billions of dollars

Item	Total	U.S. Commercial Banks ²			Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member	OTS-Regulated ⁴		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
					Federal Charter	State Charter			
Operating income	1,007	559	113	145	119	1	19	28	23
Interest and fees on loans	568	287	59	95	80	1	13	18	15
Other interest and dividend income	176	106	19	20	17	0	4	5	5
All other operating income	262	165	35	29	22	0	2	5	4
Operating expenses	789	432	87	111	98	0	16	25	20
Salaries and benefits	171	94	21	25	15	0	4	7	5
Interest on deposits and shares	257	128	28	43	33	0	7	10	8
Interest on other borrowed money	125	79	11	10	22	0	2	1	0
Provision for loan and lease losses	40	24	3	6	5	0	0	1	1
All other operating expenses	195	106	24	27	23	0	3	7	5
Net operating income	216	127	26	34	21	0	3	3	2
Securities gains and losses	4	0	0	0	4	0	0	0	0
Income taxes	68	40	8	11	8	0	1	0	0
Net income	151	87	18	23	16	0	2	3	2
Memorandum: Number of institutions reporting	16,841	1,673	881	4,784	756	80	429	5,118	3,120

10. Includes government and corporate securities, including mortgage-backed securities and obligations of states and political subdivisions and of U.S. government agencies and corporations.

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

12. 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."

13. 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.

14. Includes 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.

15. Includes 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.

16. Includes 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.

17. Includes capital stock, surplus, capital reserves, and undivided profits.

NOTE: Data are rounded to nearest billion. Consequently, some information may not reconcile precisely. Additionally, balances less than \$500 million will show as zero.

APPENDIX A: RELEVANT STATUTES

Federal Financial Institutions Examination Council Act

12 U.S.C. § 3301. Declaration of purpose

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

12 U.S.C. § 3302. Definitions

As used in this chapter—

(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 association, a building and loan association, a homestead association, a cooperative bank, or a credit union.

12 U.S.C. § 3303. Financial Institutions Examination Council

(a) Establishment; composition

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, Office of Thrift Supervision,

(5) the Chairman of the National Credit Union Administration Board; and

(6) the Chairman of the State Liaison Committee

(b) Chairmanship

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

(c) Term of office

The term of the Chairman of the Council shall be two years.

(d) Designation of officers and employees

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) Compensation and expenses

Each member of the Council shall serve without additional compensation but shall be entitled to reason-

able expenses incurred while carrying out his official duties as such a member.

12 U.S.C. § 3304. Costs and expenses of Council

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.

12 U.S.C. § 3305. Functions of Council

(a) Establishment of principles and standards

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) Making recommendations regarding supervisory matters and adequacy of supervisory tools

(1) The Council shall make recommendations for uniformity in other supervisory matters, such as, but not limited to, classifying loans subject to country risk, identifying financial institutions in need of special supervisory attention, and evaluating the soundness of large loans that are shared by two or more financial institutions. In addition, the Council shall make recommendations regarding the adequacy of supervisory tools for determining the impact of holding company operations on the financial institutions within the holding company and shall consider the

ability of supervisory agencies to discover possible fraud or questionable and illegal payments and practices which might occur in the operation of financial institutions or their holding companies.

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

(c) Development of uniform reporting system

The Council shall develop uniform reporting systems for federally supervised financial institutions, their holding companies, and non-financial institution subsidiaries of such institutions or holding companies. The authority to develop uniform reporting systems shall not restrict or amend the requirements of section 781(i) of Title 15.

(d) Conducting schools for examiners and assistant examiners

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) Affect on Federal regulatory agency research and development of new financial institutions supervisory agencies

Nothing in this chapter 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) Annual report

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

(g) Flood insurance

The Council shall consult with and assist the Federal entities for lending regulation, as such term is defined in section 4121(a) of Title 42, in developing and coordinating uniform standards and requirements for use by regulated lending institutions under the national flood insurance program.

12 U.S.C. § 3306. State liaison

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.

Members of the Liaison Committee shall elect a chairperson from among the members serving on the committee.

12 U.S.C. § 3307. Administration

(a) Authority of Chairman of Council

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) Use of personnel, services, and facilities of Federal financial institutions regulatory agencies, Federal Reserve banks, and Federal Home Loan Banks.

In addition to any other authority conferred upon it by this chapter, in carrying out its functions under this chapter, 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 therefore.

(c) Compensation, authority, and duties of officers and employees; experts and consultants

In addition, the Council may—

(1) subject to the provisions of Title 5 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 chapter, 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 this chapter.

12 U.S.C. § 3308. Access to books, accounts, records, etc., by Council

For the purpose of carrying out this chapter, the Council shall have access to all books, accounts, records, reports, files, memorandums, 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.

12 U.S.C. § 3309. Risk management training

(a) Seminars

The Council shall develop and administer training seminars in risk management for its employees and the employees of insured financial institutions.

(b) Study of risk management training program

Not later than end of the 1-year period beginning on August 9, 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.

12 U.S.C. § 3310. 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.

12 U.S.C. § 3311. Required review of regulations

(a) In general

Not less frequently than once every 10 years, the Council and each appropriate Federal banking agency represented on the Council shall conduct a review of all regulations prescribed by the Council or by any such appropriate Federal banking agency, respectively, in order to identify outdated or otherwise unnecessary regulatory requirements imposed on insured depository institutions.

(b) Process

In conducting the review under subsection (a) of this section, the

Council or the appropriate Federal banking agency shall—

(1) categorize the regulations described in subsection (a) of this section by type (such as consumer regulations, safety and soundness regulations, or such other designations as determined by the Council, or the appropriate Federal banking agency); and

(2) at regular intervals, provide notice and solicit public comment on a particular category or categories of regulations, requesting commentators to identify areas of the regulations that are outdated, unnecessary, or unduly burdensome.

(c) Complete review

The Council or the appropriate Federal banking agency shall ensure that the notice and comment period described in subsection (b)(2) of this section is conducted with respect to all regulations described in subsection (a) of this section not less frequently than once every 10 years.

(d) Regulatory response

The Council or the appropriate Federal banking agency shall—

(1) publish in the Federal Register a summary of the comments received under this section, identifying significant issues raised and providing comment on such issues; and

(2) eliminate unnecessary regulations to the extent that such action is appropriate.

(e) Report to Congress

Not later than 30 days after carrying out subsection (d)(1) of this section, the Council shall submit to the Congress a report, which shall include—

(1) a summary of any significant issues raised by public comments received by the Council and the appropriate Federal banking agencies under this section and the relative merits of such issues; and

(2) an analysis of whether the appropriate Federal banking agency involved is able to address the regulatory burdens associated with such issues by regulation, or whether such burdens must be addressed by legislative action.

Excerpts from Statute Governing Appraisal Subcommittee

12 U.S.C. § 3332. 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 related 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) Omitted.

(b) Monitoring and reviewing Foundation

The Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organi-

zational structure of the Appraisal Foundation.

12 U.S.C. § 3333. 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.

Excerpts from Home Mortgage Disclosure Act

12 U.S.C. § 2801. Congressional findings and declaration of purpose

(a) Findings of Congress

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) Purpose of chapter

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

(c) Construction of chapter

Nothing in this chapter is intended to, nor shall it be construed to, encourage unsound lending practices or the allocation of credit.

12 U.S.C. § 2803. Maintenance of records and public disclosure

(f) Data disclosure system; operation, etc.

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 2805(b) of this title) 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.

12 U.S.C. § 2809. Compilation of aggregate data

(a) Commencement; scope of data and tables

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 data under section 2803 of this title or which are exempt pursuant to section 2805(b) of this title. 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) Staff and data processing resources

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

(c) Availability to public

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

APPENDIX B: 2007 AUDIT REPORT

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INDEPENDENT AUDITORS' REPORT

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, 2007, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Council for the year ended December 31, 2006 were audited by other auditors whose report, dated March 7, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2007 financial statements present fairly, in all material respects, the financial position of the Federal Financial Institutions Examination Council as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

February 28, 2008

Member of
Deloitte Touche Tohmatsu

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheets

	As of December 31,	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 838,171	\$ 656,600
Accounts receivable from member organizations (Note 3)	1,613,866	997,342
Other accounts receivable—net (Note 2)	256,897	243,181
Total current assets	2,708,934	1,897,123
CAPITAL ASSETS		
Furniture and equipment—at cost	56,121	56,121
Central Data Repository—at cost (Note 4)	15,141,191	12,905,335
Other assets	745,110	0
Less accumulated depreciation	(5,421,241)	(2,947,171)
Net capital assets	10,521,181	10,014,285
TOTAL ASSETS	<u>\$ 13,230,115</u>	<u>\$ 11,911,408</u>
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations	\$ 1,148,794	\$ 797,093
Other accounts payable and accrued liabilities (Note 4)	1,251,530	645,438
Accrued payroll and annual leave	231,451	313,038
Deferred revenue (current portion) (Note 4)	2,497,774	2,355,548
Total current liabilities	5,129,549	4,111,117
LONG-TERM LIABILITIES		
Deferred revenue (non-current portion) (Notes 3 and 4)	8,023,407	7,658,737
Deferred rent (Note 5)	32,515	58,164
Total long-term liabilities	8,055,922	7,716,901
Total liabilities	13,185,471	11,828,018
CUMULATIVE RESULTS OF OPERATIONS	44,644	83,390
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	<u>\$ 13,230,115</u>	<u>\$ 11,911,408</u>

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Changes in Cumulative Results of Operations

	For the years ended December 31,	
	2007	2006
REVENUES		
Assessments on member organizations (Note 3)	\$ 540,813	\$ 548,800
Central Data Repository (Note 4)	5,723,376	5,650,751
Home Mortgage Disclosure Act (Note 6)	2,830,584	2,777,980
Tuition (Note 3)	2,141,331	2,066,960
Community Reinvestment Act	881,953	800,839
Uniform Bank Performance Report	585,973	595,781
Appraisal Subcommittee	216,556	189,397
Total revenues	12,920,586	12,630,508
EXPENSES		
Data processing	3,988,462	3,888,362
Professional fees (Note 4)	4,057,023	4,041,444
Salaries and related benefits	1,374,193	1,349,310
Depreciation and net losses on disposals (Note 4)	2,474,070	2,321,753
Rental of office space	516,364	469,860
Administration fees	190,800	183,000
Travel	120,181	98,582
Books and subscriptions	96,696	98,160
Other seminar expenses	21,571	11,801
Rental and maintenance of office equipment	56,598	33,293
Office and other supplies	26,686	21,026
Printing	27,099	26,210
Postage	5,075	10,571
Miscellaneous	4,514	3,555
Total expenses	12,959,332	12,556,927
RESULTS OF OPERATIONS	(38,746)	73,581
CUMULATIVE RESULTS OF OPERATIONS—Beginning of period	83,390	9,809
CUMULATIVE RESULTS OF OPERATIONS—End of period	\$ 44,644	\$ 83,390

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Cash Flows

	For the years ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ (38,746)	\$ 73,581
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,474,070	2,321,753
(Increase) decrease in assets:		
Accounts receivable from member organizations	(616,524)	811,169
Other accounts receivable	(13,717)	314,166
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	351,701	(302,307)
Other accounts payable and accrued liabilities	606,092	(836,664)
Accrued payroll and annual leave	(81,587)	15,836
Deferred revenue (current and non-current)	506,896	(1,471,662)
Deferred rent	(25,648)	(17,440)
Net cash provided by operating activities	<u>3,162,537</u>	<u>908,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(2,980,966)</u>	<u>(850,091)</u>
Net cash used in investing activities	<u>(2,980,966)</u>	<u>(850,091)</u>
NET INCREASE (DECREASE) IN CASH	181,571	58,341
CASH BALANCE—Beginning of period	<u>656,600</u>	<u>598,259</u>
CASH BALANCE—End of period	<u>\$ 838,171</u>	<u>\$ 656,600</u>

See accompanying notes to financial statements.

Notes to Financial Statements as of and for the Years Ended December 31, 2007 and 2006

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 hereinafter as member organizations, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)
- Office of Thrift Supervision (OTS)

In accordance with the Financial Services Regulatory Relief Act of 2006, a representative state regulator was added as a full voting member of the FFIEC in October 2006.

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.

Appraisal Subcommittee—The Council's financial statements do not include financial data for the Appraisal Subcommittee. 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.

All functions and responsibilities assigned to the Council under Title XI are performed directly by the Appraisal Subcommittee without any need for approval or concurrence from the Council. The Appraisal Subcommittee has its own policies and procedures and submits its own Annual Report to the President of the Senate and Speaker of the House. The Council is not responsible for any debts incurred by the Subcommittee, nor are Subcommittee funds available for use by the Council.

2. Significant Accounting Policies

The Council prepares its financial statements in accordance with accounting prin-

ciples generally accepted in the United States of America based upon accounting standards issued by the Financial Accounting Standards Board (FASB).

Revenues—Assessments made on member organizations for operating expenses and additions to property are based on expected cash needs. Amounts over- or under- assessed due to differences between actual and expected cash needs flow into "Cumulative Results of Operations" during the year and then are used to offset or increase the next year's assessment. Deficits in "Cumulative Results of Operations" can be made up in the following year's assessments.

Tuition revenue is adjusted at year-end to match expenses incurred as a result of providing education classes. For differences between revenues and expenses, member agencies are billed an additional amount or credited a refund based on each member's proportional cost for the Examiner Education budget.

Capital Assets—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. The Central Data Repository (CDR), a software project, is recorded at cost. (See Note 4)

Deferred Revenue—Deferred revenue included cash collected and accounts receivable related to the CDR. (See Note 4)

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

Reclassifications—Certain 2006 amounts have been reclassified to conform with the 2007 presentation.

Allowance for Doubtful Accounts—Accounts receivable are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables.

3. Transactions with Member Organizations

<i>Accounts Receivable</i>	2007	2006
Board of Governors of the Federal Reserve System	\$ 343,739	\$ 169,562
Federal Deposit Insurance Corporation	434,908	583,844

	2007	2006
National Credit Union Administration	97,765	63,880
Office of the Comptroller of the Currency	500,397	111,909
Office of Thrift Supervision	237,057	68,147
	\$ 1,613,866	\$ 997,342
<i>Accounts Payable and Accrued Liabilities for Member Organizations</i>		
Board of Governors of the Federal Reserve System	\$ 532,047	\$ 472,855
Federal Deposit Insurance Corporation	182,491	68,854
National Credit Union Administration	66,342	196,288
Office of the Comptroller of the Currency	344,659	37,191
Office of Thrift Supervision	23,255	21,905
	\$ 1,148,794	\$ 797,093

Operations

Assessments to member organizations for:		
Budgeted operating expenses	\$ 530,813	\$ 480,430
Undudgeted operating expenses	10,000	68,370
	\$ 540,813	\$ 548,800

The FRB provided administrative support services to the Council at a cost of: 190,800 183,000

The Council does not directly employ personnel, but rather member organizations detail personnel to support Council Operations. These personnel are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, are reimbursed to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel 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, not included in the accompanying financial statements.

Examiner Education

The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. Tuition revenue earned from member organizations was: \$2,036,000 \$1,940,815

Notes continue on the following page.

	2007	2006
<i>HMDA and CRA</i>		
Member organizations provide office space, data processing related to HMDA and Community Reinvestment Act (CRA), and printing services to the Council at an expense of:	\$ 3,945,705	\$ 3,805,041

In 2007, the Council began a rewrite of the entire HMDA processing system. The total estimated cost for the rewrite is \$3.2 million over 3.5 years. The current value of this software in process is \$745,110 as of December 31, 2007.

UBPR

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

4. Central Data Repository

In 2003, the Council entered into a ten year agreement with UNISYS, totaling approximately \$40 million, to enhance the methods and systems used to collect, validate, process, and distribute Call Report information, and to store this information in a Central Data Repository (CDR).

The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR project on the straight-line basis over its estimated useful life of sixty-three months. The Council records depreciation expenses and recognizes the same amount of deferred revenue. The value of the CDR asset includes the fully accrued and paid cost.

	2007	2006
<i>Capital Asset CDR</i>		
Beginning balance	\$12,313,244	\$11,955,244
Capital expenditures	545,196	358,000
Software in use	12,858,440	12,313,244
Software in process	2,282,751	592,091
Total asset	<u>\$15,141,191</u>	<u>\$12,905,335</u>

Other Accounts Payable and Accrued Liabilities

Payable to UNISYS for the CDR project	\$ 841,392	\$ 576,443
Other vendors unrelated to the CDR project	410,138	68,995
Total other accounts payable and accrued liabilities	<u>\$ 1,251,530</u>	<u>\$ 645,438</u>

Revenues—Central Data Repository—The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC).

	2007	2006
<i>Deferred Revenue</i>		
Beginning balance	\$10,014,285	\$11,485,947
Additions	2,235,856	850,091
Less: Revenue recognized	<u>(2,474,070)</u>	<u>(2,321,753)</u>
Ending balance	<u>\$ 9,776,071</u>	<u>\$10,014,285</u>
Current portion deferred revenue	\$ 2,497,774	\$ 2,355,548
Long-term deferred revenue	<u>7,278,297</u>	<u>7,658,737</u>
	<u>\$ 9,776,071</u>	<u>\$10,014,285</u>

<i>Total CDR Revenue</i>		
Deferred revenue	\$ 2,474,070	\$ 2,321,753
Hosting and maintenance fees	<u>3,249,306</u>	<u>3,328,998</u>
Total CDR revenue	<u>\$ 5,723,376</u>	<u>\$ 5,650,751</u>

<i>Professional Fees</i>		
Hosting and maintenance fees for the CDR project	\$ 3,249,306	\$ 3,328,998
Other professional fees unrelated to the CDR project	<u>807,717</u>	<u>712,446</u>
Total professional fees	<u>\$ 4,057,023</u>	<u>\$ 4,041,444</u>

Depreciation for the CDR project	<u>\$ 2,474,070</u>	<u>\$ 2,321,753</u>
Average monthly amortization	<u>\$ 206,173</u>	<u>\$ 193,479</u>

5. Deferred Rent

In 1998, the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases. In 2005, the Council entered into a lease for office and classroom that contains scheduled rent increases over the term of the lease. In accordance with accounting principles generally accepted in the United States, rent abatements and scheduled rent increases must be considered in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

6. Other Revenue

	2007	2006
<i>Home Mortgage Disclosure Act (HMDA)</i>		
The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA:	\$ 1,857,454	\$ 1,880,259

	2007	2006
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	699,663	589,547

The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work:	258,986	287,481
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The balance of the HMDA revenue for 2007 and 2006 was from sales to the public:	<u>14,481</u>	<u>20,693</u>
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Total HMDA	<u>\$ 2,830,584</u>	<u>\$ 2,777,980</u>
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Community Reinvestment Act (CRA)—The Council recognized revenue for support of operating expenses from the participating member agencies.

Uniform Bank Performance Report (UBPR)—The Council recognized revenue for coordinating and providing certain administrative support to the UBPR project.

Appraisal Subcommittee—The Council recognized revenue for providing space to the Appraisal Subcommittee.

7. Operating Leases

The Council entered into operating leases terminating in 2009 to secure office and classroom space. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2007, are as follows:

FY 2008	\$ 417,980
FY 2009	255,261
	<u>\$ 673,241</u>

Rental expenses under these operating leases were \$516,364 and \$469,860 in 2007 and 2006, respectively.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS 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 Financial Institutions Examination Council (the "Council") as of and for the year ended December 31, 2007, and have issued our report thereon dated February 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as a basis for designing our audit procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Member of
Deloitte Touche Tohmatsu

The Council relies on the Board of Governors to process financial data and prepare their financial statements. During our audit, we noted certain control deficiencies within the general computer control environment within the Board of Governors related to logical access controls, which affect several financial system platforms supporting the Council's financial statements. These deficiencies individually are not considered significant deficiencies, however, when considered collectively, aggregate to a significant deficiency. We have considered these matters in conjunction with our audit of the financial statements and noted no material misstatements or omissions in the Council's financial statements that were caused by these various control deficiencies. Management has taken steps to address these deficiencies by correcting the cause of a deficiency and/or by implementing additional compensating controls and processes. Due to the sensitive nature of these deficiencies, the technical details related to these deficiencies have been provided to Board of Governors' management in a separate, limited distribution communication.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

We have communicated to management, in a separate communication dated February 28, 2008, other control deficiencies involving the Council's internal control over financial reporting and other matters that we identified during our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Distribution

This report is intended solely for the information and use of the Council, management, and others within the organization, the Office of Inspector General, and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

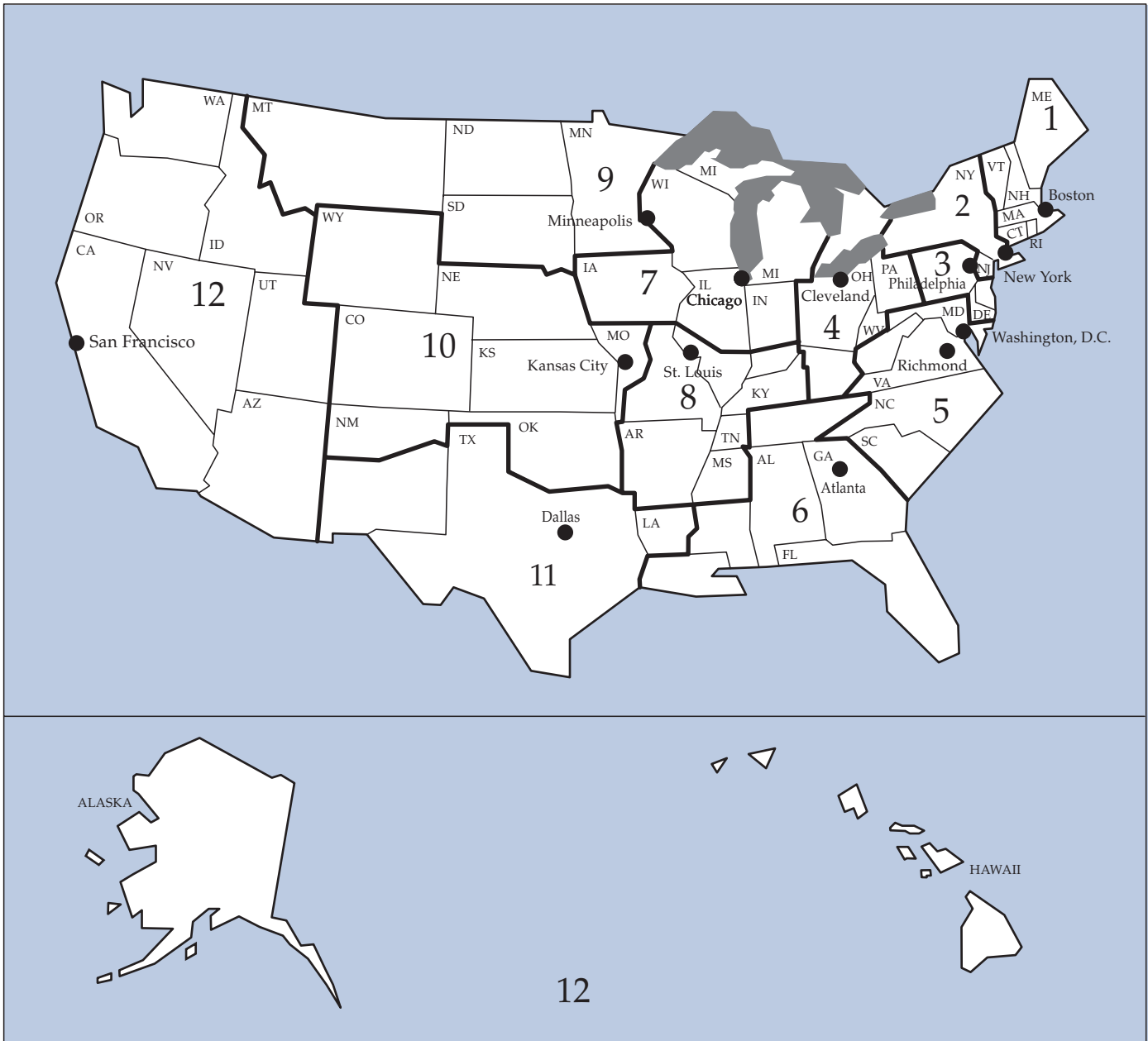
Deloitte + Touche LLP

February 28, 2008

APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

THE FEDERAL RESERVE SYSTEM DISTRICTS



NATIONAL CREDIT UNION ADMINISTRATION



OFFICE OF THRIFT SUPERVISION



APPENDIX D: ORGANIZATIONAL LISTING OF PERSONNEL

Organization, December 31, 2007	Mick Thompson Commissioner Oklahoma State Banking Department	<i>Task Force on Examiner Education</i> Betty J. Rudolph, <i>Chairperson</i> (FDIC) Matthew Amato (OTS) Charlotte Buchanan (SLC Chair Representative) Cheryl Davis (OCC) Joy Lee (NCUA) Dana Payne (FRB)
Members of the Council	William Waits Assistant Director New Jersey Department of Banking and Insurance	
Randall Kroszner, <i>Chairperson</i> Member Board of Governors of the Federal Reserve System (FRB)		<i>Task Force on Information Sharing</i> Robin Stefan, <i>Chairperson</i> (OCC) Roger Blake (NCUA) David Godwin (OTS) John Kolhoff (SLC Chair Representative) Michael Kraemer (FRB) Jamie Perez (FDIC)
Sheila C. Bair, <i>Vice Chairperson</i> Chairperson Federal Deposit Insurance Corporation (FDIC)	Council Staff Officers Tamara J. Wiseman <i>Executive Secretary</i>	
Steven L. Antonakes State Liaison Committee Representative Commissioner of Banks Boston, MA	Interagency Staff Groups <i>Agency Liaison Group</i> Roger T. Cole (FRB) David M. Marquis (NCUA) Scott M. Polakoff (OTS) Emory Wayne Rushton (OCC) Michael Stevens (SLC Chair Representative) Sandra Thompson (FDIC)	<i>Task Force on Reports</i> Robert F. Storch, <i>Chairperson</i> (FDIC) Zane D. Blackburn (OCC) James Caton (OTS) Charles Holm (FRB) George Reynolds (SLC Chair Representative) Ashley Rowe (NCUA)
John C. Dugan Comptroller Office of the Comptroller of the Currency (OCC)		<i>Task Force on Supervision</i> Roger T. Cole, <i>Chairperson</i> (FRB) Joy Lee (NCUA) Howard Pitkin (SLC Chair Representative) Emory Wayne Rushton (OCC) Sandra Thompson (FDIC) Timothy Ward (OTS)
JoAnn Johnson Chairperson National Credit Union Administration (NCUA)	<i>Legal Advisory Group</i> Scott Alvarez, <i>Chairperson</i> (FRB) John Bowman (OTS) Robert M. Fenner (NCUA) Gavin Gee (SLC Chair Representative) Sara A. Kelsey (FDIC) Julie L. Williams (OCC)	
John M. Reich Director Office of Thrift Supervision (OTS)		<i>Task Force on Consumer Compliance</i> Ann Jaedicke, <i>Chairperson</i> (OCC) Matthew Biliouris (NCUA) David Cotney (SLC Chair Representative) Glenn Loney (FRB) Robert W. Mooney (FDIC) Montrice G. Yakimov (OTS)
State Liaison Committee (SLC)		<i>Task Force on Surveillance Systems</i> Robin Stefan, <i>Chairperson</i> (OCC) Bob Bacon (SLC Chair Representative) James Caton (OTS) Charles Collier (FDIC) Matt Mattson (FRB) Michael Ryan (NCUA)
Steven L. Antonakes, <i>Chairperson</i> Commissioner of Banks Boston, MA		
Sandra Branson Director Missouri Division of Credit Union		
D. Eric McClure Commissioner Missouri Division of Finance		

