

Federal Financial Institutions Examination Council



# ANNUAL REPORT 2003



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## MEMBERS OF THE COUNCIL

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James E. Gilleran, *Chairman*  
Director  
Office of Thrift Supervision



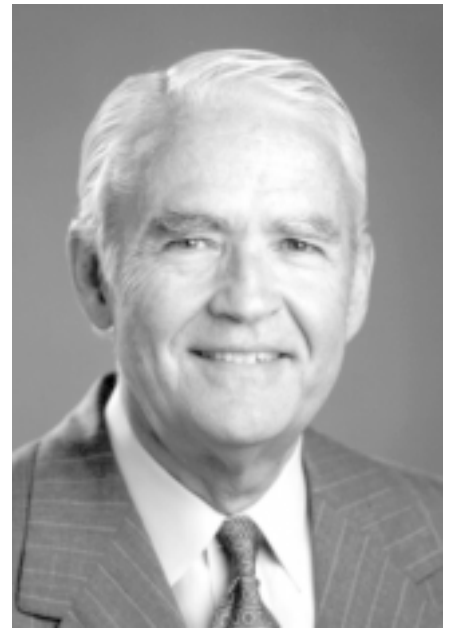
Dennis Dollar, *Vice Chairman*  
Chairman  
National Credit Union Administration



Susan Schmidt Bies  
Member  
Board of Governors of the  
Federal Reserve System



John D. Hawke, Jr.  
Comptroller of the Currency  
Office of the Comptroller of the Currency



Donald E. Powell  
Chairman  
Federal Deposit Insurance Corporation

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# LETTER OF TRANSMITTAL

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Federal Financial Institutions  
Examination Council  
Arlington, VA 22226  
March 26, 2004

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 2003 Annual Report of the Federal Financial Institutions Examination Council.

Sincerely,

A handwritten signature in black ink, reading "James E. Gilleran". The signature is written in a cursive style with a large, sweeping initial "J".

James E. Gilleran  
*Chairman*

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## MESSAGE FROM THE CHAIRMAN

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*James E. Gilleran*

I am pleased to report that 2003 was a very productive year. As regulators, we continued to work together to advance our mission of promoting uniformity and consistency in the supervision of financial institutions. We also continued to foster communication, cooperation and coordination among the member agencies that comprise the Council, its task forces, and the State Liaison Committee (SLC), an advisory committee comprised of five representatives of state agencies that supervise financial institutions.

More specific details on the 2003 achievements are included in the Record of Council Activities and Activities of the Interagency Staff Task Forces sections of this report. However, I am pleased to mention some of the more significant initiatives undertaken by the Council and its task forces in 2003. These included the:

- Initiation of a 3-year interagency project under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 to review the agencies' regulations to identify and eliminate those that are outdated, unnecessary, or unduly burdensome on insured depository institutions;
- Issuance of interagency guidance and rules related to numerous banking practices and activities, including:
  - a. Account management and loss allowance practices for credit card lending programs;
  - b. Mortgage banking;
  - c. Application of the Sarbanes-Oxley Act to financial institutions, auditors' independence and the institutions' ability to outsource internal audit work;
  - d. Federal Reserve's new dis-
- count window programs and the role the programs play in financial institutions' liquidity contingency plans;
- e. Independence in real estate appraisal functions at depository institutions;
- f. Final rules that strengthen the agencies 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;
- g. Six FFIEC Information Technology booklets, available on the FFIEC website, that address the topics of Information Security, Business Continuity Planning, Supervision of Technology Service Providers, Electronic Banking, FedLine, and Information Technology Audit. An additional six booklets are anticipated for release in 2004;
- h. The safety and soundness implications of, and the legal impediments to, a bank or thrift providing financial support to investment funds advised by the bank or thrift or its subsidiaries or affiliates.
- Issuance of a joint request by the agencies for comments on proposed guidance that would require financial institutions to develop programs to respond to incidents of unauthorized access to customer information, including procedures for notifying customers under certain circumstances;
- Issuance of a joint request by the banking agencies for comments on how the new Capital Accord (Basel II) might be implemented

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in the United States. Specific input is being sought regarding the regulatory framework for implementing Basel II and on supervisory guidance for measuring and assigning capital for corporate credit risk and operational risk;

- Award of a contract for the development and implementation of a new business process to modernize and streamline how the banking agencies collect, process and distribute quarterly bank financial reports (Call Reports). The new process is expected to reduce burden on the industry, while providing data to the public in a more timely manner;
- Enhanced speed and accuracy of financial data shared between the agencies, including the development of a collaborative website used by the FFIEC agencies to disseminate documents and other critical materials pertaining to interagency information exchanges;

- Implementation of a custom peer group capability for the Uniform Bank Performance Report (UBPR) website that allows bankers and other users to define a peer group of banks for comparison purposes and makes UBPR data available to the banking agencies and the public in a timely manner on the FFIEC website;
- Development of updates for the Homeowners Protection Act and Homeownership Counseling examination procedures;
- Development of updated examination procedures covering Home Mortgage Disclosure Act compliance and FFIEC's *Guide to HMDA Reporting* to reflect changes to Regulation C;
- Delivery of pertinent training to 2,522 state and federal employees that included specific focus on the areas of fraud, anti-money laundering, and credit analysis; and the completion of two interagency conferences that focused

on Credit Risk, Funds Management and Real Estate Valuation;

- Increase in the use of electronic technology as a delivery mechanism for training courses and partnering with the Conference of State Bank Supervisors to access their electronic training offerings.

In addition to our policy agenda, the Council also implemented many recommendations that were made by a Council-appointed interagency review team that resulted in improved internal operations and greater efficiencies.

I am extremely pleased by the many accomplishments achieved by the FFIEC and its task forces, with assistance from the State Liaison Committee, in 2003. We will continue to promote our efforts to work together to advance our mission of promoting uniformity and consistency in the supervision of our financial institutions.

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

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

The Council's activities are funded in several ways. Most of the Council's funds are derived from 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 non-agency attendees to cover some of the costs associated with its examiner education program.

In 2003, the FRB provided budget and accounting services to the Council, and the Federal Reserve's Associate Director for Finance served as the Council's controller. The Council is supported by a small,



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full-time administrative staff in its operations office and its examiner education program that is located at the Council's 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.

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# RECORD OF COUNCIL ACTIVITIES

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The following section is a chronological record of the official actions taken by the FFIEC during 2003 pursuant to the Federal Financial Institutions Examination Council Act of 1978, as amended, and the Home Mortgage Disclosure Act.

## **March 19, 2003**

**Action.** Accepted the annual external audit report.

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



*The Examination Council in Session.*

## **March 19, 2003**

**Action.** Approved the award of a contract for the development and implementation of a new business process to modernize and streamline how the agencies collect, process and distribute quarterly bank financial reports.

**Explanation.** The process, which will be phased in throughout 2004, will consolidate the collection, management, storage, and distribution of Call Report data into a Central Data Repository (CDR) that will be accessible to banking regulators, financial institutions, and the public.

## **March 20, 2003**

**Action.** Approved the 2002 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 20, 2003**

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

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

## **March 23, 2003**

**Action.** Approved the appointment of six task force chairs.

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

## **April 23, 2003**

**Action.** Approved the appointment of Richard C. Houseworth, Superintendent of Banks, Arizona, to serve on the Council's State Liaison Committee. Also announced the National Association of State Credit Union Supervisors' appointment of Jerrie J. Lattimore, Credit Union Division, North Carolina Commerce Department and the American Council of State Savings Supervisors' appointment of Jonathan Smith, Review Examiner, State Banking Department, Delaware 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 the State Credit Union Supervisors, and the American Council of State Savings Supervisors.

**June 6, 2003**

**Action.** Endorsed the project milestones each FFIEC task force established, with target completion dates set for 2003.

**Explanation.** Each of the six task forces compiled a summary report that identified planned 2003 projects, projected completion dates, and staff assigned to them. On a quarterly basis, the Council reviews status updates of the projects.

**July 28, 2003**

**Action.** Approved a phased-in approach for reduced time frames for filing Call Reports for banks with multiple foreign offices.

**Explanation.** Banks with multiple foreign offices have 45 calendar days from the end of a quarter to file their Call Reports. In order to obtain more timely data for industry analysis purposes, yet still provide banks with sufficient time to ensure they report accurate data, the deadline was reduced to 40 calendar days starting with the June 2004 Call Report and to 35 calendar days starting with the June 2005 Call Report.



*Council Meeting discussion.*

**December 1, 2003**

**Action.** Approved the 2004 Council budget.

**Explanation.** The Council approved the 2004 Council budget, which included significant funding for the Central Data Repository project.

**December 15, 2003**

**Action.** Approved the revised FFIEC Rules of Operation.

**Explanation.** The Rules of Operation were revised to reflect changes in the Council's composition and practices.

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# STATE LIAISON REPORT

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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) des-

ignate the other three. A list of the SLC members appears in Appendix D of this report.

In 2003, 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. This year, the SLC also began to participate on the Consumer Compliance Task Force. As a result, communications between state and federal supervisors on more 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, developing web-based training, overdraft protection guidance, regulatory burden reduction initiatives, and emergency protocol procedures.

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.

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# ACTIVITIES OF THE INTERAGENCY STAFF TASK FORCES

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## ***Task Force on Consumer Compliance***

The Task Force on Consumer Compliance promotes policy coordination, a common supervisory approach and uniform enforcement of consumer protection laws and regulations. The task force identifies and analyzes emerging consumer compliance issues and develops proposed policies and procedures to foster consistency among the 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 2003, the task force used two standing subcommittees to help promote its mission: Community Reinvestment Act subcommittee and Home Mortgage Disclosure Act (HMDA) Processing subcommittee. 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. 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.

## Initiatives Addressed in 2003

### ***Homeownership Counseling Examination Procedures***

Revised examination procedures were approved to reflect amendments to the National Housing Act. The updated procedures include the following modifications: (1) recognition of the elimination of prior existing sunset provisions and (2) limitation of the supervisory review to

the notice provision for delinquent borrowers pending further guidance from HUD concerning the status of the prior waiver of the first-time homebuyer counseling requirements.

### ***Homeowners Protection Act Examination Procedures***

Revised examination procedures were approved to reflect statutory amendments to the Act. The changes clarify the amortization schedule for ARM loans, the treatment of balloon mortgages and loan modifications, the meaning of original value in connection with refinancing of mortgages on principal residences, the starting point for calculating good payment history, and the impact on automatic termination when a mortgagor is not current on payments.

### ***Revision to HMDA Guide***

The HMDA subcommittee incorporated regulatory revisions of Regulation C into the FFIEC's ***Guide to HMDA Reporting***. The web-based version of the HMDA Guide was updated twice during 2003, once to capture guidance for reporting changes impacting 2003 data collection and again at the end of the year to provide notice to institutions about the additional data reporting obligations effective for 2004.

A complete republication of the Guide was printed in late December 2003 for distribution by the member agencies.

### ***Home Mortgage Disclosure Act Examination Procedures***

Revised examination procedures were approved to reflect recent



*Task Force on Consumer Compliance meeting.*

changes to Regulation C. These procedures reflect information collection and reporting obligations effective beginning in 2003.

#### ***Real Estate Settlement Procedures Act***

Revisions to existing procedures were approved to reflect implementation of statutory changes with respect to mortgage servicing transfer notices.

#### **Current Projects**

##### ***HMDA Efficiency***

In light of the regulatory revisions to Regulation C, the task force is reviewing the HMDA aggregate tables to ensure continuing utility. This two-phased 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 added utility of the CD-ROM products, as the products become available in web-based versions.

##### ***Overdraft Protection Guidance***

In response to the proliferation and variety of for-fee overdraft protec-

tion, the task force is developing a regulatory risk and best practices guidance piece for issuance by the Council in early 2004.

##### ***Fair Lending Examination Procedures Update***

The task force has established a working group to update the Interagency Fair Lending Examination Procedures to capture recent regulatory changes.

##### ***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. A conclusion to the review process is expected during 2004.

##### ***Task Force on Examiner Education***

Responsible for overseeing the FFIEC's examiner education program on behalf of the Council, the Task Force on Examiner Education promotes interagency education through timely, cost-efficient, state-of-the-art training programs for agency examiners and staff. The

task force develops programs on its own initiative and in response to requests from the Council or other Council task forces. Each fall, it develops a program calendar based on training demand from the five member agencies and state financial institution regulators. The task force also oversees the delivery and evaluation of programs throughout the year. During the past year, 2,522 regulatory staff attended training programs. (See the table for details of participation by program and agency.)

#### **Initiatives Addressed in 2003**

Throughout the year, the task force continued to pursue a more focused approach to the design and delivery of training and information through the use of targeted education and electronic technology. The InfoBase architecture implemented in 2001 continues to allow the FFIEC's Examiner Education Office to produce training and reference materials that can be delivered on CDs directly to all examiners concurrent with, or shortly after, the issuance of interagency statements, Council courses or conferences.

The task force also continued 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 a web-based format during 2003. This was one of the task force's major projects for 2003 and resulted in the release of six Information Technology booklets in 2003, with the remaining six booklets scheduled for release throughout 2004.

In addition to the focus on electronic delivery, the task force continued to pursue its initiative to improve classroom-based training programs. A significant activity that occurred during 2003 was the continuation of the agency-sponsored Supervisory Update sessions. During 2003, topics



*Task Force on Examiner Education meeting.*

2002 FFIEC Training by Agency and Sponsored—Actual, as of December 31, 2003

Event Name	FDIC	FDIC State Sponsored	OCC	OTS	NCUA	FRB	FRB State Sponsored	Other	Total
Advanced Anti-Money Laundering	70	0	0	28	10	67	7	10	192
Asset Management Forum	87	35	27	1	9	46	12	0	217
Capital Markets	62	58	0	7	33	26	9	5	200
Cash Flow Tax Return (Taxanalysis)	110	54	95	21	5	32	6	2	325
Community Financial Institutions Lending Forum	91	60	5	7	12	23	10	3	211
Financial Crimes Seminar	92	74	0	22	23	55	8	7	281
Fraud Identification Online Training	51	...	29	1	5	13	...	0	99
Fraud Investigations Symposium	4	0	4	1	2	3	0	0	14
Information Systems Symposium	4	0	3	3	3	5	0	0	18
Information Technology Conference	99	0	20	24	25	40	10	19	237
Instructor Training	19	4	8	2	8	36	...	0	77
International Banking (self study)	40	0	5	1	0	5	0	4	55
International Banking School	25	5	5	1	0	2	1	3	42
Payment Systems Risk	72	28	0	7	0	0	0	0	187
Real Estate Appraisal Review	87	5	0	7	6	18	2	2	127
Real Estate Appraisal Review Self-Study	...	...	...	...	...	...	...	1	1
Supervisory Updates	80	16	16	17	9	38	13	9	198
Testifying	17	0	19	0	0	2	3	0	41
<b>Grand Total</b>	<b>1,010</b>	<b>339</b>	<b>236</b>	<b>150</b>	<b>150</b>	<b>411</b>	<b>81</b>	<b>65</b>	<b>2,522</b>
Percentage	40.05	13.44	9.36	5.95	5.95	16.30	3.21	2.58	100
Combined Agency and Sponsored Percentage	53.49	NA	9.36	5.95	5.95	19.51	NA	2.58	97

for the supervisory updates included credit risk, funds management, real estate evaluation, and regulatory emerging issues. Based on the success of the 2003 sessions, plans are under way to continue the programs as emerging issues in 2004.

The task force also sponsored the development and pilot sessions of several new programs in 2003 with a primary focus on examiner education in the fraud and anti-money laundering arena and in advanced credit analysis skills. These courses will be augmented in 2004 to provide effective training to address examiners' skill gaps and current training requirements.

**Facilities**

The Council training office and classrooms are located in the FDIC Seidman Center in Arlington, Virginia. Offices, classrooms, and lodg-

ing 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



*Anti Money Laundering workshop at the Seidman Center.*



*Supervisory Update Conference in the Auditorium at the Seidman Center.*

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](http://www.ffiec.gov/exam/education.htm).

Additionally, a printed copy of the 2004 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**

The Task Force on Information Sharing promotes the sharing of electronic information among FFIEC agencies in support of 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, in accordance with agency policy, 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" listing 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 receives demonstrations and reports on agency, financial industry and other FFIEC initiatives pertaining to technology devel-

opment. The task force has established two working groups to address technology-development issues and interagency reconciliation of financial institution structure data.

### Initiatives Addressed in 2003

#### **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 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 work group 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 2003 and are initiated weekly, and, in some cases, daily.

In 2003, a 'pass-thru' process was implemented to transmit OTS data to the FRB by way of the FDIC. This methodology was agreed upon to overcome the absence of a direct T1 linkage between the OTS and FRB.

In 2003, the working group expanded the exchange of electronic documents to include the automated transmission of FDIC Safety and Soundness Exam Reports to the Federal Reserve. Efforts are currently underway to establish an automated mechanism to secure data transfers between the FRB and NCUA.





*Task Force on Information Sharing meeting.*

### ***Structure Data Reconciliation***

The task force's Structure Data Reconciliation Working Group continues to reconcile structure data about financial institutions regulated by FFIEC agencies to ensure that the information the agencies report is consistent and accurate. The working group's quarterly reconciliements have greatly resolved data discrepancies among the agencies. By the end of 2003, only a few data differences remained unresolved and the group is looking to expand the reconciliation to include other attributes and, possibly, other financial institutions. The group also looks forward to a more timely reconciliation in 2004.

### ***Collaborative Website***

In early 2003, the Technology Working Group implemented a collaborative website among the FFIEC agencies. The website is used to disseminate documents and other critical materials pertaining to inter-agency information exchanges.

### ***Task Force on Reports***

The law establishing the Council and defining its functions requires

the Council to develop uniform reporting systems for federally supervised financial institutions and their holding companies and subsidiaries. To meet this objective, the Council established the Task Force on Reports. The task force helps to develop interagency uniformity in the reporting of periodic information that is needed for effective supervision and other public policy purposes. As a consequence, the task force is concerned with issues such as the development and interpretation of reporting instructions, including responding to inquiries about the instructions from reporting institutions and the public; the application of accounting standards to specific transactions; the development and application of processing standards; the monitoring of data quality; and, the assessment of reporting burden. In addition, the task force works with other organizations, including the Securities and Exchange Commission, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The task force is also responsible for any special projects related to these subjects that the Council may assign. To help the task force carry out its responsibilities, working groups are organized

as needed to handle specialized or technical accounting, reporting, instructional, and processing matters.

### **Initiatives Addressed in 2003**

#### ***Call Report Processing Modernization***

During 2003, the FDIC, FRB and OCC continued to devote significant staff resources to the development of a new Internet-based business model for processing the quarterly Reports of Condition and Income (Call Reports) filed by insured commercial banks and FDIC-supervised savings banks. The principal feature of this new model will be a Central Data Repository (CDR), which will use XBRL business reporting language and consolidate the collection, validation, storage, and distribution of Call Report information. A steering committee established by the task force is coordinating the agencies' work on this project. Implementation of the CDR is targeted for the September 30, 2004, report date.

The Council accepted proposals for the development and hosting of the CDR from prospective vendors in the fourth quarter of 2002. Agency staff members considered these proposals and submitted their vendor recommendation to the steering committee and task force in January 2003. Following further evaluation of this recommendation by the agencies and exploration of methods for allocating contract costs, the Council approved the awarding of a contract for the CDR project at its March 2003 meeting subject to an agreement among the three agencies on cost-sharing. In May 2003, the agencies entered into a memorandum of understanding governing the administration of the CDR contract, including its costs, and the long-term management of the CDR facility. The Council then signed a contract for the CDR project with Unisys Corporation and its development team, which took effect in June 2003.

During the second half of 2003, the Council accepted the two initial deliverables from the Unisys team, a project plan covering the entire development and migration processes through implementation of the CDR and the requirements for two of three major categories of CDR functionality. The steering committee has established focus groups to facilitate collaboration and communication between the banking agencies, the Unisys team, and a targeted stakeholder community. Separate focus groups for financial institutions, Call Report software vendors, and the XBRL Standards Committee are in regular contact in person and by telephone to share information about the CDR project and provide timely responses to questions and concerns raised by stakeholder community members. The task force also established a data quality working group that is reviewing and enhancing the edits the agencies will use for testing and accepting report data submitted to the CDR.

The Unisys team is currently working on design and implementation activities to meet the third quarter 2004 delivery date for the CDR system. At year-end 2003, the agencies announced the voluntary testing and mandatory enrollment phases for the system. The three testing phases will take place during the second and third quarters of 2004 and will involve up to 100 banks. Global enrollment in the CDR will be available for all banks around late August or early September 2004.

### ***Reporting Requirements for the Call Report***

After considering the comments the agencies received on Call Report changes that were proposed in November 2002, the task force, acting under delegated authority, adopted some of the proposed revisions in January 2003, after making certain modifications to them. Following approval of these changes by the U.S. Office of Management and

Budget under the Paperwork Reduction Act, they took effect March 31, 2003. Revision to the content of the Call Report included 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. In addition, to improve the timeliness with which Call Report data becomes available to the public, the agencies began posting individual bank reports on the FDIC's website earlier than in the past. Those Call Reports for which the agencies' analyses have been completed are now placed on the internet each Friday starting approximately four weeks after the quarter-end report date.

Later in 2003, the Council and the task force completed their deliberations on, and decided to proceed with, the three other elements of the agencies' November 2002 Call Report proposal. First, after considering the views of commenters, the Council voted to reduce the current 45-day Call Report filing period for banks with more than one foreign office to 40 calendar days effective June 30, 2004, and to 35 calendar days effective June 30, 2005. These reduced filing periods will apply to each quarterly Call Report, including the year-end report. Second, a Call Report supplement has been created for use on an infrequent basis to collect a limited amount of data from certain banks in the event of an immediate and critical need for specific information. Finally, the task force established criteria that a bank's Call Report data must satisfy in order for the report to be accepted by the agencies. The data will need to pass all validity edits and include an explanatory comment addressing each quality edit exception. These criteria will take effect upon implementation of the agencies' new CDR system in September 2004. The agencies will submit these three Call Report-related changes to OMB for approval in early 2004.

With the approval of the Task Force on Supervision in January 2003, the task force established two inter-agency staff working groups to evaluate the agencies' needs for data to more effectively evaluate banks' credit risk and liability structure and liquidity in the current environment. After assessing these needs and reviewing the current content of the Call Report, the two working groups submitted their recommended reporting changes to the task force at mid-year. The task force discussed these recommendations and their regulatory burden implications with the Supervision Task Force in September 2003. The working groups are now ranking their recommendations and the task force will identify potential sources of burden reduction within the existing Call Report requirements. Further discussion of these reporting changes with the Supervision Task Force will take place in 2004 as the task force seeks to develop proposed Call Report provisions for 2005.

In May 2003, the task force began conducting monthly interagency conference calls to discuss Call Report instructional matters and related accounting issues in order to reach uniform interagency positions on these issues.

### ***Other Activities***

In March 2003, OMB approved an electronic filing requirement for the Country Exposure Report and the Country Exposure Information Report (FFIEC 009 and 009a). This change in submission method took effect as of March 31, 2003, when the FRB began collecting and processing these reports on behalf of the three banking agencies. The task force approved a memorandum of understanding governing this arrangement, which was signed by the FDIC, the FRB, and the OCC.

In November 2003, the task force approved proposed changes to the reporting of certain derivatives information in the FFIEC 002,

Report of Assets and Liabilities of U.S. Branches and Agencies for Foreign Banks, for implementation in March 2004. The FRB, on behalf of the three banking agencies, published the proposal for a 60-day comment period in the *Federal Register* in December 2003. In March 2003, OMB approved several revisions to the FFIEC 002 to conform to changes made in the Call Report in 2002 and 2003.

### ***Task Force on Supervision***

The Task Force on Supervision coordinates and oversees matters relating to safety and soundness supervision and examination of depository institutions. It provides a forum for the member agencies to promote quality, consistency and effectiveness in examination and supervisory practices and to reduce unnecessary regulatory burden. While significant issues are referred, with recommendations, to the Council for action, the Council has delegated to the task force the authority to make certain decisions and recommendations, provided all task force members agree. Meetings are held regularly to address and resolve common supervisory issues. To facilitate communication and coordination with the Council's SLC, representatives of the SLC attend task force meetings on an advisory basis.

The Task Force on Supervision has two standing subcommittees. The Capital Subcommittee serves as a forum for senior policy staff to coordinate various initiatives pertaining to the agencies' regulatory capital standards. The Information Technology Subcommittee serves as a forum to address information systems and technology issues as they relate to financial institutions. This subcommittee also oversees and administers the FFIEC's Multi-Regional Data Processing Servicer (MDPS) and Shared Application Software Review (SASR) programs. Through the FFIEC's MDPS program, the agencies conduct joint Information

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

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

### **Initiatives Addressed in 2003**

#### ***Credit Card Lending and Asset Securitization***

Through the Task Force on Supervision, the agencies continued to coordinate their efforts to monitor and address the risks of various credit card lending and asset securitization activities. In January 2003, the Federal Reserve, the FDIC, the OCC,

and the OTS (the federal banking agencies) issued guidance governing account management and loss allowance practices for credit card lending programs. The guidance outlines the agencies' expectations for prudent risk management, income recognition, and loss allowance practices. Staffs of the agencies meet periodically to monitor industry practices and to discuss and coordinate various policy and examination issues associated with credit card lending and asset securitization activities.

#### ***Corporate Governance and Audit***

The agencies have long recognized the critical roles that effective corporate governance and audits play in the continued safe and sound operations of insured depository institutions. During 2003, the task force helped to coordinate several inter-agency initiatives designed to strengthen supervision of these areas. In March 2003, the federal banking agencies issued an updated Interagency Policy Statement on the Internal Audit Function and Its Outsourcing to reflect provisions of the Sarbanes-Oxley Act and SEC rules regarding auditor independence. The revised policy statement also provides enhanced discussion



*Task Force on Supervision meeting.*

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of the responsibilities of a bank's board of directors and senior management with respect to internal audit, and reiterates the need for banks to maintain strong systems of internal controls and high quality internal audit programs. The Federal Reserve, the OCC and the OTS issued a joint policy statement in May 2003 to provide additional guidance on the application of recent corporate governance initiatives to non-public banking organizations. The FDIC issued similar guidance in March 2003 and the NCUA issued similar guidance in October 2003.

In August 2003, the federal banking agencies issued joint final rules that 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 rules establish procedures under which the agencies can, 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 also are considering additional guidance to assist institutions in implementing policies and procedures designed to ensure an effective system of corporate governance.

### ***Information Technology***

Financial institutions' growing reliance on technology and third party service providers leave them and their customers increasingly vulnerable to various operational risks and security breaches. The task force's Information Technology Subcommittee serves as a focal point for coordinating many of the agencies' activities in these areas.

A major effort of the subcommittee and agencies in 2003 has been the revision and update of the 1996 FFIEC Information Systems examination handbook. The 1996 hand-

book is being replaced by a series of twelve web-based booklets covering a range of topics. During 2003, the following six booklets were issued: Information Security, Business Continuity Planning, Supervision of Technology Service Providers, Electronic Banking, FedLine, and Information Technology Audit. The remaining six booklets are scheduled to be completed during the first part of 2004. The Information Technology Subcommittee, in conjunction with the Task Force on Examiner Education, also sponsors an annual IT conference for the agencies' examination staff to explore emerging risks and industry best practices. This subcommittee also hosts an annual IT symposium that develops guidance on emerging technologies that are expected to affect the banking industry.

In August 2003, the federal banking agencies issued for comment proposed guidance that would require financial institutions to develop programs to respond to incidents of unauthorized access to customer information, including procedures for notifying customers under certain circumstances. The proposed guidance interprets the agencies' customer information security guidelines that require financial institutions to implement information security programs designed to protect their customer's information. The NCUA participated in this project and issued a similar proposal for credit unions.

### ***Capital Standards***

Although each of the four federal banking agencies has its own capital regulations, the task force's standing Capital Subcommittee and several of its working groups 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. In September 2003, the agencies issued a joint interim final rule and a related notice of proposed rule-

making (NPR) to amend their risk-based capital treatment of financial institutions' exposures to asset-backed commercial paper programs. These rulemakings are designed to provide a more risk-sensitive risk-based capital requirement for such exposures. The NPR also proposes a risk-based capital charge for the risk associated with early amortization in securitizations or revolving retail credit facilities.

The federal banking agencies devoted considerable resources in 2003 toward the development of the New Capital Accord (Basel II). In July 2003, the agencies issued for comment two documents that outline how Basel II might be implemented in the United States: an advance notice of proposed rulemaking (ANPR) that outlines and seeks comment on the regulatory framework for implementing Basel II, and supervisory guidance for the advanced approaches for measuring and assigning capital for corporate credit risk and operational risk. The public comment period for these documents closed on November 3, 2003, and the agencies will use the feedback received as they consider policy and implementation issues of Basel II going forward. The federal banking agencies will continue to work together and with international counterparts to ensure that, when implemented, the New Accord achieves the goal of enhanced risk management processes without unintended consequences.

### ***Other Supervisory Initiatives***

Throughout the year, the task force discusses and responds to emerging supervisory issues and risks. During 2003, the task force oversaw the development and issuance of the following interagency supervisory policy statements and advisories:

- ***Interagency Advisory on Mortgage Banking***, issued jointly by the federal banking agencies in February 2003, highlights concerns and provides guidance regarding

mortgage banking activities, primarily in the valuation, accounting, and hedging of mortgage servicing assets. The advisory also notes that the agencies may require additional capital for institutions that fail to consider the sound practices set forth in this advisory in their risk management programs.

- ***Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management***, issued jointly by the FFIEC member agencies in July 2003, informs depository institutions and examiners about the Federal Reserve's new primary credit program and the role it can play in an institution's contingency funding program.
- ***Interagency Policy Statement on Independent Appraisal and Evaluation Functions***, issued jointly by the FFIEC member agencies in October 2003, addresses the need for independence in a depository institution's real estate lending collateral evaluation process. The statement provides further clarification of the agencies' appraisal and real estate lending regulations.
- ***Interagency Policy on Banks/Thriffs Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates***, issued jointly by the federal banking agencies in early January 2004, alerts banking organizations' boards of directors and management to the safety and soundness implications of, and the legal impediments to, a bank or thrift providing financial support to investment funds advised by the bank or thrift, its subsidiaries, or affiliates.

### ***Task Force on Surveillance Systems***

The Task Force on Surveillance Systems oversees the development and implementation of uniform inter-

agency surveillance and monitoring systems. It provides a forum for the member agencies to discuss best practices to be used in those systems and to consider the development of new financial analysis tools. The task force's principal objective has been to develop and produce the 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 a bank's condition and performance, as well as for planning onsite examinations. The banking agencies also use the data from these reports in their automated monitoring systems to identify potential or emerging problems in insured banks.

UBPRs are produced for each commercial bank and insured savings bank in the United States that is supervised by the 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.

### **Initiatives Addressed in 2003**

#### ***Distribution of UBPRs***

In order to provide broad public access to information about the financial condition of insured banks, the task force publishes quarterly versions of the UBPR for each institution, typically within 55 to 60 days of the quarter-end. Bankers and the general public may access these reports on the FFIEC website at no charge. In addition to publishing current reports, the task force regularly refreshes historic UBPR data on the website. Several web-based statistical reports supporting UBPR analysis are also updated on the website. These reports (1) summarize the performance of each of the UBPR's peer groups (determined by size, location, and business line), (2) detail the distribution of UBPR performance ratios for banks in each of these peer groups, and (3) list the individual banks included in each peer group.



*Task Force on Surveillance Systems meeting.*

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### ***Custom Peer Group Tool***

In June 2003, the Task Force expanded the list of analytical tools on the FFIEC website with the addition of the custom peer group function. This tool allows bankers, bank supervisors and the general public to create custom peer groups based on location and other criteria and to generate UBPR page 1 summary ratios for these user-defined groups.

### ***Information on Non-Interest Income and Expense and FHLB Advances Added to the UBPR***

Effective with the March 31, 2003 version of the UBPR, the analysis of income was expanded to include greater detail on non-interest income and expense. For example, analysts may now review detail on income from venture capital activities, insurance, and servicing fees, as well as information on intangible amortization. To support a better understanding of bank borrowings at the Federal Home Loan Bank, several new items were added to the balance sheet analysis.

### ***Earnings Analysis Updated***

Effective with the September 30, 2003 version of the UBPR, the com-

putation of annualized earnings statistics for de novo banks in the first year of operation and banks involved in a transaction involving pushdown accounting was updated. This revision permits earning-based ratios to be annualized correctly when the reporting period begins on a day other than the first of the year and improves the comparability of earnings-based ratios for the 300 or so banks affected in each reporting year.

### ***UBPR User's Guide Updated***

The *User's Guide for the Uniform Bank Performance Report* was updated to provide documentation for all additions and deletions. The March 31, 2003 version of the guide is available online at [www.ffiec.gov](http://www.ffiec.gov).

### ***Revised Peer Group Definitions***

The definitions that support the calculation of peer group statistics have been in place for several years. A review of that structure was completed in 2003. While that review validated the peer group analysis concept, it also noted some statistics for a select number of peer groups had become less reliable because of industry consolidation. Addition-

ally, the task force determined that the analysis of de novo banks could be improved. Consequently, the number of peer groups used to define commercial banks will be reduced from 24 to 15. Additionally, the de novo peer analysis will be re-defined to group banks by the year of opening. These changes will be implemented with the March 2004 UBPR. Further details may be found on [www.ffiec.gov](http://www.ffiec.gov).

### **Additional Information on the UBPR**

Additional information on the UBPR, including distribution schedules, descriptions of pending changes, and instructions on using online UBPR tools, is maintained on the FFIEC website at [www.ffiec.gov](http://www.ffiec.gov).

Standardized UBPR quarterly data on cartridge is also available for \$400. Information on ordering items may be obtained by calling (703) 516-5732, sending Email to [JSmullen@fdic.gov](mailto:JSmullen@fdic.gov), or writing the Council at:

Federal Financial Institutions  
Examination Council  
3501 Fairfax Drive, Room 3086  
Arlington, VA 22226-3550

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# THE FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES AND THEIR SUPERVISED INSTITUTIONS

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The five federal regulatory agencies represented on the Council have primary federal supervisory jurisdiction over 19,078 domestically chartered banks, thrift institutions, and credit unions. On June 30, 2003, these financial institutions held total assets of more than \$10.5 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

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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 approval 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 institu-

tions; 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 5,800 federal credit unions nationwide;
- administers the National Credit Union Share Insurance Fund (NCUSIF), which insures member share accounts in over 9,400 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 five regional offices across the United States that administer its responsibility to charter and supervise credit unions. Its examiners conduct on-site examinations and supervision of each federal credit union and selected state-chartered credit unions. The 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 as 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 2,150 national banks and 53 federal branches of foreign banks in the United States, accounting for approximately 56 percent of the total assets of all U.S. commercial banks.

The OCC seeks to assure a banking system in which national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to financial services and fair treatment of their customers. The OCC's mission-critical programs include:

- chartering national banks and issuing interpretations related to permissible banking activities;
- establishing and communicating regulations, policies, and operat-

ing 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 affect 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 has four district offices in Chicago, Dallas, Denver and New York. In addition, the OCC maintains a network of 48 field offices and 23 satellite locations in cities throughout the United States, as well as resident examiner teams in the 24 largest national banking companies and an examining office in London, England.

The Comptroller receives advice on policy and operational issues from an executive committee consisting of the First Senior Deputy Comptroller and Chief Counsel; Chief of Staff; Chief National Bank Examiner; Ombudsman; Chief Information Officer; and senior deputy comptrollers for Mid-Size/Community Bank Supervision, Large Bank Supervision, International and Economic Affairs, and Management and Chief Financial Officer.

The OCC is funded primarily by semiannual assessments on national banks, interest revenue from its investment in U.S. Treasury securities, and licensing and other fees. The OCC does not receive congressional appropriations to fund any of its operations.

### ***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 Coun-

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sel), including litigation and enforcement matters, legal advice and opinions, and legislative initiatives, (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 External 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 Institutions<sup>1</sup> and Credit Unions  
as of June 30, 2003

Billions of dollars

Item	Total	U.S. Commercial Banks <sup>2</sup>			U.S. Branches and Agencies of Foreign Banks <sup>16</sup>	Thrift Institutions			Credit Unions <sup>3</sup>	
		National	State Member	State Non-Member		OTS-Regulated <sup>17</sup>		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
						Federal Charter	State Charter			
<b>Total assets</b>	<b>10,546</b>	<b>4,115</b>	<b>1,977</b>	<b>1,347</b>	<b>1,069</b>	<b>1,048</b>	<b>25</b>	<b>366</b>	<b>329</b>	<b>270</b>
Total loans and lease receivables (net)	5,752	2,415	930	831	275	719	15	213	191	163
Loans secured by real estate <sup>4</sup>	3,216	1,219	471	515	19	635	14	185	84	74
Consumer loans <sup>5</sup>	922	397	113	144	0	60	1	13	107	87
Commercial and industrial loans	1,100	523	226	142	163	28	1	14	1	2
All other loans and lease receivables <sup>6</sup>	600	322	135	44	93	2	0	3	0	1
LESS: Allowance for possible loan and lease losses	85	46	15	14	0	6	0	2	1	1
Federal funds sold and securities purchased under agreements to resell	539	179	153	41	137	20	0	5	3	1
Cash and due from depository institutions <sup>7</sup>	600	232	129	58	70	33	2	11	37	28
Securities and other obligations <sup>8</sup>	2,050	743	362	338	133	197	6	114	88	69
U.S. government obligations <sup>9</sup>	698	102	91	111	46	173	5	82	52	36
Obligations of state and local governments <sup>10</sup>	115	50	22	37	0	3	0	3	0	0
Other securities	1,236	591	249	190	87	21	1	28	36	33
Other assets <sup>11</sup>	1,604	546	403	78	454	79	1	24	10	9
<b>Total liabilities</b>	<b>9,682</b>	<b>3,743</b>	<b>1,820</b>	<b>1,211</b>	<b>1,069</b>	<b>953</b>	<b>22</b>	<b>328</b>	<b>294</b>	<b>242</b>
Total deposits and shares <sup>12</sup>	6,862	2,7109	1,213	1,001	499	643	18	257	286	235
Federal funds purchased and securities sold under agreements to repurchase	958	318	232	73	253	59	0	21	2	0
Other borrowings <sup>13</sup>	1,028	423	144	112	66	227	3	46	3	4
Other liabilities <sup>14</sup>	833	292	231	25	251	23	0	5	3	3
<b>Net worth<sup>15</sup></b>	<b>861</b>	<b>371</b>	<b>157</b>	<b>135</b>	<b>0</b>	<b>95</b>	<b>3</b>	<b>37</b>	<b>35</b>	<b>28</b>
Memorandum: Number of institutions reporting	19,078	2,045	952	4,832	284	825	122	489	5,864	3,665

**Footnotes to Tables**

- The table covers institutions, including those in Puerto Rico and U.S. territories and possessions, insured by the Federal Deposit Insurance Corporation or National Credit Union 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.
- Reflects the fully consolidated statements of FDIC-insured U.S. banks—including their foreign branches, foreign subsidiaries, branches in Puerto Rico and U.S. ter-

- ritories and possessions, and FDIC-insured banks in Puerto Rico and U.S. territories and possessions. Excludes bank holding companies.
- The credit union data are for federally-insured natural person credit unions only.
- 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.
- Loans, except those secured by real estate, to individuals for household, family, and other personal expenditures, including both installment and single-payment loans. Net of unearned income on installment loans.

- 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.
- Vault cash, cash items in process of collection, and balances with U.S. and foreign banks and other depository institutions, including demand and time deposits and certificates of deposit for all categories of institutions.
- Government and corporate securities, including mortgage-backed securities and

*Notes continue on the next page*

INCOME AND EXPENSES of U.S. Commercial Banks and Thrift Institutions<sup>1</sup> for the Twelve Months Ending  
June 30, 2003

Billions of dollars

Item	Total	U.S. Commercial Banks <sup>2</sup>			Thrift Institutions			Credit Unions <sup>3</sup>	
		National	State Member	State Non-Member	OTS-Regulated <sup>17</sup>		Other FDIC-Insured Savings Banks	Federal Charter	State Charter
					Federal Charter	State Charter			
Operating income	634	302	120	95	58	1	21	20	17
Interest and fees on loans	335	150	50	56	40	1	13	13	12
Other interest and dividend income	105	44	26	15	9	0	5	4	2
All other operating income	192	107	43	24	9	0	3	3	3
Operating expenses	481	221	97	69	47	1	15	17	14
Salaries and benefits	130	56	25	15	11	0	5	5	4
Interest on deposits and shares	101	39	17	17	12	0	5	6	5
Interest on other borrowed money	46	19	11	5	9	0	2	0	0
Provision for loan and lease losses	47	27	8	7	3	0	0	1	1
All other operating expenses	153	76	32	21	12	0	3	5	4
<b>Net operating income</b>	<b>153</b>	<b>81</b>	<b>23</b>	<b>25</b>	<b>12</b>	<b>0</b>	<b>6</b>	<b>3</b>	<b>3</b>
Securities gains and losses	16	4	4	1	7	0	0	0	0
Income taxes	54	28	9	8	7	0	2	0	0
<b>Net income</b>	<b>115</b>	<b>57</b>	<b>18</b>	<b>18</b>	<b>12</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>3</b>
Memorandum: Number of institutions reporting	18,794	2,045	952	4,832	825	122	489	5,864	3,665

obligations of states and political subdivisions and of U.S. government agencies and corporations.

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.

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

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## APPENDIX A: RELEVANT STATUTES

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### ***Federal Financial Institutions Examination Council Act***

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

It is the purpose of this chapter to establish a Financial Institutions Examination Council which shall prescribe uniform principles and standards for the Federal examination of financial institutions by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the 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 examination and to insure progressive and vigilant supervision.

#### 12 U.S.C. § 3302. Definitions

As used in this chapter—

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

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

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

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

##### (a) Establishment; composition

There is established the Financial Institutions Examination Council which shall consist of—

(1) the Comptroller of the Currency,

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

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

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

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

##### (b) Chairmanship

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

##### (c) Term of office

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

(d) Designation of officers and employees

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

##### (e) Compensation and expenses

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

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

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

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

##### (a) Establishment of principles and standards

The Council shall establish uniform principles and standards and report forms for the examination of financial institutions which shall be applied by the Federal financial institutions regulatory agencies.

(b) Making recommendations regarding supervisory matters and adequacy of supervisory tools

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

institutions or their holding companies.

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

(c) Development of uniform reporting system

The Council shall develop uniform reporting systems for federally supervised financial institutions, their holding companies, and 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 78I(i) of Title 15.

(d) Conducting schools for examiners and assistant examiners

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

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

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

(f) Annual report

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

(g) Flood insurance

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

12 U.S.C. § 3306. State liaison

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

12 U.S.C. § 3307. Administration

(a) Authority of Chairman of Council

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

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

In addition to any other authority conferred upon it by this chapter, in carrying out its functions under this chapter, the Council may utilize, with their consent and to the extent practical, the personnel, services, and facilities of the Federal financial institutions regulatory agencies, Federal Reserve banks, and Federal

Home Loan Banks, with or without reimbursement therefor.

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

In addition, the Council may—

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

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

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

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

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

(a) Seminars

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

(b) Study of risk management training program

Not later than end of the 1-year period beginning on August 9, 1989, the Council shall—

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

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

#### 12 U.S.C. § 3310. Establishment of Appraisal Subcommittee

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

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

(a) In general

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

(b) Process

In conducting the review under subsection (a) of this section, the Council or the appropriate Federal banking agency shall—

(1) categorize the regulations described in subsection (a) of this section by type (such as consumer regulations, safety and soundness regulations, or such other desig-

nations as determined by the Council, or the appropriate Federal banking agency); and

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

(c) Complete review

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

(d) Regulatory response

The Council or the appropriate Federal banking agency shall—

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

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

(e) Report to Congress

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

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

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

#### *Excerpts from Statute Governing Appraisal Subcommittee*

#### 12 U.S.C. § 3332. Functions of Appraisal Subcommittee

(a) In general

The Appraisal Subcommittee shall—

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

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

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

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

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

(4) Omitted.

(b) Monitoring and reviewing Foundation

The Appraisal Subcommittee shall monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

#### 12 U.S.C. § 3333. Chairperson of Appraisal Subcommittee; term of Chairperson; meetings

(a) Chairperson

The Council shall select the Chair-

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person of the subcommittee. The term of the Chairperson shall be two years.

### ***Excerpts from Home Mortgage Disclosure Act***

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

(a) Findings of Congress

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

(b) Purpose of chapter

The purpose of this chapter is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are 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.

(c) Construction of chapter

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

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

(f) Data disclosure system; operation, etc.

The Federal Financial Institutions Examination Council, in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such system shall include arrangements for a central depository of data in each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas. Disclosure statements shall be made available to the public for inspection and copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 2805(b) of this title) and which have a home office or branch office within such primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas.

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

(a) Commencement; scope of data and tables

Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council

shall compile each year, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate data by census tract for all depository institutions which are required to disclose data under section 2803 of this title or which are exempt pursuant to section 2805(b) of this title. The Council shall also produce tables indicating, for each primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area that is not comprised of designated primary metropolitan statistical areas, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level, and racial characteristics.

(b) Staff and data processing resources

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

(c) Availability to public

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



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# APPENDIX B: 2003 AUDIT REPORT

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KPMG LLP  
2001 M Street, NW  
Washington, DC 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, 2003 and 2002, 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 the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council at December 31, 2003 and 2002, 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 February 27, 2004, on our consideration of the Council's internal control over financial reporting and its compliance with certain provisions of 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**

February 27, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
Balance Sheets as of December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 838,566	\$ 350,302
Accounts receivable from member organizations (Note 3)	3,749,319	623,428
Other accounts receivable	<u>216,983</u>	<u>183,288</u>
Total current assets	4,804,868	1,157,018
CAPITAL ASSETS		
Central Data Repository, at cost (Note 4)	7,439,750	0
Furniture and equipment, at cost	98,672	98,672
Less accumulated depreciation	<u>(98,575)</u>	<u>(98,285)</u>
Net furniture and equipment	<u>7,439,847</u>	<u>387</u>
Total assets	<u>\$ 12,244,715</u>	<u>\$ 1,157,405</u>
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	\$ 1,022,377	\$ 852,742
Other accounts payable and accrued liabilities (Note 4)	3,606,384	105,956
Accrued annual leave	20,029	30,522
Deferred revenue (Note 2)	<u>103,330</u>	<u>0</u>
Total current liabilities	4,752,120	989,220
LONG-TERM LIABILITIES		
Deferred revenue (Note 2)	7,336,420	0
Deferred rent (Note 5)	<u>155,103</u>	<u>157,792</u>
Total long-term liabilities	<u>7,491,523</u>	<u>157,792</u>
Total liabilities	12,243,643	1,147,012
CUMULATIVE RESULTS OF OPERATIONS		
Total liabilities and cumulative results of operations	<u>1,072</u>	<u>10,393</u>
	<u>\$ 12,244,715</u>	<u>\$ 1,157,405</u>

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
 Statements of Revenues and Expenses and Changes in Cumulative Results of Operations for the Years Ended  
 December 31, 2003 and 2002

	2003	2002
REVENUES		
Assessments on member organizations (Note 3)	\$ 529,600	\$ 562,900
Tuition	1,578,596	1,668,682
Other revenue (Note 6)	4,137,734	4,188,973
Total revenues	<u>6,245,930</u>	<u>6,420,555</u>
EXPENSES		
Data processing	3,632,323	3,682,607
Salaries and related benefits	1,199,283	1,528,697
Rental of office space	617,796	634,399
Professional fees	363,300	320,551
Books and subscriptions	126,916	161,800
Travel	83,311	95,157
Administration fees	72,250	69,593
Rental and maintenance of office equipment	70,314	84,681
Other seminar expenses	28,887	49,622
Office and other supplies	21,294	31,798
Postage	18,585	18,191
Printing	10,812	62,641
Telephone	7,273	4,007
Depreciation and net losses on disposals	290	5,731
Miscellaneous	2,617	3,650
Total expenses	<u>6,255,251</u>	<u>6,753,125</u>
RESULTS OF OPERATIONS	(9,321)	(332,570)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	<u>10,393</u>	<u>342,963</u>
CUMULATIVE RESULTS OF OPERATIONS, End of year	<u>\$ 1,072</u>	<u>\$ 10,393</u>

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL  
 Statements of Cash Flows for the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ (9,321)	\$ (332,570)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and net loss on disposals	290	5,731
(Increase) decrease in assets:		
Accounts receivable from member organizations	(3,125,891)	187,932
Other accounts receivable	(33,695)	154,254
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities to member organizations	169,635	(309,894)
Other accounts payable and accrued liabilities	3,500,428	18,593
Accrued annual leave	(10,493)	1,954
Deferred revenue	7,439,750	0
Deferred rent	(2,689)	7,635
Net cash provided by (used in) operating activities	<u>7,928,014</u>	<u>(266,365)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,439,750)	0
Net Cash provided by (used in) investing activities	<u>(7,439,750)</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	488,264	(266,365)
CASH BALANCE, Beginning of year	<u>350,302</u>	<u>616,667</u>
CASH BALANCE, End of year	<u>\$ 838,566</u>	<u>\$ 350,302</u>

See accompanying notes to financial statements.

**Notes to Financial Statements for the Years Ended December 31, 2003 and 2002**

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

**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. Deficits in "Cumulative results of operations" can be made up in the following year's assessments.

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 expenses and in accounts receivable from member organizations if expenses exceed revenue.

**Capital Assets**—Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized. The Central Data Repository (CDR), a software project, is recorded at cost. (See Note 4).

**Deferred Revenue**—Deferred revenue represents cash collected and accounts receivable related to the CDR, which is in the systems development phase. (see Note 4)

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

**Reclassifications**—Certain 2002 amounts have been reclassified to conform with the 2003 presentation.

(3) Transactions with Member Organizations

	2003	2002
<b>Accounts Receivable from Member Organizations</b>		
Board of Governors of the Federal Reserve System	\$ 475,499	\$ 42,775
Federal Deposit Insurance Corporation	3,204,925	267,561
National Credit Union Administration	900	15,953
Office of the Comptroller of the Currency	47,825	113,898
Office of Thrift Supervision	20,170	183,241
	<u>\$ 3,749,319</u>	<u>\$ 623,428</u>

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:

	\$ 105,920	\$ 112,580
--	------------	------------

	2003	2002
The Council provides seminars in the Washington, D.C. 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:	1,501,846	1,622,287
The FRB provided administrative support services to the Council at a cost of:	72,250	69,593
Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations:	3,839,951	3,957,242
The Council assessed FDIC and FRB for the CDR project in the amount of:	7,439,750	0
The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.		
Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.		
Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.		

(4) Central Data Repository (CDR)

In 2003, the Council entered into a ten-year agreement with UNISYS, totaling approximately \$38,000,000, to enhance the methods and systems used to collect, validate, process and distribute Call Report information. The new system will replace the current FDIC process for Call Reporting. The Council decided to fund the project by direct assessments on the three participating Council member organizations (FRB, FDIC and OCC). OCC's participation will begin when the CDR becomes operational. The Council will capitalize payments during the system development stage and will account for the

*Notes continue on the following page.*

direct assessments on the participating agencies as deferred revenue (see Note 2). Capitalized expenses and direct assessments on the participating members were \$7,439,750 in 2003. When the project goes into operation, the capitalized cost will be depreciated over the estimated useful life of the project, ongoing operation costs will be charged to expense and reimbursed by direct assessments on the participating members, and deferred revenue will be amortized to match the depreciation expense charged.

As of December 31, 2003, the amount reported as other accounts payable and accrued liabilities included \$3,502,000 payable to UNISYS for the CDR project, and the balance was payable to other vendors unrelated to the CDR project.

(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) Other Revenue

	2003	2002
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**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):

	\$1,891,023	\$2,212,882
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	2003	2002
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The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:

	419,742	338,426
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The Council recognized the following from the Mortgage Insurance Companies of America for performing HMDA related work:

	232,066	256,992
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The balance of the HMDA revenue for 2003 and 2002 was from sales to the public:

	25,607	38,122
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Total HMDA \$2,568,438    \$2,846,422

**Uniform Bank Performance Report (UBPR)**

The Council recognized the following revenue for coordinating and providing certain administrative support to the UBPR project:

	\$ 568,939	\$ 282,396
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**Appraisal Subcommittee**

The Council recognized the following revenue for providing space and certain administrative support to the Appraisal Subcommittee:

	191,599	210,291
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	2003	2002
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**Community Reinvestment Act**

The Council recognized the following revenue for support of operating expenses from the participating member agencies:

	808,718	849,293
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**Miscellaneous**

	40	571
	<u>\$4,137,734</u>	<u>\$4,188,973</u>

(7) Operating Leases

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2003, are as follows:

2004	\$ 347,624
2005	354,575
2006	361,526
2007	368,476
2008	280,267
	<u>\$1,712,468</u>

Rental expenses under these operating leases were \$558,537 and \$569,863 in 2003 and 2002, respectively.



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## *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 December 31, 2003 and 2002, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated February 27, 2004. 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 fiscal year 2003 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 the Council's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued 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. However, we noted no matters involving the 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 Office of the Inspector General, 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**

February 27, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



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Washington, DC 20036

### *Independent Auditors' Report on Compliance with Laws and Regulations*

To the Federal Financial Institutions  
Examination Council:

We have audited the balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2003 and 2002, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated February 27, 2004. 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 2003 financial statements are free of material misstatement, we performed tests of the Council's 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 paragraph 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 Office of the Inspector General, 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**

February 27, 2004



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## APPENDIX C: MAPS OF AGENCY REGIONS AND DISTRICTS

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

# THE FEDERAL RESERVE SYSTEM DISTRICTS





# NATIONAL CREDIT UNION ADMINISTRATION





# OFFICE OF THRIFT SUPERVISION



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## APPENDIX D: ORGANIZATIONAL LISTING OF PERSONNEL

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### ***Organization, December 31, 2003***

#### Members of the Council

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

Dennis Dollar, ***Vice Chairman***  
Chairman  
National Credit Union  
Administration (NCUA)

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

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

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

#### State Liaison Committee (SLC)

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

Thomas J. Curry\*  
Commissioner of Banks  
Massachusetts

\* *(Effective 12/31/03, Mr. Curry was confirmed by the U.S. Senate to be a member of the FDIC Board and, therefore, he resigned from his role of Massachusetts Commissioner of Banks and as a member of the SLC. Helen Howell, Director of the Washington State Department of Financial Institutions, was named as his replacement in January 2004.)*

Richard C. Houseworth  
Superintendent of Banks  
Arizona State Banking  
Department

Jerrie J. Lattimore  
Administrator,  
North Carolina Credit Union  
Division

Jonathan Smith  
Review Examiner  
Delaware State Banking  
Department

#### Council Staff Officers

Tamara J. Wiseman  
***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***

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

##### ***Task Force on Consumer Compliance***

Richard Riese, ***Chairman*** (OTS)  
Timothy R. Burniston (FDIC)  
Elizabeth Habring (NCUA)  
Ann Jaedicke (OCC)  
Glenn Loney (FRB)

##### ***Task Force on Examiner Education***

William Spaniel, ***Chairman*** (FRB)  
William R. Casey (OTS)  
Cheryl Davis (OCC)  
Marcia Sarrazin (NCUA)  
Gail Simmons-Poole (FDIC)

##### ***Task Force on Information Sharing***

William C. Schneider,  
***Chairman*** (FRB)  
Roger Blake (NCUA)  
Karl Krichbaum (FDIC)  
John Larocca (OTS)  
Robin Stefan (OCC)

##### ***Task Force on Reports***

Robert F. Storch, ***Chairman*** (FDIC)  
Zane D. Blackburn (OCC)  
Michael Finn (OTS)  
Gerald A. Edwards, Jr. (FRB)  
Todd Roscoe (NCUA)

##### ***Task Force on Supervision***

Emory W. Rushton,  
***Chairman*** (OCC)  
Richard Riccobono (OTS)  
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)  
Todd Roscoe (NCUA)  
Robin Stefan (OCC)