



ANNUAL REPORT 2002



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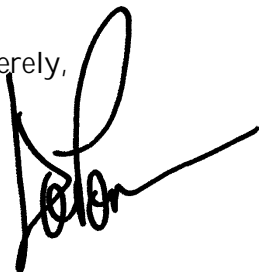
LETTER OF TRANSMITTAL

Federal Financial Institutions
Examination Council
Washington, DC 20006
March 21, 2003

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 2002 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Powell", with a large, stylized initial "D" and a long horizontal stroke extending to the right.

Donald E. Powell
Chairman

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MESSAGE FROM THE CHAIRMAN



Donald E. Powell

As regulators we continue to work together to advance our mission of promoting uniformity and consistency in the supervision of the financial institutions industry. As the Chairman of the Federal Financial Institutions Examination Council (Council), I am pleased to report on the Council's activities.

Through its task forces, the Council completed several important initiatives this past year. (Refer to Activities of the Interagency Staff Task Forces for more detailed information on initiatives.) Some of the most significant achievements include:

- Endorsement of interagency policies on asset securitizations;
- Progress on a new model for collecting, validating, storing and distributing, Call Report data;
- Improvement in the timing, speed, and accuracy of regulatory information transferred between agencies;
- Enhancement of the processes for collecting Home Mortgage Disclosure Act (HMDA) data;
- Delivery of pertinent training to 2,643 state and federal employees; and

- Distribution of the Uniform Bank Performance Report (UBPR) exclusively through our web site.

In addition to our policy agenda, another important priority of the Council was conducting a thorough review of Council operations. A Council-appointed interagency review team identified a number of areas where the Council could improve its internal procedures, enhance its efficiency, and save money. As a direct result of this effort, the 2003 budget reflects an estimated 22 percent savings over last year.

Despite these improvements, we still face many challenges in 2003. Even with our improvements this year in accountability and efficiency, coordinating policy among the regulators in a timely manner has not been easy. I remain hopeful that the improvements we have made in the Council's processes in 2002 will continue and will lead to more effective, efficient, and timely policy coordination among the agencies.

While my term as Chairman will be complete in the spring of 2003, I look forward to continuing to serve the Council as an active member in the coming year.

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

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

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

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 agency:

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

The Council also established the Legal Advisory Group, composed of a senior legal officer from each agency, to provide the Council and staff support in the substantive areas of concern; and the Agency Liaison Group, composed of senior officials responsible for coordinating the efforts of their respective 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 monthly meetings. Special meetings may be scheduled whenever matters of high priority must be considered without delay.

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

The FRB provides budget and accounting services to the Council, and the Federal Reserve's Associate Director for Finance serves as the Council's controller. The Council is supported by a small, full-time

administrative staff in its operations office, and its examiner education program is administered by Council staff at its examiner training facility in Arlington, Virginia. Each Council staff member is detailed from one of the five agencies represented on the Council but is considered an employee of the Council.

RECORD OF COUNCIL ACTIVITIES

The following section is a chronological record of the official actions taken by the FFIEC during 2002 pursuant to sections 1006, 1007, and 1009A of the Federal Financial Institutions Examination Council Act of 1978, Public Law 95-630; section 304 of the Home Mortgage Disclosure Act (HMDA), Public Law 94-200; and the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA), Public Law 103-325.

February 20

Action. Unanimously approved the 2001 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 25

Action. Unanimously approved the issuance of the Council's annual interagency awards.

Explanation. The Council has an interagency awards program that recognizes individuals of the member agencies who have provided outstanding service to the Council on interagency projects and programs during the previous year.

March 25

Action. Unanimously approved the proposed alternative to the Risk Management Planning Seminar.

Explanation. The Task Force on Examiner Education presented several alternatives for delivering the risk management seminar to bank-



The Examination Council in Session.

ers. The Council considered the possible options and decided that the FFIEC would replace the conference with a combination of risk management materials on the FFIEC website and outreach programs from the agencies to the banking industry.

March 25

Action. Unanimously endorsed the general milestones each FFIEC task force established, with target completion dates set for 2002.

Explanation. Each of the six task forces compiled a summary project list with projected completion dates, milestones, and priorities for projects and programs planned for the 2002 calendar year.

March 25

Action. Unanimously approved the

appointment of six task force chairs.

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

March 25

Action. Unanimously approved the appointments of Elizabeth McCaul, Superintendent of Banking, New York State Banking Department, and John Allison, Commissioner, Mississippi Department of Banking and Consumer Finance, to serve on the Council's State Liaison Committee.

Explanation. The State Liaison Committee is comprised of five members who serve two-year terms. Two are appointed by the Council, and the remaining three members are appointed by the Conference of State Bank Supervisors, the National

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

March 25

Action. Authorized the Task Force on Reports to develop a comprehensive analysis of a proposed new business model for Call Report processing.

Explanation. The Task Force on Reports presented the business objectives for modernizing the business model for collecting, validating, storing, and distributing Call Report information. The Council approved the task force's recommendation that it develop a detailed Statement of Work for this new business model.

March 28

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 auditing standards.

May 24

Action. Authorized the FDIC to issue a Request for Proposal for a

Central Data Repository and related functions.

Explanation. The Task Force on Reports summarized the content of the Statement of Work that had been developed to define the range of services needed to support a new Call Report processing business model. The Statement of Work forms the basis around which a Request for Proposal is prepared.

May 24

Action. Accepted the recommendation of the Legal Advisory Group (LAG) to begin a review of the regulations of each Council agency to determine their regulatory burden and possible ways to reduce this burden.

Explanation. Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires that the regulations of each FFIEC member agency and the Council be reviewed not less frequently than every 10 years for regulatory burden. The Council decided to begin the review process before the deadline of September 30, 2006.

August 7

Action. Unanimously decided to extend the comment period another 45 days on the interagency guidance on credit card lending account management and loss allowance guidance.

Explanation. To ensure that interested parties had sufficient opportunity to comment, the Council extended the deadline for an initial request for comments from financial institutions on proposed interagency guidelines on credit card lending account management and loss allowance guidance.

October 29

Action. Approved development guidelines for the 2003 Council budget.

Explanation. The Council adopted the guidelines for preparing its 2003 budget as recommended by an interagency review team. Those guidelines include funding and cost-saving measures.

December 9

Action. Unanimously approved the recommendation of the Task Force on Reports to withdraw the proposal for collection of data on subprime consumer lending programs.

Explanation. The Council approved the recommendation made by the Task Force on Supervision and the Task Force on Reports not to collect subprime consumer lending data through the Call Report and Thrift Financial Report as this information could be ascertained through the examination process.

STATE LIAISON REPORT

The State Liaison Committee (SLC) consists of five representatives of state agencies that supervise financial institutions. The representatives are appointed for two-year terms. An SLC member may have his or her two-year term extended by the appointing organization for an additional, consecutive two-year term. Each year, the SLC elects one of its members to serve as chair for 12 months. The Council elects two of the five members. The American Council of State Savings Supervisors (ACSSS), the Conference of State Bank Supervisors (CSBS), and the

National Association of State Credit Union Supervisors (NASCUS) designate the other three. A list of the SLC members appears in Appendix D of this report.

In 2002, the SLC actively participated in several key projects having a long-term effect on the financial industry. The SLC continues to be a nonvoting member of the Task Force on Supervision and the Task Force on Information Sharing. As a result, communications between state and federal supervisors on core policy issues are greatly enhanced.

The SLC and CSBS continue to support the many activities of the FFIEC task forces including providing feedback or suggestions on recommending Call Report and UBPR changes, modernizing the Call Report process, sharing information between the agencies, and developing web-based training.

The SLC looks forward to the continued cooperation of the state and federal regulators and is interested in expanding state participation in other areas of joint financial industry supervision.

ACTIVITIES OF THE INTERAGENCY STAFF TASK FORCES

Task Force on Consumer Compliance

The Task Force on Consumer Compliance promotes policy coordination and uniform enforcement of consumer protection laws and regulations. The task force, composed of senior personnel from each of the five agencies represented on the Council, identifies and analyzes emerging consumer compliance issues and develops proposed policies and procedures to foster consistency among the agencies. Additionally, the task force addresses legislation, regulations, and policies at the state and federal level that may have a direct or indirect bearing on the compliance responsibilities of the five agencies.

During 2002, the task force had three standing subcommittees to help promote its mission: Community Reinvestment Act, Electronic Banking, and Home Mortgage Disclosure Act (HMDA). Ad hoc working groups are also created to handle particular projects and assignments. The task force meets monthly to address and resolve common issues in compliance supervision. Significant issues are referred to the Council for action. However, the Council has delegated to the task force the authority to make certain decisions, such as approve examination procedures.

Initiatives Addressed in 2002

Examination Procedures on Real Estate Settlement Procedures Act (RESPA) compliance. The mortgage reform working group reviews and analyzes mortgage-related issues. On January 14, 2002, and August 8, 2002, the task force approved and issued guidance for agency examiners in response to the effect of court decisions in the Seventh and Fourth

Circuits on lender fees under RESPA.

Examination Procedures for the Home Ownership and Equity Protection Act.

The mortgage reform working group updated existing Truth in Lending examination procedures and associated work documents to incorporate the revised requirements on whether certain loans are considered to be high-cost mortgage loans.

Examination Procedures for Rule on Prohibition Against Using Interstate Branches Primarily for Deposit Production.

The amended rule implements section 106 of the Gramm-Leach-Bliley Act of 1999, which amends section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. The working group on deposit-production offices revised the existing examination procedures to incorporate the regulatory revisions.

Consumer Leasing Examination Procedures.

The task force revised the

existing consumer leasing examination procedures to incorporate amendments to the official staff commentary on Regulation M.

HMDA Efficiency. At the Council's direction, the task force convened a working group to identify possible changes to the HMDA data collection process that would result in cost savings. The working group identified three areas in which efficiencies could be realized.

First, the working group identified changes in the data storage process that would result in cost savings to the agencies. Second, potential cost savings could be realized from reviewing the HMDA aggregate tables to ensure they continue to be useful. Third, the continued migration of HMDA products from CD-ROM to web-based applications would provide additional cost savings. The task force, with the approval of the Council, agreed to proceed with implementing these aforementioned cost-savings initiatives.



Task Force on Consumer Compliance meeting.

In 2002, the task force completed the transition of the data storage process. Online data storage is limited to the most recent two years of historical HMDA data. The third year's data will be moved to cartridge tapes. The task force agreed that data older than three years will be moved to an alternate storage location. The net realized cost savings of \$155,775 is reflected in the FFIEC's approved HMDA budget for 2003.

Lapse of FEMA Authority to Issue Flood Insurance Contracts: The 107th Congress adjourned at the end of November 2002 without extending the statutory authority in the National Flood Insurance Act of 1968 to issue flood insurance policies under the National Flood Insurance Program. As a result, the authority of the Federal Emergency Management Agency (FEMA) to issue new flood insurance policies and issue increased coverage on existing policies expired on December 31, 2002. Collectively, the agencies drafted and issued guidance on December 20, 2002, to assist the banking industry in dealing with issues that may arise during the period of lapsed authorization for lenders and borrowers regarding loans that are or will be secured by property located in a special flood hazard area.

Current Projects

HMDA Efficiency: In light of the regulatory revisions to Regulation C, the task force is reviewing the HMDA aggregate tables to ensure that they continue to be useful. This two-phase project includes (1) a review of the core standardized tables and (2) revisions to the tables in 2004 to incorporate the amendments to Regulation C. The task force will continue to monitor the usefulness of HMDA products on CD-ROM and as they become available in web-based versions.

Homeownership Counseling Examination Procedures: As a result of the

amendments to the National Housing Act that became effective November 26, 2001, creditors must provide notice of the availability of homeownership counseling to first-time mortgage loan applicants and to certain homeowners who are delinquent on their home loans. The prior counseling requirements expired on September 30, 2000. Before finalizing revised examination procedures, the task force has requested a response from the Department of Housing and Urban Development (HUD) regarding its position on the enforcement of the requirements under the act.

Homeowners Protection Act Examination Procedures: The mortgage reform working group is in the process of revising the existing FFIEC examination procedures to incorporate recent statutory clarifications. The task force expects to issue revised examination procedures by the second quarter of 2003.

Revision to HMDA Guide: The HMDA subcommittee is incorporating regulatory revisions of Regulation C into the FFIEC's **Guide to HMDA Reporting**. The web-based version of the HMDA guide will

be updated in 2003, with a fully reprinted version released in 2004.

2002 CRA Regulatory Review: The task force continues to discuss and consider the examination implications that may arise from the outcome of the CRA regulatory review initiated in 2001. The review process is expected to conclude during 2003.

Task Force on Examiner Education

Charged with spearheading examiner education on behalf of the Council, the Task Force on Examiner Education promotes inter-agency education through timely, cost-efficient, state-of-the-art training programs for agency examiners. The task force develops programs on its own initiative or 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, 2,643 regulatory staff



Task Force on Examiner Education meeting.

2002 FFIEC Training by Agency and Sponsored—Actual, as of December 31, 2002

Event Name	FDIC				NCUA	FRB	FRB		Total
	FDIC	State	OCC	OTS			State	Other	
Advanced Anti-Money Laundering	61	0	0	33	5	2	0	8	109
Community Financial Institutions Lending Forum	68	0	0	5	0	16	0	5	94
Asset Management (formerly, Trust Conference)	71	36	0	17	0	47	10	9	190
Capital Markets	67	75	0	6	36	44	14	4	246
Cash Flow Tax Return (Taxanalysis)	124	58	131	28	10	34	2	2	395
Cyberbanking	0	0	0	0	0	0	0	0	0
Fraud Symposium	4	0	3	1	3	2	0	0	13
Fraud On-Line Training	8	0	24	3	8	2	0	0	45
Financial Crimes Seminar (formerly, Advanced White Collar Crime)	115	65	0	38	28	57	14	1	318
Instructor Training	12	3	16	4	3	51	0	0	91
International Banking School	14	0	10	1	0	0	0	2	27
International Conference	31	0	3	0	0	37	7	0	78
International Banking (self study)	74	0	16	2	0	6	0	0	98
Information Systems Symposium	3	0	3	3	1	3	0	0	13
Information Systems & Technology Conference	98	0	20	24	13	37	2	18	212
Real Estate Appraisal Review	101	2	0	25	5	8	1	1	143
Risk Management Planning	0	0	0	0	0	0	0	0	0
Supervisory Updates	120	29	21	46	24	89	16	8	353
Testifying	16	0	19	0	0	4	2	0	41
Payment Systems Risk	51	43	0	15	0	0	0	0	177
Grand Total	1,038	311	266	251	136	439	74	58	2,643
Percentage	39.2	11.77	10.06	9.50	5.15	16.61	2.80	2.19	100
Combined Agency and Sponsored Percentage	51.04	NA	10.06	9.50	5.15	19.14	NA	2.19	97

attended training programs. (See the table above for details of participation by program and agency.)

Initiatives Addressed in 2002

Throughout the year, the task force continued to pursue a more strategic approach to the design and delivery of training and information through the use of electronic technology. The InfoBase architecture implemented in 2001 allows the FFIEC's Examiner Education Office to produce training and reference materials that can be delivered directly to all examiners concurrent with, or shortly after, the issuance of interagency statements. During 2002, the task force released an update of the first InfoBase CD on subprime lending to reflect interagency guidance that was issued after the original CD was distributed.

The task force also began a joint project with the information technology subcommittee of the Task Force on Supervision to prepare for the release of the updated FFIEC *Information Technology Examination Handbook* to examiners and the industry in an InfoBase CD or web-based format during 2003. This will be one of the task force's major projects for the coming year. The schedule calls for the release of a series of 12 booklets on various topics throughout 2003.

During 2002, the task force negotiated an agreement with the Conference of State Bank Supervisors (CSBS) to co-sponsor an online distance-learning course on fraud identification. The CSBS offers an extensive online curriculum using the eCollege platform to facilitate the delivery of training. These

courses include a mix of lectures, assignments, and collaboration between participants and the instructor. Based on the success of this limited pilot program during 2002, the task force recently finalized negotiations with the CSBS to offer 22 additional online courses through the FFIEC course catalogue. This new partnership with the CSBS allows the FFIEC to make high-quality online courses available to agency examiners in a cost-effective manner.

In addition to the focus on electronic delivery, the task force continued to pursue its initiative to improve classroom-based training programs. The most significant change that occurred during 2002 was the replacement of the Emerging Issues conferences with three Supervisory Update sessions. Each Supervisory

Update was sponsored by one or two of the member agencies and focused on a specific theme of current interest. The sponsoring agencies developed the content and secured the speakers. During 2002, topics for the supervisory updates were subprime lending and credit scoring, electronic financial services, and risk management. Based on the success of the three sessions conducted last year, plans are under way to conduct three more Supervisory Updates in 2003.

The task force also sponsored the development and pilot sessions of two new programs in 2002—the Community Financial Institutions Lending Forum and the Fraud Investigations Symposium—to address examiners' current training needs.

Facilities

The Council training office and classrooms are located in the FDIC 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 numerous classrooms. Regional sessions are usually conducted in the cities in which the district or Reserve Bank offices of the member agencies are located.

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 2003 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 3086
Arlington, VA 22226-3550

Phone: (703) 516-5588

Task Force on Information Sharing

Created in 1997, the Task Force on Information Sharing promotes the sharing of electronic information among FFIEC agencies to support the supervision, regulation, and deposit insurance responsibilities of financial institution regulators. The task force provides a forum for FFIEC member 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 agencies build on each other's information databases to minimize duplication of effort and promote consistency. The agencies participate in a program to share with one another electronic versions of their reports of examination, inspection reports, and other communications with financial institutions. The agencies also provide each other with access to their organizations' structure, financial, and supervisory

information. The task force maintains a Data Exchange Summary, which lists the data files exchanged among FFIEC agencies.

Task force members consist of representatives from FFIEC agencies. Monthly meetings are held to address and resolve issues related to information sharing. In addition, the task force participates in demonstrations and receives reports on agency, financial industry, and other FFIEC initiatives pertaining to technology development. The task force has established two working groups to address technology-development issues and interagency reconciliation of data on financial institution structure.

Initiatives Addressed in 2002

Technology Issues

The chief initiative of the task force is to identify and implement technologies to make the sharing of interagency data more efficient. The task force's technology working group meets monthly to develop technological solutions to common



Task Force on Information Sharing meeting.

data-sharing issues among the agencies. The working group coordinates the automated transfer of data files among the 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 projects.

High-speed T1 communication lines linking the FDIC, FRB, and OCC have eliminated the use of magnetic tapes or disks for sharing electronic data among these agencies. Bulk data transfers to and from the FDIC, OCC, and FRB of structure, financial, and supervisory data files continued to be implemented in 2002 and are initiated weekly.

In 2002, the working group began an initiative to securely exchange documents among the agencies by establishing a process to transmit FDIC documents to the FRB. In addition, an automated T1 line was established between the FDIC and OTS to ensure that e-mail and bulk data transmissions of the Thrift Financial Report to the FDIC are secure. This process will continue in 2003 with the establishment of an automated mechanism to secure data transfers between the FRB and NCUA.

Structure Data Reconciliation

The task force is working to achieve the goal of a single, authoritative source of structure data for each member agency to use. The task force's structure data reconciliation group reconciles structure data about financial institutions regulated by FFIEC agencies to ensure that the information the agencies report is consistent and accurate. The working group conducts periodic reconciliations to identify and resolve data discrepancies among the agencies. By the end of 2002, only a few discrepancies remained unresolved, and the project scope was expanded to include credit unions and branch office data. In 2002, the working group began

reorganizing the reconciliation process so that new agency databases could be used. Discrepancies are being researched and are in the resolution stage.

Collaborative Website

The task force undertook an initiative in 2002 to establish a collaborative website among the FFIEC agencies. The website will be used to disseminate documents and other critical materials pertaining to inter-agency information exchanges. In addition, the Task Force on Surveillance Systems will use the website for the same purposes for the exchange of Call Report and UBPR data.

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 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. Additionally 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. In addition, the task force is responsible for any special projects related to these subjects that the

Council may assign. To help it carry out its responsibilities, working groups are organized as needed to handle specialized or technical accounting, reporting, instructional, and processing matters.

Initiatives Addressed in 2002

Call Report Processing Modernization

The FDIC, FRB, and OCC devoted significant staff resources during 2002 to a project that is intended to result in a new business model for processing the quarterly Reports of Condition and Income (Call Reports) filed by insured commercial banks and FDIC supervised savings banks. A principal feature of this new model would be a Central Data Repository (CDR) to collect, validate, store, and distribute Call Report information. The preliminary target date for implementing the CDR is the March 31, 2004, report date, with the actual implementation date subject to the awarding of a contract.

During the first half of 2002, inter-agency working groups, under the direction of a steering committee established by the task force, developed the requirements for the services to be provided under the new business model. These required services include project management, designing and building a CDR, security, hosting and maintaining the system, and the capability to provide potential enhancements. The CDR would be the official repository of Call Report data for the agencies, reporting banks, and other external users of these data. Data standards would be based on Extensible Business Reporting Language (XBRL). The CDR would receive data from banks and distribute data to the agencies, banks, and the public through the Internet. In addition, the CDR would provide mechanisms to ensure that Call Reports meet data quality standards and would be designed to include additional regulatory reports in the future.

Long-term management of the CDR facility and administration of the CDR contract will be governed by a Memorandum of Understanding (MOU) among the three banking agencies. After the issuance of the Request For Proposal, a working group created by the steering committee began to develop an MOU. The steering committee will complete its review of the MOU in February 2003.

Reporting Requirements for the Call Report

In January 2002, the task force gave final approval to several changes to the reporting requirements for the Call Report, effective March 31, 2002. The principal changes for 2002 involved the reporting of federal funds transactions, merchant credit-card sales volume, the fair value of credit derivatives, held-for-sale loans and leases, single-family residential mortgages, estimated uninsured deposits, and goodwill impairment losses.

The task force issued updates to the Call Report instruction book in March and June 2002 to reflect the reporting changes, new accounting standards on business combinations and intangible assets, and amendments to the agencies' regulatory capital standards. Other conforming changes and clarifications to the instructions were also made.

In October 2002, the task force, acting under delegated authority, approved a number of proposed revisions to the Call Report that would take effect, for the most part, as of March 31, 2003. The FDIC, FRB, and OCC published these proposed changes for public comment in the *Federal Register* on November 8, 2002. The proposed revisions to the content of the Call Report for 2003 include adding new items dealing with accrued fees and finance charges on credit card accounts and obtaining additional detail on seller-provided securitization credit enhancements and income from insurance activities.

The agencies also proposed creating a Call Report supplement for collecting a limited amount of data from certain banks in the event of an immediate and critical need for specific information. For banks with more than one foreign office, the agencies proposed shortening the Call Report filing deadline from 45 to 30 days, effective June 30, 2003.

To improve the timeliness of the Call Report data available to the public, the agencies proposed to begin posting the Call Reports for individual banks on the FDIC's website as soon as their analysis of an individual report has been completed. This change would begin as early as the first-quarter 2003 reports. Finally, in connection with the planned 2004 implementation of the CDR, a bank's Call Report would need to pass all validity edits for the CDR. For the agencies to accept the bank's Call Report, the report would need to include an explanation on each quality edit exception identified in the report.

The task force is currently considering the comments received on these proposals and the need for any modifications to them before giving final approval, perhaps in stages, to the various elements of the Call Report revisions.

Data Collection Proposal for Subprime Consumer Lending Programs

In May 2002, the Task Force on Supervision and the Council approved a proposal to collect certain data from banks and savings associations with subprime consumer lending programs. The data would be collected by adding a new schedule to the Call Report and the Thrift Financial Report. In July 2002, the Task Force on Reports approved a *Federal Register* notice soliciting public comment on the proposed schedule and its draft instructions. Beginning March 31, 2003, the proposal called for all institutions with subprime consumer lending programs to report either a single total

or more detailed information based on the amount of their subprime loans as a percentage of capital.

The agencies considered the comments received on the proposal from 36 banking organizations, bankers' associations, and community and consumer groups. Rather than impose the proposed new schedule, the agencies concluded that the examination process, through which extensive information is obtained, should continue to be the focal point of their supervision of subprime consumer lending activities. At its December 2002 meeting, the Council concurred with the agencies' decision not to proceed with the proposal. The Council announced this action in a January 7, 2003, press release.

Other Activities

On November 8, 2002, the FDIC, FRB, and OCC published a *Federal Register* notice requesting comment on a proposal to require the electronic submission of the Country Exposure Report and the Country Exposure Information Report (FFIEC 009 and 009a, respectively). This change in filing method would take effect as of the March 31, 2003, report date, which is when the FRB begins collecting and processing these reports on behalf of the three agencies. The task force approved this proposal under delegated authority in October 2002. After considering the comments received on this proposal, the task force agreed in January 2003 to proceed with the electronic submission requirement.

In November 2002, the task force approved several proposed revisions to the FFIEC 002, Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, for implementation in March 2003. The revisions primarily consist of changes that are comparable with certain revisions made to the Call Report in March 2002 or proposed for 2003. On December 9, 2002, the FRB, on behalf of the three banking agencies, published the proposal for

a 60-day comment period in the *Federal Register*.

Task Force on Supervision

The Task Force on Supervision has oversight responsibility for matters relating to the supervision and examination of depository institutions. It provides a forum for the agencies that supervise banks, thrifts, and credit unions to promote quality, consistency, and effectiveness in examination and supervisory practices to minimize regulatory burden. While significant issues are referred, with recommendations, to the Council for action, the Council has delegated to the task force the authority to make certain decisions and recommendations, provided all task force members agree. Task force members are the senior supervisory officials of the constituent agencies. Meetings are held regularly to address and resolve common supervisory issues. The task force has a standing subcommittee to address information system and technology issues as they relate to financial institution supervision. Another task force sub-

committee reviews issues pertaining to regulatory capital. In addition, ad hoc working groups are created to handle particular projects and assignments.

In 2002, the task force dealt with some difficult and complex issues associated with certain lending and asset backed securitization activities. At the outset of 2002, the task force established a comprehensive action plan to address and make more transparent the primary risks facing institutions in these areas. As detailed below, the task force had several notable accomplishments in 2002 and was able to complete its primary objectives. In completing its charge for 2002, the Task Force on Supervision is well positioned for meeting its 2003 objectives.

Initiatives Addressed in 2002

Asset Securitization

Through the Task Force on Supervision, the agencies continued to coordinate their regulatory and supervisory approach to the asset securitization practices of the institu-

tions they supervise. In May 2002, the federal banking agencies issued the following supervisory guidance related to the appropriate regulatory capital treatment for banking organizations' asset securitization activities.

Interagency Guidance on Implicit Recourse in Asset Securitizations: This document describes certain post-sale actions that banking organizations have taken regarding securitized assets and provides guidance on whether these actions would be deemed implicit recourse. The document also discusses the risk-based capital implications of conduct deemed to constitute implicit recourse. It provides practical interpretative guidance on noncontractual recourse determinations and supplements previously issued guidance and regulations.

Interagency Questions and Answers on the Capital Treatment of Recourse, Direct Credit Substitutes, and Residual Interests in Asset Securitizations: The federal banking agencies published a final rule on the capital treatment of recourse, direct credit substitutes, and residual interests in asset securitizations in November 2001. The rule became effective January 1, 2002. This question-and-answer document provides interpretative guidance on issues raised by the final rule.

Interagency Advisory on the Regulatory Capital Treatment of Accrued Interest Receivable Related to Credit Card Securitizations: The advisory clarifies the appropriate risk-based capital treatment for banking organizations that securitize credit card receivables and record an on-balance-sheet asset commonly referred to as an accrued interest receivable.

In May 2002, the federal banking agencies also issued the Interagency Advisory on the Unsafe and Unsound Use of Covenants Tied to Supervisory Actions in Securitization Documents. The purpose of the guidance is to alert institutions and examiners to the safety and



Task Force on Supervision meeting.

soundness implications of certain covenants included in some securitization documents. In December 2002, the agencies issued additional guidance to clarify the appropriate accounting treatment for depository institutions that securitize credit card receivables and record an accrued interest receivable amount.

Crisis Management Measures

In response to the events of September 11, 2001, the Task Force on Supervision established a working group to update interagency emergency preparedness procedures and processes. During 2002, as a result of this group's efforts, the agencies updated their supervisory communication protocols to be used in emergencies. These protocols will be updated quarterly. They cover three general areas: communication among the banking agencies during emergencies; communication with regulated institutions; and coordination of communications with the public.

Credit Card and Subprime Lending

Monitoring and assessing the risks in subprime and credit card lending programs continued to be a major focus of the Task Force on Supervision in 2002. The task force formed a working group to identify and coordinate on various accounting, policy, and examination issues related to assessing the risks in subprime and credit card lending programs. In response to some of the deficiencies examiners have found in credit card lending account management, risk management, and loss allowance practices, the FFIEC agencies developed and issued, for informal industry comment credit card account management and loss allowance guidance. The purpose of the guidance is to assist financial institutions in conducting credit card lending activities in a safe and sound manner, while meeting the needs of their customers. The guidance outlines the agencies' expectations for prudent risk management,

income recognition, and loss allowance practices. The agencies issued the guidance in early January 2003.

Corporate Governance and Audit

During 2002, the task force focused on the critical roles of effective corporate governance and audit procedures in the continued safe and sound operations of insured depository institutions. In December 2002, the federal banking agencies approved a notice of proposed rulemaking that would strengthen their authorities to take disciplinary actions against independent public accountants and accounting firms that perform audit and attestation services required by section 36 of the Federal Deposit Insurance Act. The proposed rules would establish procedures under which the agencies could, for good cause, remove, suspend, or bar an accountant or firm from performing audit and attestation services for insured depository institutions with assets of \$500 million or more. The agencies published the notice of proposed rulemaking for comment in early January 2003.

An interagency working group that reports through the task force is in the process of reviewing the agencies' policies and regulations pertaining to corporate governance standards to incorporate the applicable provisions of the Sarbanes-Oxley legislation and to determine if any additional actions are needed.

Capital Standards

Although each of the four federal banking agencies has its own capital regulations, the task force and several of its working groups coordinate efforts among the agencies to promote joint issuance of capital rules and related interpretative guidance, thereby minimizing interagency differences and reducing the potential burden on the banking industry. During 2002, the federal banking agencies issued supervisory guidance to address the appro-

priate capital treatment of certain asset securitization activities. (See 'Asset Securitization' above.)

Through the task force's capital subcommittee, the agencies continue to work together to discuss and coordinate on complex capital rulings and interpretations. In April 2002, the agencies lowered the risk weight for claims on certain qualifying securities firms. The subcommittee's work also focused on various issues related to the proposed revisions to the Basel Capital Accord. The agencies will continue to coordinate Basel-related activities in 2003, emphasizing the various domestic supervisory, examination, and training efforts that would be needed to implement the proposed changes to the Accord. Concurrent with these efforts, the agencies are working to harmonize their regulatory formats.

Information Technology

The agencies continue to coordinate on issues related to information technology (IT). The Task Force on Supervision has a subcommittee that meets monthly to discuss and coordinate interagency policies, technology-related examination issues, and interagency examination procedures and to provide interagency IT training. In 2002, the subcommittee continued to focus resources on a major project to update and revise the FFIEC's 1996 ***Information Systems Examination Handbook***. The revised handbook will be issued as a series of web-based booklets that cover a range of topics. The first booklet, Information Security, was issued in January 2003. The examination booklets on the supervision of technology service providers, business continuity planning, electronic banking and IT audit are expected to be issued in the first quarter of 2003. Work on remaining booklets that address payment systems, outsourcing, IT management, computer operations, and systems development and acquisition will continue throughout 2003.

Task Force on Surveillance Systems

The Task Force on Surveillance Systems oversees the development and implementation of uniform inter-agency surveillance and monitoring systems. The task force's principal objective has been to develop and produce the Uniform Bank Performance Report (UBPR). UBPRs present financial statistics and peer group comparisons for individual banks for current and historical periods. These reports are important tools for completing supervisory evaluations of bank condition and performance, as well as for planning on-site 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.

A UBPR is produced quarterly for each commercial bank and insured savings bank in the United States that is supervised by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, or the Office of the Comptroller of the Currency. 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 on the FFIEC website.

Initiatives Addressed in 2002

Electronic Distribution of UBPRs

For many years, the surveillance task force provided hard-copy versions of UBPRs to individual banks and the state banking agencies. Effective March 2002, the surveillance task force replaced these distributions with an electronic distribution of the reports on the FFIEC public website. The task force initiated this change to improve the efficiency and timeliness of report distribution. The change also provided public users with broader access to

the reports. The electronic distribution resulted in annual cost savings for the agencies of approximately \$180,000.

Internet Versions of Related Statistical Reports

In addition to the UBPRs for individual banks, the task force produces several supplemental statistical reports that are used to assess bank performance and condition. These other 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, and (3) list the individual banks included in each peer group. Historically, these reports have been distributed in hard-copy form. During 2002, the surveillance task force added electronic versions of these reports to the FFIEC website. This change broadened the distribution of these supporting reports and contributed to cost savings for the agencies.

New UBPR Pages for Securitization and Fiduciary Activities

As banking activities have evolved,

the task force has updated the UBPR format to highlight new or expanding areas of focus. During 2002, the task force added three report pages to assist examiners in evaluating the potential risks of securitization and asset sales activities. For banks that have sold or securitized assets, these pages present detail on the volume and composition of securitization activities, the volume and composition of retained credit exposures, and the delinquencies of and net losses on securitized assets.

Fiduciary activities have also become more important for some banks. Accordingly, the task force added two new pages to the 2002 version of the UBPR. The pages incorporate new data on trust activities collected on the Call Report. Data on the volume of activity by line, data on managed and non-managed accounts, and peer data is now included on the UBPR and available on the FFIEC website. Additionally, extensive confidential data on earnings, expenses, and losses by type of account have been made available to the bank supervisors.



Task Force on Surveillance Systems meeting.

Projects Currently Under Way

Review of UBPR Peer Groups

The task force has made various revisions to UBPR peer groups in the past several years in response to developments in the banking industry. For example, in 1999 a peer group was established for banks that focus on credit card activities. These banks have financial characteristics that differ significantly from other banks in their size group. Adding the new specialty peer group and moving credit card banks to a separate category eliminated distortions that these specialty banks had caused for some UBPR peer groups. It also provided a better tool for comparing performance among credit card banks. Similarly, in 2002 the task force removed bankers' banks from the size-based UBPR peer groups to reflect the specialized activities of these institutions. More recently, the task force initiated a comprehensive review of the de novo and size-based peer groups used in the UBPR. Based on this review, the task force is considering changes that would implement a "class of" structure that would compare de novo banks with other banks that opened in the same year, and expand the asset ranges for several commercial bank peer groups that have been reduced by both industry consolidation and bank growth. These adjustments would reduce the distortions that sometimes occur when averaging small groups of banks.

Revised Earnings Analysis

The task force has updated the UBPR to reflect changes in accounting and tax law. For example, an earnings adjustment for banks that

report income taxes using subchapter "S" status was recently included in the UBPR. Inclusion of this adjustment has improved the comparison of profits between banks and against peer group data. Another project currently under way will revise the way earnings are annualized in a merger that involves push-down accounting. This change will allow earnings to be annualized over any interim period and will enhance the analysis of profitability in the year of the merger. The new process will also be applicable to the earnings analysis of de novo banks.

Other Major Projects Planned for 2003

Custom Peer Group Facility for FFIEC Website

Examiners, bankers, and other UBPR users often choose to compare banks with custom peer groups of institutions that have with similar business activities or locations. To facilitate this analysis, the surveillance task force is considering the addition of more supplemental line-of-business peer groups to the FFIEC website. Also under consideration is the web delivery of custom peer group data for a user-selected group of banks.

Consideration of More Frequent Updating of Public UBPR Data

Currently, the task force strives to have UBPRs available to banks and the general public on the FFIEC website within seven days of completing the Call Report edit process for all banks (typically about 55 to 60 days after the end of a quarter). Recently, the banking agencies have

proposed making individual Call Reports available to the public on the FDIC's website as soon as the data validation process for a bank's report is complete. This change is being considered for implementation sometime in 2003. If the agencies go forward with this proposal, the surveillance task force intends to consider a similar procedure for UBPRs.

Enhancements to the UBPR Format

The surveillance task force periodically reviews UBPR pages to ensure that the ratios and measures included in the report continue to meet the supervisory data needs of examiners and analysts for the banking agencies. During 2003, the task force intends to focus its reviews on the UBPR's treatment of liquidity and noninterest income and expense items. The task force will complete any needed changes during 2003.

Additional Information on the UBPR

The manual ***A User's Guide to the Uniform Bank Performance Report*** provides further information on the presentation and contents of the UBPR. It is available on the FFIEC website at www.ffiec.gov.

Standardized UBPR quarterly data on cartridge are also available for \$400. Information on ordering items may be obtained by calling (202) 872-7500, sending e-mail to SMULLENJ@FRB.GOV, or writing the Council:

Federal Financial Institutions
Examination Council
2000 K Street, NW
Suite 310
Washington, D.C. 20006

THE FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over 19,573 domestically chartered banks, thrift institutions, and credit unions. On June 30, 2002, these financial institutions held total assets of more than \$9.5 trillion. The Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS) also have primary federal supervisory responsibility for commercial bank holding companies and for savings and loan holding companies, respectively.

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

Board of Governors of the Federal Reserve System (FRB)

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

- examining, supervising, and regulating state member banks (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'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 include regulating margin requirements on securities transactions, implementing certain statutes that protect consumers in credit and

deposit transactions, 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 FRB and the 12 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 System, are chartered, regulated, and supervised by the OCC. State-chartered banks may apply to and be accepted for membership in the Federal Reserve System, after which they are subject to the supervision and regulation of the Federal Reserve. Insured state-chartered banks that are not members of the Federal Reserve System are regulated and supervised by the FDIC. The Federal Reserve has overall responsibility for foreign banking operations, including both U.S. banks operating abroad and foreign banks operating branches in the United States.

The Federal Reserve covers the expenses of its operations with

revenue it generates principally from assessments on the twelve Federal Reserve Banks.

Federal Deposit Insurance Corporation (FDIC)

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

The FDIC's supervisory activities are conducted by the Division of Supervision 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 FDIC maintains 52 field territory offices for risk management and 30 field territory offices for compliance, with dedicated examiners assigned to the eight largest financial institutions. Bank liquidations are handled by the Division of Resolutions and Receiverships.

The FDIC receives advice and counsel on banking policy issues from the Advisory Committee on Banking Policy established in 2002. The committee meets biannually and includes banking, business, and community leaders.

The FDIC administers two federal deposit insurance funds: the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The basic insured amount for a depositor is \$100,000 at each insured depository institution. The BIF is funded through assessments paid by insured commercial banks, certain federal and state savings banks, and industrial banks, as well as through income from investments in U.S. government securities. The SAIF, which was created in 1989 as a successor to the former Federal Savings and Loan Insurance Corporation (FSLIC), receives assessment premiums from insured savings associations. SAIF assessment rates and BIF assessment rates are currently the same—ranging from zero to 27 cents for every \$100 of assessable deposits, depending on the degree of risk to the respective deposit insurance fund.

Any depository institution that receives deposits may be insured by the FDIC after application to and examination and approved by the FDIC. 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 FDIC may approve or deny an application for insurance. FDICIA expanded the FDIC's approval authority to include national banks, all state-chartered banks that are members of the Federal Reserve System, and federal and state-chartered savings associations.

The FDIC has primary federal regulatory and supervisory authority over insured state-chartered banks that are not members of the Federal Reserve System, and it has the authority to examine for insurance purposes any insured financial institution, either directly or in cooperation with state or other federal supervisory authorities. FDICIA

gives the FDIC back-up enforcement authority over all insured institutions; that is, the FDIC can recommend that the appropriate federal agency take action against an insured institution and may do so itself if deemed necessary.

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

National Credit Union Administration (NCUA)

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

The main responsibilities of the NCUA are the following:

- charters, examines, and supervises nearly 6,000 federal credit unions nationwide;
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures member share accounts in over 9,700 U.S. federal and state-chartered credit unions; and
- manages the Central Liquidity Facility, a central bank for credit unions, which provides liquidity to the credit union system.

The NCUA also has statutory authority to examine and supervise

NCUSIF-insured, state-chartered credit unions in coordination with state agencies.

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

Office of the Comptroller of the Currency (OCC)

The OCC is the oldest federal bank regulatory agency, established as a bureau of the Treasury Department by the National Currency Act of 1863. It is headed by the Comptroller 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 FDIC and a Director of the Neighborhood Reinvestment Corporation.

The OCC charters, regulates, and supervises national banks to ensure a safe, sound, and competitive national banking system that supports the citizens, communities, and economy of the United States. As such, it currently regulates and supervises more than 2,100 national banks and 52 federal branches and agencies of foreign banks in the United States, accounting for more than 58 percent of the total assets of all U.S. commercial banks.

The OCC helps to ensure that national banks soundly manage their risks, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and comply with applicable laws. The OCC also seeks to ensure that national banks provide their customers with fair access to financial services and treat customers fairly. The OCC's mission-critical core processes include the following:

- licensing 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, and appropriate enforcement activities; and
- addressing systemic risks and market trends by identifying, analyzing, and responding to emerging risks that could have an impact on the safety and soundness of national banks or the national banking system.

To meet its objectives, the OCC maintains a nationwide staff of bank examiners and other professional and support personnel. Headquartered in Washington, D.C., the OCC currently maintains six district offices in New York, Atlanta, Chicago, Kansas City, Dallas, and San Francisco. In addition to the district offices, the OCC maintains a network of 59 field offices in cities throughout the United States, as well as resident examiner teams in large national banks and an examining office in London, England. The OCC recently announced plans to restructure its current six district offices into four locations. By January 2004, the OCC will combine its San Francisco and Kansas City district offices into a new district office in Denver and will consolidate its Atlanta and Dallas offices into Dallas. The OCC will retain field offices in San Francisco, Kansas City, and Atlanta.

The Comptroller receives advice on policy and operational issues from an Executive Committee, which consists of the First Senior Deputy Comptroller and Chief Counsel; the Chief of Staff; the Chief National Bank Examiner; the Ombudsman; the Chief Information Officer; and senior deputy comptrollers for Mid-

Size/Community Bank Supervision, Large Bank Supervision, International and Economic Affairs, Management and Chief Financial Officer, and Public Affairs.

The OCC is funded by semiannual assessments on national banks and from various licensing fees.

Office of Thrift Supervision (OTS)

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

The mission of the OTS is to:

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

The OTS carries out its mission by (1) adopting regulations governing the thrift industry, (2) examining and supervising thrift institutions and their affiliates, (3) taking appropriate action to enforce compliance with federal laws and regulations, and (4) acting on applications to charter or acquire a savings association. The OTS also has the authority to regulate, examine, and supervise savings and loan holding companies.

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

the FDIC and the Neighborhood Reinvestment Corporation.

The Deputy Director of OTS manages day-to-day operations of the agency, both regulatory and management activities. Major responsibilities include (1) supervision and examination of OTS-regulated thrifts to ensure the safety and soundness of the industry and their compliance with consumer laws and fair lending requirements; (2) The legal activities of the agency (through the Office of Chief Counsel), including litigation and enforcement matters, legal advice and opinions, and legislative initia-

tives; (3) information systems technology; (4) financial and modeling systems; and (5) all management policies, procedures, and processes. The Deputy Director is responsible for the Office of Supervision; the four regional offices, the Office of the Chief Counsel; and the Office of Information Systems, Administration, and Finance. The four regional offices are located in Jersey City, New Jersey (Northeast Region); Atlanta, Georgia (Southwest Region); Dallas, Texas (Midwest Regional); and Daly City, California (West Region).

The Congressional Affairs Office

interacts with members of Congress, the press, and executives of other federal agencies to accomplish the legislative and media objectives of the OTS. It communicates and explains policy directives and actions of the agency to Congress, the press, the thrift industry, other government agencies, and employees through a variety of forums, including briefings, press conferences, and news releases.

The OTS uses no tax money to fund 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 Institutions¹ and Credit Unions
as of June 30, 2002

Billions of dollars

Item	Total	U.S. Commercial Banks ²			U.S. Branches and Agencies of Foreign Banks ¹⁶	Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member		OTS-Regulated ¹⁷		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
						Federal Charter	State Charter			
Total assets	9,574	3,687	1,762	1,230	1,051	947	25	334	291	247
Total loans and lease receivables (net)	5,345	2,235	859	753	318	634	17	198	175	156
Loans secured by real estate ⁴	2,786	1,025	401	458	19	557	15	171	72	68
Consumer loans ⁵	874	383	105	131	0	55	1	13	102	84
Commercial and industrial loans	1,181	569	234	133	199	26	1	13	2	4
All other loans and lease receivables ⁶	587	304	133	43	100	2	*	3	1	1
LESS: Allowance for possible loan and lease losses	84	46	14	13	0	6	*	2	2	1
Federal funds sold and securities purchased under agreements to resell	446	146	138	37	99	20	*	4	2	0
Cash and due from depository institutions ⁷	513	192	118	50	61	25	2	10	31	24
Securities and other obligations ⁸	1,786	616	296	317	120	198	6	101	74	58
U.S. government obligations ⁹	550	78	81	103	40	172	5	68	2	1
Obligations of state and local governments ¹⁰	104	44	21	34	*	2	*	3	0	0
Other securities	1,132	494	194	180	80	23	1	31	72	57
Other assets ¹¹	1,484	497	351	72	453	71	1	21	9	9
Total liabilities	8,786	3,342	1,620	1,108	1,051	861	23	300	260	221
Total deposits and shares ¹²	6,300	2,409	1,096	927	578	562	19	239	254	216
Federal funds purchased and securities sold under agreements to repurchase	772	259	207	56	166	65	*	18	1	0
Other borrowings ¹³	983	409	136	101	76	213	3	39	3	3
Other liabilities ¹⁴	731	265	181	24	231	21	*	5	2	2
Net worth¹⁵	789	345	142	122	*	86	3	34	31	26
Memorandum: Number of institutions reporting	19,573	2,101	949	4,912	299	861	134	503	6,032	3,782

Symbols Appearing in Tables

* = Less than \$500 million

‡ = Not applicable

Footnotes to Tables

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

2. Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. territories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.

3. The credit union data are for federally-insured credit unions only.

4. Loans secured by residential property, commercial property, farmland (including improvements), and unimproved land; and construction loans secured by real estate. For SAIF-insured institutions, also includes mortgage-backed securities.

5. Loans, except those secured by real estate, to individuals for household, fam-

ily, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.

6. Loans to financial institutions, loans for purchasing or carrying securities, loans to finance agricultural production and other loans to farmers (except loans secured by real estate), loans to states and political subdivisions and public authorities, and miscellaneous types of loans.

7. Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit

Notes continue on the next page

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions¹ as of June 30, 2002

Billions of dollars

Item	Total	U.S. Commercial Banks ²			Thrift Institutions			Credit Unions ³	
		National	State Member	State Non-Member	OTS-Regulated ¹⁷		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
					Federal Charter	State Charter			
Operating income	649	308	122	93	66	1	23	19	17
Interest and fees on loans	356	160	56	55	45	1	14	13	12
Other interest and dividend income	114	47	27	17	12	*	5	3	3
All other operating income	176	100	38	21	9	*	3	3	2
Operating expenses	510	237	100	72	52	1	17	16	15
Salaries and benefits	117	54	26	16	9	*	4	4	4
Interest on deposits and shares	136	53	23	23	16	1	7	7	6
Interest on other borrowed money	57	24	13	5	12	*	3	0	0
Provision for loan and lease losses	53	32	8	8	3	*	*	1	1
All other operating expenses	145	73	29	20	12	*	3	4	4
Net operating income	137	71	22	21	13	*	5	3	2
Securities gains and losses	4	0	0	0	4	*	*	0	0
Income taxes	44	23	7	7	5	*	2	0	0
Net income	97	49	15	14	11	*	3	3	2
Memorandum: Number of institutions reporting	19,274	2,101	949	4,912	861	134	503	6,032	3,782

for all categories of institutions. SAIF-insured institutions data are for cash and demand deposits only; time deposits are included in "Other securities."

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

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

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

11. Customers' liabilities on acceptances, real property owned, various accrual accounts, and miscellaneous assets. For U.S. branches and agencies of foreign banks, also includes net due from head office and other related institutions. For SAIF-insured institutions, also includes equity investment in service corporation subsidiaries.

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

13. Interest-bearing demand notes issued to the U.S. Treasury, borrowing from

Federal Reserve Banks and Federal Home Loan Banks, subordinated debt, limited-life preferred stock, and other nondeposit borrowing.

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

15. Capital stock, surplus, capital reserves, and undivided profits for SAIF-insured institutions.

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

17. Data for thrifts regulated by OTS are unconsolidated, except for operating and finance subsidiaries.

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

APPENDIX A: RELEVANT STATUTES

Title X of Public Law 95-630

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

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

Purpose

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

Definitions

Sec. 1003. As used in this title—

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

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

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

Establishment of the Council

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

(1) the Comptroller of the Currency,

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

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

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

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

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

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

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

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

Expenses of the Council

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

Functions of the Council

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

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

(b)(2) When a recommendation of the Council is found unacceptable by one or more of the appli-

cable federal financial institutions regulatory agencies, the agency or agencies shall submit to the Council, within a time period specified by the Council, a written statement of the reasons the recommendation is unacceptable.

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

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

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

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

State Liaison

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

a reasonable allowance for necessary expenses incurred in attending meetings.

Administration

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

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

(c) In addition, the Council may

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

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

Access to Information by the Council

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

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

Risk Management Training

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

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

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

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

Audit by the Comptroller General

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

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

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

Sec. 1011. Establishment of Appraisal Subcommittee

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

Excerpts from Title III of Public Law 94-200

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

Findings and Purpose

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

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

Maintenance of Records and Public Disclosure

Sec. 304. (f) The Federal Financial Institutions Examination Council in consultation with the Secretary,

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

Compilation of Aggregate Data

Sec. 310. (a) Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate data by census tract for all depository institutions which are required to disclose under section 304 or which are exempt pursuant to section 306(b). The Council shall also produce tables indicating, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level and racial characteristics.

(b) The Board shall provide staff

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

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

Excerpts from Title XI of Public Law 101-73

Sec. 1103. Functions of Appraisal Subcommittee.

(a) **In General.** The Appraisal Subcommittee shall

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

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

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

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

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

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

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

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

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

APPENDIX B: 2002 AUDIT REPORT



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Financial Statements

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2002 and 2001 and the related statements of revenues and expenses and changes in cumulative results of operations and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reason-

able assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting prin-

ciples generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 5, 2003 on our consideration of the Council's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 5, 2003



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
Balance Sheets as of December 31, 2002 and 2001

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash	\$ 350,302	\$ 616,667
Accounts receivable from member organizations	623,428	811,360
Other accounts receivable	183,288	337,542
Total current assets	<u>1,157,018</u>	<u>1,765,569</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	98,672	273,849
Less accumulated depreciation	98,285	267,731
Net furniture and equipment	<u>387</u>	<u>6,118</u>
Total assets	<u>\$ 1,157,405</u>	<u>\$ 1,771,687</u>
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	\$ 852,742	\$ 1,162,636
Other accounts payable and accrued liabilities	105,956	87,363
Accrued annual leave	30,522	28,568
Total current liabilities	<u>989,220</u>	<u>1,278,567</u>
DEFERRED RENT (Note 5)	157,792	150,157
Total Liabilities	<u>1,147,012</u>	<u>1,428,724</u>
CUMULATIVE RESULTS OF OPERATIONS	10,393	342,963
Total liabilities and cumulative results of operations	<u>\$ 1,157,405</u>	<u>\$ 1,771,687</u>

See notes to financial statements.

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

(1) Organization and Purpose

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

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

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 financial statements have been prepared on the accrual basis of accounting.

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.

Tuition revenue is adjusted at year-end so that total tuition revenue equals expenses incurred by the Examination Education office. Any difference between revenue and expense is reported in accounts payable to member organizations if revenue exceeds expense and in accounts receivable from member organizations if expenses exceed revenue.

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

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.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Revenues and Expenses and Changes in Cumulative Results of Operations for the Years Ended
 December 31, 2002 and 2001

	2002	2001
REVENUES		
Assessments on member organizations (Note 3)	\$ 1,500,000	\$ 1,465,000
Tuition	1,668,682	1,622,523
Other revenue (Note 4)	3,251,873	2,980,125
Total revenues	<u>6,420,555</u>	<u>6,067,648</u>
EXPENSES		
Salaries and related benefits	1,528,697	1,468,134
Data processing	3,682,607	3,376,177
Rental of office space	634,399	600,483
Professional fees	320,551	215,151
Books and subscriptions	161,800	157,691
Travel	95,157	80,402
Rental and maintenance of office equipment	84,681	48,436
Administrative fees	69,593	66,117
Printing	62,641	47,802
Other seminar expenses	49,622	81,714
Office and other supplies	31,798	48,547
Postage	18,191	8,103
Depreciation and net losses on disposals	5,731	6,237
Telephone	4,007	(3,420)
Miscellaneous	3,650	4,392
Total expenses	<u>6,753,125</u>	<u>6,205,966</u>
RESULTS OF OPERATIONS	(322,570)	(138,318)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	<u>342,963</u>	<u>481,281</u>
CUMULATIVE RESULTS OF OPERATIONS, End of year	<u>\$ 10,393</u>	<u>\$ 342,963</u>

See notes to financial statements.

	(3) Transactions with Member Organizations			(4) Other Revenue	
	2002	2001		2002	2001
The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. The annual assessment for each member organization was:	\$ 300,000	\$ 293,000	Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations:	3,957,242	3,651,730
The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of:	1,622,287	1,528,453	The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.		
The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of:	69,593	66,117	Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.		
			Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.		
				Home Mortgage Disclosure Act (HMDA)	
				The Council recognized the following revenue from member organizations for the production and distribution of reports under the Home Mortgage Disclosure Act (HMDA):	
				\$ 1,275,782	\$ 1,094,758
				The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	
				338,426	337,125
				The Council recognized the following from the Mortgage Insurance Companies of America for performing HMDA related work:	
				256,992	271,917
				The balance of the HMDA revenue for 2002 and 2001 was from sales to the public	
				<u>38,122</u>	<u>32,149</u>
				Total HMDA	\$ 1,909,322
					\$ 1,735,949

Notes continue on the following page.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
 Statements of Cash Flows for the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ (332,570)	\$ (138,318)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and net loss on disposals	5,731	6,237
(Increase) decrease in assets:		
Accounts receivable from member organizations	187,932	(304,318)
Other accounts receivable	154,254	(141,005)
Increase (decrease) liabilities:		
Accounts payable and accrued liabilities to member organizations	(309,894)	418,697
Accounts payable and accrued liabilities	18,593	(48,830)
Accrued annual leave	1,954	(11,536)
Deferred rent	7,635	14,585
Net cash provided by (used in) operating activities and NET INCREASE (DECREASE) IN CASH	<u>(266,365)</u>	<u>(204,488)</u>
CASH BALANCE, Beginning of year	616,667	821,155
CASH BALANCE, End of year	<u>\$ 350,302</u>	<u>\$ 616,667</u>

Supplemental disclosures:

The Council retired fully depreciated furniture and equipment totalling \$175,177 in 2002.

See notes to financial statements.

(4) Continued

	<u>2002</u>	<u>2001</u>
Uniform Bank Performance Report (UBPR)		
The Council recognized the following revenue for coordinating and providing certain administrative support to the UBPR project:	\$ 282,396	\$ 273,122
Appraisal Subcommittee		
The Council recognized the following revenue for providing space and certain administrative support to the Appraisal Subcommittee:	210,291	189,387
Community Reinvestment Act		
The Council recognized the following revenue for support of operating expenses from the participating member agencies:	849,293	781,657
Miscellaneous	571	10
	<u>\$3,251,873</u>	<u>\$2,980,125</u>

(5) Deferred Rent

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

(6) Commitments

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Mini-

mum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2002, are as follows:

2003	330,555
2004	347,624
2005	354,575
2006	361,526
2007	368,476
After 2007	280,267
	<u>\$2,043,023</u>

Rental expenses under these operating leases were \$569,863 and \$537,519 in 2002 and 2001, respectively.



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

To the Federal Financial Institutions
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 5, 2003. We conducted our audits 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.

In planning and performing our 2002 audit, we considered the Council's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether these internal controls had been placed in operation, assessing

control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in

amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the members of the Council and its management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 5, 2003



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2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance with Laws and Regulations

To the Federal Financial Institutions
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 5, 2003. We conducted our audits 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.

The management of the Council is responsible for complying with laws and regulations applicable to

the Council. As part of obtaining reasonable assurance about whether the Council's 2002 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding para-

graph disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Council and its management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 5, 2003

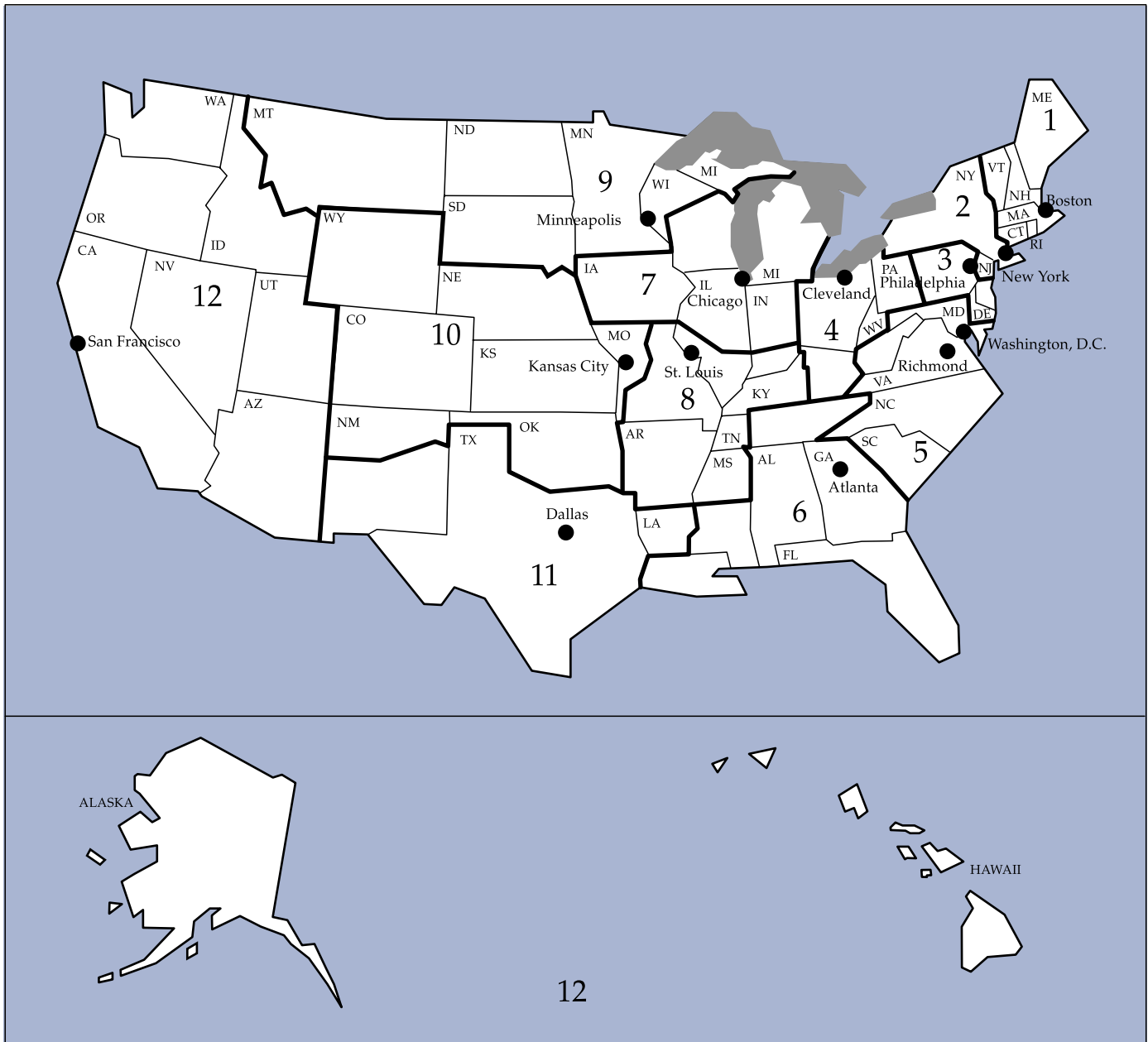


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APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

THE FEDERAL RESERVE SYSTEM DISTRICTS



FEDERAL DEPOSIT INSURANCE CORPORATION REGIONS (SUPERVISION AND COMPLIANCE)



* Two area offices are located in Boston (reports to New York) and Memphis (reports to Dallas)

NATIONAL CREDIT UNION ADMINISTRATION



COMPTROLLER OF THE CURRENCY DISTRICT ORGANIZATION



OFFICE OF THRIFT SUPERVISION



APPENDIX D: ORGANIZATIONAL LISTING OF PERSONNEL

Organization, December 31, 2002

Members of the Council

Donald E. Powell, ***Chairman***
Chairman
Federal Deposit Insurance
Corporation (FDIC)

James E. Gilleran, ***Vice Chairman***
Director
Office of Thrift
Supervision (OTS)

Susan Schmidt Bies
Member
Board of Governors of the Federal
Reserve System (FRB)

Dennis Dollar
Chairman
National Credit Union
Administration (NCUA)

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

State Liaison Committee

John S. Allison, ***Chairman***
Commissioner, Department of
Banking and Consumer
Finance
Mississippi

Thomas J. Curry
Commissioner of Banks
Massachusetts

James E. Forney
Superintendent of Credit Unions
Iowa

Elizabeth McCaul
Superintendent of Banking
New York

James L. Pledger
Commissioner of Savings & Loan
Department
Texas

Council Staff Officers

(vacant)
Executive Secretary
Joanne M. Giese,
(Acting) Executive Secretary

Interagency Staff Groups

Agency Liaison Group
Roger T. Cole (FRB)
C.K. Lee (FDIC)
David M. Marquis (NCUA)
John C. Price (OTS)
Emory W. Rushton (OCC)

Legal Advisory Group

William F. Kroener, III, ***Chairman***
(FDIC)
Carolyn B. Buck (OTS)
Robert M. Fenner (NCUA)
J. Virgil Mattingly, Jr. (FRB)
Julie L. Williams (OCC)

Task Force on Consumer Compliance

Timothy R. Burniston, ***Chairman***
(FDIC)
Tracy Bombarger (NCUA)
Dave Hammaker (OCC)
Glenn E. Loney (FRB)
Richard Riese (OTS)

Task Force on Examiner Education

Jennifer Kelly, ***Chairman*** (OCC)
Bonnie Holloway (OTS)
Betty Rudolph (FDIC)
Marcia Sarrazin (NCUA)
William G. Spaniel (FRB)

Task Force on Information Sharing

Cheryl Davis, ***Chairman*** (OCC)
Patrick G. Berbakos (OTS)
Roger Blake (NCUA)
Karl Krichbaum (FDIC)
William C. Schneider (FRB)

Task Force on Reports

Robert F. Storch, ***Chairman*** (FDIC)
Patrick G. Berbakos (OTS)
Zane D. Blackburn (OCC)
Gerald A. Edwards (FRB)
Todd Roscoe (NCUA)

Task Force on Supervision

Richard M. Riccobono,
Chairman (OTS)
Emory W. Rushton (OCC)
Marcia Sarrazin (NCUA)
Richard Spillenkothen (FRB)
Michael J. Zamorski (FDIC)

Task Force on Surveillance Systems

Kevin M. Bertsch, ***Chairman*** (FRB)
James Caton (OTS)
Charles W. Collier (FDIC)
Cheryl Davis (OCC)
Todd Roscoe (NCUA)