Comptroller of the Currency
Administrator of National Banks

Quarterly Journal

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Office of the Comptroller of the Currency
March 2002

Comptroller .... John D. Hawke Jr.

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller, who is appointed by the President, with the advice and consent of the Senate, for a five-year term.

The OCC regulates national banks by its power to:

- Examine the banks;
- Approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure;
- Take supervisory actions against banks that do not conform to laws and regulations or that otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a deputy comptroller.

The OCC is funded through assessments on the assets of national banks, and federal branches and agencies. Under the International Banking Act of 1978, the OCC regulates federal branches and agencies of foreign banks in the United States.

The Comptroller

Comptroller John D. Hawke Jr. has held office as the 28th Comptroller of the Currency since December 8, 1998, after being appointed by President Clinton during a congressional recess. He was confirmed subsequently by the U.S. Senate for a five-year term starting on October 13, 1999. Prior to his appointment Mr. Hawke served for 3½ years as Under Secretary of the Treasury for Domestic Finance. He oversaw development of policy and legislation on financial institutions, debt management, and capital markets; served as chairman of the Advanced Counterfeit Deterrence Steering Committee; and was a member of the board of the Securities Investor Protection Corporation. Before joining Treasury, he was a senior partner at the Washington, D.C., law firm of Arnold & Porter, which he joined as an associate in 1962. In 1975 he left to serve as general counsel to the Board of Governors of the Federal Reserve System, returning in 1978. At Arnold & Porter he headed the financial institutions practice. From 1987 to 1995 he was chairman of the firm.

Mr. Hawke has written extensively on the regulation of financial institutions, including *Commentaries on Banking Regulation*, published in 1985. From 1970 to 1987 he taught courses on federal regulation of banking at Georgetown University Law Center. He has also taught courses on bank acquisitions and serves as chairman of the Board of Advisors of the Morin Center for Banking Law Studies. In 1987 Mr. Hawke served on a committee of inquiry appointed by the Chicago Mercantile Exchange to study the role of futures markets in the October 1987 stock market crash. He was a founding member of the Shadow Financial Regulatory Committee, and served on it until joining Treasury.

Mr. Hawke was graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957 he served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was editor-in-chief of the *Columbia Law Review*, Mr. Hawke clerked for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962 he was counsel to the Select Subcommittee on Education, U.S. House of Representatives.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and congressional testimony, material released in the interpretive letters series, statistical data, and other information of interest to the administration of national banks. Send suggestions or questions to Rebecca Miller, Senior Writer-Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. **Subscriptions** are available for $100 a year by writing to Publications—QJ, Comptroller of the Currency, P.O. Box 73150, Chicago, IL 60673–7150. The *Quarterly Journal* is on the Web at http://www.occ.treas.gov/qj/qj.htm.

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The Administrator of National Banks

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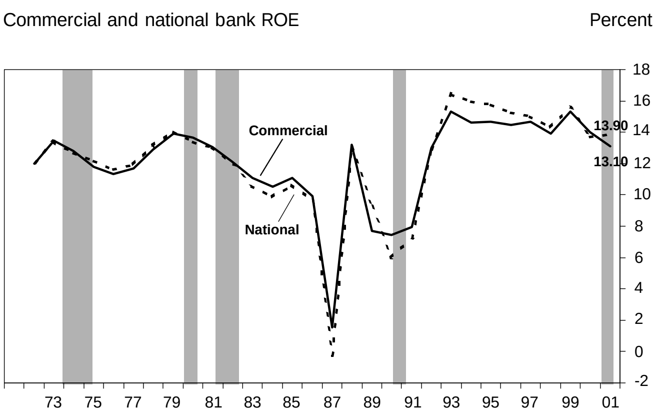
Condition and Performance of Commercial Banks

Summary of Condition and Performance

Banks enjoyed a particularly good fourth quarter in 2001, as earnings rose both for national banks and for all commercial banks. A continuing decline in interest rates benefited banks in two ways: by allowing a rise in net interest margins, and by allowing banks to realize gains from the sale of securities. Most of this benefit went to large banks.

On the negative side, provisioning expenses continued to rise, as a softer economy led to lower asset quality across the board, and most prominently in commercial and industrial (C&I) portfolios. This weakness is likely to persist for some sectors and regions, whatever the path of the recovery. The result will be continuing asset quality erosion for banks with exposure there.

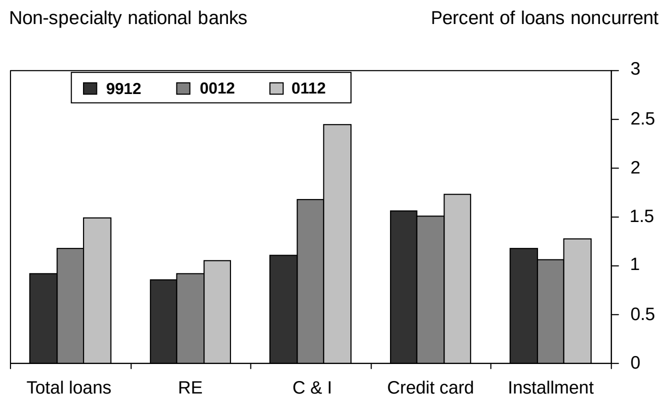
Figure 1-ROE higher for national banks



Banks will be hard pressed to repeat their earnings performance in the near future. If the economy does not recover quickly, loan volume and noninterest income will lag, and credit quality will decline. But earnings are not likely to rise even if the economy does recover quickly, as this would likely push up interest rates, reducing net interest margins (NIMs). At the same time, credit quality problems are likely to persist for several quarters after the beginning of a recovery, keeping provisions and charge-offs high.

Larger banks can expect continuing weakness in credit quality, as asset quality problems tend to persist after the end of a recession. Noninterest income is not likely to recover to the heady levels of the late 90s; for example, market-sensitive income has fallen sharply as a result of the slower pace of corporate mergers and acquisitions, and the decline in trading volume in equity markets. On the international side, Germany and Japan remain mired in recession, and with them many of our other major trading partners. Thus international income, which boosted earnings for many large banks during the last recession, has not provided the same kick to earnings this time around. Small banks will face pressure on earnings if they have exposure to weak industries, or if they are in countries with weak labor markets.

Figure 2-Asset quality deteriorated across the board

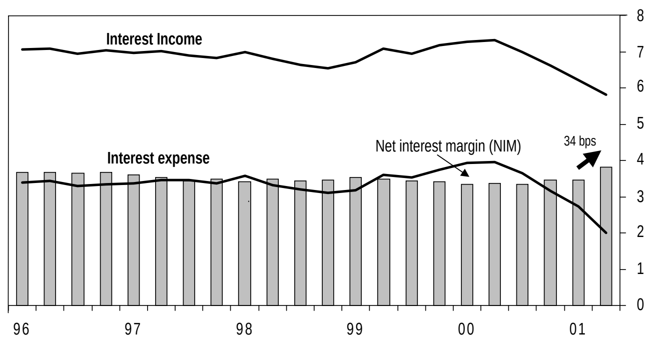


Key Trends

In the fourth quarter, return on equity for national banks rose sharply to 14.9 percent, up 130 basis points (bps) year-over-year and 260 bps quarter-over-quarter. This puts ROE close to the 16-plus-percent range recorded in the mid and late 1990s. The story was different for the broader population of all commercial banks, where ROE rose 40 bps on the quarter but fell 90 bps on the year. Two factors explain this difference. First, short-term interest rates continued to fall, which translated into a decline in the cost of wholesale funding. This mostly benefits large banks, as they are large net buyers in the wholesale funding market, and national banks are larger on average than state banks. Second, assets grew at national banks as a result of consolidation. Third, several large state banks took unusually large charge-offs and provisions related to Enron, Argentina, and other matters.

Figure 3- Large banks benefited from big fourth quarter improvement in NIM

National banks with assets over $10 billion Percent of avg. assets



For national banks, net interest income jumped 11 percent quarter-over-quarter and 19 percent year-over-year. For the largest national banks (over $10 billion in assets), net interest margin (NIM) jumped 34 bps from third-quarter levels, the second largest increase and the second highest absolute level since quarterly data collection began in 1984. Small banks did not fare as well. For national banks with less than $1 billion in assets, NIM improved only 5 bps this quarter.

How long can large banks expect to enjoy these record-high NIMs? Because banks generally borrow short and lend long, the spread between long and short interest rates gives a good indication of NIMs. Typically, the long-short spread widens during recessions, as short-term rates decline, and narrows, often precipitously, during recoveries. This suggests that banks will not be able to rely on today's historically high NIMs as the economy recovers.

With the onset of the recession, it is not surprising that provisioning costs continue to climb in 2001. Figure 4 shows how provisioning costs have moved since the 1970s. After rising sharply in the 1980s as a response to severe problems in several sectors and regions, by the mid 1990s the provisioning ratio had fallen back to the levels of the 1970s. Since then, the ratio has been rising again. Fourth quarter provisions were up 16 percent on the quarter and 37 percent on the year, and now stand 60 percent above the average level between 1992 and 2000. Even so, the reserve coverage ratio continued to decline, as charge-offs and nonperforming loans rose faster than provisions.

Asset quality has deteriorated across the board in the fourth quarter, with C&I loans affected most. The deterioration on the C&I side occurred in part from the dramatic expansion of C&I lending in the late 1990s. With capital investment growing at around 15 percent annually, U.S. corporations had to rely on external funding. The chart shows capital spending by U.S. corporations as a percentage of internal funds, primarily retained earnings and depreciation. When this ratio exceeds 100, corporations are net borrowers of funds. Corporate demand for external funds rose steadily following the recession of 1990–91. By early 2001, this ratio stood near its postwar peak.

Figure 4- Provisioning costs up significantly in 2001

National banks Percent

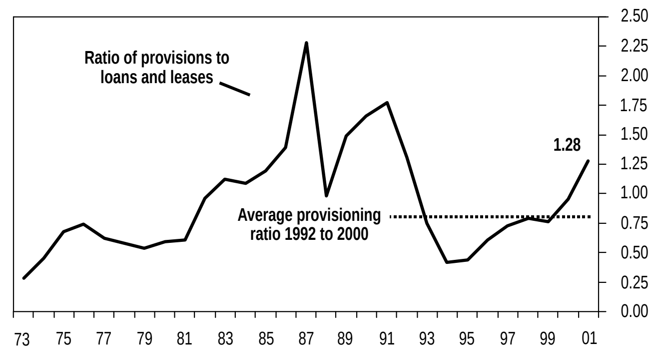


Figure 5- Booming plant and equipment investment in 1990s produced record corporate demand for capital

Nonfinancial corporate business Percent

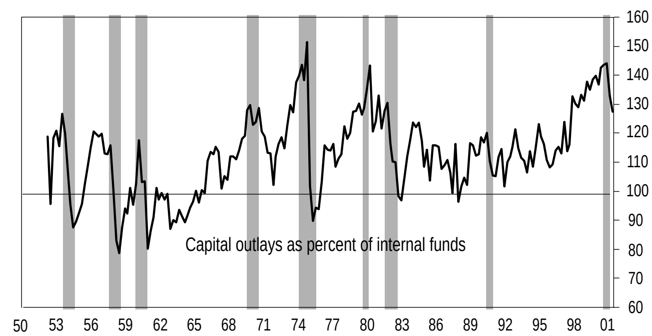
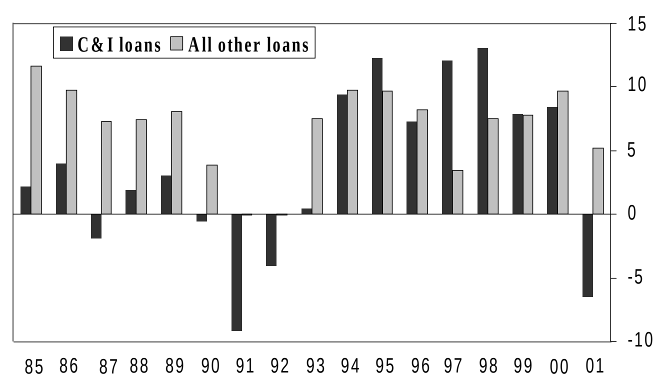


Figure 6- Banks significantly expanded C&I lending in the 1990s

Percentage change commercial bank loans Percent

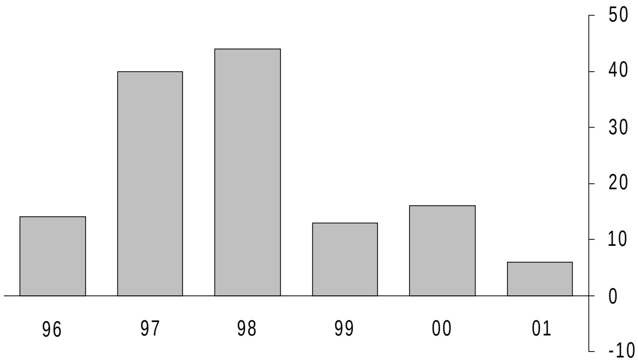


Banks responded to this demand by increasing C&I lending. Figure 6 indicates that C&I lending grew much faster than other lending during the mid to late 1990s.

At the same time, banks were loosening their underwriting standards, as shown in Figure 7, which is based on a survey of OCC examiners in charge of large banks. In 1997 and 1998, nearly 40 percent of the examiners-in-charge reported that their banks had lowered underwriting standards. Since then, banks have realigned underwriting to more typical standards.

Figure 7- Underwriting standards weakened as growth accelerated in the late 1990s

National banks easing commercial underwriting standards Percent

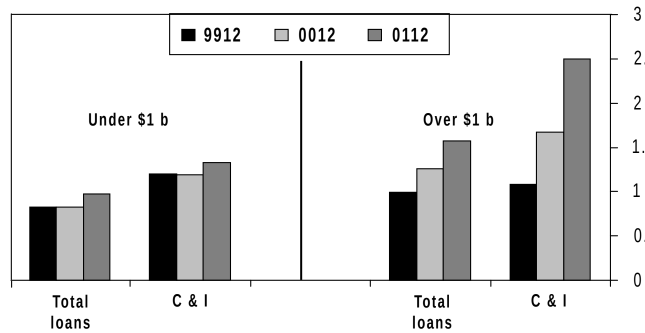


This conclusion is confirmed by a look at the spread between corporate borrowing rates and short-term Treasury rates. The C&I loan rate averaged about 200 bps higher than the Fed Funds rate over the last 15 years, except from 1995 through 1997, when it fell to about 160 bps. This decline would be consistent with aggressive pursuit of C&I loan business.

The Asian crisis of 1997 and the Russian default of 1998 rocked the capital markets. Risk-aversion among lenders increased, liquidity dried up, and many borrowers turned to lines of credit previously arranged with their banks, contributing to the bulge in large-bank C&I lending during those years. Small banks expanded their C&I portfolios as well, but the growth spike for small banks lagged that for large banks by about two years. C&I credit quality has been a problem for large banks from the beginning of this recession. We may expect to see similar problems appear at small banks with a lag corresponding to the lag in C&I loan growth.

Figure 8- C&I problems concentrated at large banks so far

National banks Percent of loans noncurrent



International developments pose another set of risks for large banks. With the world's second and third largest economies, Japan and Germany, in recession, our major trading partners will not be the engines of a demand-driven recovery. In addition, Japan's fiscal deficit now stands at a post-war high, and its credit markets remain hobbled by high levels of bad debt on the books of its banks. Argentina's default has caused losses for several U.S. banks, though Argentina's problems have remained largely confined to that country. Finally, the persistent, large U.S. trade deficit has the potential to roil financial markets and cause turmoil in world currency and capital markets.

Small banks face their own set of pressures. For banks with less than $1 billion in assets, the ratios of both interest and noninterest income to assets declined slightly in 2001. Provisions rose both absolutely and as a percent of assets, resulting in a decline in return on assets. Small banks with a concentration in business lending have, as a group, seen earnings erode during the recession; hotels and business real estate in general could remain a sore spot in many regions. In contrast, small banks that focus on the household side have seen earnings hold up relatively well, helped by higher fee income from mortgage refinancing.

Key indicators, FDIC-insured national banks
Annual 1997–2000, year-to-date through December 31, 2001, fourth quarter 2000, and fourth quarter 2001

(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q4	Preliminary 2001Q4
Number of institutions reporting	2,597	2,456	2,364	2,230	2,137	2,230	2,137
Total employees (FTEs)	912,463	974,871	983,186	948,648	966,430	948,648	966,430
Selected income data ($)							
Net income	$35,782	$37,608	$42,591	$38,959	$44,373	$9,957	$12,581
Net interest income	106,639	110,985	114,557	115,906	125,674	29,243	34,880
Provision for loan losses	13,065	15,242	15,549	20,555	28,974	6,959	9,548
Noninterest income	65,429	81,344	92,647	96,183	99,540	24,581	26,383
Noninterest expense	104,682	122,604	125,807	128,538	131,149	31,926	34,374
Net operating income	34,993	35,549	42,416	40,209	43,145	9,472	12,177
Cash dividends declared	28,587	25,414	29,870	32,327	27,736	11,790	6,766
Net charge-offs to loan and lease reserve	12,661	14,492	14,179	17,240	25,173	6,238	8,556
Selected condition data ($)							
Total assets	2,893,910	3,183,385	3,271,265	3,414,446	3,634,997	3,414,446	3,634,997
Total loans and leases	1,840,485	2,015,585	2,127,927	2,227,071	2,272,398	2,227,071	2,272,398
Reserve for losses	34,865	36,810	37,683	40,020	45,552	40,020	45,552
Securities	452,118	516,120	537,316	502,295	575,895	502,295	575,895
Other real estate owned	2,112	1,833	1,572	1,553	1,794	1,553	1,794
Noncurrent loans and leases	17,878	19,513	20,815	27,160	34,584	27,160	34,584
Total deposits	2,004,867	2,137,946	2,154,272	2,250,464	2,384,462	2,250,464	2,384,462
Domestic deposits	1,685,316	1,785,856	1,776,126	1,827,126	2,001,302	1,827,126	2,001,302
Equity capital	244,794	274,193	278,014	293,838	340,993	293,838	340,993
Off-balance-sheet derivatives	8,704,481	10,953,514	12,077,568	15,502,911	20,641,447	15,502,911	20,641,447
Performance ratios (annualized %)							
Return on equity	15.00	14.29	15.57	13.71	13.90	13.59	14.94
Return on assets	1.29	1.24	1.35	1.18	1.26	1.18	1.40
Net interest income to assets	3.83	3.67	3.63	3.50	3.56	3.46	3.87
Loss provision to assets	0.47	0.50	0.49	0.62	0.82	0.82	1.06
Net operating income to assets	1.26	1.18	1.35	1.21	1.22	1.12	1.35
Noninterest income to assets	2.35	2.69	2.94	2.91	2.82	2.91	2.93
Noninterest expense to assets	3.76	4.05	3.99	3.88	3.72	3.77	3.81
Loss provision to loans and leases	0.73	0.79	0.76	0.95	1.28	1.25	1.69
Net charge-offs to loans and leases	0.71	0.75	0.70	0.80	1.11	1.12	1.51
Loss provision to net charge-offs	103.19	105.12	109.66	119.23	115.10	111.57	111.59
Performance ratios (%)							
Percent of institutions unprofitable	4.89	5.94	7.06	6.91	7.07	10.72	11.46
Percent of institutions with earnings gains	67.96	61.60	62.18	66.64	57.32	56.14	58.26
Nonint. income to net operating revenue	38.02	42.29	44.71	45.35	44.20	45.67	43.07
Nonint. expense to net operating revenue	60.84	63.75	60.72	60.61	58.23	59.32	56.11
Condition ratios (%)							
Nonperforming assets to assets	0.70	0.68	0.70	0.86	1.02	0.86	1.02
Noncurrent loans to loans	0.97	0.97	0.98	1.22	1.52	1.22	1.52
Loss reserve to noncurrent loans	195.01	188.65	181.03	147.35	131.72	147.35	131.72
Loss reserve to loans	1.89	1.83	1.77	1.80	2.00	1.80	2.00
Equity capital to assets	8.46	8.61	8.50	8.61	9.38	8.61	9.38
Leverage ratio	7.42	7.43	7.49	7.49	7.82	7.49	7.82
Risk-based capital ratio	11.84	11.79	11.71	11.85	12.62	11.85	12.62
Net loans and leases to assets	62.39	62.16	63.90	64.05	61.26	64.05	61.26
Securities to assets	15.62	16.21	16.43	14.71	15.84	14.71	15.84
Appreciation in securities (% of par)	1.11	0.82	−2.45	−0.01	0.48	−0.01	0.48
Residential mortgage assets to assets	20.10	20.41	20.60	19.60	22.54	19.60	22.54
Total deposits to assets	69.28	67.16	65.85	65.91	65.60	65.91	65.60
Core deposits to assets	51.59	49.72	47.01	45.61	48.08	45.61	48.08
Volatile liabilities to assets	31.42	31.77	34.81	35.18	31.23	35.18	31.23

Loan performance, FDIC-insured national banks
Annual 1997–2000, year-to-date through December 31, 2001, fourth quarter 2000, and fourth quarter 2001
(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q4	Preliminary 2001Q4
Percent of loans past due 30–89 days							
Total loans and leases	1.32	1.27	1.16	1.26	1.38	1.26	1.38
Loans secured by real estate (RE)	1.39	1.33	1.22	1.42	1.42	1.42	1.42
1–4 family residential mortgages	1.65	1.50	1.61	1.95	1.80	1.95	1.80
Home equity loans	0.93	0.97	0.77	1.07	0.98	1.07	0.98
Multifamily residential mortgages	1.33	0.94	0.69	0.59	0.75	0.59	0.75
Commercial RE loans	0.95	1.02	0.70	0.72	0.85	0.72	0.85
Construction RE loans	1.63	1.82	1.07	1.12	1.28	1.12	1.28
Commercial and industrial loans	0.76	0.81	0.71	0.71	0.95	0.71	0.95
Loans to individuals	2.52	2.44	2.36	2.40	2.39	2.40	2.39
Credit cards	2.75	2.52	2.53	2.50	2.52	2.50	2.52
Installment loans and other plans	2.34	2.37	2.24	2.31	2.56	2.31	2.56
All other loans and leases	0.46	0.46	0.50	0.58	0.84	0.58	0.84
Percent of loans noncurrent							
Total loans and leases	0.97	0.97	0.98	1.22	1.52	1.22	1.52
Loans secured by real estate (RE)	1.07	0.98	0.87	0.93	1.04	0.93	1.04
1–4 family residential mortgages	1.01	0.95	0.91	1.06	1.05	1.06	1.05
Home equity loans	0.43	0.41	0.32	0.41	0.42	0.41	0.42
Multifamily residential mortgages	1.01	0.88	0.43	0.55	0.48	0.55	0.48
Commercial RE loans	1.27	1.01	0.84	0.77	1.03	0.77	1.03
Construction RE loans	1.00	0.80	0.63	0.82	1.15	0.82	1.15
Commercial and industrial loans	0.78	0.86	1.11	1.66	2.44	1.66	2.44
Loans to individuals	1.49	1.59	1.52	1.46	1.58	1.46	1.58
Credit cards	2.03	2.06	2.00	1.89	2.06	1.89	2.06
Installment loans and other plans	1.04	1.19	1.16	1.06	1.36	1.06	1.36
All other loans and leases	0.27	0.31	0.40	0.85	1.17	0.85	1.17
Percent of loans charged-off, net							
Total loans and leases	0.71	0.75	0.70	0.80	1.11	1.12	1.51
Loans secured by real estate (RE)	0.06	0.05	0.10	0.12	0.26	0.15	0.29
1–4 family residential mortgages	0.08	0.07	0.14	0.14	0.32	0.16	0.21
Home equity loans	0.18	0.16	0.19	0.23	0.35	0.29	0.52
Multifamily residential mortgages	0.01	0.07	0.02	0.03	0.04	0.03	0.10
Commercial RE loans	−0.01	−0.02	0.03	0.07	0.18	0.09	0.33
Construction RE loans	−0.10	−0.01	0.03	0.05	0.15	0.09	0.28
Commercial and industrial loans	0.27	0.38	0.54	0.87	1.50	1.44	2.44
Loans to individuals	2.86	2.92	2.65	2.84	3.14	3.63	3.95
Credit cards	4.95	5.03	4.51	4.43	5.08	4.67	6.39
Installment loans and other plans	1.20	1.23	1.27	1.54	1.66	2.71	2.16
All other loans and leases	0.07	0.40	0.23	0.24	0.45	0.36	0.50
Loans outstanding ($)							
Total loans and leases	$1,840,485	$2,015,585	$2,127,927	$2,227,071	$2,272,398	$2,227,071	$2,272,398
Loans secured by real estate (RE)	725,305	764,944	853,141	892,152	976,092	892,152	976,092
1–4 family residential mortgages	363,329	381,597	433,807	443,088	472,705	443,088	472,705
Home equity loans	67,669	66,091	67,267	82,672	102,094	82,672	102,094
Multifamily residential mortgages	23,346	23,201	26,561	28,021	30,072	28,021	30,072
Commercial RE loans	190,067	200,469	214,145	221,218	236,452	221,218	236,452
Construction RE loans	47,410	56,261	71,578	76,884	91,487	76,884	91,487
Farmland loans	10,178	10,930	11,957	12,346	12,614	12,346	12,614
RE loans from foreign offices	23,306	26,396	27,825	27,923	30,668	27,923	30,668
Commercial and industrial loans	508,589	583,903	622,004	646,995	597,255	646,995	597,255
Loans to individuals	371,477	386,410	348,634	370,363	389,879	370,363	389,879
Credit cards*	168,236	176,408	147,179	176,372	166,528	176,372	166,528
Other revolving credit plans	na	na	na	na	22,616	na	22,616
Installment loans	203,241	210,003	201,455	193,991	200,735	193,991	200,735
All other loans and leases	237,326	282,367	306,041	319,145	311,103	319,145	311,103
Less: Unearned income	2,212	2,039	1,893	1,584	1,931	1,584	1,931

*Prior to March 2001, credit cards included "Other revolving credit plans."

Key indicators, FDIC-insured national banks by asset size
Fourth quarter 2000 and fourth quarter 2001
(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4
Number of institutions reporting	1,100	996	955	968	131	131	44	42
Total employees (FTEs)	27,163	23,211	96,221	95,721	113,115	108,751	712,149	738,747
Selected income data ($)								
Net income	$133	$116	$765	$746	$1,173	$2,075	$7,886	$9,644
Net interest income	575	505	2,478	2,548	3,598	4,218	22,591	27,608
Provision for loan losses	47	47	251	295	546	156	6,115	9,051
Noninterest income	308	248	1,399	1,446	2,728	3,063	20,146	21,626
Noninterest expense	646	546	2,537	2,673	4,020	4,056	24,722	27,098
Net operating income	133	112	766	732	1,168	2,028	7,405	9,305
Cash dividends declared	164	161	710	643	1,831	1,218	9,085	4,745
Net charge-offs to loan and lease reserve	32	38	185	223	519	885	5,501	7,410
Selected condition data ($)								
Total assets	55,919	51,688	251,393	253,533	400,677	413,932	2,706,456	2,915,844
Total loans and leases	33,412	30,761	159,354	157,505	249,156	255,062	1,785,149	1,829,070
Reserve for losses	443	417	2,192	2,237	4,498	4,559	32,888	38,340
Securities	14,555	12,778	62,067	61,686	87,303	88,282	338,369	413,150
Other real estate owned	68	70	197	249	154	188	1,135	1,287
Noncurrent loans and leases	306	349	1,290	1,472	2,334	2,491	23,230	30,272
Total deposits	46,986	43,533	203,375	205,412	264,786	268,836	1,735,317	1,866,681
Domestic deposits	46,976	43,533	203,109	204,968	262,118	266,792	1,314,923	1,486,008
Equity capital	6,271	5,800	24,834	25,343	36,436	40,627	226,298	269,222
Off-balance-sheet derivatives	28	6	1,340	1,378	29,273	36,968	15,630,534	20,685,244
Performance ratios (annualized %)								
Return on equity	8.60	7.94	12.54	11.76	12.92	20.65	13.95	14.54
Return on assets	0.97	0.91	1.23	1.19	1.19	2.04	1.17	1.33
Net interest income to assets	4.18	3.96	4.00	4.07	3.64	4.14	3.37	3.81
Loss provision to assets	0.34	0.37	0.40	0.47	0.55	0.15	0.91	1.25
Net operating income to assets	0.97	0.88	1.24	1.17	1.18	1.99	1.10	1.29
Noninterest income to assets	2.24	1.94	2.26	2.31	2.76	3.00	3.00	2.99
Noninterest expense to assets	4.69	4.28	4.09	4.27	4.07	3.98	3.68	3.74
Loss provision to loans and leases	0.57	0.62	0.64	0.76	0.88	0.24	1.37	1.99
Net charge-offs to loans and leases	0.39	0.50	0.47	0.57	0.84	1.39	1.23	1.63
Loss provision to net charge-offs	145.96	123.85	135.65	131.96	105.27	17.62	111.15	122.14
Performance ratios (%)								
Percent of institutions unprofitable	16.18	17.07	5.03	6.10	6.11	7.63	11.36	14.29
Percent of institutions with earnings gains	54.55	52.31	58.95	63.95	51.91	62.60	47.73	54.76
Nonint. income to net operating revenue	34.88	32.90	36.09	36.20	43.12	42.07	47.14	43.93
Nonint. expense to net operating revenue	73.09	72.53	65.45	66.92	63.55	55.71	57.85	55.04
Condition ratios (%)								
Nonperforming assets to assets	0.67	0.82	0.59	0.69	0.64	0.66	0.92	1.10
Noncurrent loans to loans	0.92	1.13	0.81	0.93	0.94	0.98	1.30	1.66
Loss reserve to noncurrent loans	144.88	119.58	169.85	151.90	192.73	183.05	141.57	126.65
Loss reserve to loans	1.33	1.36	1.38	1.42	1.81	1.79	1.84	2.10
Equity capital to assets	11.21	11.22	9.88	9.09	9.81	8.36	9.23	
			10.00					
Leverage ratio	11.14	10.94	9.57	9.39	8.20	8.73	7.12	7.50
Risk-based capital ratio	17.97	17.92	14.60	14.74	13.10	14.29	11.40	12.20
Net loans and leases to assets	58.96	58.71	62.52	61.24	61.06	60.52	64.74	61.41
Securities to assets	26.03	24.72	24.69	24.33	21.79	21.33	12.50	14.17
Appreciation in securities (% of par)	0.05	1.20	0.14	1.14	0.07	0.89	−0.07	0.27
Residential mortgage assets to assets	21.25	22.34	23.71	24.84	26.08	27.09	18.23	21.70
Total deposits to assets	84.02	84.22	80.90	81.02	66.08	64.95	64.12	64.02
Core deposits to assets	71.03	70.95	67.87	68.01	55.41	55.68	41.57	44.86
Volatile liabilities to assets	15.36	15.15	18.45	17.28	27.73	24.80	38.25	33.64

Loan performance, FDIC-insured national banks by asset size
Fourth quarter 2000 and fourth quarter 2001
(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4
Percent of loans past due 30–89 days								
Total loans and leases	1.44	1.55	1.20	1.32	1.32	1.31	1.25	1.40
Loans secured by real estate (RE)	1.26	1.36	0.98	1.14	1.02	1.09	1.58	1.52
1–4 family residential mortgages	1.60	1.71	1.39	1.56	1.16	1.42	2.18	1.89
Home equity loans	0.75	0.85	0.70	0.65	1.16	0.77	1.09	1.02
Multifamily residential mortgages	0.79	0.53	0.37	0.55	0.50	0.55	0.65	0.84
Commercial RE loans	0.92	1.06	0.62	0.85	0.74	0.75	0.73	0.88
Construction RE loans	1.19	1.61	1.00	1.07	1.18	1.04	1.12	1.36
Commercial and industrial loans*	1.40	1.69	1.11	1.32	1.13	1.16	0.62	0.90
Loans to individuals	2.27	2.74	2.26	2.45	2.40	2.20	2.41	2.42
Credit cards	1.80	2.56	2.84	4.53	2.43	2.32	2.50	2.52
Installment loans and other plans	2.29	2.80	2.11	2.19	2.38	2.29	2.32	2.64
All other loans and leases	na	0.94	na	0.94	0.94	0.88	0.57	0.83
Percent of loans noncurrent								
Total loans and leases	0.92	1.13	0.81	0.93	0.94	0.98	1.30	1.66
Loans secured by real estate (RE)	0.74	0.98	0.66	0.78	0.64	0.78	1.03	1.14
1–4 family residential mortgages	0.62	0.80	0.58	0.73	0.60	0.60	1.22	1.17
Home equity loans	0.32	0.35	0.35	0.30	0.39	0.41	0.42	0.43
Multifamily residential mortgages	0.41	0.81	0.32	0.39	0.46	0.52	0.62	0.48
Commercial RE loans	0.88	1.23	0.77	0.91	0.67	0.95	0.79	1.08
Construction RE loans	0.67	0.87	0.68	0.64	0.84	1.18	0.85	1.23
Commercial and industrial loans*	1.34	1.81	1.15	1.42	1.39	1.42	1.69	2.59
Loans to individuals	0.74	0.84	0.87	1.08	1.38	1.21	1.53	1.68
Credit cards	1.13	1.96	2.33	4.41	2.25	1.75	1.83	2.07
Installment loans and other plans	0.72	0.80	0.51	0.58	0.74	0.86	1.21	1.54
All other loans and leases	na	1.26	na	0.89	0.48	0.69	0.90	1.21
Percent of loans charged-off, net								
Total loans and leases	0.39	0.50	0.47	0.57	0.84	1.39	1.23	1.63
Loans secured by real estate (RE)	0.07	0.12	0.08	0.12	0.13	0.18	0.17	0.34
1–4 family residential mortgages	0.06	0.08	0.08	0.11	0.18	0.06	0.17	0.25
Home equity loans	0.20	0.03	0.04	0.05	0.14	0.35	0.33	0.56
Multifamily residential mortgages	0.18	0.35	0.00	0.10	0.04	0.08	0.03	0.10
Commercial RE loans	0.10	0.15	0.08	0.14	0.09	0.28	0.09	0.40
Construction RE loans	0.06	0.10	0.06	0.09	0.07	0.27	0.11	0.32
Commercial and industrial loans*	0.70	1.16	0.77	0.99	0.78	1.56	1.53	2.61
Loans to individuals	1.10	1.39	1.64	2.33	2.96	4.76	3.94	3.95
Credit cards	−0.33	4.64	4.88	9.72	5.90	8.52	4.49	5.96
Installment loans and other plans	1.16	1.26	0.85	1.18	0.88	1.85	3.38	2.34
All other loans and leases	na	0.38	na	0.52	0.26	0.35	0.37	0.51
Loans outstanding ($)								
Total loans and leases	$33,412	$30,761	$159,354	$157,505	$249,156	$255,062	$1,785,149	$1,829,070
Loans secured by real estate (RE)	19,313	17,898	98,290	101,006	133,035	140,094	641,514	717,094
1–4 family residential mortgages	9,029	7,983	42,364	40,916	62,080	63,913	329,615	359,893
Home equity loans	460	445	4,149	4,433	9,199	9,404	68,864	87,812
Multifamily residential mortgages	423	420	3,435	3,576	4,886	5,267	19,278	20,809
Commercial RE loans	5,581	5,315	35,085	37,143	40,894	43,286	139,658	150,709
Construction RE loans	1,640	1,696	9,143	10,621	13,944	16,271	52,158	62,899
Farmland loans	2,180	2,039	4,110	4,315	1,872	1,822	4,184	4,438
RE loans from foreign offices	0	0	5	3	161	130	27,757	30,534
Commercial and industrial loans	5,739	5,197	28,595	28,004	50,527	46,370	562,134	517,684
Loans to individuals	4,617	4,092	22,680	19,066	50,689	52,002	292,376	314,719
Credit cards**	180	170	4,514	2,543	21,608	22,812	150,070	141,003
Other revolving credit plans	na	67	na	381	na	2,229	na	19,939
Installment loans	4,437	3,855	18,167	16,143	29,081	26,961	142,307	153,777
All other loans and leases	3,812	3,624	10,040	9,626	15,010	16,683	290,283	281,171
Less: Unearned income	69	50	252	197	104	86	1,159	1,598

*Prior to March 2001, includes "All other loans" for institutions under $1 billion in asset size.

**Prior to March 2001, credit cards included "Other revolving credit plans."

Key indicators, FDIC-insured national banks by region
Fourth quarter 2001
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	244	297	429	431	510	226	2,137
Total employees (FTEs)	292,866	261,481	197,296	58,547	55,726	100,514	966,430
Selected income data ($)							
Net income	$3,109	$3,926	$1,989	$1,059	$455	$2,043	$12,581
Net interest income	9,824	8,868	7,453	2,578	1,537	4,620	34,880
Provision for loan losses	4,647	1,329	2,125	635	173	639	9,548
Noninterest income	10,553	6,017	4,242	1,964	610	2,997	26,383
Noninterest expense	11,058	9,002	6,591	2,328	1,402	3,993	34,374
Net operating income	3,142	3,621	2,063	1,043	390	1,919	12,177
Cash dividends declared	1,778	1,534	1,731	620	473	630	6,766
Net charge-offs to loan and lease reserve	3,634	1,701	1,508	607	143	963	8,556
Selected condition data ($)							
Total assets	1,008,885	1,037,192	856,846	214,089	156,040	361,947	3,634,997
Total loans and leases	623,140	605,147	568,143	144,081	88,934	242,953	2,272,398
Reserve for losses	15,051	10,529	10,871	2,589	1,338	5,174	45,552
Securities	150,529	168,443	144,907	31,502	41,570	38,942	575,895
Other real estate owned	295	734	391	92	126	156	1,794
Noncurrent loans and leases	11,022	9,217	8,978	1,533	953	2,881	34,584
Total deposits	677,007	704,036	528,821	131,925	126,110	216,563	2,384,462
Domestic deposits	430,396	630,063	484,470	124,466	125,003	206,904	2,001,302
Equity capital	93,852	104,044	71,556	17,842	14,781	38,917	340,993
Off-balance-sheet derivatives	7,042,026	11,460,880	1,251,994	7,361	9,657	869,528	20,641,447
Performance ratios (annualized %)							
Return on equity	13.59	15.16	11.13	24.72	12.23	21.37	14.94
Return on assets	1.25	1.50	0.94	2.09	1.18	2.31	1.40
Net interest income to assets	3.94	3.38	3.51	5.09	3.99	5.23	3.87
Loss provision to assets	1.87	0.51	1.00	1.25	0.45	0.72	1.06
Net operating income to assets	1.26	1.38	0.97	2.06	1.01	2.17	1.35
Noninterest income to assets	4.24	2.29	2.00	3.88	1.58	3.39	2.93
Noninterest expense to assets	4.44	3.43	3.10	4.60	3.64	4.52	3.81
Loss provision to loans and leases	3.05	0.85	1.50	1.86	0.78	1.08	1.69
Net charge-offs to loans and leases	2.38	1.09	1.06	1.77	0.65	1.63	1.51
Loss provision to net charge-offs	127.88	78.11	140.92	104.67	121.11	66.35	111.59
Performance ratios (%)							
Percent of institutions unprofitable	9.02	14.81	8.39	7.19	12.35	21.68	11.46
Percent of institutions with earnings gains	63.52	60.61	60.14	59.86	53.73	53.10	58.26
Nonint. income to net operating revenue	51.79	40.43	36.27	43.23	28.41	39.35	43.07
Nonint. expense to net operating revenue	54.26	60.48	56.35	51.25	65.31	52.43	56.11
Condition ratios (%)							
Nonperforming assets to assets	1.14	0.96	1.13	0.76	0.69	0.85	1.02
Noncurrent loans to loans	1.77	1.52	1.58	1.06	1.07	1.19	1.52
Loss reserve to noncurrent loans	136.56	114.23	121.09	168.95	140.37	179.61	131.72
Loss reserve to loans	2.42	1.74	1.91	1.80	1.50	2.13	2.00
Equity capital to assets	9.30	10.03	8.35	8.33	9.47	10.75	9.38
Leverage ratio	7.98	7.79	7.22	7.88	8.27	8.64	7.82
Risk-based capital ratio	12.79	12.77	11.90	12.48	13.73	13.07	12.62
Net loans and leases to assets	60.27	57.33	65.04	66.09	56.14	65.69	61.26
Securities to assets	14.92	16.24	16.91	14.71	26.64	10.76	15.84
Appreciation in securities (% of par)	0.45	0.13	0.48	1.33	0.97	0.95	0.48
Residential mortgage assets to assets	14.62	26.12	25.54	22.91	27.79	24.80	22.54
Total deposits to assets	67.10	67.88	61.72	61.62	80.82	59.83	65.60
Core deposits to assets	34.88	54.06	50.09	53.59	68.01	51.12	48.08
Volatile liabilities to assets	43.03	24.07	30.13	28.82	18.58	28.29	31.23

Loan performance, FDIC-insured national banks by region
Fourth quarter 2001
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30–89 days							
Total loans and leases	1.49	1.05	1.75	1.00	1.16	1.39	1.38
Loans secured by real estate (RE)	1.55	1.22	1.84	0.74	1.11	1.21	1.42
1–4 family residential mortgages	1.83	1.63	2.40	0.71	1.33	1.66	1.80
Home equity loans	0.64	0.87	1.53	0.42	0.41	0.40	0.98
Multifamily residential mortgages	0.27	0.86	1.03	0.42	0.53	0.42	0.75
Commercial RE loans	0.54	0.74	1.31	0.72	0.94	0.53	0.85
Construction RE loans	1.30	0.93	1.36	1.29	1.18	1.81	1.28
Commercial and industrial loans	0.97	0.60	1.19	1.29	0.96	1.13	0.95
Loans to individuals	2.67	2.12	2.93	1.32	1.91	2.21	2.39
Credit cards	3.06	3.29	2.16	1.01	0.98	2.44	2.52
Installment loans and other plans	2.61	2.04	3.35	2.06	2.05	2.01	2.56
All other loans and leases	0.77	0.41	1.36	0.76	0.77	1.07	0.84
Percent of loans noncurrent							
Total loans and leases	1.77	1.52	1.58	1.06	1.07	1.19	1.52
Loans secured by real estate (RE)	1.35	0.82	1.41	0.49	0.84	0.71	1.04
1–4 family residential mortgages	1.17	0.75	1.82	0.32	0.75	0.50	1.05
Home equity loans	0.30	0.35	0.64	0.23	0.32	0.25	0.42
Multifamily residential mortgages	0.34	0.48	0.52	0.30	0.46	0.62	0.48
Commercial RE loans	0.84	0.97	1.37	0.84	0.93	0.80	1.03
Construction RE loans	1.01	1.37	0.92	0.78	0.86	1.60	1.15
Commercial and industrial loans	2.47	2.85	2.29	1.13	1.82	2.26	2.44
Loans to individuals	2.23	0.61	1.33	1.74	0.54	1.48	1.58
Credit cards	2.27	1.38	1.59	2.12	0.73	1.88	2.06
Installment loans and other plans	2.61	0.51	1.39	1.05	0.57	0.64	1.36
All other loans and leases	0.67	2.08	1.06	1.31	1.17	0.92	1.17
Percent of loans charged-off, net							
Total loans and leases	2.38	1.09	1.06	1.77	0.65	1.63	1.51
Loans secured by real estate (RE)	0.27	0.25	0.49	0.03	0.14	0.15	0.29
1–4 family residential mortgages	0.12	0.20	0.46	0.00	0.10	0.00	0.21
Home equity loans	0.10	0.31	1.10	0.01	0.16	0.23	0.52
Multifamily residential mortgages	−0.01	0.00	0.17	−0.03	0.03	0.33	0.10
Commercial RE loans	0.49	0.38	0.39	0.12	0.23	0.10	0.33
Construction RE loans	0.02	0.28	0.24	0.05	0.03	0.77	0.28
Commercial and industrial loans	3.69	2.43	1.46	1.14	1.43	1.74	2.44
Loans to individuals	4.72	2.02	2.69	5.87	1.26	5.67	3.95
Credit cards	5.60	3.86	6.10	9.53	2.35	7.36	6.39
Installment loans and other plans	3.54	1.62	2.00	0.59	1.24	1.64	2.16
All other loans and leases	0.39	0.53	0.73	0.25	0.36	0.35	0.50
Loans outstanding ($)							
Total loans and leases	$623,140	$605,147	$568,143	$144,081	$88,934	$242,953	$2,272,398
Loans secured by real estate (RE)	172,516	292,759	273,390	60,784	48,301	128,341	976,092
1–4 family residential mortgages	80,450	146,387	128,399	35,271	19,048	63,150	472,705
Home equity loans	18,200	30,870	35,370	3,729	1,242	12,682	102,094
Multifamily residential mortgages	3,829	8,907	10,261	1,485	1,599	3,991	30,072
Commercial RE loans	32,554	73,913	65,672	13,010	17,234	34,069	236,452
Construction RE loans	9,251	27,004	30,181	4,321	7,558	13,173	91,487
Farmland loans	478	2,785	3,488	2,969	1,620	1,275	12,614
RE loans from foreign offices	27,756	2,893	18	0	0	1	30,668
Commercial and industrial loans	189,566	168,759	145,472	23,163	22,783	47,513	597,255
Loans to individuals	144,128	66,523	74,006	42,694	12,488	50,040	389,879
Credit cards	80,563	9,481	12,346	28,470	316	35,352	166,528
Other revolving credit plans	10,652	3,016	4,850	865	663	2,571	22,616
Installment loans	52,914	54,026	56,810	13,360	11,509	12,117	200,735
All other loans and leases	118,200	77,444	75,367	17,453	5,473	17,167	311,103
Less: Unearned income	1,270	338	92	14	110	107	1,931

Key indicators, FDIC-insured commercial banks
Annual 1997–2000, year-to-date through December 31, 2001, fourth quarter 2000, and fourth quarter 2001
(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q4	Preliminary 2001Q4
Number of institutions reporting	9,142	8,773	8,579	8,315	8,080	8,315	8,080
Total employees (FTEs)	1,538,408	1,626,978	1,657,602	1,670,857	1,704,931	1,670,857	1,704,931 ”
Selected income data ($)							
Net income	$59,156	$61,784	$71,545	$71,009	$74,310	$17,679	$18,672
Net interest income	174,502	182,752	192,142	203,962	215,202	51,868	58,188
Provision for loan losses	19,851	22,215	21,816	30,001	43,074	10,211	15,195
Noninterest income	104,499	123,688	144,451	153,452	157,172	40,082	40,450
Noninterest expense	169,983	194,131	204,208	216,105	222,316	55,431	57,608
Net operating income	57,928	59,226	71,311	72,598	71,480	17,217	17,803
Cash dividends declared	42,541	41,004	51,937	53,844	54,085	18,636	15,070
Net charge-offs to loan and lease reserve	18,318	20,740	20,368	24,785	36,459	8,824	12,725
Selected condition data ($)							
Total assets	5,014,942	5,442,531	5,735,163	6,244,622	6,569,240	6,244,622	6,569,240
Total loans and leases	2,970,747	3,238,287	3,491,659	3,819,547	3,895,355	3,819,547	3,895,355
Reserve for losses	54,685	57,262	58,766	64,137	72,110	64,137	72,110
Securities	871,868	979,855	1,046,530	1,078,981	1,179,562	1,078,981	1,179,562
Other real estate owned	3,795	3,150	2,796	2,912	3,568	2,912	3,568
Noncurrent loans and leases	28,542	31,253	32,997	42,941	55,028	42,941	55,028
Total deposits	3,421,726	3,681,428	3,831,104	4,179,634	4,391,623	4,179,634	4,391,623
Domestic deposits	2,895,531	3,109,395	3,175,515	3,472,968	3,761,942	3,472,968	3,761,942
Equity capital	417,774	462,142	479,736	530,731	597,457	530,731	597,457
Off-balance-sheet derivatives	25,065,499	33,007,227	34,819,179	40,571,148	45,407,179	40,571,148	45,407,179
Performance ratios (annualized %)							
Return on equity	14.68	13.93	15.31	14.02	13.10	13.44	12.57
Return on assets	1.23	1.19	1.31	1.19	1.16	1.15	1.13
Net interest income to assets	3.64	3.51	3.51	3.41	3.35	3.37	3.54
Loss provision to assets	0.41	0.43	0.40	0.50	0.67	0.66	0.92
Net operating income to assets	1.21	1.14	1.30	1.21	1.11	1.12	1.08
Noninterest income to assets	2.18	2.37	2.64	2.57	2.44	2.61	2.46
Noninterest expense to assets	3.54	3.73	3.73	3.61	3.46	3.60	3.50
Loss provision to loans and leases	0.69	0.72	0.66	0.82	1.11	1.08	1.56
Net charge-offs to loans and leases	0.64	0.67	0.61	0.67	0.94	0.93	1.31
Loss provision to net charge-offs	108.37	104.81	107.10	121.04	118.14	115.71	119.42
Performance ratios (%)							
Percent of institutions unprofitable	4.85	6.11	7.51	7.34	7.54	12.88	12.82
Percent of institutions with earnings gains	68.35	61.22	62.83	67.38	56.73	55.30	58.42
Nonint. income to net operating revenue	37.45	40.36	42.92	42.93	42.21	43.59	41.01
Nonint. expense to net operating revenue	60.93	63.35	60.67	60.46	59.70	60.28	58.40
Condition ratios (%)							
Nonperforming assets to assets	0.66	0.65	0.63	0.74	0.92	0.74	0.92
Noncurrent loans to loans	0.96	0.97	0.95	1.12	1.41	1.12	1.41
Loss reserve to noncurrent loans	191.59	183.22	178.10	149.36	131.04	149.36	131.04
Loss reserve to loans	1.84	1.77	1.68	1.68	1.85	1.68	1.85
Equity capital to assets	8.33	8.49	8.36	8.50	9.09	8.50	9.09
Leverage ratio	7.56	7.54	7.79	7.70	7.79	7.70	7.79
Risk-based capital ratio	12.23	12.23	12.16	12.12	12.72	12.12	12.72
Net loans and leases to assets	58.15	58.45	59.86	60.14	58.20	60.14	58.20
Securities to assets	17.39	18.00	18.25	17.28	17.96	17.28	17.96
Appreciation in securities (% of par)	1.10	1.07	−2.31	0.20	0.82	0.20	0.82
Residential mortgage assets to assets	20.03	20.93	20.78	20.20	21.70	20.20	21.70
Total deposits to assets	68.23	67.64	66.80	66.93	66.85	66.93	66.85
Core deposits to assets	50.06	49.39	46.96	46.39	48.80	46.39	48.80
Volatile liabilities to assets	31.92	31.68	34.94	34.97	31.38	34.97	31.38

Loan performance, FDIC-insured commercial banks
Annual 1997–2000, year-to-date through December 31, 2001, fourth quarter 2000, and fourth quarter 2001
(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q4	Preliminary 2001Q4
Percent of loans past due 30–89 days							
Total loans and leases	1.31	1.26	1.14	1.26	1.37	1.26	1.37
Loans secured by real estate (RE)	1.33	1.26	1.09	1.26	1.31	1.26	1.31
1–4 family residential mortgages	1.59	1.44	1.43	1.72	1.67	1.72	1.67
Home equity loans	0.96	0.98	0.75	0.98	0.91	0.98	0.91
Multifamily residential mortgages	1.11	0.86	0.57	0.55	0.69	0.55	0.69
Commercial RE loans	0.97	0.99	0.69	0.73	0.90	0.73	0.90
Construction RE loans	1.42	1.50	0.98	1.06	1.21	1.06	1.21
Commercial and industrial loans*	0.83	0.88	0.79	0.83	1.02	0.83	1.02
Loans to individuals	2.50	2.43	2.33	2.47	2.47	2.47	2.47
Credit cards	2.73	2.58	2.59	2.66	2.69	2.66	2.69
Installment loans and other plans	2.33	2.33	2.18	2.34	2.51	2.34	2.51
All other loans and leases	0.51	0.51	0.54	0.65	0.84	0.65	0.84
Percent of loans noncurrent							
Total loans and leases	0.96	0.97	0.95	1.12	1.41	1.12	1.41
Loans secured by real estate (RE)	1.01	0.91	0.79	0.81	0.96	0.81	0.96
1–4 family residential mortgages	0.94	0.88	0.82	0.90	0.96	0.90	0.96
Home equity loans	0.44	0.42	0.33	0.37	0.39	0.37	0.39
Multifamily residential mortgages	0.95	0.83	0.41	0.44	0.43	0.44	0.43
Commercial RE loans	1.21	0.95	0.77	0.72	0.98	0.72	0.98
Construction RE loans	0.97	0.81	0.67	0.76	1.06	0.76	1.06
Commercial and industrial loans	0.86	0.99	1.18	1.66	2.40	1.66	2.40
Loans to individuals	1.47	1.52	1.42	1.41	1.50	1.41	1.50
Credit cards	2.18	2.22	2.05	2.01	2.15	2.01	2.15
Installment loans and other plans	0.98	1.06	1.04	0.98	1.20	0.98	1.20
All other loans and leases	0.25	0.34	0.39	0.69	0.96	0.69	0.96
Percent of loans charged-off, net							
Total loans and leases	0.64	0.67	0.61	0.67	0.94	0.93	1.31
Loans secured by real estate (RE)	0.06	0.05	0.08	0.09	0.19	0.13	0.22
1–4 family residential mortgages	0.08	0.07	0.11	0.11	0.22	0.14	0.17
Home equity loans	0.16	0.14	0.15	0.18	0.27	0.24	0.39
Multifamily residential mortgages	0.04	0.05	0.02	0.03	0.03	0.05	0.07
Commercial RE loans	0.01	0.00	0.03	0.05	0.13	0.08	0.23
Construction RE loans	−0.02	0.01	0.04	0.05	0.13	0.10	0.24
Commercial and industrial loans	0.28	0.42	0.58	0.81	1.43	1.30	2.41
Loans to individuals	2.70	2.69	2.32	2.43	2.72	3.01	3.32
Credit cards	5.11	5.19	4.45	4.39	5.12	4.70	6.26
Installment loans and other plans	1.04	1.04	1.04	1.18	1.28	1.88	1.64
All other loans and leases	0.08	0.39	0.25	0.23	0.41	0.33	0.49
Loans outstanding ($)							
Total loans and leases	$2,970,747	$3,238,287	$3,491,659	$3,819,547	$3,895,355	$3,819,547	$3,895,355
Loans secured by real estate (RE)	1,244,985	1,345,589	1,510,342	1,673,185	1,803,587	1,673,185	1,803,587
1–4 family residential mortgages	620,599	668,706	737,110	790,116	811,996	790,116	811,996
Home equity loans	98,163	96,647	102,339	127,541	154,303	127,541	154,303
Multifamily residential mortgages	41,231	43,242	53,168	60,401	64,141	60,401	64,141
Commercial RE loans	341,522	370,544	417,633	466,403	507,611	466,403	507,611
Construction RE loans	88,242	106,719	135,632	162,599	193,241	162,599	193,241
Farmland loans	27,072	29,096	31,902	34,092	35,600	34,092	35,600
RE loans from foreign offices	28,157	30,635	32,558	32,033	36,695	32,033	36,695
Commercial and industrial loans	794,998	898,556	969,257	1,051,060	982,480	1,051,060	982,480
Loans to individuals	561,325	570,863	558,424	606,664	631,160	606,664	631,160
Credit cards*	231,092	228,781	212,051	249,372	232,421	249,372	232,421
Other revolving credit plans	na	na	na	na	27,758	na	27,758
Installment loans	330,233	342,081	346,373	357,292	370,982	357,292	370,982
All other loans and leases	373,907	427,397	457,309	491,568	481,238	491,568	481,238
Less: Unearned income	4,469	4,117	3,673	2,931	3,110	2,931	3,110

*Prior to March 2001, credit cards included "Other revolving credit plans."

Key indicators, FDIC-insured commercial banks by asset size
Fourth quarter 2000 and fourth quarter 2001

(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4
Number of institutions reporting	4,837	4,486	3,081	3,194	314	320	83	80
Total employees (FTEs)	99,367	89,775	291,959	298,149	246,866	247,147	1,032,665	1,069,860
Selected income data ($)								
Net income	$431	$417	$2,256	$2,345	$2,329	$3,025	$12,663	$12,885
Net interest income	2,330	2,131	7,782	8,204	8,242	8,819	33,514	39,033
Provision for loan losses	218	214	809	995	1,570	1,516	7,615	12,470
Noninterest income	658	597	3,154	3,399	4,816	5,573	31,454	30,881
Noninterest expense	2,179	1,992	6,945	7,412	7,968	8,252	38,339	39,952
Net operating income	434	396	2,257	2,275	2,347	2,924	12,180	12,208
Cash dividends declared	542	484	1,794	1,759	3,675	2,653	12,625	10,173
Net charge-offs to loan and lease reserve	157	173	569	770	1,247	2,068	6,850	9,714
Selected condition data ($)								
Total assets	230,888	221,622	773,627	819,393	879,403	915,433	4,360,704	4,612,791
Total loans and leases	141,844	135,375	504,900	532,426	556,962	564,721	2,615,841	2,662,834
Reserve for losses	1,975	1,904	7,144	7,660	9,821	10,134	45,197	52,412
Securities	58,685	53,188	181,458	185,567	198,362	213,575	640,476	727,232
Other real estate owned	259	310	679	909	411	537	1,564	1,812
Noncurrent loans and leases	1,277	1,486	4,037	5,046	5,181	6,044	32,446	42,452
Total deposits	194,723	187,699	632,949	668,372	617,094	625,048	2,734,868	2,910,503
Domestic deposits	194,713	187,698	631,132	666,803	603,138	614,416	2,043,985	2,293,024
Equity capital	25,541	24,155	74,196	79,353	78,955	89,311	352,039	404,637
Off-balance-sheet derivatives	193	38	5,707	4,630	68,219	81,546	40,686,328	45,431,824
Performance ratios (annualized %)								
Return on equity	6.83	6.88	12.39	11.85	11.94	13.69	14.47	12.81
Return on assets	0.76	0.76	1.18	1.16	1.07	1.34	1.18	1.11
Net interest income to assets	4.10	3.90	4.08	4.06	3.80	3.91	3.12	3.36
Loss provision to assets	0.38	0.39	0.42	0.49	0.72	0.67	0.71	1.07
Net operating income to assets	0.76	0.72	1.18	1.13	1.08	1.30	1.13	1.05
Noninterest income to assets	1.16	1.09	1.65	1.68	2.22	2.47	2.93	2.66
Noninterest expense to assets	3.84	3.65	3.64	3.67	3.67	3.66	3.57	3.44
Loss provision to loans and leases	0.62	0.64	0.65	0.76	1.14	1.08	1.17	1.87
Net charge-offs to loans and leases	0.45	0.52	0.46	0.59	0.90	1.47	1.05	1.46
Loss provision to net charge-offs	138.39	123.79	142.16	129.33	125.85	73.34	111.15	128.36
Performance ratios (%)								
Percent of institutions unprofitable	18.28	18.15	5.23	5.85	6.05	7.50	8.43	13.75
Percent of institutions with earnings gains	51.83	53.66	60.47	64.46	57.64	66.25	56.63	52.50
Nonint. income to net operating revenue	22.01	21.88	28.84	29.29	36.88	38.72	48.41	44.17
Nonint. expense to net operating revenue	72.95	72.99	63.50	63.88	61.02	57.33	59.01	57.14
Condition ratios (%)								
Nonperforming assets to assets	0.67	0.81	0.61	0.73	0.64	0.73	0.79	1.00
Noncurrent loans to loans	0.90	1.10	0.80	0.95	0.93	1.07	1.24	1.59
Loss reserve to noncurrent loans	154.67	128.12	176.95	151.78	189.58	167.67	139.30	123.46
Loss reserve to loans	1.39	1.41	1.41	1.44	1.76	1.79	1.73	1.97
Equity capital to assets	11.06	10.90	9.59	9.68	8.98	9.76	8.07	8.77
Leverage ratio	10.98	10.63	9.28	9.17	8.34	8.74	7.11	7.23
Risk-based capital ratio	17.41	16.96	14.07	14.06	12.81	13.77	11.48	12.16
Net loans and leases to assets	60.58	60.22	64.34	64.04	62.22	60.58	58.95	56.59
Securities to assets	25.42	24.00	23.46	22.65	22.56	23.33	14.69	15.77
Appreciation in securities (% of par)	0.08	1.18	0.18	1.14	0.08	0.88	0.26	0.69
Residential mortgage assets to assets	20.80	21.70	23.06	23.99	24.98	26.21	18.70	20.40
Total deposits to assets	84.34	84.69	81.82	81.57	70.17	68.28	62.72	63.10
Core deposits to assets	71.41	71.58	68.26	68.18	55.97	55.74	39.26	42.88
Volatile liabilities to assets	15.07	14.73	18.29	17.48	28.00	25.82	40.40	35.75

Loan performance, FDIC-insured commercial banks by asset size
Fourth quarter 2000 and fourth quarter 2001
(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4	2000Q4	2001Q4
Percent of loans past due 30–89 days								
Total loans and leases	1.61	1.71	1.26	1.38	1.29	1.33	1.23	1.36
Loans secured by real estate (RE)	1.42	1.56	1.03	1.20	0.96	1.05	1.42	1.41
1–4 family residential mortgages	1.85	2.01	1.43	1.68	1.21	1.36	1.92	1.71
Home equity loans	0.76	0.87	0.69	0.82	1.01	0.81	1.02	0.94
Multifamily residential mortgages	0.79	0.77	0.51	0.61	0.46	0.48	0.58	0.78
Commercial RE loans	1.07	1.17	0.69	0.87	0.73	0.81	0.72	0.94
Construction RE loans	1.20	1.64	1.07	1.16	0.86	1.07	1.13	1.26
Commercial and industrial loans*	1.52	1.85	1.31	1.38	1.17	1.27	0.64	0.91
Loans to individuals	2.62	2.88	2.36	2.60	2.54	2.40	2.46	2.45
Credit cards	1.88	2.52	3.66	5.08	2.90	2.76	2.57	2.59
Installment loans and other plans	2.65	2.94	2.14	2.34	2.33	2.33	2.36	2.56
All other loans and leases	na	1.05	na	0.98	1.03	0.92	0.66	0.82
Percent of loans noncurrent								
Total loans and leases	0.90	1.10	0.80	0.95	0.93	1.07	1.24	1.59
Loans secured by real estate (RE)	0.75	0.97	0.64	0.83	0.71	0.84	0.90	1.04
1–4 family residential mortgages	0.71	0.88	0.60	0.76	0.73	0.80	1.05	1.06
Home equity loans	0.26	0.30	0.31	0.34	0.38	0.41	0.38	0.40
Multifamily residential mortgages	0.32	0.62	0.41	0.50	0.39	0.45	0.48	0.39
Commercial RE loans	0.83	1.14	0.64	0.91	0.72	0.89	0.76	1.04
Construction RE loans	0.64	1.03	0.76	0.94	0.80	1.05	0.75	1.13
Commercial and industrial loans*	1.21	1.62	1.20	1.35	1.39	1.68	1.72	2.67
Loans to individuals	0.87	1.00	0.87	0.97	1.15	1.22	1.57	1.65
Credit cards	0.95	1.67	2.62	3.36	1.98	2.05	1.99	2.13
Installment loans and other plans	0.86	1.00	0.56	0.67	0.65	0.77	1.18	1.43
All other loans and leases	na	1.04	na	0.98	0.60	0.74	0.74	0.97
Percent of loans charged-off, net								
Total loans and leases	0.45	0.52	0.46	0.59	0.90	1.47	1.05	1.46
Loans secured by real estate (RE)	0.12	0.15	0.09	0.14	0.12	0.15	0.15	0.26
1–4 family residential mortgages	0.10	0.12	0.09	0.13	0.13	0.08	0.15	0.21
Home equity loans	0.16	0.10	0.04	0.10	0.15	0.24	0.29	0.46
Multifamily residential mortgages	0.32	0.19	0.05	0.17	0.04	0.00	0.03	0.07
Commercial RE loans	0.14	0.17	0.08	0.14	0.09	0.19	0.07	0.30
Construction RE loans	0.11	0.20	0.08	0.24	0.12	0.26	0.10	0.23
Commercial and industrial loans*	0.78	1.25	0.86	1.25	1.33	3.06	1.32	2.49
Loans to individuals	1.15	1.30	1.59	2.08	2.95	4.16	3.32	3.38
Credit cards	2.45	4.03	5.47	8.72	6.21	8.56	4.39	5.70
Installment loans and other plans	1.10	1.23	0.91	1.21	1.08	1.49	2.40	1.79
All other loans and leases	na	0.44	na	0.65	0.52	0.54	0.33	0.48
Loans outstanding ($)								
Total loans and leases	$141,844	$135,375	$504,900	$532,426	$556,962	$564,721	$2,615,841	$2,662,834
Loans secured by real estate (RE)	81,564	79,468	325,193	352,332	305,357	320,170	961,072	1,051,617
1–4 family residential mortgages	37,689	34,880	131,277	132,047	128,478	127,028	492,672	518,041
Home equity loans	2,025	2,188	13,821	15,395	18,825	19,637	92,871	117,083
Multifamily residential mortgages	1,745	1,793	10,977	11,829	12,330	14,042	35,349	36,477
Commercial RE loans	22,918	23,149	120,053	134,861	105,305	113,187	218,127	236,415
Construction RE loans	6,897	7,481	35,514	43,650	35,817	41,852	84,371	100,257
Farmland loans	10,289	9,976	13,506	14,513	4,262	4,089	6,034	7,022
RE loans from foreign offices	0	0	45	37	340	334	31,648	36,323
Commercial and industrial loans	24,510	23,288	91,691	94,672	123,863	113,789	810,996	750,731
Loans to individuals	19,133	16,864	61,981	58,371	97,655	98,487	427,895	457,438
Credit cards**	703	398	9,346	6,950	36,734	37,047	202,589	188,026
Other revolving credit plans	na	296	na	1,677	na	3,730	na	22,055
Installment loans	18,430	16,171	52,635	49,743	60,921	57,710	225,306	247,357
All other loans and leases	16,843	15,907	26,767	27,656	30,688	32,838	417,269	404,836
Less: Unearned income	206	152	733	605	600	564	1,392	1,789

*Prior to March 2001, includes “All other loans” for institutions under $1 billion in asset size.
**Prior to March 2001, credit cards included “Other revolving credit plans.”

Key indicators, FDIC-insured commercial banks by region
Fourth quarter 2001
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	651	1,392	1,721	2,094	1,342	880	8,080
Total employees (FTEs)	526,691	463,882	321,392	110,777	104,331	177,858	1,704,931
Selected income data ($)							
Net income	$4,321	$5,811	$3,357	$1,464	$773	$2,946	$18,672
Net interest income	17,397	14,426	11,381	4,066	2,728	8,191	58,188
Provision for loan losses	7,538	2,161	2,791	856	269	1,581	15,195
Noninterest income	17,203	9,386	6,130	2,354	998	4,379	40,450
Noninterest expense	20,649	14,474	9,909	3,468	2,459	6,648	57,608
Net operating income	4,139	5,384	3,344	1,439	699	2,799	17,803
Cash dividends declared	5,774	3,398	2,589	950	799	1,559	15,070
Net charge-offs to loan and lease reserve	5,650	2,360	2,055	803	245	1,613	12,725
Selected condition data ($)							
Total assets	2,259,316	1,634,001	1,321,631	363,218	276,680	714,393	6,569,240
Total loans and leases	1,160,082	1,009,080	871,137	244,017	160,737	450,302	3,895,355
Reserve for losses	24,630	16,275	15,362	4,205	2,290	9,348	72,110
Securities	374,482	290,763	236,340	63,529	73,625	140,822	1,179,562
Other real estate owned	592	1,349	686	263	297	381	3,568
Noncurrent loans and leases	19,714	12,990	12,744	2,531	1,685	5,365	55,028
Total deposits	1,432,651	1,127,373	860,700	253,882	226,062	490,956	4,391,623
Domestic deposits	970,551	1,040,402	801,934	246,422	224,942	477,690	3,761,942
Equity capital	194,227	159,028	111,661	32,439	26,247	73,854	597,457
Off-balance-sheet derivatives	31,555,439	11,561,749	1,346,584	9,437	10,366	923,604	45,407,179
Performance ratios (annualized %)							
Return on equity	8.93	14.67	12.04	18.47	11.74	16.23	12.57
Return on assets	0.75	1.42	1.02	1.68	1.13	1.68	1.13
Net interest income to assets	3.01	3.52	3.47	4.66	4.00	4.68	3.54
Loss provision to assets	1.31	0.53	0.85	0.98	0.39	0.90	0.92
Net operating income to assets	0.72	1.31	1.02	1.65	1.02	1.60	1.08
Noninterest income to assets	2.98	2.29	1.87	2.70	1.46	2.50	2.46
Noninterest expense to assets	3.58	3.53	3.03	3.98	3.61	3.80	3.50
Loss provision to loans and leases	2.61	0.84	1.28	1.45	0.67	1.43	1.56
Net charge-offs to loans and leases	1.95	0.92	0.95	1.36	0.61	1.46	1.31
Loss provision to net charge-offs	133.43	91.55	135.86	106.52	109.89	98.04	119.42
Performance ratios (%)							
Percent of institutions unprofitable	13.06	14.58	9.30	11.75	14.08	17.39	12.82
Percent of institutions with earnings gains	61.44	59.48	61.59	58.93	53.28	54.89	58.42
Nonint. income to net operating revenue	49.72	39.42	35.01	36.67	26.78	34.84	41.01
Nonint. expense to net operating revenue	59.68	60.79	56.59	54.02	66.01	52.89	58.40
Condition ratios (%)							
Nonperforming assets to assets	0.97	0.88	1.04	0.77	0.72	0.81	0.92
Noncurrent loans to loans	1.70	1.29	1.46	1.04	1.05	1.19	1.41
Loss reserve to noncurrent loans	124.94	125.29	120.55	166.13	135.90	174.25	131.04
Loss reserve to loans	2.12	1.61	1.76	1.72	1.42	2.08	1.85
Equity capital to assets	8.60	9.73	8.45	8.93	9.49	10.34	9.09
Leverage ratio	7.24	7.99	7.60	8.49	8.58	8.82	7.79
Risk-based capital ratio	12.69	12.64	12.15	13.03	14.10	13.51	12.72
Net loans and leases to assets	50.26	60.76	64.75	66.02	57.27	61.72	58.20
Securities to assets	16.58	17.79	17.88	17.49	26.61	19.71	17.96
Appreciation in securities (% of par)	0.52	1.11	0.63	1.33	1.04	0.98	0.82
Residential mortgage assets to assets	16.18	26.02	24.80	21.72	26.39	21.72	21.70
Total deposits to assets	63.41	68.99	65.12	69.90	81.71	68.72	66.85
Core deposits to assets	34.42	55.62	52.81	61.01	67.79	57.70	48.80
Volatile liabilities to assets	43.86	23.28	28.61	22.63	19.22	24.75	31.38

Loan performance, FDIC-insured commercial banks by region
Fourth quarter 2001
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30–89 days							
Total loans and leases	1.42	1.15	1.64	1.20	1.33	1.31	1.37
Loans secured by real estate (RE)	1.38	1.19	1.65	0.95	1.23	1.07	1.31
1–4 family residential mortgages	1.57	1.62	2.10	1.03	1.59	1.48	1.67
Home equity loans	0.68	0.81	1.34	0.64	0.49	0.55	0.91
Multifamily residential mortgages	0.51	0.75	1.08	0.40	0.60	0.32	0.69
Commercial RE loans	0.80	0.84	1.24	0.83	0.91	0.65	0.90
Construction RE loans	1.23	0.89	1.45	1.20	1.28	1.49	1.21
Commercial and industrial loans*	0.91	0.71	1.29	1.40	1.17	1.30	1.02
Loans to individuals	2.70	2.36	2.81	1.77	2.16	2.10	2.47
Credit cards	3.20	3.25	2.13	1.58	1.70	2.23	2.69
Installment loans and other plans	2.52	2.24	3.12	2.11	2.25	2.15	2.51
All other loans and leases	0.79	0.45	1.26	0.87	0.96	1.00	0.84
Percent of loans noncurrent							
Total loans and leases	1.70	1.29	1.46	1.04	1.05	1.19	1.41
Loans secured by real estate (RE)	1.08	0.81	1.26	0.66	0.90	0.74	0.96
1–4 family residential mortgages	0.99	0.79	1.49	0.47	0.82	0.56	0.96
Home equity loans	0.29	0.35	0.56	0.28	0.30	0.28	0.39
Multifamily residential mortgages	0.26	0.41	0.58	0.47	0.60	0.41	0.43
Commercial RE loans	0.85	0.89	1.32	0.92	0.92	0.79	0.98
Construction RE loans	1.10	1.05	1.05	0.87	0.96	1.20	1.06
Commercial and industrial loans	2.82	2.39	2.25	1.22	1.62	2.18	2.40
Loans to individuals	2.07	0.84	1.16	1.68	0.65	1.35	1.50
Credit cards	2.53	1.47	1.55	2.24	1.05	1.83	2.15
Installment loans and other plans	1.87	0.72	1.17	0.94	0.66	0.58	1.20
All other loans and leases	0.56	1.70	0.93	1.13	1.18	1.16	0.96
Percent of loans charged-off, net							
Total loans and leases	1.95	0.92	0.95	1.36	0.61	1.46	1.31
Loans secured by real estate (RE)	0.17	0.21	0.37	0.09	0.15	0.12	0.22
1–4 family residential mortgages	0.10	0.17	0.36	0.04	0.12	0.02	0.17
Home equity loans	0.07	0.26	0.83	0.12	0.17	0.20	0.39
Multifamily residential mortgages	0.03	−0.01	0.21	0.00	0.09	0.09	0.07
Commercial RE loans	0.24	0.27	0.26	0.17	0.21	0.10	0.23
Construction RE loans	0.10	0.22	0.30	0.12	0.08	0.38	0.24
Commercial and industrial loans	3.58	2.08	1.57	1.18	1.38	2.12	2.41
Loans to individuals	3.78	2.01	2.30	5.29	1.25	4.71	3.32
Credit cards	5.93	4.22	5.77	9.73	3.60	6.56	6.26
Installment loans and other plans	2.04	1.44	1.74	0.68	1.18	1.40	1.64
All other loans and leases	0.36	0.51	0.67	0.46	0.50	0.70	0.49
Loans outstanding ($)							
Total loans and leases	$1,160,082	$1,009,080	$871,137	$244,017	$160,737	$450,302	$3,895,355
Loans secured by real estate (RE)	373,581	538,233	440,901	118,007	90,903	241,962	1,803,587
1–4 family residential mortgages	188,433	240,160	196,404	56,683	34,750	95,566	811,996
Home equity loans	31,094	49,326	48,927	5,443	1,574	17,939	154,303
Multifamily residential mortgages	15,624	15,916	16,652	3,191	2,665	10,093	64,141
Commercial RE loans	83,374	154,446	121,598	31,256	33,819	83,117	507,611
Construction RE loans	20,398	68,469	48,360	10,607	14,131	31,276	193,241
Farmland loans	1,316	7,022	8,902	10,828	3,963	3,570	35,600
RE loans from foreign offices	33,342	2,893	58	0	0	402	36,695
Commercial and industrial loans	336,343	245,478	225,412	41,235	37,288	96,725	982,480
Loans to individuals	244,802	126,382	98,973	53,807	22,598	84,600	631,160
Credit cards	108,285	23,864	13,926	31,308	680	54,359	232,421
Other revolving credit plans	12,250	4,451	5,346	1,016	760	3,936	27,758
Installment loans	124,267	98,067	79,702	21,483	21,158	26,305	370,982
All other loans and leases	206,990	99,600	106,059	31,012	10,140	27,437	481,238
Less: Unearned income	1,633	612	208	44	192	421	3,110

Glossary

Data Sources

Data are from the Federal Financial Institutions Examination Council (FFIEC) Reports of Condition and Income (call reports) submitted by all FDIC-insured, national-chartered and state-chartered commercial banks and trust companies in the United States and its territories. Uninsured banks, savings banks, savings associations, and U.S. branches and agencies of foreign banks are excluded from these tables. All data are collected and presented based on the location of each reporting institution's main office. Reported data may include assets and liabilities located outside of the reporting institution's home state.

The data are stored on and retrieved from the OCC's Integrated Banking Information System (IBIS), which is obtained from the FDIC's Research Information System (RIS) database.

Computation Methodology

For performance ratios constructed by dividing an income statement (flow) item by a balance sheet (stock) item, the income item for the period was annualized (multiplied by the number of periods in a year) and divided by the average balance sheet item for the period (beginning-of-period amount plus end-of-period amount plus any interim periods, divided by the total number of periods). For "pooling-of-interest" mergers, prior period(s) balance sheet items of "acquired" institution(s) are included in balance sheet averages because the year-to-date income reported by the "acquirer" includes the year-to-date results of "acquired" institutions. No adjustments are made for "purchase accounting" mergers because the year-to-date income reported by the "acquirer" does not include the prior-to-merger results of "acquired" institutions.

Definitions

Commercial real estate loans—loans secured by nonfarm nonresidential properties.

Construction real estate loans—includes loans for all property types under construction, as well as loans for land acquisition and development.

Core deposits—the sum of transaction deposits plus savings deposits plus small time deposits (under $100,000).

IBIS—OCC's Integrated Banking Information System

Leverage ratio—Tier 1 capital divided by adjusted tangible total assets.

Loans to individuals—includes outstanding credit card balances and other secured and unsecured installment loans.

Net charge-offs to loan and lease reserve—total loans and leases charged off (removed from balance sheet because of uncollectibility), less amounts recovered on loans and leases previously charged off.

Net loans and leases to assets—total loans and leases net of the reserve for losses.

Net operating income—income excluding discretionary transactions such as gains (or losses) on the sale of investment securities and extraordinary items. Income taxes subtracted from operating income have been adjusted to exclude the portion applicable to securities gains (or losses).

Net operating revenue—the sum of net interest income plus noninterest income.

Noncurrent loans and leases—the sum of loans and leases 90 days or more past due plus loans and leases in nonaccrual status.

Nonperforming assets—the sum of noncurrent loans and leases plus noncurrent debt securities and other assets plus other real estate owned.

Number of institutions reporting—the number of institutions that actually filed a financial report.

Off-balance-sheet derivatives—the notional value of futures and forwards, swaps, and options contracts; beginning March 31, 1995, new reporting detail permits the exclusion of spot foreign exchange contracts. For March 31, 1984 through December 31, 1985, only foreign exchange futures and forwards contracts were reported; beginning March 31, 1986, interest rate swaps contracts were reported; beginning March 31, 1990, banks began to report interest rate and other futures and forwards contracts, foreign exchange and other swaps contracts, and all types of option contracts.

Other real estate owned—primarily foreclosed property. Direct and indirect investments in real estate ventures are excluded. The amount is reflected net of valuation allowances.

Percent of institutions unprofitable—the percent of institutions with negative net income for the respective period.

Percent of institutions with earnings gains—the percent of institutions that increased their net income (or decreased their losses) compared to the same period a year earlier.

Reserve for losses—the sum of the allowance for loan and lease losses plus the allocated transfer risk reserve.

Residential mortgage assets—the sum of 1 4 family residential mortgages plus mortgage-backed securities.

Return on assets (ROA)—net income (including gains or losses on securities and extraordinary items) as a percentage of average total assets.

Return on equity (ROE)—net income (including gains or losses on securities and extraordinary items) as a percentage of average total equity capital.

Risk-based capital ratio—total capital divided by risk weighted assets.

Risk-weighted assets—assets adjusted for risk-based capital definitions which include on-balance-sheet as well as off-balance-sheet items multiplied by risk weights that range from zero to 100 percent.

Securities—excludes securities held in trading accounts. Effective March 31, 1994 with the full implementation of Financial Accounting Standard (FAS) 115, securities classified by banks as "held-to-maturity" are reported at their amortized cost, and securities classified a "available-for-sale" are reported at their current fair (market) values.

Securities gains (losses)—net pre-tax realized gains (losses) on held-to-maturity and available-for-sale securities.

Total capital—the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of common equity capital plus noncumulative perpetual preferred stock plus minority interest in consolidated subsidiaries less goodwill and other ineligible intangible assets. Tier 2 capital consists of subordinated debt plus intermediate-term preferred stock plus cumulative long-term preferred stock plus a portion of a bank's allowance for loan and lease losses. The amount of eligible intangibles (including mortgage servicing rights) included in Tier 1 capital and the amount of the allowance included in Tier 2 capital are limited in accordance with supervisory capital regulations.

Volatile liabilities—the sum of large-denomination time deposits plus foreign-office deposits plus federal funds purchased plus securities sold under agreements to repurchase plus other borrowings. Beginning March 31, 1994, new reporting detail permits the exclusion of other borrowed money with original maturity of more than one year; previously, all other borrowed money was included. Also beginning March 31, 1994, the newly reported "trading liabilities less revaluation losses on assets held in trading accounts" is included.

Comptroller's Report of Operations- 2001

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Comptroller's Report of Operations- 2001

Comptroller of the Currency

The Office of the Comptroller of the Currency (OCC) is responsible for the licensing, regulation and supervision of all of the nation's federally chartered (national) banks. The OCC promotes a safe and sound banking system by requiring that national banks adhere to sound banking and management principles and that they comply with the law. The OCC's mission is carried out through a nationwide staff of bank examiners and other professional and support personnel who examine and supervise national banks and federally licensed branches and agencies of foreign banks. As of December 31, 2001, there were about 2,100 national banks and 52 federal branches and agencies, representing about 26 percent of the number of all insured commercial banks in the United States and 55 percent of the total assets of the banking system.

The Comptroller also serves as a director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Neighborhood Reinvestment Corporation.

The Comptroller's personal staff, headed by the chief of staff, directs, coordinates, and manages the day-to-day operations of the Comptroller's office; oversees projects of special interest to the Comptroller; and serves as liaison with OCC staff and the staffs of other regulatory agencies.

The Executive Committee

The OCC's executive committee provides advice and counsel to the Comptroller in managing the operations of the agency, and the committee approves policy and project initiatives and the associated use of agency resources. The executive committee is comprised of the following:

- the Comptroller
- the first senior deputy comptroller and chief counsel
- the chief of staff and the senior deputy comptroller for Public Affairs (acting)
- the senior deputy comptroller and chief national bank examiner
- the senior deputy comptroller for International and Economic Affairs
- the senior deputy comptroller for Large Bank Supervision
- the senior deputy comptroller for Management and chief financial officer
- the senior deputy comptroller for Mid-Size/Community Bank Supervision
- the chief information officer
- the ombudsman

First Senior Deputy Comptroller and Chief Counsel

In 2001, the first senior deputy comptroller and chief counsel (chief counsel) continued the function of advising the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The chief counsel was responsible for directing the legal functions in and for the OCC, including writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties were carried out through two deputy chief counsels and two assistant chief counsels. The deputy chief counsels were responsible for overseeing Administrative and Internal Law, Bank Activities and Structure, Community and Consumer Law, Enforcement and Compliance, Legislative and Regulatory Activities, Litigation, Securities and Corporate Practices, and the six district counsels.

The chief counsel in 2001 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

The chief counsel also advised the Comptroller on matters involving community affairs and had responsibility for overseeing the OCC's community affairs activities, including approval of national bank community development investments. These responsibilities were carried out through the deputy comptroller for Community Affairs, the Community Development division, the District Community Affairs division, and the Outreach and Information Management division.

Chief of Staff and Senior Deputy Comptroller for Public Affairs (Acting)

Along with his duties in direct support of the Comptroller, the chief of staff is responsible for overseeing the Program and Management Accountability and the Workforce Effectiveness and Alternative Resolutions divisions.

In addition the chief of staff serves as the acting senior deputy comptroller for Public Affairs, who is responsible for overseeing internal and external communications activities. The senior deputy comptroller is charged with bringing an external perspective to agency issues and works closely with the senior agency officials to identify issues and activities that need to be communicated inside and outside the agency. In addition, the senior deputy comptroller provides advice and counsel to the Comptroller and executive committee on media relations and communications activities and policies.

Specific responsibilities of the senior deputy comptroller for Public Affairs include the following: overseeing regular outreach efforts to foster and develop relationships with the constituencies involved in banking; tracking legislative developments and responding to congressional inquiries and requests for support; directing the preparation and dissemination of information to help bankers, examiners, community organizations, and the general public understand the national banking system, the OCC's supervisory activities, and related issues; ensuring fair and easy access to the agency's public information; coordinating internal communications; and managing news media relations for the agency.

Senior Deputy Comptroller and Chief National Bank Examiner

The senior deputy comptroller and chief national bank examiner is responsible for formulating and disseminating the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. The department issues policy, guidance, and examination procedures related to national banks' asset management, bank technology, capital markets, credit, and consumer and community compliance activities. The department also assists in providing specialized training and examination support to OCC examiners. The senior deputy and chief national bank examiner is responsible for coordinating OCC participation in Federal Financial Institutions Examination Council (FFIEC) activities and its task forces.

Senior Deputy Comptroller for International and Economic Affairs

The senior deputy comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing policy advice on risks in the banking industry, bank capital requirements, and international banking and financial matters; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The department also provides expert advice to examiners in the assessment of banks' risk measurement methods. These activities are carried out through the International Banking and Finance, Financial Analysis, Capital Policy, Risk Analysis, and Policy Analysis divisions.

Senior Deputy Comptroller for Large Bank Supervision

The senior bank comptroller for Large Bank Supervision is responsible for examinations and other supervision activities in the largest national banks and in the OCC's London office. This position was established effective October 2001. Specific responsibilities of the senior deputy comptroller for Large Bank Supervision include directing programs for the examination and regulation of large national banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior bank comptroller for Large Bank Supervision is responsible for directing the examination, supervision, and analysis of the largest national banks, which account for about 82 percent of the nation's national banking assets.

Senior Deputy Comptroller for Management and Chief Financial Officer

The senior deputy comptroller (SDC) for Management and chief financial officer is responsible for efficiently and effectively deploying the management functions of the OCC. In this capacity the SDC is assisted by the deputy comptrollers that oversee the functional areas of Workforce Effectiveness, Management Improvement and Acquisitions Services, Financial Management, and Continuing Education and Resource Alternatives divisions.

In 2001, the SDC focused on continuing efforts to strengthen the OCC's financial management and internal controls and modernize OCC's financial management and related systems.

Senior Deputy Comptroller for Mid-Size/Community Bank Supervision

The senior deputy comptroller for Mid-Size/Community Bank Supervision is responsible for examinations and other supervision activities in the OCC's six districts and the Supervision Operations and the Special Supervision/Fraud departments. The senior deputy comptroller for Mid-Size/Community Bank Supervision is also a member of the OCC's Committee on Bank Supervision, which oversees the Compliance and Technology department. Specific responsibilities of the senior deputy comptroller for Mid-Size/Community Bank Supervision include directing programs for the examination and regulation of nationally chartered mid size banks, credit card banks, community banks, and federal branches of foreign banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior deputy comptroller for Mid-Size/Community Bank Supervision was responsible during 2001 for directing the examination, supervision, and analysis of about 2,100 national banks and about 52 federal branches and agencies of foreign banks in the United States accounting for about 56 percent of the nation's banking assets. Supervision of national trust companies, bank data processing servicers, and bank data software vendors is also the responsibility of the senior deputy comptroller for Mid-Size/Community Bank Supervision.

Chief Information Officer

As the senior Information Technology (IT) official, the chief information officer (CIO) is the advisor to the OCC executive staff regarding IT investments and solutions, and their impact on business programs and goals. The CIO represents the OCC at the Department of the Treasury on all IT issues. The IT staff worked with other Treasury bureaus to provide technological and financial advantages on technology procurements for the OCC. The CIO has also maintained partnerships with other federal financial regulators to ensure OCC's technology architecture continued to support consistency and best practices in infrastructure, customer service, and systems development.

Ombudsman

The ombudsman is responsible for overseeing the national bank appeals process and the Customer Assistance Group. The national bank appeals process allows national banks to seek further review of disputes that the bank and the supervisory office cannot resolve through informal discussions. The Customer Assistance Group reviews and processes complaints received from customers of national banks. The ombudsman also acts as liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities.

Office of the First Senior Deputy Comptroller and Chief Counsel

In 2001, the first senior deputy comptroller and chief counsel (chief counsel) continued the function of advising the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The chief counsel was responsible for directing the legal functions in and for the OCC, including writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties were carried out through two deputy chief counsels and two assistant chief counsels. The deputy chief counsels were responsible for overseeing Administrative and Internal Law, Bank Activities and Structure, Community and Consumer Law, Enforcement and Compliance, Legislative and Regulatory Activities, Litigation, Securities and Corporate Practices, and the six district counsels.

The chief counsel in 2001 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

The chief counsel also advised the Comptroller on matters involving community affairs and had responsibility for overseeing the OCC's community affairs activities, including approval of national bank community development investments. These responsibilities were carried out through the deputy comptroller for Community Affairs, the Community Development division, the District Community Affairs division, and the Outreach and Information Management division.

Assistant Chief Counsels

Two assistant chief counsels are responsible for providing legal counsel and policy advice in the critical areas of electronic banking and privacy.

The assistant chief counsel responsible for electronic banking issues provided counsel on proposed bank activities including the establishment of Internet banks, digital certificates, electronically based finder activities, electronic bill presentment and payment, Web site development, electronic safekeeping, and data processing services; assisted in speech and article preparation on electronic banking topics for the Comptroller and chief counsel; and participated in the establishment and issuance of regulations and supervisory policy related to Internet banking and e-commerce. The assistant chief counsel also spoke at various seminars, conferences and courses on electronic banking issues.

The assistant chief counsel responsible for privacy issues provided counsel on legal and operational issues relating to the privacy rules implementing Title V of the Gramm–Leach–Bliley Act, as well as provisions of the Fair Credit Reporting Act. The assistant chief counsel conducted training sessions for examiners on the privacy rules and participated in a number of educational outreach activities regarding the privacy rules, including an OCC telephone seminar for community banks which had an audience of over 3,000 people. The assistant chief counsel represented the agency in regular interagency privacy meetings to ensure consistent interpretations of the privacy rules across the agencies. This effort resulted in the issuance, on an interagency basis, of frequently asked questions, as well as a separate OCC small bank compliance guide that the assistant chief counsel prepared. The assistant chief counsel represented the OCC in a widely attended interagency workshop on providing effective privacy notices. The assistant chief counsel also spoke at numerous seminars, conferences, and courses on financial privacy.

Law Department

1. Administrative and Internal Law Division

The Administrative and Internal Law (AIL) division is responsible for providing legal advice and service on issues and matters relating to the OCC's operations as a federal agency. The division is also responsible for assisting the chief counsel in various aspects of the law department's internal operations.

AIL has specialized experience in a number of legal areas associated with the OCC's administrative functions, including equal employment opportunity, compensation and benefits, personnel matters, labor relations, acquisitions and procurement, leasing, licensing agreements, finance, the Freedom of Information Act, the Privacy Act of 1974, information, and ethics. AIL provides legal advice in these areas to units throughout the OCC. The division, in conjunction with the district legal staffs, also administers the OCC's ethics program and the law department's attorney recruiting program. Among other things in 2001, the division revised the OCC's Privacy Act notices, made presentations on the Americans with Disabilities Act, drafted a manual on debt collection, and produced an outline guiding the development of web based electronic interactions with national banks.

2. Bank Activities and Structure Division

The Bank Activities and Structure division (BAS) provides legal advice on corporate structure matters such as chartering national banks, branching, main office relocations and designations, operating subsidiaries, financial subsidiaries, and investments in other entities, mergers and acquisitions, interstate operations, management interlocks, and changes in bank control. The division also advises on issues relating to general bank powers and activities, electronic banking, special purpose banks, lending limits, leasing activities, loans to insiders, affiliate transactions, bank premises, other real estate owned, and problem banks. These questions arise under such laws as the National Bank Act, Gramm–Leach–Bliley Act, Riegle–Neal Interstate Banking and Branching Efficiency Act, Federal Reserve Act, Federal Deposit Insurance Act, FDIC Improvement Act, Bank Holding Company Act, Bank Merger Act, Change in Bank Control Act, Depository Institution Management Interlocks Act, and the Financial Institutions Reform, Recovery, and Enforcement Act.

BAS provides legal advice and service on these topics to other units within the OCC, such as Licensing, Large Bank Supervision, Bank Supervision Policy, International Banking and Finance, and Special Supervision/Fraud. As well, it provides advisory services to national banks, the banking bar, other banking regulators, and the public. In developing its legal positions, the division works closely with other law department units, including the OCC's district legal staffs.

Highlights of BAS work in 2001 included drafting comments to the Federal Reserve on its proposed Regulation W governing affiliate transactions; advising Licensing Operations on the first transactions undertaken under the section 1206 of the American Home Ownership and Economic Opportunity Act of 2000, 12 USC 215a–3; providing legal advice on the restructuring of a large bank holding company's credit card operations; and advising on the acquisition of a national bank by a consortium of Native American tribes, the first bank to be owned in this manner.

Legal opinions were issued on diverse topics including finder activities, lending limits, the Uniform Commercial Code, and bank-owned life insurance. In addition, the Division spent a significant amount of time providing legal support for the supervision and resolution of problem banks.

3. Community and Consumer Law Division

The Community and Consumer Law division (CCL) is responsible for providing legal interpretations and other advice on matters relating to consumer protection, the fair lending laws, and community reinvestment, including assisting in enforcement actions and fair lending referrals to the Department of Justice. CCL also is responsible for providing legal advice on issues relating to national bank community development investments, including investments in community development corporations. CCL also participates actively in numerous internal and interagency working groups and task forces.

The division prepares and reviews a wide range of written materials, including regulations, memoranda, correspondence, legislation, decisions on corporate applications, speeches, Congressional testimony, policy statements, enforcement documents, and examination procedures. In 2001, the division drafted an interagency interpretive document, *Interagency Qs and As on Community Reinvestment*, which was published by the Federal Financial Institutions Examinations Council. 66 *Fed. Reg.* 36,620 (July 12, 2001). CCL also assisted in a number of OCC rulemaking projects, including the Advance Notice of Proposed Rulemaking relating to the interagency review of the Community Reinvestment Act regulations. 66 *Fed. Reg.* 37,602 (July 19, 2001). Other interagency projects included the development of interpretations under the GLBA privacy regulations (OCC Interpretive Letters 910, 917, and 918 (May 25, 2001, September 4, 2001, and September 4, 2001)) and the Fair Credit Reporting Act (OCC Advisory Letter 2001–6 (July 6, 2001). The division also prepared an advisory letter updating guidance on the application of the Soldiers' and Sailors' Civil Relief Act of 1940 (OCC Advisory Letter 2001–10, October 25, 2001), and assisted in the preparation of an interpretive letter relating to bank overdraft protection programs (OCC Interpretive Letter 914, August 3, 2001).

4. Congressional Liaison Division

The Congressional Liaison division is responsible for the OCC's relations with members of Congress, and congressional committees, subcommittees, and staff.

The division provides analysis and advice to the Comptroller and senior OCC policymakers on congressional activities that affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with congressional members, committees, subcommittees, and staff to promote effective communication and ensure that OCC's interests are represented.

The division is the focal point of congressional inquiries, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to congressional actions, as well as responses to constituent inquiries. The division provides any other necessary liaison and information services relating to congressional and legislative matters.

5. District Counsel

In addition to its Washington attorneys, the law department includes a district counsel and legal staff in each of the OCC's six district offices. Each district counsel's staff consists of four to six attorneys plus support personnel. The district counsel and their attorneys serve as the OCC's frontline legal advisors, working directly with bank examiners in the field, assistant deputy comptrollers in Bank Supervision Operations, district licensing staff, and the district deputy comptrollers. District attorneys also advise relevant Large Bank examination teams and Large Bank deputy comptrollers for the large banks located within the same geographic areas. They advise these clients on virtually the entire spectrum of banking law issues, frequently dealing with questions that arise during bank examinations and require prompt resolution. District attorneys also respond to telephone and written inquiries from banks, the banking bar, and the general public. They often serve with Washington attorneys on working groups on particular topics, and work jointly with Washington attorneys on complex assignments that arise in their districts. In addition, the district legal offices administer the OCC's ethics and financial disclosure requirements for their respective district and Large Bank teams, conduct legal training programs for examiners, and speak to bankers at district and Large Bank outreach meetings.

6. Enforcement and Compliance Division

The Enforcement and Compliance (E&C) division, in conjunction with the districts, conducts investigations, recommends administrative actions, and litigates those actions on behalf of the OCC in administrative proceedings. E&C is responsible for nondelegated actions against individuals, other institution-affiliated parties and banks, while the OCC's districts are responsible for delegated actions. E&C may defend these actions if they are challenged in U.S. courts of appeals. E&C also defends challenges to temporary cease-and-desist orders and suspensions that have been filed in district court.

The division provides advice on enforcement and compliance issues to senior OCC officials. In conjunction with the offshore banking and fraud unit in the Special Supervision/Fraud division, E&C issued a total of 14 alerts in 2001. E&C also supports criminal law enforcement agencies by, for example, working closely with the interagency Bank Fraud Working Group (BFWG), chaired by the Department of Justice (DOJ), and participating in OCC's National Anti-Money-Laundering Group. The OCC continued to participate in a number of interagency groups focused on combating money laundering, including the Bank Secrecy Act Advisory Group.

During 2001, the OCC issued eight cease-and-desist orders against individuals and other institution-affiliated parties, including three restitution orders, and one temporary cease-and-desist order to preserve a bank insider's assets during the pendency of the administrative process. The OCC also imposed ten civil money penalties (CMPs) on individuals, totaling $348,500, and issued one letter of reprimand and 14 supervisory letters to bank insiders. In addition, the OCC issued 20 removal and prohibition orders.

During 2001, the OCC issued 11 cease-and-desist orders against banks. In addition, the OCC issued 42 formal agreements, 19 memoranda of understanding, and 15 commitment letters against banks. The OCC also issued one temporary cease-and-desist order, required three safety and soundness plans pursuant to 12 USC 1831p–1, and issued two prompt corrective action directives pursuant to 12 USC 1831o. A comprehensive listing and description of the noteworthy formal enforcement actions taken by the OCC in the first half of 2001 appears in the September issue of the *Quarterly Journal*, "Special Supervision/Fraud and Enforcement Activities." For the last half of 2001, see the same section below in this issue. In addition, E&C continued its Fast Track Enforcement Program (initiated in 1996), which helps ensure that bank insiders and employees who have committed criminal acts involving banks, but who are not being criminally prosecuted, are prohibited from working in the banking system. In 2001, the Fast Track program resulted in 13 prohibition orders, three of which included restitution orders.

7. Legislative and Regulatory Activities Division

The staff of the Legislative and Regulatory Activities division (LRA) is responsible for the following areas of the law department's work: drafting the OCC's regulations, providing legal support for the agency's legislative work, preparing legal opinions on the applicability of state law to national banks, and providing legal advice on issues relating to national banks' regulatory capital requirements. Beginning in January 2001, the office of the OCC's Counselor for International Activities was assigned to report through LRA, adding the responsibility for providing legal advice on international banking issues relating to foreign banks' operations in the United States and the foreign operations of domestic banks.

In 2001 LRA worked on a number of projects designed to clarify either the scope of permissible national bank activities or the extent to which various types of state laws apply to national banks. The former category included writing regulations that codified our prior interpretations on national banks' ability to conduct fiduciary activities on a multi-state basis and simplified the rules governing national banks' non-interest charges and fees. The latter category included work on a final regulation providing that state law applies to the operating subsidiaries of national banks to the same extent as it applies to the parent bank.

We also prepared a number of legal opinions concerning the applicability of particular state laws to national banks. These letters covered, among other issues, state laws purporting to govern national banks' ATM operations and their automobile leasing activities. In October, 2001, the OCC released its first opinion letter addressing whether a state's insurance sales laws were preempted pursuant to the standards contained in Section 104 of the Gramm–Leach–Bliley Act (GLBA). Section 104 establishes several different preemption standards, depending on the type of activity at issue. The opinion, which was requested by the West Virginia Bankers' Association, analyzed the Section 104 standards for insurance sales, solicitation, and cross-marketing activities and concluded that certain provisions of the West Virginia insurance law were preempted, while others were not.

Our work in the insurance area also included providing legal support for the OCC's negotiation of agreements with a number of state insurance regulators governing the sharing of insurance-related information. As of the end of 2001, the OCC had entered into such agreements with state authorities in 24 states.

Other significant regulatory work during 2001 included the completion of the OCC's Community Bank-Focused Regulation Review. This review resulted in a final rule establishing a pilot program pursuant to which certain highly qualified banks may, with the OCC's approval, use special lending limits for residential real estate and small business loans. Together with the other Federal banking agencies, the OCC also completed a final interagency regulation revising the treatment, for regulatory capital purposes, of recourse arrangements and direct credit substitutes.

8. Litigation Division

The Litigation division represents the OCC in court under a statutory grant of independent litigating authority. The division also works closely with the Department of Justice and with U.S. attorneys on matters of mutual interest. In 2001, the division represented the OCC or prepared *amicus* briefs in several cases relating to bank powers, federal preemption of state law, and OCC enforcement actions. The Litigation division serves as counsel to the Comptroller of the Currency in contested administrative enforcement actions. The division also participates in overseeing the Office of Financial Institutions Adjudication, which employs the administrative law judges who issue initial decisions on enforcement actions initiated by the financial institution regulatory agencies.

The Litigation division prepares decisions on requests from private litigants for access to non-public OCC information under 12 CFR 4, subpart C. On occasion, the division appears in court to oppose motions to compel a national bank to produce OCC examination reports, suspicious activity reports, and other confidential documents. The division also serves as counsel to the OCC in administrative proceedings brought by OCC employees before the Equal Employment Opportunity Commission and the Merit Systems Protection Board. On a daily basis, the Litigation division gives advice within and outside the OCC on a wide range of subjects including corporate applications, interpretive letters, memoranda prepared by other law department units, personnel issues, employee garnishments, and indemnification.

9. Securities and Corporate Practices Division

The Securities and Corporate Practices (SCP) division provides legal counsel to the OCC and advises the public on federal banking and securities laws related to bank powers, securities activities, annuities and insurance, bank derivative activities, bank fiduciary matters, bank corporate activities, and bank investments.

In 2001, SCP prepared or participated in the issuance of several significant opinions and interpretations in the areas of investment securities; insurance activities, including consumer protections and types of insurance; collective investment funds and fiduciary activities; and corporate governance. Several of these interpretations and opinions related to permissible bank and bank subsidiary activities under the Gramm–Leach–Bliley Act financial modernization legislation. SCP contributed to the Banking Agencies' comments on the SEC's Interim Final Rules for Banks, Savings Associations, and Savings Banks Under Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934.

SCP also administers and enforces the federal securities laws affecting national banks with publicly traded securities, including the Securities Exchange Act of 1934, and the OCC's related disclosure regulations at 12 CFR part 11. The division enforces the OCC's securities offering disclosure rules (12 CFR part 16), which govern national banks' public and private offers and sales of their securities, and is responsible for the OCC's enforcement program assure national bank compliance with federal securities laws applicable to bank municipal and government securities dealers, bank transfer agents, and other bank securities activities. SCP reviews securities offering disclosures, proxy materials, periodic reports, and other reports filed with the OCC under the Comptroller's securities disclosure rules and merger application procedures. The division also contributes to the SEC's enforcement and disclosure review responsibilities by arranging for the SEC to review bank examination reports and work papers in SEC enforcement cases, providing information on national bank subsidiaries of bank holding companies filing securities disclosures with the SEC, and referring potential violations.

Licensing Department

The Licensing department establishes policies and procedures for OCC's processing of corporate applications involving national banks and performs the licensing function on a decentralized basis. Corporate structure changes requiring OCC approval include new bank charters, conversions to the national charter, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations and capital and subordinated debt issues. Most licensing requests are reviewed in the licensing units located in the six district offices and the Large Bank Licensing unit, in Washington, D.C., and decided by the licensing managers in those locations. Applications or related matters that raise especially complex or novel policy, supervisory, or legal issues are forwarded to department headquarters for analysis and for decision by senior management. The department develops and maintains information systems and deploys advanced technology to promote efficiency, quality, and consistency in licensing operations and responsive service to applicants.

The department is divided into two divisions: Licensing Operations and Licensing Policy and Systems. The Licensing Operations division includes all application processing in a single unit, including district, large bank and headquarters-directed licensing operations. During 2001, the division assumed the responsibilities for processing applications and notices involving foreign branches and agencies. This change is the last step in a concerted effort to enhance the smooth functioning of the different licensing units as an integrated licensing operation. The Licensing Policy and Systems division develops and implements general policies and procedures for the licensing activities of the OCC.

Application Volume and Decision Results

Table 1 summarizes corporate application activity for 2001. The total number of applications filed with the OCC decreased from 2,036 in 2000 to 1,964 in 2001. The decline occurred primarily in number of branch, charter, and conversion applications, while there were increases in operating subsidiary, and fiduciary powers applications. The 2001 count does not include 105 operating subsidiary filings that were effected through after-the-fact notices, compared to 106 after-the-fact notices in 2000.

The OCC denied one application in 2001, the same as in 2000. Of the 1,777 decisions, 65 were conditional approvals. Conditional approvals decreased over 2000, when 78 of 2,036 decisions were conditionally approved. This decrease was due primarily to the decline in the number of charter and conversion applications.

Summaries of important corporate decisions for the previous quarter are published in each issue of the *Quarterly Journal*.

Processing Timeliness

One measure of OCC's effectiveness in processing corporate applications is the percentage of applications processed within target time frames. To ensure applications are processed in a timely manner, Licensing measures processing time using benchmark time frames for routine applications and for more complex applications. Processing timeliness varies with the volume and complexity of applications. These, in turn, vary with economic conditions and changes in banking law. Table 2 shows the time frame performance for the applications processed by the OCC in 2000 and 2001 (without including after-the-fact notices for subsidiaries in 2000 and 2001). The OCC generally meets target time frames for all application types. Deviations from these targets are primarily the result of application complexity, the need to acquire additional information or peak workload demands.

Table 1– Corporate application activity in 2001

	Applications received		2001 decisions			Total
	1000	2001	Approved	Conditionally approved [3]	Denied	2001 decisions
Branches	1,097	1,012	1,018	0	0	1,018
Capital/sub debt	145	156	108	2	0	110
Change in Bank Control	16	18	17	0	0	17
Charters	62	42	6	37	1	44
Conversions [1]	31	22	18	5	0	23
Federal branches	0	0	0	0	0	0
Fiduciary powers	19	30	12	0	0	12
Mergers	83	97	92	10	0	102
Relocations	253	189	187	2	0	189
Reorganizations	170	168	161	6	0	167
Stock appraisals	1	3	3	0	0	3
Subsidiaries [2]	159	227	89	3	0	92
Total	2,036	1,964	1,711	65	1	1,777

Note: Mergers include failure transactions when the national bank is the resulting institution.

[1] Conversions are conversions to national bank charters.

[2] This count does not include 106 after-the-fact notices received in 2000 and 105 after-the-fact notices received in 2001.

[3] On April 14, 2000, the Licensing department issued guidance imposing special conditional approval for all bank charters requiring the OCC to be notified before a significant deviation or change in the operating plan during the first three years of operations.

Source: Licensing Department, Comptroller of the Currency.

Table 2– OCC Licensing actions and timeliness, 2000– 2001

Application type	Target timeframes in days [1]	2000 Number of decisions	2000 Within target Number	2000 Within target %	2001 Number of decisions	2001 Within target Number	2001 Within target %	Annual change Number of decisions	Annual change Within target Number	Annual change Within target %
Branches	45/60	1,065	1,046	98.2%	1,018	1,000	98.2%	−47	−46	−0.0%
Capital/sub debt	30/45	108	99	91.7%	110	107	97.3%	2	8	5.6%
Change in Bank Control	NA/60	9	9	100.0%	17	17	100.0%	8	8	0.0%
Charters [2]		56	39	69.6%	44	28	63.6%	−12	−11	−6.0%
Conversions	30/90	23	22	95.7%	23	18	78.3%	0	−4	−17.4%
Federal branches and agencies	NA/120	0	0	0.0%	0	0	0.0%	0	0	0.0%
Fiduciary powers	30/45	19	18	94.7%	12	10	83.3%	−7	−8	−11.4%
Mergers	45/60	77	73	94.8%	102	91	89.2%	25	18	−5.6%
Relocations	45/60	247	243	98.4%	189	187	98.9%	−58	−56	0.6%
Reorganizations	45/60	161	157	97.5%	167	161	96.4%	6	4	−1.1%
Stock appraisals	NA/90	1	0	0.0%	3	0	0.0%	2	0	0.0%
Subsidiaries	30/60	130	117	90.0%	92	82	89.1%	−38	−35	−0.9%
Total		1,896	1,823	96.1%	1,777	1,701	95.7%	−119	−122	−0.4%

Note: Most decisions (94 percent in both 2000 and 96 percent in 2001) were decided in the district offices, International Banking and Finance, and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials.

[1] Those filings that qualify for the "expedited review" process are subject to the shorter of the timeframes listed. The longer timeframe is the standard benchmark for more complex applications. New timeframes commenced in 1997 with the adoption of the revised Part 5. The target timeframe may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

[2] For independent charter applications, the target timeframe is 120 days. For holding-company-sponsored applications, the target timeframe is 45 days for applications eligible for expedited review, and 90 days for all others.

Source: Licensing Department, Comptroller of the Currency.

The OCC's regulation governing all corporate applications, 12 CFR 5, establishes an expedited review process for certain applications from banks that are well capitalized, have a CAMELS rating of 1 or 2, have a Community Reinvestment Act rating of satisfactory or better, and are not subject to an OCC formal enforcement action. Changes made to 12 CFR 5 shortened target time frames beginning in 1997. In addition, for some routine transactions, OCC approval is no longer required. [CAMELS is the composite rating based on capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.]

The time frames performance for application processing has been consistent for the last three years, after significant improvements from 1995. To provide consistent comparisons with prior years' results, the statistics have been adjusted for regulatory and processing changes. In 1996, on an adjusted basis, the OCC met target time frames on 90 percent of the applications it decided. In 1997, under the revised regulation, performance continued to improve. Even with shorter time frames, the OCC has met its targets approximately 96 percent of the time since 1998.

Licensing Policy and Systems Division

The Licensing Policy and Systems (LP&S) division develops and implements general policies and procedures for the licensing activities of the OCC. The division takes the lead in developing new sections for and coordinating revisions to the Comptroller's Licensing Manual; develops systems and reporting capabilities for the department; and maintains systems and databases, such as the Corporate Activities Information System, and the Institution Database. The division continues its ongoing efforts to introduce new systems and technology to improve the licensing function. LP&S also develops and conducts internal and external communication activities, and provides training for licensing staff and guidance for field examination work in connection with licensing activities.

In 2001, LP&S continued to define policies and to improve upon previously developed systems. Significant projects included:

Policy

During 2001 the OCC processed the first applications under sections 1204 and 1206 of the Financial Regulatory Relief and Economic Efficiency Act of 2000 (Title XII of the American Homeownership and Economic Opportunity Act of 2000). This act added two new sections to the National Bank Consolidation and Merger Act, codified as sections 12 USC 215a–2, and 215a–3. A national bank may use 12 USC 215a–2 to reorganize its ownership into a bank holding company structure. This process represents a significant reduction in the cost and time national banks previously incurred when reorganizing into a holding company using the interim merger process. LP&S worked with the law department to develop and test procedures national banks could use under 215a–2. The OCC processed six applications under the draft procedures. LP&S also provided consultation to the legal department in drafting a regulation to formally implement the procedures applicable to 215a–2.

Section 215a–3 enables national banks directly to merge with nonbank subsidiaries or affiliates. Corporate reorganizations available under this statute include mergers with the bank's parent company holding company, subsidiary, or affiliate. Mergers filed under 12 USC 215a–3 may involve insured or uninsured national banks. Insured national banks must seek approval from both the OCC and the FDIC while uninsured national banks apply directly to the OCC. LP&S developed guidance for national banks to use in filing 12 USC 215a–3 mergers to assist prospective applicants contemplating a filing with a nonbank subsidiary or affiliate. LP&S also worked with the law department to draft implementing regulations for this statute.

LP&S developed several new policies to enhance the chartering process. The OCC added new language to all preliminary conditional approval letters that:

- Clearly communicates that during a bank's in-organization period, the OCC may alter, suspend, or revoke preliminary conditional approval based on developments that warrant such action.
- Clarified the OCC's definition of "market test" concerning an organizing group's plan to raise capital. The policy made it clear that the organizers must notify the OCC if they are planning to raise capital in a different manner than that described in the business plan. The policy also confirmed that if the organizers cannot raise capital for a new bank within 12 months of preliminary conditional approval, the OCC would withdraw approval. The OCC will make exceptions to this policy only in rare circumstances when it determines that the delay is beyond the organizers' control.

LP&S refined its field investigation guidance procedures for new bank charters. These procedures assigned the roles and responsibilities for staff involved in the field investigation, discussed objectives of the field investigation, and outlined the process for communicating field investigation findings.

LP&S participated in efforts to meet the challenges of financial modernization. This included coordinating with the SEC and NASD to ensure that the OCC receives current information about brokers, dealers, and investment advisors who propose to enter the national bank system; and establishing policies and guidance for ownership of national trust banks by functionally regulated entities that are not bank holding companies. Part of these efforts included leading the development of guidance for seeking and obtaining assurances to address supervisory risks presented in corporate applications, including Change in Bank Control Act notices and Bank Holding Company Act applications involving national banks.

The division continued to develop or revise guidance to clarify expectations for field staff involved in licensing activities and to identify best practices. LP&S prepared a report on its review of the chartering process that identified and incorporated ideas and lessons learned from recent *de novo* charter activity, identified best practices to enhance OCC's process, and clarified policy issues for improved guidance and consistency. LP&S is addressing report findings as it continues to develop and revise guidance for new bank charters.

LP&S continued to work closely with the FDIC to resolve differences in connection with charter and deposit insurance applications and to develop joint application processes. The division also participated in outreach activities to provide information about the OCC's corporate processes and obtain first-hand feedback to improve those processes.

LP&S worked with other OCC units to clarify guidance for processing community development (CD) national bank charters. The OCC issued an open letter to organizers of CD banks that outlined criteria the OCC uses in granting a CD bank charter, explained assistance the OCC may provide to organizers of CD banks, and affirmed the factors the OCC considers to be critical to the success of any *de novo* charter. As a by-product of this work, the project team refined and communicated to OCC staff procedures that are unique to the chartering and supervising of CD banks.

LP&S and other OCC units briefed the Comptroller about their activities related to providing financial services to Native Americans. LP&S highlighted the success of the OCC publication "A Guide to Tribal Ownership of a National Bank" and anecdotal evidence about growing interest from federally recognized tribes to establish or acquire ownership of a national bank.

Systems

LP&S made significant progress during 2001 in developing and implementing key aspects of e-Corp, the future electronic corporate application processing system that will replace OCC's current data and application systems. Progress in 2001 included additional testing of an extranet branch and relocation application for electronic filing and continued expansion of ad hoc query capabilities to improve reporting of licensing and structure information.

LP&S provided licensing and structure information to respond to congressional inquiries, including those relating to CRA issues. Licensing and Institution Database information were also used to respond to public inquiries. Additionally, LP&S continued to provide the OCC's Communications division with licensing and structure information to respond to requests made under the Freedom of Information Act.

Licensing Operations Division

The Licensing Operations division processes all domestic and international licensing applications. Licensing Operations is comprised of staff located in each of the OCC's six district offices and the OCC's Washington office. The district licensing units have decision authority for the majority of applications filed with the OCC. Applications that raise significant legal and policy issues usually are decided in the Washington office. The division provides recommendations to OCC senior management with respect to the disposition of these applications. In addition to processing licensing applications, the division conducts bank stock appraisals upon request from shareholders dissenting to mergers or consolidations involving national banks.

Service Quality

Licensing Operations uses a survey to monitor the quality of service provided to banks filing licensing applications. The survey requests ratings for five service categories and a rating for overall service. The OCC sends a survey to each applicant, except for large banks and a few mid-size banks which, due to application volume, are surveyed on a quarterly basis. Applicants are asked to rate the OCC's quality of service on a scale of 1 to 5, with 1 being outstanding and 5 being significantly deficient. For 2001, 99 percent of the applicants responding to the licensing survey gave the OCC excellent overall marks (ratings of 1 or 2) for the way their applications were processed. This result is 2 percent higher than the prior year's result.

The average rating for each of six service categories follows:

Service category	Rating
Timeliness of decision	1.15
Appropriateness of filing location/contact person	1.23
Knowledge of OCC contact	1.17
Professionalism of OCC staff	1.09
Quality of written guidance (added in 2000)	1.48
Overall rating of service	1.16

These results compare favorably with those for 2000. In 2001, as compared to the prior year, the average rating improved for most of the categories that were rated last year.

Timeliness of decisions on applications is an important determinant of efficiency in Licensing Operations and is another measure used to monitor performance. Timeframe performance overall was excellent, and unchanged from last year, with approximately 96 percent of all licensing applications decided within established timeframes. Applications that were not decided within established timeframes were generally those that raised substantive legal or policy issues, such as electronic banking, interstate banking or other significant, unique or precedent-setting activities, and applications that were the subject of adverse public comments, raised anti-competitive issues, or had the potential to adversely affect historic properties.

Outreach Activities

The Licensing staff devoted a significant amount of time to outreach activities in 2001. This included meeting with applicants and applicant groups to discuss the application process, provide guidance, answer questions, and, when necessary, seek additional information on specific applications. Various groups heard presentations discussing the OCC's licensing process and providing an overview of licensing trends. Presentations included updates on changes in laws and regulations, discussions of the application process, state of national banking system and chartering activity. In conjunction with the Bank Supervision and law departments, Licensing reconfigured the OCC's Internet site to provide in one consolidated location Internet banking-related information. Licensing staff provided training for foreign bank supervisors on chartering and supervision of national banks.

Application Activity

The Licensing Operations division provides summaries of selected licensing decisions to every issue of the *Quarterly Journal*. In addition, decisions that represent new or changed policy or present issues of general interest to the public or the banking industry are published monthly in the OCC publication, *Interpretations and Actions*.

Community Reinvestment Act

Consistent with 12 CFR Part 5, the OCC's procedures for handling Community Reinvestment Act (CRA) issues in applications, including how adverse comments from the public would be handled, are detailed in the "Public Involvement" booklet (April 1998) in the *Comptroller's Corporate Manual.*

During 2001, the OCC received adverse comments from the public on two CRA-covered applications. The OCC also reviewed and publicly addressed CRA issues raised in other applications.

The decisions on applications presenting CRA issues, listed in Table 3, were published in the OCC's monthly *Interpretations and Actions* and are also available on the OCC's Web site.

Change in Bank Control Act

The Change in Bank Control Act of 1978 (CBCA) requires that parties who wish to acquire control of a national bank through purchase, assignment, transfer, or pledge, or other disposition of voting stock notify the OCC in writing 60 days prior to the proposed acquisition (unless a filing is required under the Bank Merger Act or the Bank Holding Company Act). Any party acquiring 25 percent or more of a class of voting securities of a national bank must file a change in bank control notice. In addition, if any party acquires 10 percent or more (but less than 25 percent), that party must file a change in bank control notice under certain conditions. The acquiring party must also publish an announcement of the proposed change in control to allow for public comment.

The CBCA gives the OCC the authority to disapprove changes in control of national banks. The OCC's objective in its administration of the CBCA is to enhance and maintain public confidence in the national banking system by preventing identifiable, serious, adverse effects resulting from anti-competitive combinations or inadequate financial support and unsuitable management in national banks. The OCC reviews each notice to acquire control of a national bank and disapproves transactions that could have serious harmful effects. If the notice is disapproved, the disapproval letter contains a statement of the basis for disapproval. The OCC's actions for 2001 are reflected in Table 4. As reflected in the table, the OCC received 18 change in bank control notices in 2001, two more than received in 2000. Of the 18 notices received, the OCC acted on 17, none of which was disapproved. The one remaining notice was withdrawn prior to decision.

Community Affairs Department

In an effort to improve the services provided to banks and examiners in 2001, the Community Affairs (CA) department embarked on a restructuring effort. This undertaking resulted in a new mission, and the identification of core services. CA's mission is:

To enhance the OCC's leadership position as the administrator of national banks by:

- Providing expertise and information to support OCC's supervision of national banks' community development activities; and
- Assisting national banks in achieving their community development goals.

CA achieves this mission by providing the following services:

- Consultation with national banks on community development activities
- Accessibility of National Bank Community Development Investments (part 24)
- Information and Policy Services
- Community Relations and Interagency Coordination

During 2001, CA developed the Regional Team concept in an effort to provide products and services to banks and staff within assigned districts. There are five teams, three of which are comprised of CA staff from both Washington and the districts. Each team is responsible for identifying issues and concerns of community-based organizations relating to banking and the financial services industry and the OCC, as well as any initiatives under way by these organizations in the area of community development or CRA. The teams also will serve as a performance context resource for examiners conducting CRA evaluations by providing information about community development opportunities in smaller cities and rural areas where the information is more difficult to obtain.

Table 3– Decisions presenting Community Reinvestment Act issues

Bank, city, state	*Interpretations and Actions*	Document number
Fleet National Bank, Providence, RI	April 2001	Conditional Approval Letter No. 454
Wells Fargo Bank New Mexico, NA, Albuquerque, NM	March 2001	CRA Decision No. 108
Chase Manhattan Bank USA, NA, Wilmington, DE	April 2001	Corporate Decision No. 2001-06
First USA Bank, NA, Wilmington, DE	July 2001	Corporate Decision No. 2001-16
Firstar Bank, NA, Cincinnati, OH	August 2001	CRA Decision No. 109
Citibank, NA, New York, NY	August 2001	Conditional Approval Letter No. 476
White Hall National Bank, White Hall, IL	January 2002	CRA Decision No. 110

Table 4– Change in Bank Control Act,[1] 1988–2001

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2001	18	17	17	0	0
2000	16	9	8	1	3
1999	13	13	13	0	1
1998	17	12	11	1	5
1997	24	24	24	0	0
1996	17	15	13	0	2
1995	15	16	16	0	0
1994	15	16	15	1	0
1993	28	30	21	5	4
1992	30	29	21	4	4
1991	20	15	6	6	3
1990	31	42	32	5	5
1989	55	55	48	3	4
1988	45	42	34	4	4

[1] Notices processed with disposition.
Source: Licensing Department, Comptroller of the Currency.

CA staff organized four outreach meetings for the Comptroller on issues such as community development, payday loans, predatory lending, and access to financial services. The department also organized a community development tour for senior OCC officials, hosted by the Historic District Development Corporation in Atlanta, GA. The tour provided valuable information about partnerships between nonprofit community development corporations and national banks.

CA staff arranged for Comptroller John D. Hawke, Jr. to deliver the keynote address at the annual conference of the National Community Reinvestment Coalition in March, and for First Senior Deputy Comptroller and Chief Counsel Julie L. Williams to deliver the keynote address at the McAuley Institute's National Women and Housing Conference in November.

CA developed the *National Issues Matrix* for OCC management and examiners. The matrix includes information about "hot topics" and activities of two dozen key community, consumer, and minority organizations that interact with the OCC.

Community Development Division

The Community Development division (CDD) provides expert advice to senior management and OCC staff on community and economic development policies and procedures for national banks. In addition, the division produces guidance and publications that help banks increase the availability of financial services in underserved markets and profitable investments in those markets. CDD also administers the Community Development Investment authority (12 CFR part 24) and provides technical assistance and advice to national banks seeking to make CD investments or establish CD focus banks.

The OCC developed the Part 24 CD–1 form, which provides a convenient method for national banks to self certify or request prior approval of a community development investment. This form is available in the 2000 directory of *National Bank Community Development Investments* as well as on Community Affairs' Part 24 page on the OCC Web site at http://www.occ.treas.gov/cdd/CD-1.doc. In 2001, the OCC approved 121 national bank investments under the Part 24 CD investment authority for a total of $556 million. These bank investments, together with funding from their community development partners, totaled $1.06 billion in funding for affordable housing, small business, and redevelopment projects in low- and moderate-income areas during 2001. Part 24 authority allows banks to make equity and debt investments that support affordable housing and commercial development, start-up and small business growth, activities that revitalize or stabilize a government-designated area, and other activities that supplement or enhance banks' traditional lending.

The division coordinated the production of two editions of the CD newsletter. The first focused on growing diverse banking markets. The second focused on the challenges and opportunities of providing banking services in Native American Indian country. (http://www.occ.treas.gov/cdd/resource.htm) In addition, a *Native American Banking Resource Directory* was unveiled on OCC's Web site at http://www.occ.treas.gov/cdd/Nativeam.htm and the division sponsored a roundtable concentrating on these issues. The division produced a *Policy Statement on Minority-Owned Banks* that outlines the OCC's policies and initiatives to further the ability of minority banks to prosper and meet the needs of their communities, and developed and maintains a Minority Financial Institutions page on BankNet. The division also wrote a memo that OCC's chief counsel provided to prospective organizers of CD banks which: (1) outlines the chartering process for CD banks, (2) discusses the licensing and operational issues facing organizers of these institutions, and (3) describes the types of assistance the OCC provides to organizers of CD banks.

District Community Affairs Division

The District Community Affairs division supports the dual mission of CA through the activities of the Community Affairs Officers (CAOs) assigned to each of the OCC's six districts. The CAOs provide technical assistance to small banks having difficulty making the transition from being evaluated under the small bank CRA performance criteria to being evaluated under the lending, investment, and service tests. The CAOs also render technical assistance to national banks making the transition from being evaluated under the small bank CRA performance criteria to being evaluated under the lending, investment, and service tests; and to banks wishing to maintain or improve performance under the lending, investment, and service tests.

The CAOs contribute information and technical assistance on community development and CA issues to OCC staff and national bankers. Through research, the CAOs provide information on community development organizations, programs, and strategies that banks could use to make qualified investments, community development loans, and to provide community development services.

During 2001 the CAOs were instrumental in initiating the Earned Income Tax Credit/Volunteer Income Tax Assistance program in Chicago, IL, and Kansas City, MO. Under the program, volunteers prepare low-income residents' tax returns free, often in the lobbies of financial institutions located in low- and moderate-income neighborhoods, and the financial institutions offer accounts to taxpayers that receive refunds.

Outreach and Information Management Division

The Outreach and Information Management division (O&IM) continues to serve CA's internal and external customers through efficient and effective use of technology and resources. A segment of these efforts included access to the "webzine," CA's Web version of its *Community Developments* newsletter online at www.occ.treas.gov/cdd/EzineSumNov.pdf; as well as revamping its Web page to create a more user-friendly site.

The division also serves as liaison between national banks and national minority and civil rights organizations. In 2001, O&IM collaborated with CD staff in hosting roundtables that focused on prevalent community development-related issues.

O&IM staff worked in partnership with the American Bankers Association to plan and execute the American Bankers Association Community and Economic Development Conference (co-sponsored by the OCC). Staff also participated in planning and coordinating an interagency outreach initiative with CEOs of minority-owned banks to discuss safety and soundness and compliance issues with OCC bank supervision and community affairs staff.

2001 Significant Legal, Licensing and Community Development Precedents

Permissible Activities Generally

General Activities

Consulting and Financial Advice

- Employee benefit and payroll business. A national bank may hold a non-controlling equity investment in a company that will provide employee benefit and payroll services to small community banks and their small business customers. The investment was incidental to the bank's business because it involved preparing and conveying financial information to the bank's customers and their employees. It would also benefit the bank's small business customers by providing services to them that would not be cost efficient for those customers to provide for themselves. OCC Interpretive Letter No. 909 (May 2, 2001)

Corporate Governance

- Bank holding company formation. A national bank may undertake reorganization pursuant to 12 USC 215a–2 and 12 CFR 7.2000(a), which provide a streamlined process for a national bank to form a bank holding company or for an existing holding company to acquire an unaffiliated national bank through an exchange of the bank's stock for cash or securities of the bank holding company. Corporate Decision No. 2001–21 (July 26, 2001)

- Bank ownership by Native American tribes. A national bank consolidated with an interim bank to effect the acquisition of the bank by a holding company that is jointly owned by a number of federally recognized Native American tribes. This is the only bank that is owned by a consortium of Indian tribes and tribal corporations. The decision contains an extensive list of special conditions, requirements, and directors' oaths that were tailored specifically for this bank because of its tribal ownership structure. Conditional Approval No. 493 (September 28, 2001)

- Blank check preferred stock. Consistent with 12 CFR 7.2000(b), a national bank that had elected in its bylaws to be governed by California law may issue blank check preferred stock. OCC Interpretive Letter No. 921 (December 13, 2001)

- Merger of holding company into subsidiary national bank. A national bank owned by a holding company may eliminate its holding company by merging the holding company into the national bank. The merger must be permissible for the holding company under the state law of the state in which the holding company is incorporated. The merger is permissible for national banks under 12 USC 215a–3. Corporate Decision No. 2001–33 (November 29, 2001)

- Merger of mortgage banking companies into bank under the AHOEO Act. A national bank's mortgage banking subsidiary and the mortgage banking subsidiary of one of its affiliate banks may merge directly into the national bank, under American Home Ownership and Economic Opportunity Act of 2000, 1206, 12 USC 215a–3, which permits mergers between national banks and nonbank subsidiaries and affiliates, subject to OCC approval. Corporate Decision No. 2001–22 (July 26, 2001)

- Restructuring of credit card, international, consumer, and commercial finance businesses. A banking organization's credit card, international consumer and commercial finance businesses were restructured in a large, complex transaction. The restructuring resulted in one bank being the main issuer of consumer credit cards, and another bank being the issuer of government, corporate, and certain consumer credit cards. As part of this transaction, various ancillary entities that were bank or holding company subsidiaries became subsidiaries of the credit card-issuing banks. Certain activities related to ownership of motor vehicles were approved for the first time, either as finder activities or on an excess capacity basis. Newly authorized finder activities included assisting vehicle owners in selling their vehicles; assisting them in locating tow trucks and vehicle repair facilities; assisting corporate customers in obtaining employee driving records from the state motor vehicle department; and assisting such customers with driver's license renewals and vehicle registrations. Newly authorized excess capacity activities included management of third-party subrogation claims for accidents involving automobiles not leased from the bank, and assisting owners of vehicle fleets in establishing corporate safety policies. In addition, certain finance company affiliates were transferred to and became subsidiaries of one of the banks. Corporate Decision No. 2001–28 (September 21, 2001)

- Share exchanges. A national bank may effect a holding company reorganization through an exchange of the bank's stock for cash or securities of a bank holding company under 12 USC 215a–2. Corporate Decision No. 2001–23 (August 1, 2001); Corporate Decision No. 2001–21 (July 26, 2001)

Finder Activities

- Finder authority. Under its authority to act as a finder, a national bank may help arrange for the purchase of nonfinancial products by its credit card customers. The bank proposed to make each customer who contacts the bank's call center aware that a nonfinancial product is available to the customer and that the bank will, upon the customer's request, transmit certain information to the product's vendor. OCC Interpretive Letter No. 904 (January 18, 2001)

Leasing

- Real estate leasing. A national bank's financial subsidiary proposed to engage in real estate leasing of the type that the Board of Governors of the Federal Reserve System has determined to be permissible in section 225.28(b)(3) of Regulation Y. The financial subsidiary also proposed to become a general partner of a limited partnership that would also engage in real estate leasing permitted by Regulation Y. Financial Subsidiary Filing. (December 6, 2001)

Lending

- Combination of church loans under the direct benefit test where controlling trust beneficiaries are identical. A national bank with four outstanding loans to four separate local churches proposed to lend additional funds to a fifth church. Because the proceeds of loans made to the local churches are used for transactions which are controlled by trusts having an identical beneficiary (the parent church), and this beneficiary is entitled to the ultimate benefit of those transactions, the loans should be combined and attributed to the beneficiary. OCC Interpretive Letter No. 925 (April 12, 2001)

- Construction loans to unaffiliated lenders. A bank may establish a wholly owned operating subsidiary to provide a number of real estate construction loan services to unaffiliated lenders. This was the first approval of banks providing many of these services, which banks provide for themselves, to other parties. Corporate Decision No. 2001–27 (September 13, 2001)

- Debtor bank located in state of its main office for UCC purposes. As a general matter, under revised Article 9 of the Uniform Commercial Code, the location of the debtor determines which state's law governs perfection of a security interest. Section 9–307 determines the location of debtors for choice of law purposes. For purposes of this section, a debtor national bank is located in the state in which its main office is located. OCC Interpretive Letter No. 913 (August 6, 2001)

- Loan attribution to one entity through common enterprise test. A national bank proposed to make loans to two entities ("A" & "B") that were related through the common control of a third entity ("X"). A and B each pays more than 50 percent of its gross annual expenditures to the controlling entity X. Accordingly, the proposed loans to A and B would be attributed to X under 12 CFR 32.5(c)(2) and thus combined for purposes of the legal lending limit, even where X does not borrow directly from the national bank. OCC Interpretive Letter No. 904 (January 18, 2001)

Other Activities

- Bank-owned variable life insurance invested in equity securities. In certain circumstances, bank-owned variable life insurance may be invested in equity securities in connection with employee compensation and benefit plans. Such insurance can be used in connection with defined contribution plans but not defined benefit plans. OCC Interpretive Letter No. 926 (September 7, 2001)

- Foreign investment company owning national bank. A foreign-based global investment management company, which is not a bank holding company, is not covered by the International Banking Act, and is not subject to comprehensive consolidated supervision, may own a national bank, provided: the OCC would have access to all books and records of the bank's parents that concern the bank; through a written binding agreement the parent will provide capital maintenance and liquidity support to the bank; the bank will not engage in covered transactions with foreign affiliates unless the bank notifies the OCC in advance and maintains documentation on the transaction and has available for OCC review financial information on the affiliate; all transactions between the bank and any affiliate will be conducted subject to 12 USC 371c, 371c–1 or other applicable federal law; the bank will adopt and implement policies, procedures and internal controls reasonably designed to encompass anti-money laundering efforts; and the parent must maintain a designated agent in the United States. Conditional Approval No. 425 (November 8, 2000)

- "On us" check cashing fees. Banks may charge a non-accountholder a convenience fee for using a bank teller to cash an "on us" check. An "on us" check is a check drawn on the bank by one of the bank's customers. As noted in these letters, this fee is essentially compensating the bank for making cash immediately available to the payee; otherwise, the payee would have to wait for the check to clear through the payment system. These fees are authorized under 12 USC 24(Seventh) and 12 CFR 7.4002(a). OCC Interpretive Letter No. 932 (August 17, 2001), OCC Interpretive Letter No. 933 (August 17, 2001)

- Order of check posting. A bank's decision concerning the order of posting checks presented for payment is a pricing decision authorized by 12 USC 24(Seventh) and 12 CFR 7.4002. This would permit the bank to pay the largest check first from an account in a given 24-hour cycle. OCC Interpretive Letter No. 916 (May 22, 2001)

- "Qualified intermediary" for reverse like-kind exchanges. A national bank's operating subsidiary, through limited liability corporation subsidiaries, may act as a "qualified intermediary" for investors interested in consummating tax-deferred "reverse like-kind exchanges" of real properties. Internal Revenue Code, 26 USC 1031, permits like-kind exchanges, which allow investors to exchange certain investment property, including real property, for other investment property, subject to certain limitations. In a reverse like-kind exchange, investors identify and acquire replacement properties before disposing of relinquished properties. As a qualified intermediary, the operating subsidiary is an independent party that facilitates the process by acquiring an interest in the replacement real property without acquiring full legal title in the property, and by providing proper documentation to preserve the integrity of the transaction for IRS purposes. Corporate Decision No. 2001–30 (October 10, 2001)

- Real estate construction services. A national bank may establish a wholly owned operating subsidiary to furnish administrative, management, and consulting services to unaffiliated real estate construction lenders and investors. The services may include project feasibility, cost, contract, environmental and seismic reviews; appraisals; loan document preparation; collateral and construction phase completion monitoring; syndicated loan lead agent tasks; and lender training on construction loan administration. Corporate Decision No. 2001–27 (September 13, 2001)

Compliance

- Agency summary judgment motion granted regarding challenge to jointly issued consumer privacy regulations. The U.S. District Court for the District of Columbia granted the summary judgment motion filed by the FTC, OCC, Federal Reserve Board, OTS, FDIC, and NCUA. The plaintiffs, who are in the business of selling consumer information, challenged the agencies' joint issuance of bank customer privacy regulations under the Gramm–Leach–Bliley Act as beyond the authority provided for under the Act and in violation of plaintiffs' constitutional right to commercial free speech. Specifically at issue was whether the plaintiffs' sale of "credit header" information was subject to the regulations' restrictions and disclosure and reuse. Only one of the plaintiffs, TransUnion, has pursued an appeal before the D.C. Circuit. Individual Reference Services Group, et al. *v.* FTC, OCC, et al. (D.D.C.) (April 30, 2001)

- Disclosure of customer account number to insurance marketer. Under Gramm–Leach–Bliley Act (GLBA) privacy rules, financial institutions may not disclose customer account numbers to a marketer of insurance products, even if the customer has consented to such disclosure. As a general rule, GLBA prohibits the disclosure of account numbers to nonaffiliated third parties for use in marketing. This prohibition remains effective after the customer has accepted the offer to buy the product being sold. OCC Interpretive Letter No. 910 (May 25, 2001)

- Obtaining credit reports in business loan transactions. Under the Fair Credit Reporting Act (FCRA), lenders need not obtain a consumer's consent before obtaining the consumer's credit report in connection with a business credit transaction where the individual is or will be personally liable on the loan, such as in the case of an individual proprietor, co-signer, or guarantor. The FCRA permits the furnishing of consumer reports to persons who intend to use them in connection with extensions of credit to the consumer, and this criterion is satisfied where the consumer may be liable on the loan. Interagency Letter (May 31, 2001). *See also* OCC Advisory Letter 2001–6 (July 6, 2001).

- Overdraft programs. Certain overdraft programs, offered by third-party vendors and designed primarily to increase banks' fee income, raise legal, supervisory, and policy concerns. Supervisory concerns arise from the potential credit risk created by the overdraft loans and the bank's arrangements with the third-party vendor providing the product. Policy concerns arise because the programs may encourage customers to write "not sufficient funds" checks, thus promoting poor fiscal responsibility on the part of some consumers. These programs also may raise potential issues under the Truth in Lending Act, Truth in Savings Act, Electronic Fund Transfer Act, Equal Credit Opportunity Act, Federal Trade Commission Act, and Regulation O. OCC Interpretive Letter No. 914 (August 3, 2001)
- Placing loan account numbers on mortgage-related documents. Under the GLBA privacy rules, lenders may place the borrower's loan account number on mortgages, deeds of trust, and assignments and releases of mortgages that are then recorded in public records. This practice is not prohibited by GLBA's provisions on disclosing account numbers, which, as a general rule, ban the disclosure of account numbers to nonaffiliated third parties for use in marketing. In addition, this practice falls within the exception to GLBA's opt-out requirements for disclosures of information that are "necessary to effect, administer, or enforce the transaction" as that term is defined in GLBA. OCC Interpretive Letters Nos. 917 and 918 (September 4, 2001)

Fiduciary Activities

- Collective investment funds. A national bank's model-driven funds, established pursuant to 12 CFR 9.18, may allocate costs to individual participants being admitted to or withdrawing from such funds in the same manner and to the same extent as section 9.18 index funds. OCC Interpretive Letter No. 919 (November 9, 2001)
- Collective investment trust admissions and withdrawals. Annual admissions and withdrawals are permitted where circumstances warrant under section 9.18, and therefore an exemption from section 9.18 is not required. OCC Interpretive Letter No. 920 (December 6, 2001)

Insurance and Annuities Activities

- Insurance consumer protections. Responses to questions relating to retail sales practices, solicitations, advertising or offers of insurance products and annuities by depository institutions. Interagency Guidance on Consumer Protections for Depository Institution Sales of Insurance, OCC Bulletin 2001–43 (August 17, 2001)

Insurance Underwriting and Reinsurance

Reinsurance

- Reinsurance activities of credit-related insurance for unaffiliated lenders. A national bank operating subsidiary may provide reinsurance of credit life, health and disability insurance written in connection with loans extended by a bank and affiliated and unaffiliated lenders under the "authorized product" exception of section 302 of the Gramm–Leach–Bliley Act. Corporate Decision No. 2001–10 (April 23,2001)

Preemption

- ATM operations. State laws in Massachusetts and Florida that purport to restrict the ability of a national bank located elsewhere to establish and operate automated teller machines in those states are preempted. The Massachusetts law imposes a reciprocity requirement; Florida requires banks to be authorized to do business in Florida, which the Florida Banking interprets to mean, in the context of an out-of-state bank, a bank that has established a branch in Florida pursuant to Florida's branching laws. OCC Interpretive Letter No. _____* (October 15, 2001)
- Limits on sales of reclaimed leased vehicles. Certain provisions of Ohio law that purport to limit the ability of national banks to engage in the business of leasing automobiles are preempted. As interpreted by the Ohio Bureau of Motor Vehicles, Ohio law prohibits the public sale of reclaimed leased vehicles. Direct sales to the public are permitted in the case of repossessed vehicles, but vehicles reclaimed from a lessor for nonpayment are not considered "repossessed" under Ohio law. As a result, national banks would be required to sell reclaimed leased vehicles at wholesale to persons licensed as dealers under state law. These requirements frustrate the ability of national banks to operate efficiently and in a manner consistent with safe and sound banking practices, and therefore would be preempted. Preemption Determination, *Federal Register*, 66 FR 23977 (May 10, 2001)
- Motor vehicle sales finance laws. A Michigan statute, as interpreted by the Michigan Financial Institutions Bureau, that would limit the ability of national banks to use

[* Indicates that the interpretive letter was not yet released.]

agents to make loans to finance motor vehicle sales is preempted. The state law would have had the effect of prohibiting national banks from charging interest at a rate permitted by their home state as authorized by 12 USC 85, and would have imposed a licensing requirement on national banks as a precondition to exercising permissible federal powers. Preemption Determination, *Federal Register*, 66 FR 28593 (May 23, 2001)

- Ohio insurance law. A unanimous panel of the U.S. Court of Appeals for the Sixth Circuit, affirming the court below, held that 12 USC 92 preempts provisions of Ohio law that interfered with a national bank's power to sell insurance as agent in Ohio. The specific Ohio law provisions at issue were the Ohio "principal purpose test" and corporate organizational requirements that have the effect of significantly hindering a national bank's sale of insurance in Ohio. The case was remanded to the district court to address the issue of what effect, if any, the preemption provisions in the Gramm–Leach–Bliley Act have on the preemption analysis. The OCC filed amicus briefs with both the district and appellate courts. Association of Banks in Insurance v. Duryee, No. 99–3917 (6th Cir.) (November 1, 2001)

- "On us" check cashing fees. The federal district court for the western district of Texas granted a permanent injunction restraining the effectiveness of a new Texas statute purporting to prohibit banks from charging a teller's fee for cashing a check drawn on an account with that bank (i.e., an "on us" check cashing fee). The case was brought by several banks against the Texas banking commissioner. The OCC filed a brief *amicus curie* in favor of the plaintiff's position. Wells Fargo Bank Texas v. Randall James, No. 01–CA–538–JRN (U.S.D.C., W.D. Tex.) (December 3, 2001)

- State insurance sales law under the Gramm–Leach–Bliley Act. Certain provisions of West Virginia's Insurance Sales Consumer Protection Act are preempted under insurance preemption standards established by section 104 of the Gramm-Leach-Blilely Act. Federal law preempts some, but not all, of the provisions of the West Virginia Act. In particular, federal law *does not preempt* the following provisions of the West Virginia Act with respect to national banks:
  - The prohibition against requiring or implying that the purchase of an insurance product from a bank is required as a condition of a loan;
  - The prohibition against a bank offering an insurance product in combination with other products unless all of the products are available separately; and
  - The requirement that, where insurance is required as a condition of obtaining a loan, the insurance and credit transactions be completed independently and through separate documents.

  The following provisions of the Act are preempted only in part:
  - The provisions prescribing the content of the disclosures that a bank is required to make in connection with the solicitation of an insurance product and the requirement that a bank that sells insurance obtain a written acknowledgment, in a separate document, from its insurance customer that certain disclosures were provided are *not* preempted.
  - However, the provisions regarding the manner and timing of certain required disclosures are preempted.

  And the following provisions are preempted:
  - The requirement that banks use separate employees for insurance solicitations;
  - The restrictions on the timing of bank employees' referral or solicitation of insurance business from customers who have loan applications pending with the bank;
  - The restrictions on sharing with bank affiliates information acquired by a financial institution in the course of a loan transaction to solicit or offer insurance; and
  - The requirement that banks segregate the place of solicitation or sale of insurance so that it is readily distinguishable as separate and distinct from the deposit-taking and lending areas.

  Preemption Determination, *Federal Register*, 66 FR 51502 (October 9, 2001)

Securities Activities

- Deposit notes do not constitute "securities." Sales of a national bank's Deposit Notes through its affiliated retail securities broker-dealer network do not constitute the sale of "securities" as defined in OCC securities offering regulations at 12 CFR 16. OCC Interpretive Letter No. 922 (December 13, 2001)

Technology and Electronic Activities

- Affinity marketing via the Internet. A national bank may solicit "affinity" relationships with other groups and commercial entities to establish a private-label banking clientele. Exercising its authority to use multiple trade names, the bank can offer its products and services to customers or members of the affinity group under a private label through the Internet and establish individual divisions to provide products and services specific to the needs expressed by affinity groups. The bank must comply with OCC guidance with respect to co-brands and private labels. Conditional Approval No. 462 (April 4, 2001)

- Electronic storage and safekeeping. As a modern version of national banks' traditional safekeeping function, a national bank may provide an integrated, on-line information service for secure Web-based document storage and retrieval of documents and files containing personal information or valuable confidential trade or business information. Data can be stored on systems controlled by the bank and will be accessible by customers through the Internet or a dedicated line. Except for storage, access, and retrieval, the bank will not process or manipulate the information stored. The bank may also offer its customers the ability to grant third parties controlled access to the stored documents and files so as to enable the use of document collaboration tools. Conditional Approval No. 479 (July 27, 2001)

- Services to Internet merchants. A national bank may enable small business merchants to acquire a package of electronic services that allows the merchants to create Web stores and process electronic payments for purchases made over the Internet. The national bank, under its authority to act as a finder, can refer the merchants to another unaffiliated company that provides Web site building software and Web hosting services. The bank can provide authorization and processing services necessary for the merchants to accept on-line credit and debit card payments in a secure environment. The bank can also provide the merchants with reports on the activity of their Web stores and answers to "frequently asked questions" on the use of the Web design software based upon answers prepared and supplied by the software company. Finally, the bank also may help other financial institutions to market as finders this package of electronic commerce services to their own merchant customers. Corporate Decision No. 2001-18 (July 3, 2001)

Electronic Commerce

- Mortgage lending on-line. A national bank may deliver mortgage-lending products on-line to its retail customers through a variety of electronic delivery channels including the Internet, automated teller machines, and/or remote service units. Conditional Approval No. 462 (April 4, 2001)

- Trade finance facilitation. A national bank may make a non-controlling investment in a company that, through its Internet site, facilitates trade financing between exporters and importers by arranging financing, obtaining credit insurance, and acting as escrow and paying agent. Conditional Approval No. 436 (December 19, 2000)

Investments[1]

- Agricultural cooperative. Under Part 24, a national bank may purchase common stock in an agricultural cooperative, where the bank's liability was limited to the amount of its equity investment. The cooperative was initiated by a local economic development authority and local farmers and businesses as a way to promote the economic development of the area, and had received financial support from both the economic development authority and the federal government. The cooperative also benefited low- and moderate-income individuals by creating permanent jobs for those individuals. Approval Letter (September 4, 2001), National Bank Community Development Investments 2001 Directory.

- CD investments up to 10 percent investment limit. In connection with a request for prior approval of an affordable housing investment, the OCC approved a national bank's request to self-certify future affordable housing investments that would exceed 5 percent of its capital and surplus, up to a maximum of 10 percent of capital and surplus. The requirements of 12 CFR 24 relating to self-certification and all other requirements of the regulation will apply to the additional investments. Approval Letter (August 1, 2001), National Bank Community Development Investments 2001 Directory.

- Closed-end mutual fund. National bank may purchase an equity interest in a closed-end mutual fund that finances affordable housing primarily for low- and moderate-income individuals. The fund is structured as a Business Development Company under the Investment Company Act of 1940. The fund purchases securities backed by loans to homebuyers with incomes below 80 percent of median income as well as loans to sponsors of multifamily housing units that use federal low-income housing tax credits or financing provided by HUD. The fund also invests in HUD-guaranteed securities that support community development in low-income areas. Approval of Bank's Self-Certification (April 20, 2001), National Bank Community Development Investments 2001 Directory.

- Connecticut Housing Finance Authority bonds. A national bank may purchase Connecticut Housing Finance Authority Bonds as Type I securities. They are subject to a 20 percent risk-weight under the OCC's risk-based capital regulation. OCC Interpretive Letter No. 907 (February 1, 2001)

[1] For investments in partnerships, note that subsidiaries of national banks may become general partners, but national banks may not.

- Environmental redevelopment fund. National bank may purchase member shares in a limited liability company (LLC) that primarily benefits low- and moderate-income areas. The LLC provides financing to private and public sector borrowers for environmental analysis and remediation of properties with environmental contamination issues for reuse to attract new and growing businesses, create jobs, provide affordable housing, and support other community development efforts. In addition to the LLC structure, the fund would also seek to protect investors by obtaining third-party insurance for projects that have residual risk, as well as pooled insurance for its portfolio. Approval of Bank's Self-Certification (July 18, 2001), National Bank Community Development Investments 2001 Directory.

- Municipal revenue bonds. Under 12 USC 24 (Seventh), as amended by the Gramm–Leach–Bliley Act, a well-capitalized national bank may underwrite and deal in municipal revenue bonds issued by or on behalf of Puerto Rico. OCC Interpretive Letter No. 915 (August 15, 2001)

- Mutual fund containing general obligation and municipal revenue bonds. A national bank may in a mutual fund containing general obligation and municipal revenue bonds under 12 CFR 1.3(h)(2). The investment has a risk-weight dependent on the composition of the fund's assets, but in no event will the minimum risk-weight be less that 20 percent, and can be accounted for as either a "trading" or "available-for-sale" asset. OCC Interpretive Letter No. 912 (July 3, 2001)

- Private investment fund. National banks may acquire for their own account beneficial interests in a privately offered investment fund that would invest in loans, cash and cash equivalents, and an offshore fund that invests solely in loans. National banks may hold interests in the Fund either as securities under the reliable estimates standard of Part 1 or as loan participations. OCC Interpretive Letter No. 911 (June 4, 2001)

- Retention of stock holdings resulting from conversion. Bank may retain shares of stock that it received as a result of being a policyholder of a mutual life insurance company that converted to stock form. The stock is not an impermissible purchase of stock, but a byproduct of the permissible activity of purchasing life insurance for the bank's needs. Divestiture of the stock will be required only if safety and soundness concerns arise in the future. This is an issue that many banks will face, as increasing numbers of life insurance companies "demutualize." OCC Interpretive Letter No. 905, January 29, 2001

- Streamlined approval for CDC investments in connection with thrift conversion into national bank. Federal thrift may retain its existing CDC investments provided that they qualify as public welfare investments under 12 CFR 24 without a separate filing under 12 CFR 24. The OCC will review the CDC investments in connection with the conversion application and will determine whether the investment is approved in connection with the conversion decision. Letter (June 15, 2001)

- Trust preferred securities. Subject to the lending limits of 12 USC 84 and the requirements of Banking Circular 181 (REV), a national bank may purchase, and hold as loans, trust preferred securities that might not qualify as Type III securities. OCC Interpretive Letter No. 908 (April 23, 2001)

Enforcement Actions

- Access to former bank insiders' personal banking records under the Right to Financial Privacy Act. Pursuant to an ongoing investigation into allegations of insider abuse at a now-failed national bank located in Arkansas, the OCC issued subpoenas to obtain the banking records of the bank chairman and his former wife, also a one-time member of the bank's board. Pursuant to the Right to Financial Privacy Act, both the bank chairman and his former wife brought separate actions to quash the subpoenas in the United States District Court for the Western District of Missouri. They claimed, among other things, that the OCC did not have a legitimate law enforcement inquiry, and was seeking their personal bank records to harass and retaliate against them. The OCC's brief and declaration in support were filed with the court *in camera* pursuant to 12 USC 3410(b), so that the chairman and his former wife were unable to learn the details of the OCC's confidential investigation. The OCC's reply was similarly filed *in camera*. Redacted versions of the OCC's papers were provided to opposing counsel. After review of the motion papers, the court denied the motions to quash, and ordered the subpoenas enforced, for the reasons set forth in the OCC's *in camera* filings. Damian and Susan Sinclair *v.* United States Department of the Treasury, 01–MC–9020, 01–MC–9021 (W.D. Mo.)

- Internet banking. In connection with a formal agreement between the OCC and the first Internet-only national bank chartered by the OCC, the OCC required the bank to secure sufficient capital to become well-capitalized by dates certain, or to sell, liquidate or merge itself out of existence pursuant to 12 USC 181. The bank was unable to secure sufficient capital and is currently in liquidation. In the Matter of CompuBank, National Association, Houston, Texas, EA #2001–117.

- Payday loans provided through a third-party vendor. At an examination of the bank in 2001, the OCC determined that the bank had risked its financial viability by concentrating in one line of business—payday lending. The OCC also found that the bank had relinquished supervision of the payday lending program to a single third-party originator of payday loans and that the payday lending activities were being conducted in an unsafe or unsound manner. In addition, the bank's payday lending program, violated a multitude of standards of safe and sound banking, compliance requirements and OCC guidance. The bank's deficiencies were heightened by the fact that the bank dramatically increased the amount of Payday loans it made placing the bank, its depositors and the federal deposit insurance fund at unacceptable risk. On December 18, 2001, the bank consented to a cease-and-desist order requiring it to cease all payday lending operations as of a specified date, and institute a series of other corrective actions designed to ensure the safe and sound operation of the bank, and ensure its continued viability. In the Matter of Eagle National Bank, Upper Darby, Pennsylvania (EA #2001–104)

- Subprime lending operations and other banking business, misleading accounting of assets held for sale. The OCC initiated a cease-and-desist proceeding to remedy unsafe and unsound practices in connection with a national bank's business of purchasing subprime automobile and manufactured housing loans. During the pendency of this litigation, the financial condition of the bank further deteriorated, and on August 9, 2001, the OCC presented the bank with an immediately effective Prompt Corrective Action Directive pursuant to 12 USC 1831o. The Directive required the bank to develop an acceptable capital restoration plan, correct its safety and soundness deficiencies, and cease any transfer of funds for the direct or indirect benefit of insiders. When the bank failed to submit an acceptable capital restoration plan and had no reasonable prospect of obtaining adequate capital, the OCC found that the bank was "critically undercapitalized," and operating in an unsafe and unsound condition. Among the factors contributing to its unsafe or unsound condition were the bank's inability to generate sufficient earnings to cover expenses, and its failure to maintain the minimum number of directors required under law for a national bank board of directors. As a result, on September 7, 2001, the OCC closed the bank and appointed the FDIC as receiver. In the Matter of Sinclair National Bank, (AA–EC–01–11)

- Temporary cease-and-desist order addressing multiple unsafe and unsound practices and violations of law. The OCC placed a temporary cease-and-desist order on a national bank pursuant to 12 USC 1818(c). The temporary order was based on the bank's unsafe and unsound credit practices and numerous violations of the Bank Secrecy Act (BSA). The OCC charged that the bank's unsafe and unsound practices and violations of law were likely to cause significant dissipation of the bank's assets or earnings, and/or were likely to weaken the bank's condition or otherwise prejudice the interests of the bank's depositors. The OCC also alleged that the bank's books and records were incomplete or inaccurate and that as a result, the OCC was unable to determine the true financial condition of the bank. The unsafe and unsound credit practices included lack of sound credit underwriting and analysis, and failure to timely report credit downgrades and losses on the bank's financial reports. The OCC also alleged that the bank violated laws and regulations, including violations of 12 USC 161 for failure to establish and report litigation reserves and allocated transfer risk reserves on the bank's call reports, violations of 12 CFR 21.21 for failure to establish procedures for monitoring BSA compliance, and violations of 12 CFR 21.11 for failure to detect suspicious activity and file suspicious activity reports. The bank petitioned the United States District Court for the District of Columbia for emergency and permanent relief from the temporary order. The U.S. District Court for the District of Columbia denied the bank's motion for a temporary restraining order for relief from the temporary cease-and-desist order that the OCC issued against the bank. The court held, *inter alia*, that the OCC acted within its statutory authority, that the record supported its action, and that there was a substantial likelihood that OCC would prevail on the merits. Hamilton Bank, N.A. *v.* Office of the Comptroller of the Currency, No. 01–742 (CKK) slip op. (D.D.C., April 13, 2001) (under seal), issued in redacted form, July 18, 2001.

- Unfair or deceptive acts and practices. A national bank consented to the issuance of a cease-and-desist order that required restitution of approximately $3.2 million to its credit card customers and correction of certain credit card marketing practices that the OCC identified as unfair or deceptive in violation of section 5 of the Federal Trade Commission Act. The OCC charged that the bank's practice of "downselling" consumers by prominently marketing to consumers one package of credit card terms, but then approving those customers for accounts with less favorable terms, and the manner in which the approved account was then described, misled customers in violation of the Act. In the Matter of Direct Merchants Credit Card Bank, N.A. (EA #2001–24)

- Unfair or deceptive acts and practices. A national bank consented to the issuance of a cease-and-desist order that required the bank to create a reserve to handle restitution payments, make an initial deposit of $4 million to the reserve fund, and correct certain credit card marketing practices that the OCC identified as unfair or deceptive in violation of section 5 of the Federal Trade

Commission Act. The OCC charged that the bank failed to adequately disclose to consumers that they were likely to receive accounts with little or no initial available credit, in violation of the Act. In the Matter of First National Bank of Marin (EA #2001–97)

- Use of bank funds for personal benefit of officer. Two national banks, with total assets of approximately $180 million, were principally owned and operated by member of a family. An OCC investigation disclosed that one family member, the president of one of the institutions, had repeatedly caused funds from both banks to be used for his personal benefit, or for entities in which he held undisclosed ownership interests. The OCC brought formal charges against him and reached a settlement in which he agreed to a permanent prohibition from banking, a substantial civil money penalty, and a guaranty against future loss to the bank. In the Matter of First National Bank & Trust of Pipestone, Pipestone, Minnesota and First National Bank in Garretson, Garretson, South Dakota (EA #2001–28)

Regulations

- Parts 1, 7, and 23: Investment Securities; Bank Activities and Operations; and Leasing. This rulemaking amended three OCC regulations:
  1) revised the investment securities regulation to incorporate the authority to underwrite, deal in, and purchase certain municipal bonds that is provided to well capitalized national banks by the Gramm–Leach–Bliley Act;
  2) revised the Bank Activities and Operations regulation to establish the conditions under which a school where a national bank participates in a financial literacy program is not considered a branch under the McFadden Act;
  3) revised the OCC's regulation governing bank holidays so that the wording of the rule conforms with the statute that authorizes the Comptroller to declare mandatory bank closings;
  4) clarified the scope of the term "NSF fees" for purposes of 12 USC 85, the statute that governs the rate of interest that national banks may charge;
  5) simplified the OCC's current regulation governing national banks' non-interest charges and fees;
  6) provided that state law applies to a national bank operating subsidiary to the same extent as it applies to the parent national bank; and
  7) revised the OCC's leasing regulations to authorize the OCC to vary the percentage limit on the extent to which a national bank may rely on estimated residual value to recover its costs in personal property leasing arrangements. *Federal Register*, 66 FR 8178 (January 30, 2001)

- Part 3: Risk-Based Capital Guidelines: Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations. The OCC, along with the FRB, FDIC, and OTS, amended their regulatory capital standards to address the treatment of recourse obligations, residual interests, and direct credit substitutes that expose financial organizations to credit risk. The final rule treats recourse obligations and direct credit substitutes consistently and adds new standards for the treatment of residual interests, including a concentration limit for credit-enhancing interest-only strips. In addition, the agencies use credit ratings and certain alternative approaches to match the risk-based capital requirement more closely to a banking organization's relative risk of loss for certain positions in asset securitizations. *Federal Register*, 66 FR 59614 (November 29, 2001)

- Parts 5 and 9: Fiduciary Activities of National Banks. The final rule addressed the application of 12 USC 92a in the context of a national bank engaging in fiduciary activities in more than one state. It codifies standards contained OCC Interpretive Letters, in which the OCC stated that (a) a national bank authorized to engage in fiduciary activities may act in a fiduciary capacity in any state that permits its own in-state fiduciaries to act in that capacity, including at trust offices, and (b) a national bank that acts in a fiduciary capacity in one state may market its fiduciary services to customers in other states, solicit business from them, and act as fiduciary for customers located in other states. The rule also makes conforming changes to the OCC's rule governing corporate activities. *Federal Register*, 66 FR 34792 (July 2, 2001)

- Parts 5 and 28: Operating Subsidiaries of Federal Branches and Agencies. The final rule amends Part 28 to provide that a federal branch or agency may establish, acquire, or maintain an operating subsidiary in generally the same manner that a national bank may acquire or establish an operating subsidiary. This amendment is consistent with the principle of national treatment for foreign banks operating in the United States established by the International Banking Act of 1978. The rule also makes conforming changes to Part 5. *Federal Register*, 66 FR 49093 (September 26, 2001)

- Part 8: Assessments. The OCC made three amendments to its assessment rule in 2001 to ensure that assessments of national banks more closely reflect an appropriate allocation of the agency's expenses. The first amendment clarified that the OCC has authority to charge a national bank when the OCC conducts a special examination of a third party that provides services to the bank. *Federal Register*, 66 FR 19901 (May 8, 2001). The second amendment required independent credit card banks to pay an additional assessment component based on off-balance sheet receivables that are attributable to credit card accounts owned by the banks. *Federal Register*, 66 FR 29890 (June 1, 2001). The third revised the assessment formula used to assess all national banks by establishing a minimum base amount for the semiannual assessment for the first assessment bracket ($0–$2 million) of the assessment schedule. *Federal Register*, 66 FR 57645 (November 16, 2001)

- Part 32: Community Bank-Focused Regulation Review: Lending Limits Pilot Program. This final rule established a three-year pilot program that creates new special lending limits for 1–4 family residential real estate loans and loans to small businesses. Eligible national banks with main offices located in states that have a lending limit available for residential real estate, small business, or unsecured loans that is higher than the current federal limit may apply to take part in the pilot program. The OCC will review and evaluate national banks' experience with the special limits over the three-year pilot period and determine at the end of the pilot whether to extend the program and retain, modify or rescind the exceptions. The final rule also permanently modifies the lending limit exemption for loans to or guaranteed by obligations of state and local governments. *Federal Register*, 66 FR 31114 (June 11, 2001)

Chief of Staff and Public Affairs Department

Program and Management Accountability Division

The Program and Management Accountability division (P&MA), headed by the director for Program and Management Accountability, is comprised of three units: Quality Management, Program Analysis, and the OIG/GAO Liaison function. The division's primary mission is to establish and maintain an internal control environment that achieves the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting and
- Compliance with applicable laws and regulations

An equally important ongoing objective is to provide all OCC managers with the guidance and support they require to identify and correct weaknesses in planning, controlling, and accounting for program operations and resources.

In doing so, the P&MA identifies major issues for review by the Comptroller and the chief of staff and oversees the necessary analysis to provide the context for decision options. Additionally, the division identifies major options or alternatives for the budget review process, develops multi-year plans for analysis of issues that will need decisions in future years, and reviews program performance and recommends ways to ensure more efficient use of OCC resources and the successful implementation of programs and policies.

Quality Management

- Ensure that management officials establish and maintain a set of product quality controls, management controls, and performance measures.
- Encourage organizational performance excellence through a regular program of quality management reviews, lesson learned reviews, and other continuous improvement activities and studies, as directed by the Comptroller.

Program Analysis

- Ensure OCC programs align with its strategic interests and priorities by analyzing OCC's budget and providing input into the strategic planning process.
- Evaluate the efficiency and effectiveness of programs and recommend alternatives or solutions.

OIG/GAO Liaison

- Serve as the liaison with the Department of the Treasury Office of the Inspector General (OIG) and the United States General Accounting Office (GAO).
- Provides authoritative and technical advice to senior management and OCC staff on audits and investigations.

Workplace Fairness and Alternative Resolutions Division

The Workplace Fairness and Alternative Resolutions division is responsible for assisting the Comptroller and the executive committee in establishing a workplace environment that capitalizes on fairness and encourages every employee to work towards their maximum potential. The division assists in developing policy, provides guidance and direction on equal employment opportunity (EEO) and fair workplace principles, and oversees the OCC's EEO program to ensure equal employment and fair treatment of employees.

In calendar year 2001, the Workplace Fairness and Alternative Resolutions division continued to monitor and analyze the OCC's EEO program to ensure compliance with statutory, regulatory, and OCC policy requirements. The division completed the annual Affirmative Employment Program Accomplishment Report and Plan Update; effectively administered the complaint process and alternative dispute resolution (ADR) program; and monitored, reviewed and analyzed employee development programs and other personnel processes and activities. The division's director continued to provide quarterly status reports to the Comptroller, executive committee, and senior managers. The OCC also hired a new director, with an extensive background in EEO and ADR programs, to assist the Comptroller and the executive committee in achieving the agency's objectives of a diverse workforce and establishing an environment that honors fair workplace principles.

Public Affairs Department

Communications Division

The Communications division provides publishing, communications, and information services to the OCC. It supports the broader Public Affairs mission to inform internal and external audiences about the national banking system and the OCC's supervisory policies and activities. Communications provides a number of services in support of OCC's mission. The Communications division carries out its responsibilities through the following programs:

- Publishing Services provides editing services and publishes print and electronic material in support of the agency's mission.
- Internal Communications ensures that all OCC employees are aware of current policies and programs, and that major initiatives and messages are communicated on an agency-wide basis through "What's New at the OCC" postings on the intranet, the *SuperVisions* employee newsletter, and other vehicles.
- Disclosure Services and Administrative Operations is responsible for handling most requests for information through the Freedom of Information and Privacy acts. In addition, this unit operates the Public Information Room, certifies copies of bank documents, and oversees the agency's print budget, the annual publications printing plan for all print products, as well as the fulfillment and warehouse contract for print material.
- Publications and Media Design Services unit is responsible for working closely with agency departments to produce and design products for published materials and other multimedia presentations for the agency. This unit also oversees the printing of OCC material and ensures its distribution to national banks and other internal and external audiences.

Community Bank Activities Division

The Community Bank Activities division acts as the in-house contact point on regulatory matters concerning community banks. Community Bank Activities fulfills its responsibilities to community banks and to OCC personnel by:

- Serving as a conduit and clearinghouse for information on community bank issues.
- Facilitating internal, multi-level sharing of information on community bank activities.
- Identifying and providing additional services that add value to nationally chartered community banks.
- Identifying and addressing opportunities to reduce regulatory burden for community banks. As appropriate, Community Bank Activities makes recommendations for regulatory and supervisory changes.

Executive Communications

As the unit responsible for preparing the Comptroller's speeches and other written messages, Executive Communications coordinates appearances with event organizers, develops the content of individual speeches, and provides speechwriting assistance to other OCC officials. Executive Communications also develops other written products for the Comptroller and other OCC officials that are intended for large audiences

Banking Relations

Banking Relations is the OCC's primary contact point for bankers, trade association executives, state bank supervisors, and other industry representatives on issues involving OCC policy. The unit builds and maintains bridges with these and other financial services industry stakeholders to facilitate an efficient, timely, and constructive exchange of information integral to OCC policy development and implementation.

Among other activities, Banking Relations:

- Directs, coordinates, and monitors non-supervisory outreach events involving OCC headquarters or field staff. These events include participation in seminars, meetings, conventions, banker-specific education programs, and other outreach initiatives involving participants from the financial services industry, including support for annual banker association visits to Washington.
- Develops, directs, coordinates, or manages outreach materials and facilities including National BankNet (the OCC's extranet for national banks), and various audiovisual and text-based materials, such as the "Value of the National Bank Charter" outreach package.
- Coordinates and monitors requests for OCC participation in industry events such as seminars, meetings, conventions, and banker-specific education programs.
- Plans and organizes sessions that bring together OCC senior managers with industry and trade association leaders to discuss banking industry trends, emerging issues, and other matters of mutual concern. One major initiative in this area is the "Meet the Comptroller" roundtables sponsored by Banking Relations.

Press Relations Division

Press Relations works to increase public awareness and understanding of the OCC and the national banking system by providing accurate, timely and comprehensive information to the public, primarily through the media. Press Relations prepares and issues press releases, organizes and conducts media briefings, responds to queries from the media in the United States and abroad, and arranges interviews for reporters with OCC officials. Press Relations also distributes news releases and other information through a subscription e-mail service that is available to anyone with access to the Internet.

Chief National Bank Examiner Department

The Chief National Bank Examiner department, headed by the senior deputy comptroller and chief national bank examiner and comprised of the Core Policy, Credit Risk, and Risk Evaluation departments, formulates and disseminates the OCC's supervision policies to promote national banks' safety and soundness and compliance with laws and regulations. The department issues policy, guidance, and examination procedures related to national banks' asset management, bank technology, capital markets, credit, and consumer and community compliance activities. The department assists in providing specialized training and examination support to OCC examiners. The department also coordinates OCC participation in Federal Financial Institutions Examination Council (FFIEC) activities and its task forces.

Core Policy Department

The Core Policy department is the focal point for the OCC's core policy platforms that govern how the OCC supervises banks. These core policies and activities include the OCC's supervision by risk philosophy and its supporting systems and core examination procedures for large and community banks; policies related to general bank management and boards of directors; and accounting, reporting, and disclosure requirements for national banks. The deputy comptroller for Core Policy chairs the Supervision Policy committee, and other forums for obtaining input on supervision.

The department consists of two divisions: the Core Policy Development division and the Office of the Chief Accountant.

Core Policy Development Division

Core Policy Development establishes risk-focused policies and standards for the supervision of national banks. The group administers the supervision by risk process; develops and coordinates OCC supervision policy issuances and publications; and develops and distributes automated tools and models used in the examination process.

The risk-focused supervisory process includes a three-level supervision process, consisting of core knowledge, core assessment, and expanded procedures for specific bank activity. The benefits of this effort include: the enhancement of bank safety and soundness through greater integration of supervision by risk into the examination process; a more efficient deployment of OCC resources, while continuing to minimize industry burden; and increased efficiency and consistency through use of a risk-based examination approach. Supervisory topics under this division's responsibility include issues pertaining to bank management and the board of directors, bank insurance activities, audit programs and internal control systems, and overall bank supervision and risk management processes.

Office of the Chief Accountant

The Office of the Chief Accountant coordinates accounting and financial reporting issues, interprets, and develops guidance on generally accepted accounting principles related to banking, and identifies emerging accounting issues. Through representation on the FFIEC's Task Force on Reports, the office jointly develops changes, instructions, and interpretations for interagency bank reports, such as the Consolidated Reports of Condition and Income (call report). The office also participates on the Basel Committee on Banking Supervision to seek harmonization of international accounting standards. Further, the financial information requirements of the Securities Exchange Act of 1933, as it applies to national banks under 12 CFR 11 and 12 CFR 16 are administered by the office. The office's objectives are accomplished through staff located at headquarters and district locations. Training is provided to examiners and others as necessary.

Credit Risk Department

The Credit Risk department is responsible for identifying and analyzing emerging issues and trends that affect bank lending activities and credit risk in the national banking system, as well as developing policy guidance to address these issues. The department sponsors the National Credit Committee and the Retail Credit Committee. The membership of these committees consists of field examiners directly involved in the supervision of community and large banks as well as economists and community development lending specialists. These committees assist the division in identifying emerging credit risks and supporting policy development initiatives. The department also formulates industry advisories and policy guidance for bankers and examiners on the following subjects: asset based lending; reporting to credit bureaus, and third-party credit risk. The Credit Risk department identifies training needs for field staff and formulates the appropriate training. The Credit Risk department continued to be actively involved in advancing sound credit risk management principles both domestically and internationally.

The department also provides substantial staff assistance in support of district and Large Bank Supervision priorities by participating in on-site examinations of credit risk/loan portfolio management, leading shared national credit teams, and implementing KMV analytics and Credit Analytics JV to support systemic credit risk identification and monitoring.

Risk Evaluation Department

The deputy comptroller for Risk Evaluation chairs the OCC's national risk committee (NRC) and oversees the OCC's Risk Evaluation (RE) department as well as the Asset Management (AM) and Treasury and Market Risk (T&MR) divisions.

National Risk Committee/Risk Evaluation Department

The national risk committee (NRC) identifies primary and emerging risks to the national banking system, stays abreast of evolving business practices and financial market issues, informs the OCC's executive committee of material risks facing the national banking system, and makes recommendations as to appropriate supervisory responses. The NRC also coordinates national and district risk committee initiatives and communicates risk issues and OCC supervisory efforts to address those issues.

The NRC generally meets every other week, and its members include senior representatives from key areas across the OCC. The Risk Evaluation department is responsible for supporting NRC initiatives. In addition to administering regular NRC meetings, the division assists in the analysis of systemic safety and soundness issues. Toward that goal, the RE department maintains a "radar screen" of issues that are sources of risk to the safety and soundness of the national banking system. This radar screen is used in NRC discussions with the Executive Committee, and transmitted to OCC examiners.

The Risk Evaluation department also assists in the NRC's regular briefings to inform the OCC's executive committee of material risks facing the national banking system. Some of the major issues addressed by the NRC during 2001 included the condition of the banking industry, the quality of credit underwriting and risk management practices, domestic and international macroeconomic trends, emerging technologies and data security risks, interest rate risks, securitization activities and residual valuation risks, and liquidity risks. The NRC also made recommendations on the appropriate supervisory actions to take in response to these issues, and monitored and reported on the OCC's supervisory efforts to respond to such risks.

As an accompaniment to the regular executive committee briefings, the RE department circulates an ongoing series of short memos to examiners, "Economic and Systemic Issues Affecting the National Banking System." Specific issues analyses and OCC responses are available to OCC examiners on the agency's intranet. For external audiences, RE established and maintains an extensive outreach program and public speaking schedule. Audiences included domestic and international commercial bankers, as well as domestic and international regulators.

National initiatives are coordinated with OCC district initiatives through RE's ongoing communications with district risk committees. These efforts are undertaken to preclude redundancies, to encourage the sharing of ideas throughout the OCC, and also to serve as a resource to district risk committees.

The "Canary Project" began in 1999 in response to the Comptroller's request that the OCC's diverse early warning tools be inventoried, enhanced, and organized into a productive early warning system that could be consistently applied nationwide. Risk Evaluation coordinated this effort. "Community Bank Canary" was launched in early 2000, and its primary purpose is to identify banks with potentially high or complex amounts of financial risk. There are five sets of tools available to aid in this analysis:

1. Financial risk measures and benchmarks have been established for credit risk, interest rate risk, and liquidity risk.[1] The financial measures are leading indicators of risk taking that are designed to be concise and intuitive. These measures are referred to as static measures because they refer to a bank's financial risk position at a given point in time. Static benchmarks identify banks with potentially high financial risk positions. Canary assumes an increased risk profile when a bank exceeds three or more static benchmarks within a risk category. Evaluating bank financial positions relative to the benchmarks facilitates early warning analysis by highlighting banks that may need additional supervisory analysis or attention to ensure bank risk management processes are commensurate with potentially high credit, interest rate, and/or liquidity risk positions.

   For each financial risk measure, a rate of change (ROC) measure has also been calculated. ROC measures focus attention on rapid movement off of a material starting point, rather than focus solely on a static position. This measure helps to identify those banks moving rapidly toward a financial risk position, but is only calculated for those banks already at a meaningful starting point. ROC ratios are only calculated for

[1] The measures are calculated from Call Report data.

those banks that exceeded the median for a particular static measure four quarters ago. Therefore, the ROC is calculated as either the four-quarter percentage change or four-quarter difference in the static measure, depending on the ratio.[2]

2. Predictive models will assist examiners in assessing the future effects of changing economic or other conditions that may affect the bank. Predictive models will help examiners to estimate a bank's credit risk, forecast future bank performance or examination ratings, and look for rising external risk that may affect bank earnings. Internal models include PGRM (peer group risk models), a series of econometric models designed to project the potential impact of different economic scenarios on future earnings for similar asset-based bank peer groups. Bank risk calculator is another analytical tool that uses call report data and economic data for bank market areas to classify the overall risk in individual banks and groups of small banks. The purpose of this tool is to provide supervisory staff with an indication of rising risk external to the bank before its effects are evident on the bank's books.

3. External models include links to KMV reports and the Federal Deposit Insurance Corporation's (FDIC's) SCOR (statistical CAMELS offsite ratings), which, using 13 financial ratios, forecasts composite and component ratings and assigns a probability that the institution's CAMELS ratings will be downgraded.

4. Several research tools are complements to the quantitative measures to assist examiners in assessing credit risk. The loan concentration tool is used to produce a list of all the loan concentrations in a bank by NAIC code as of its last examination, or alternatively, to produce a list of banks with concentrations in a selected NAIC code. The commercial real estate Web site contains analysis, data and forecasts on national and local commercial real estate markets and analyses on real estate investment trusts. Market spillover enables examiners to investigate the direct and indirect linkages between an individual bank and the markets in which it operates. These markets can be local, regional, national, global, or electronic.

5. Market barometers are indicators that provide a broad sense of liquidity in the capital markets, perceptions on credit risk, and a general view of public confidence. Specifically, these indicators include trends in U.S. corporate debt spreads, emerging market debt spreads, equity market trends, interest rate swap spreads, and short-term money market spreads. Income and consumption data are also available. New barometers will be added and others removed over time as the environment changes.

[2] For static measures in which a greater financial risk position is assumed with growth, a four-quarter percentage change is used. For static measures in which a greater financial risk position is assumed with a decline, a four-quarter difference, measured in basis points, is used.

Recognizing that a different "Canary" system was needed for large banks, we started work on "Large Bank Canary" in the second quarter of 2000 with the assistance of several large bank teams, and implemented it in the second quarter of 2001. Its components are similar to "Community Bank Canary." For the large bank population, static benchmarks have been developed for financial risk measures of the 5 financial risks, strategic risk, and securitization activities. A separate historical data page contains balance sheet and income statement figures and ratios. In addition, summary "Canary" reports were created, and include a cover page with summary information from markets, models, and internal sources for all in the large bank program, and a financial snapshot with summary balance sheet and income statement items for each large bank.

The RE department also served on working groups to identify systemic risks and develop supervisory policies on national bank vulnerabilities to financial risks, as well as early warning systems to identify emerging risks in the banking system. The department also assisted with various efforts conducted by the President's Working Group on Financial Markets.

Asset Management Division

The Asset Management division develops OCC policy for the supervision of national banks' asset management services. Financial services included under the umbrella of asset management are fiduciary and investment advisory services, retirement services, retail securities brokerage, and securities custody and transaction processing.

During 2001, the division worked on a number of projects. The division completed and issued the "Investment Management Services" (August 2001) booklet and the "Custody Services" (January 2002) booklet of the *Comptroller's Handbook*. In addition, members of the division contributed to other booklets of the *Comptroller's Handbook* series including the "Insurance Activities" (June 2002) booklet, and the "Community Bank Supervision" (August 2001) booklet. Staff spearheaded the effort to revise the FFIEC Consolidated Reports of Income and Condition to include the "Schedule RC–T" for the reporting of trust information.

In conjunction with other OCC divisions, Asset Management participated in developing amendments to 12 CFR 9 to allow for national banks to provide multistate trust activities. Staff assisted in the development of the FFIEC's question and answer document concerning Part 14 of GLBA addressing insurance. Staff reviewed and commented on a number of new trust bank charter applications. In addition, staff supported the legal department with its responses to requests for interpretations dealing with asset management issues.

The Asset Management staff made presentations at industry meetings, programs, and seminars. Also, the division staff participated as instructors at OCC and FFIEC training programs. Through out the year, the division organized a number of topic-specific conference calls to share information with OCC field examiners. In April 2001, the division sponsored a meeting of 120 asset management examiners.

Asset Management continues to communicate industry news to asset management examiners by periodically issuing the "Asset Management Digest" and maintaining the Asset Management intranet site. Staff members participated in asset management examinations of national banks, resolved consumer complaints, and responded to many inquiries from the industry.

Treasury and Market Risk Division

The Treasury and Market Risk (TMR) division's primary responsibility is the determination of policy direction with respect to capital markets activities. This includes the OCC's supervisory efforts regarding risk management of interest rate exposures, liquidity positions, trading and dealing exposures (including derivatives and emerging market assets), securitization activities and mortgage banking. The TMR division accomplishes this through regular monitoring of institutions individually and systemically with regard to specific capital markets activities, by issuing examiner guidance in the form of handbook sections and banking bulletins, and by conducting internal training on related capital markets issues. TMR staff participate in mission-critical examinations and represent the OCC at numerous internal and external conferences, speaking about timely regulatory issues.

Highlights of the key accomplishments for TMR in 2001 include:

- *Interest rate risk.* TMR continued the implementation of an interest rate risk database to collect information gathered during examinations. Additions to the database are made each time OCC examiners evaluate the interest rate risk activities at institutions with moderate or high interest rate risk profiles. The types of information collected include: risk tolerances, risk management tools used to control interest rate risk, and risk measurement tools used to quantify interest rate risk exposures. The interest rate risk database enables OCC field examiners and staff to evaluate risk management practices for national banks individually and systemically.

- *Liquidity.* TMR issued two examiner guidance documents in 2001 addressing risk management aspects of liquidity. In February 2001, TMR issued the "Liquidity" (February 2001) booklet. This booklet provides clarification of OCC expectations regarding management of liquidity risk and highlights changes in the liquidity risk profiles of banks over the course of the last decade. In May 2001, TMR issued the "Joint Agency Advisory on Brokered and Rate-Sensitive Deposits" (OCC Advisory Letter AL 2001–5, May 11, 2001). This interagency advisory reminds bankers of the risks associated with reliance on brokered and other rate-sensitive deposit providers. Also in May 2001, TMR sponsored two Liquidity telephone seminars for community bankers. OCC speakers participating in the telephone seminars articulated aspects of the current operating environment that expose banks to higher levels of liquidity risk and expectations for a sound risk management process. Approximately 500 community banks were represented in the two telephone seminars. Additionally, TMR continues to maintain internal reporting systems designed to monitor liquidity risk management in large banks.

- *Trading.* In 2001, TMR prepared four issues of the "Derivatives Fact Sheet," a comprehensive package of publicly distributed bank derivatives data and information. The distribution of this package of spreadsheets and narratives has proven to be a useful mechanism for increasing transparency with regard to bank derivatives and trading activities.

- *Securitization and mortgage banking.* Throughout 2001, TMR has participated in domestic and international efforts to address regulatory capital issues associated with securitization activities. TMR assisted other OCC divisions in developing and publishing the "Recourse, Direct Credit Substitutes and Residual Interests" final rule in November 2001. This rule articulates capital requirements for banks engaged in securitization activities. Throughout 2001, TMR continued efforts to monitor and evaluate the impact of asset securitization on bank safety soundness. This effort included inter-agency on-the-job examiner training designed to develop and expand examiner technical skills in the area of securitization. TMR also sponsors a monthly inter-agency working group that provides bank regulatory staff an opportunity to discuss outstanding issues.

- *Training and outreach.* During 2001, TMR sponsored two training sessions for lead capital markets examiners responsible for supervising activities in national banks. TMR also provided specialized training in the areas of asset and liability management, interest rate risk modeling, and financial mathematics. In October 2001, TMR sponsored the annual Capital Markets seminar for 175 examiners who primarily perform capital markets supervision work. The agenda for this conference included breakout sessions with internal and external speakers addressing securitization activities, asset and liability management processes, interest rate risk modeling, derivatives and trading activities, and investment securities analysis.

TMR staff represented the OCC at numerous external conferences on timely regulatory issues such as: derivatives trading, hedge fund risk management, asset securitization, interest rate risk management, and liquidity risk management.

International and Economic Affairs Department

The senior deputy comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing policy advice on risks in the banking industry, bank capital requirements, and international banking and financial matters; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The department also provides expert advice to examiners in the assessment of banks' risk measurement methods. These activities are carried out through the International Banking and Financial Analysis and the Economic and Policy Analysis departments. The deputy comptroller for Global Banking and Financial Analysis is responsible for the International Banking and Finance and the Financial Analysis divisions. The deputy comptroller for Economic and Policy Analysis is responsible for the Policy Analysis and the Risk Analysis divisions. The director of the Capital Policy division reports directly to the senior deputy comptroller.

Global Banking and Financial Analysis Department

The Global Banking and Financial Analysis department consists of two divisions: the International Banking and Finance and the Financial Analysis divisions. The special advisor for global banking, who is responsible for identifying and assessing emerging international electronic banking issues, reports to the deputy comptroller.

International Banking and Finance Division

The International Banking and Finance (IB&F) division supports OCC supervision of the federal branches and agencies of foreign banks in the United States and serves as the focal point of OCC relationships with the international financial community and foreign supervisory organizations. The division provides policy advice and technical expertise and analysis to the OCC on international banking and financial matters, including foreign regulatory trends, country risk evaluation, and the evolution of foreign financial systems, institutions, and supervisory and regulatory processes.

The IB&F division conducts research and analysis on international bank supervision and regulatory matters. IB&F also supports OCC examiners and other staff engaged in domestic and international supervisory activities, as well as assists in the development and implementation of OCC banking supervisory and regulatory policies and procedures.

IB&F coordinates the Federal Branch program and OCC's participation on international working groups including the Basel Committee on Banking Supervision and the Joint Forum on Financial Conglomerates. The department also provides technical support to the Treasury Department on the G–7 summit process.

The division conducts analysis of global economic trends and provides applied financial and economic analysis of key issues that may affect banking industry performance and, consequently, OCC supervisory policy and operations. The unit prepares the deputy comptroller's quarterly press conference on the condition of the banking industry and the quarterly OCC *Quarterly Journal* article on the condition of the banking industry.

As the OCC representative on the Interagency Country Exposure Review Committee (ICERC) of U.S. bank regulatory agencies, IB&F develops and analyzes information on and assesses risk in international lending, including the evaluation of transfer risk associated with exposures to countries experiencing difficulty servicing their external debt. Through IB&F, the OCC provides the permanent ICERC secretariat and rotates as chair of the ICERC every third year.

The IB&F staff coordinates requests from around the world to provide technical assistance including visits and training sessions hosted by IB&F staff in Washington, as well as participation by OCC on technical assistance missions in the requesting country.

Financial Analysis Division

The Financial Analysis division is responsible for analysis of bank condition and performance broadly defined. This includes assessments of financial market developments, international influences, trade-related spillovers, nonbank industry developments, and regional and macroeconomic concerns. The division provides direct analytical support to the national risk committee, national credit committee, Large Bank senior staff and examiners-in-charge (EICs), and district staff.

The division develops and maintains information systems and tools necessary for the delivery of its analytical products. The primary systems include: the integrated banking information system—bank call report data, supervisory data on national banks, branch data, and holding company data; the economic information system—economic and financial data and graphics; nonbank industry and company data—and several tools and techniques to evaluate risks in the banking system as well as to assist examiners in their individual bank risk assessments.

The division provides economic, financial, and banking analysis to the assistant deputy comptrollers for community banks and the Large Bank EICs. The division produces regular reports on macroeconomic and regional economic trends, and reports on commercial real estate for use by examiners and members of the national risk committee and national credit committee. The division staff provides extensive support to bank outreach meetings and efforts and to special needs of the district and large bank staffs. The division is directly responsible for special in-depth industry studies in areas with high bank-loan concentration and potential vulnerabilities, including health care, oil, retail credit, consumer credit, commercial real estate, and agriculture.

Capital Policy Division

The Capital Policy division identifies issues and develops policies to address risks to bank capital. This includes developing and maintaining capital regulations and interpretations as well as dividend, income, and expense policies. This work is often done in collaboration with other units of the OCC as well as other U.S. and international regulatory agencies.

The division ensures that capital policies are effectively communicated and implemented and provides technical assistance to examiners, bankers, and advisors on risk-based capital issues. The division also coordinates the work of the OCC's capital steering committee.

In 2001, Capital Policy has dedicated a significant amount of staff resources to coordinating the OCC's contribution to the ongoing efforts to revise the 1988 Basel Capital Accord and to implementing changes in the OCC's risk-based capital regulations in coordination with the other banking agencies. The division has also provided guidance and interpretations of the risk-based capital rules to examiners, banks, and the financial community.

The revision of the 1988 Basel Capital Accord, which provides the foundation for minimum capital requirements for banks in the United States and around the world, is a comprehensive and global effort to align capital requirements more closely to the underlying credit, market, and operational risks. Capital Policy staff chaired or participated in several of the Basel Committee's capital working groups and task forces.

The division was instrumental in finalizing or advancing several proposed interagency changes to the risk-based capital regulations. The final rule for recourse, direct credit substitutes, and residual interests was published in November 2001. The rule better aligns regulatory capital with the risks inherent in securitization activities by providing more consistent risk-based capital treatment for recourse obligations and direct credit substitutes and permits the use internal and external credit ratings under certain circumstances. The division also assisted in the completion of a capital rule for non-financial equity investments, which was published in January 2002.

The Capital Policy division drafted several significant risk-based capital interpretations, two of which the OCC issued jointly with other banking agencies. In a joint interagency statement, the OCC determined that the new subordinated debt instruments issued by Fannie Mae and Freddie Mac should be risk-weighted at 20 percent. In a joint statement with the Federal Reserve, the OCC opined on the market risk treatment for a series of credit derivative structures.

Throughout the year, the Capital Policy division provided guidance and interpretations with respect to innovative Tier 1 instruments, credit derivatives, securitizations and recourse issues and other risk-based capital issues.

Policy Analysis Division

The Policy Analysis division conducts analysis and research that contribute to the development of OCC policy positions and to the understanding of the impact of policies on the performance of the banking industry. Division staff participates on the capital steering committee and the functional supervision working group. The Policy Analysis division comprises two units, Special Studies and Policy Development.

Special Studies

The Special Studies unit's work includes short-term analyses and longer-term research projects. The unit is focused on the impact of the adoption of new technology on the performance of national banks, the effectiveness of capital regulations, the usefulness of market information for bank regulation, the role of banks in serving the market for small business credit, and demographic factors that contribute to whether one uses a bank to obtain financial services. It also made contributions to the OCC's efforts to revise its assessment schedule and improve its forecasts of assessment revenue. Special Studies staff serve on the OCC's Internet banking working group, an interdisciplinary group that reviews corporate applications that raise issues regarding the application of technology to banking.

Policy Development

The Policy Development unit conducts short-term analyses of public policy issues related to banking, and presents the results of its work in memoranda, white papers and presentations for general audiences within the OCC. The unit also prepares economic analyses of the effect of regulations on banks and other private sector entities. Recent projects have included the development of alternative solutions to the inherent flaws in the current system for the funding of bank supervision, a review of the FDIC's options paper on deposit insurance reform and preparation of a comment letter to the FDIC, and analysis of the relationship between bank location and P/E.

Risk Analysis Division

The Risk Analysis division provides applied, sophisticated knowledge of quantitative economic modeling to bank examiners and policy makers in the OCC. The economists in the division provide direct support to examiners and policy makers on risk modeling, decision modeling, and modeling to detect compliance with fair lending laws. The outlet for this support is direct participation in exams, the construction of models and tools for use by examiners, consultation with examiners and policy makers, educational outreach and training of examiners, and written materials for use by examiners and policy makers. The provision of expertise by the division requires the pursuit of a research agenda that maintains and improves knowledge and skill in modeling. The division is comprised of three units, Market Risk Modeling, Credit Risk Modeling, and Financial Access and Compliance.

Market Risk Modeling

The Market Risk Modeling unit's work deals both with market risk as the agency defines it (financial risk of the marked-to-market portion of the business—primarily the trading desk, including derivatives trading) and interest rate risk (market risk in the banking book, which is not marked-to-market). The major outlets for work in this area are examinations in which examiners are assisted in evaluating the adequacy of the sophisticated quantitative models used by banks. For example, a large part of the unit's work in recent years has been the evaluation of the risk measurement systems for bank trading desks, called value-at-risk models. The unit also performs exams to evaluate the models that banks build to price their over-the-counter derivatives or to value assets with a focus on evaluating models that banks build to estimate their exposure to interest-rate risk. For large banks, this means reviewing banks' own models. For community banks lacking their own models, the unit offers examiners a simple interest-rate-risk-benchmarking tool.

Credit Risk Modeling

The Credit Risk Modeling unit provides exam support on models used to make credit decisions, generally known as credit scoring, and models used to evaluate credit risk. Credit scoring, which is the use of statistical models to make decisions, has been a traditional outlet for the unit's services, and it continues to be a growing source of demand. That work encompasses the use of scoring in retail lending and in commercial lending, and has been a traditional outlet for the division's expertise. A growing portion of the division's attention is focused on models used to evaluate credit risk, including the portfolio credit models used in bank economic capital models. One specific type of portfolio credit model is the proposed internal risk-based approach to Basel risk-based capital reform. The unit is devoting great effort to preparing for the implementation of those changes.

Financial Access and Compliance

The Financial Access and Compliance unit provides specialized technical and analytical expertise in economics and statistics to assist the OCC in identification, characterization, and analysis of fair lending compliance risk in the national banking system. Economists are assigned to OCC examination teams to assist with evaluating banks' compliance with fair lending rules. The unit also conducts research to refine the statistical techniques and analysis used to support OCC examinations and to address OCC policy questions related to access to financial services. Recent access-related topics have included predatory lending, the profitability of CRA lending, and the financial needs of households that do not have banking relationships (the "unbanked"). In addition, the unit provides support to policy development in the compliance area. Recent projects have included the large bank CRA project and development of the agency's procedures to screen banks for fair lending risk.

Large Bank Supervision Department

The Large Bank Supervision department supervises all national bank subsidiaries of the following 22 companies: ABN AMRO North America, Inc; Bank of America Corporation; Bank One Corporation; Banknorth Group, Inc.; Barclays Global Investors; J.P. Morgan Chase & Company; Citigroup, Inc.; First Tennessee National Corporation; FleetBoston Financial Corporation; Huntington Bancshares, Inc.; KeyCorp; MBNA Corporation; Mellon Financial Corporation; National City Corporation; National Commerce Financial Corporation; PNC Financial Services Group, Inc.; U.S. Bancorp; Union Bancal Corporation; Union Planters Corporation; Wachovia Corporation; Wells Fargo & Company; and Zions Bancorporation. As of September 30, 2001, these 22 holding companies held assets of $4.2 trillion. Under these companies are 119 national banks (including 21 national trust charters) with total assets of $2.9 trillion. These banks represent 82 percent of the total assets of the national banking system, but only 5 percent of the charters.

Three deputy comptrollers head the department, each managing a portfolio of banks and directly supervising examiners-in-charge of the respective institutions. The field examining staff is divided into four geographically based teams. These teams consist of field examiners who support the continuous supervision efforts in each bank. The department also maintains another team in London. That team provides examination and supervision support for European affiliates and branches of national banks. It plays a major role in monitoring developments in the European financial markets.

The department's philosophy of continuous supervision provides for assessing the condition and risk profile of the bank and taking appropriate supervisory and regulatory action when necessary. To implement this philosophy, supervisory strategies are developed annually for each large bank company and are updated quarterly. Strategies are continuous and relate closely to each company's condition, risk profile, economic factors, and marketplace developments. A major component of each strategy is the communication plan. This plan must maintain a strong, consistent, and frequent two-way dialogue with bank management and its board of directors. Areas of special supervisory emphasis in 2001 included supervisory initiatives in credit underwriting and allowance for loan and lease loss reserve adequacy.

Office of Management and Chief Financial Officer

The senior deputy comptroller (SDC) for Management and chief financial officer is responsible for efficiently and effectively deploying the management functions of the OCC. In this capacity the SDC is assisted by deputy comptrollers that oversee the functional areas of Workforce Effectiveness, Financial Management, Management Services, and Continuing Education.

In 2001, the SDC focused on continuing efforts to strengthen OCC's financial management and internal controls and modernize OCC's financial management and related systems.

Workforce Effectiveness Department

The Workforce Effectiveness department (WFE) delivers services in the areas of human resources operations, policy development and program integrity, organizational performance, compensation and benefits, workforce diversity, and consulting services on organizational performance.

Significant undertakings and accomplishments during 2001 include:

- As part of the restructuring of OCC's administrative management functions, Workforce Effectiveness was established as one of three major operating units within the new Office of Management and Chief Financial Officer. Within WFE, organizational changes were implemented to strengthen certain aspects of human resource functions and improve service and accountability. They include consolidating national recruitment, affirmative employment, special emphasis, and diversity programs into a single unit reporting to the new deputy comptroller for Workforce Effectiveness and establishing a customer service unit to move toward a one-stop service model for OCC employees and to improve the resolution of customer complaints.

- Extensive resources were devoted to implementing OCC's new compensation and performance management programs. Staff provided on-going advice and assistance to managers and employees on various aspects of the new programs, participated in designing and delivering training for managers, and refined and updated policies and procedures. The OCC adopted a broad pay-band compensation structure with variable performance-based merit pay increases and more pay tools to recognize job growth. OCC's new performance management program strengthens the performance planning process so that employee performance objectives and performance measures are defined more clearly upfront. The program also provides more balance and accountability for both what is achieved and how it is achieved.

- The Employment Policy and Program division updated all other human resources policies affected by the changes to OCC's compensation and benefits programs, such as merit promotion. The division staff also presented proposals to the executive committee for enhancing various work life programs and, as a result of the committee's decisions, prepared updated work life program policies and procedures. The Comptroller announced enhancements to OCC's work life program in early 2002.

- The Employment and Diversity division coordinated the preparation of OCC's "Strategic Plan for Active Recruitment, Retention, and Career Development" (SPARC). The Comptroller announced SPARC in late 2001. The Employment and Diversity division will play a key role in implementing SPARC and provide guidance to managers and employees on the overriding principles and programs relating to a truly diverse workforce.

- WFE participated in the Department of the Treasury's phased implementation of "HR Connect," a Treasury-wide human resources system that streamlines and reengineers human resource processes using state-of-the-art technology. WFE staff participated in various aspects of designing, developing, testing, and implementing the new system.

- WFE contributed to the agency's response to the circumstances of September 11, 2001, and the anthrax threat, on both an immediate basis and with an eye toward longer term strategies needed to deal with future emergencies. On-site counseling services were quickly made available to staff in New York and Washington, with additional counseling available to OCC staff nationwide. Mechanisms were put in place to ensure that employees concerned about anthrax exposure could be tested. A compendium of resources to help employees deal with traumatic events was placed on OCCnet.

- Customer Service and Organizational Performance devoted extensive resources to establishing the infrastructure, policies, and practices needed to support the new customer service unit. Staff worked on developing, piloting, and refining an automated knowledge database and system for tracking and responding to customer inquiries and complaints. The system will be fully deployed in early 2002.

Financial Management Department

The mission of the Financial Management (FM) department is to provide leadership to promote the efficient management of OCC's resources and assets, quality financial services to customers based on their needs, and complete and useful financial information on OCC operations that fully supports financial and performance reporting.

During 2001 Financial Management accomplished the following:

- Implemented on October 1, 2001 a new joint financial management improvement program (JFMIP) compliant financial and acquisitions management information system called "$MART" for "management accountability reporting tools." $MART meets federal financial management system requirements and applicable federal accounting and transaction standards and allows OCC to have accurate, timely, and reliable financial information for decision-making and performance-based budgeting.
- Successfully transitioned OCC resource management to the federal fiscal year reporting cycle on October 1, 2001, allowing OCC to be on the same reporting cycle as the Department of the Treasury.
- Achieved the Department of the Treasury's goal for a monthly 3-day close for financial reporting and statements.
- Completed and implemented OCC's policy on special and contingency reserves.
- Redesigned OCC's individually billed travel card program to ensure adequate internal controls for employee travel card usage.
- Continued the process of integrating OCC's planning, budgeting and evaluation to achieve a streamlined, clear and integrated annual OCC plan and budget.

Management Services Department

As the principal component responsible for providing administrative services essential to the OCC operations, the Management Services department reorganized in 2001 to focus on essential services and increase the efficiency of its operations. This reorganization replaced the previous structure with integrated management teams providing leadership for a smaller, highly skilled workforce allowing Management Services to improve service, eliminate non-compliance, and control costs. Management Services delivers services in acquisition management; real estate management (leasing design/construction, capital assets), facilities management and security; informational/library services and management systems; supply and warehousing; conference planning; mail and messenger services; and records and forms management.

In addition to the above services, Management Services coordinates the OCC's program of partnerships with high school academies of finance across the country and runs the headquarters school volunteer program.

During 2001, Management Services' significant undertakings and accomplishments include:

- Management Services supported the OCC's efforts to enhance efficiency and reduce overall general and administrative cost by conducting an independent review of Management Services' functions, including commercial activities. Results of this study provide Management Services with a comprehensive strategy to improve efficiency and services, and support management decision-making regarding OCC's obligations under the FAIR Act and OMB Circular A-76 initiatives.
- The new $MART financial and acquisition management system was brought on-line on October 1, 2001 and included the integration of acquisition and financial modules to create an electronic funds control/ management process. The new acquisition management system will also allow the division to improve the efficiency of the OCC procurement process and take advantage of advances in on-line procurement.
- The Real Estate and Capital Assets division completed the "Long-Term Real Estate Strategy Project," started during 2000. The study pointed to several opportunities for increasing efficiency and reducing vacancies throughout the portfolio of office leases. It also laid the groundwork for reducing costs in two district office leasing efforts that were ongoing in 2001. The study also prompted the piloting of a new approach to space planning of space in Field Offices. Real Estate and Capital Assets began six pilot office projects to be completed in 2002. The aim of these efforts is to support increased need for high-speed connections for each employee while providing flexible spaces that support team efforts.
- The Real Estate and Capital Assets division completed the leasing, planing and design and construction for

new field office space in Omaha, NE, Jacksonville, FL, and provided renovation services to several field offices. Real Estate and Capital Assets was also involved in the reallocation of space within the headquarters building to better align operating units and increase utilization.

- In addition to overseeing the modernization and integration of OCC's internal management systems, the Informational Services and Management Systems (IS&MS) unit managed the continued participation in "HR Connect," a Treasury-wide human resources system that streamlines and reengineers human resource processes; and managed the successful design, development and implementation of $MART, OCC's integrated management system.

- Informational Services and Management Systems' Library staff provided comprehensive library services to OCC employees. Library staff answered reference requests in less than 24 hours 97 percent of the time, thus saving agency staff valuable time in gaining needed research and information. Existing on-line news service was replaced with two real time news services, American Banker online and Dow Jones Interactive, both of which meet the OCC needs.

- Records Management staff provided leadership in the critical area of electronic records management. Records Management worked with a consultant to identify the agency's critical recordkeeping needs and initiated a program to enable OCC to transition smoothly to electronic recordkeeping. To continue to safeguard critical bank records, Records Management revised the "National Filing System Reference Guide" and distributed it to OCC staff nationwide.

- Management Services responded to the anthrax crisis by implementing procedures for opening and screening mail in headquarters before it is delivered to headquarters staff. This included having Mail Center employees wear protective masks, gloves, and cover garments when opening incoming mail and the use of other items to detect hazardous substances and protect employees.

- Management Services continued to coordinate the OCC's effort to promote financial literacy through its successful educational outreach programs. OCC partnered with over 30 National Academy Foundation (NAF) local high school academies of finance or city-wide finance academy advisory boards, providing work experience for high school interns and participating on business and community advisory boards. In addition, OCC experts revised major parts of the NAF curriculum on banking and credit, which is used to instruct thousands of youngsters nationwide. At headquarters, 80 volunteers, over 10 percent of the total staff, volunteer at a local District of Columbia elementary school.

- Management Services units continued to enhance customer service by meeting or exceeding 90 percent of its customer service standards, an 11 percent increase over 2000.

Continuing Education Department

The Continuing Education department provides a variety of services to meet the training and development needs of OCC employees. These services include consultation and instructional design, identifying knowledge gaps, internal courses developed by subject matter experts, self-study courses, vendor-based courses conducted at OCC sites, and numerous external training options. Continuing Education is organized into two teams: Educational Program Development and Customer Service.

The Educational Program Development team is responsible for the development and maintenance of technical (examiner) and management courses. The team is comprised of technical, management, MIS designers; course administrators; and technology specialists. This group uses a variety of delivery methods, including computer-based training (CBT) on the intranet, interactive compact disks, and traditional classroom training. Team members work closely with other OCC departments to develop internal courses in response to identified training needs. When practical, they use off-the-shelf, vendor-based products to meet specific training needs. This team is also responsible for maintaining Continuing Education's intranet site, which includes the internal course request system, the external training program application, outside vendor information, training schedules, a resource library, and many pre-course materials.

The Customer Service team is responsible for identifying training courses and tools that meet employees' training needs. The team includes all district training officers and their staff, the Washington and Large Bank training officers, and a management analyst. The training officers serve as primary contact for their serviced employees. They provide advice and counsel on available training courses, both internal and external; manage the internal and external course registration process; and communicate training policies and procedures to their customers. The Customer Service team also manages the Career Development Initiative, a program that encourages support staff to pursue training, education, and developmental assignments that can help them advance in their careers.

Continuing Education also manages the Opportunities Board and the Banker Education Program. The Opportunities Board is an agency-wide bulletin board used to solicit nominations for special projects and rotational assignments. This forum is designed to promote awareness of and access to developmental opportunities for all OCC employees. The OCC delivers educational opportunities for the industry through various mediums, including telephone seminars, workshops, and reference materials in electronic form.

Accomplishments for 2001 include increased use of technology in the delivery of training to OCC employees; expansion of the banker education program; and a pilot program that demonstrated the benefits of using paraprofessionals to support bank examination activities.

Mid-Size/Community Bank Supervision Department

The primary role of the Mid-Size/Community Bank Supervision department is direct supervision of mid-size and community national banks, credit card banks, federal branches and agencies, national trust companies, bank data processing servicers and bank data software vendors. During 2001 the OCC conducted 1,615 examinations focused on the overall safety and soundness of national banks, federal branches and agencies. The OCC also conducted 685 compliance examinations, 242 Community Reinvestment Act examinations, 247 asset management examinations and 844 examinations of bank data processing servicers, bank data software vendors and bank information systems operations. More detailed information regarding OCC's direct supervision and historical trends is available in various other sections of this publication.

Supervision Operations Department

The primary role of the Supervision Operations department is to support other Mid-Size/Community Bank Supervision divisions, including field examiners. The Supervision Operations department includes three distinct divisions: Mid-Size/Community Bank Policy Coordination, Special Projects and Programs, and Supervisory Information.

Mid-Size/Community Bank Policy Coordination Division

The policy-making process is the main responsibility of this division, coordinating the involvement of examiners in the development of new supervisory policies and procedures. The director works on cross-functional teams with the Chief National Bank Examiner's office, Large Bank Supervision, and other OCC units. In addition, this division coordinates the annual quality assurance functions for community banks, federal branches and agencies, and technology service providers.

Special Projects and Programs Division

The Special Projects and Programs division (SPP) administers various programs that support bank supervision functions. These include the examiner specialized skills program (ESSP), the uniform commission examination (UCE) program, the bank examination services contract program, and the international examinations program. The ESSP provides on-the-job training and monitors specialized skills activities in various specialty areas. Approximately 120 examiners participated in 514 specialized examination assignments during fiscal year 2001. The UCE program administers the testing process that determines the readiness of an examiner to be certified as a "commissioned" national bank examiner. Approximately 60 examiners were tested in 2001. The bank examination services contract program provides external experts to perform bank examination-related tasks on a contractual basis. Contractors were assigned to 193 tasks during calendar year 2001. The international examinations program is an administrative process that provides support to examiners performing overseas examinations. During 2001, the program provided support to approximately 67 examiners participating in 38 overseas examinations in eight countries.

In addition to the programs mentioned above, the SPP division coordinates various projects for the senior deputy comptroller for Mid-Size/Community Bank Supervision. During 2001, the division coordinated the review of various policies and procedures and provided support to the development of a new supervisory information system, a new reporting and tracking system to improve mid-size/community bank supervision's budget monitoring process, and several initiatives to improve OCC outreach efforts to community bankers.

Supervisory Information Division

The Supervisory Information division supports OCC management and staff decision-making by analyzing and developing management information reports on bank supervision-related matters. The division accomplishes this by producing and distributing various analysis, reports, and applications covering examination and supervision tracking, early warning screens and ranking reports, bank financial filters and risk assessment reports, as well as responding to various ad-hoc information requests. In addition, the division has financial analysts located in each of OCC's six district offices, who provide supervision and operational information for the district-supervised banks on a regular basis.

Supervisory Information continues to play a major role in advancing the agency's Web-based products and capabilities. The division maintains several Web-based reporting systems, including "Fast Data," "Flash Earnings," "National Bank Rank Ordering Report," and the "Internet Banking Questionnaire." All of these systems are critical to the supervisory process, and allow the agency to gather timely risk-related banking measures used for in-depth bank financial and supervisory analysis. The division continues to develop new Web-based systems, including a new system to collect detailed credit card bank risk measures. The "National MIS" (management information system) application is also delivered via a Web-based format on a quarterly basis to the agency's senior management.

During 2001, the division became the system administrator for the "Examiner View" (EV) software application. This system assists bank examiners in preparing for and conducting examinations of financial institutions and electronically stores examination reports, working papers, and financial and supervisory information. "EV Reports," the reporting component of the system, allows for quick customized reporting of statistical information. The division also supports other major supervisory systems and many automated tools and models used by examiners in their daily examination processes.

Special Supervision/Fraud Department

The Special Supervision/Fraud division consists of problem bank and fraud specialists. The division, which was part of Supervision Support, was re-established as a separate unit this year in order to better coordinate and guide the OCC's overall supervision of problem banks. The problem bank specialists supervise those national banks in critical condition, monitor failing banks, coordinate bank closings, and help determine OCC policy for the examination and enforcement of problem banks. Fraud specialists are located in each district. Two fraud specialists are also assigned to Large Banks, and an external fraud specialist is assigned to headquarters. They provide support and expertise on a wide variety of fraud-related issues.

The division's problem bank specialists are the focal point for managing the most critical bank situations in which potential for failure is high. An anticipatory approach is used in resolving these critical bank situations. The division deals with each bank individually, employing enforcement and administrative tools best suited to that bank's problems. The problem bank specialists approve the scope of examination activities, hold meetings with management and boards of directors, review corporate-related applications, and process reports of examination and correspondence for these banks.

The problem bank specialists also provide general advice and guidance on problem bank issues to district offices and other OCC units, and develop examination strategies to enhance OCC's relationship with problem banks. The division tracks district trends in problem banks and monitors for consistency of treatment. The problem bank specialists helped develop and teach the problem bank and failure management courses. The problem bank specialists frequently represent the OCC at meetings with foreign regulators who seek out specialized problem bank knowledge.

The division's fraud specialists serve as liaisons for field staff and management on fraud-related issues, and participate on examinations to provide expertise in complex investigations. They testify in court on examination and fraud findings or as expert witnesses. They advise district and large bank staff and conduct outreach meetings on various fraud topics. The fraud specialists also develop and maintain contacts with law enforcement organizations and other agencies.

Committee on Bank Supervision

The Committee on Bank Supervision comprises the chief national bank examiner and the senior deputy comptrollers for Large Bank Supervision and Mid-Size/Community Bank Supervision. The committee was established to oversee the development and implementation of OCC's bank supervision policies and supervision-related training programs. The Compliance and the Technology departments report directly to the committee.

Compliance Department

The OCC's Compliance department was formed on October 1, 2001 by the merger of Compliance Operations and Community and Consumer Policy departments.

The Compliance department is responsible for maintaining an effective compliance supervision program. The department establishes, maintains and implements supervision and examination policies and procedures governing community reinvestment, fair lending, anti-money laundering, Bank Secrecy Act reporting and record keeping and consumer protection. A deputy comptroller heads the department and all compliance specialists in the districts and in large banks report directly to the department. Front-line managers consist of one director, six district assistant deputy comptrollers and four large bank assistant deputy comptrollers.

Several important initiatives were completed during 2001. Compliance continued its efforts to fully integrate compliance risk supervision into the OCC's ongoing supervision activities at national banks. As part of this integration, risk-based supervision training was a main focal point of the 2001 Compliance Conference for OCC examiners. In addition, risk-based compliance initiatives were implemented across the national bank population. Also during 2001, the OCC, along with the other federal financial institution regulators approved uniform examination procedures to verify compliance with consumer privacy regulations as well as guidance to assist financial institutions in complying with the privacy requirements. Examiners contacted institutions to discuss their progress in achieving full compliance with the privacy provisions. In addition, compliance continued to emphasize BSA/anti-money-laundering risks, so that national banks and federal branches are appropriately focused on risk identification and controls in these areas. The signing of the USA Patriot Act into law gives the OCC, and other departments and federal agencies, enhanced authority to identify and deter international money laundering. Enhancements to the CRA were also implemented. Lastly, Compliance began work on a process to better utilize consumer complaint data compiled by the OCC's Customer Assistance Group.

Technology Department

The mission of the Technology department is to support the OCC's strategic objectives by assessing information technology-related risks to the national banking system, developing and issuing supervision policy guidance on information technology-related risks, facilitating efforts to integrate information technology-related risks in OCC supervision, ensuring accurate and consistent implementation of policies and procedures by field examiners, participating in the development of specialty-related training courses, and supervising the interagency Multi-District Data Processing Services (MDPS) and Shared Applications Review programs. The department does this through the Bank Technology and Bank Information Technology Operations divisions.

As part of efforts to assess information technology-related risks to the national banking system, the Bank Technology division advises senior OCC management and field examiners on information technology-related risks by compiling and analyzing information and data on technology-related activities. In addition, the Bank Technology division monitors industry developments by participating in industry-sponsored events. The division also manages the e-banking portion of the OCC's Web site.

Bank Technology develops supervision policy guidance on information technology-related risks. As part of this effort, the Bank Technology division focuses on bank technology risks, including business continuity planning, electronic banking, technology outsourcing, information security, privacy, authentication, aggregation, Web-linking, and wireless access devices. The department also represents the OCC on the FFIEC's information Technology Subcommittee and works closely with other federal banking agencies to develop industry guidance and examination procedures.

Bank Technology facilitates efforts to integrate technology-related risk evaluation in OCC supervision and ensure the consistent implementation of policies and guidance by working with the districts' lead information technology experts and the large banks' bank information technology specialists. In addition, Bank Technology develops training programs on Internet banking and information technology-related risks, and supervision of technology service providers for managers and field examiners. This includes in-depth training on specific technologies and risk management practices used by banks and technology service providers.

Bank Technology chairs the Electronic Banking Working Group, an inter-departmental group responsible for providing guidance to the industry and examiners; monitoring and analyzing risks in e-banking activities; ensuring OCC examiners have the right tools and training; supporting the OCC's leadership role in industry, interagency, and international efforts; and planning and prioritizing projects that involve significant inter-unit work. In addition, BT actively participates in the OCC's national risk committee (NRC), prepares quarterly updates analyzing technology-related risks facing the industry, recommends changes to the NRC "radar screen", and maintains an action plan to deal with identified risks. Bank Technology also participates in other committees such as the OCC's supervision policy committee and also reviews technology-related risks associated with corporate applications from national banks or organizers seeking a national bank charter.

Members of the Bank Technology division also participate in field examinations of banks and service providers that have information technology-intensive operations. Further, Bank Technology works with other units to respond to inquiries from Congress, General Accounting Office, Treasury Department, White House, and other executive agency offices. Bank Technology supports the Comptroller as chairman of the Basel Electronic Banking Group (EBG).

The Bank Technology division also represents the OCC on Treasury's Federal Banking Information Infrastructure Committee (FBIIC) by working closely with other financial regulators, Treasury, and the Office of Homeland Security to establish secure communication facilities for FBIIC agencies; review continuity of operations plans of regulatory agencies; evaluate financial sector vulnerabilities; and coordinate communications with the Office of Homeland Security, private sector, international counterparts, and other critical sectors.

Information Technology Services Department

In 2001, Information Technology Services (ITS) continued to partner with the OCC's other business units to offer new technology alternatives and strategic activities to improve and integrate internal processes in support of the agency's mission.

The chief information officer (CIO) is a member of the executive committee and leads ITS. As the senior information technology (IT) official, the CIO is the advisor to OCC executive staff regarding IT investments and solutions and their impact on business programs and goals. The CIO represents OCC at the Department of the Treasury on all IT issues. ITS worked with other Treasury bureaus to provide technological and financial advantages on technology procurements for OCC. The CIO has also maintained partnerships with other federal financial regulators to ensure OCC's technology architecture continued to support consistency and best practices in infrastructure, customer services, and systems development.

The CIO has an administrative staff and three divisions (Customer Services, Information Services, and Network Services) under his supervision. The key responsibility of these units is to ensure reliable, timely access to information using the best practices of government and private industry.

Chief Information Officer

The CIO staff provides administrative support to the CIO and ITS divisions. A special projects manager and an executive assistant report directly to the CIO.

The executive assistant has primary coordination responsibility for the day-to-day operations of the department, and has direct reports including the special projects manager and team lead for the Policy, Planning and Quality Assurance team, an IT human resources liaison, and budget personnel.

The Policy, Planning and Quality Assurance (PPQA) team mission is to oversee the OCC IT capital planning program, and to provide strategic and operational support to ITS management and staff. They act as an interface with Treasury as the OCC's IT liaison and with the business units on programs that support their technology investments. The team leads the development of policy, standards, and procedures to ensure appropriate management controls are in place and that quality systems and customer-oriented technology services are provided.

The special projects manager reports directly to the CIO and has responsibility for information security and OCC business unit IT liaisons. The OCC computer incident response capability (CIRC) was formed according to the OMB A–130's dictate that each federal agency respond to security incidents in its immediate environment, and share information with other agencies regarding common vulnerabilities. The OCC CIRC also provides intrusion detection and virus protection. In 2001, an online security awareness and training module was developed as mandated by OMB A–130.

Customer Services Division

The Customer Services division is the primary technology support unit for the Washington office and district IT services. The structure of the division includes a special projects manager, six district teams, a headquarters and data center team. At the data center are the national help desk and the depot maintenance program. The six district and headquarters teams coordinate all ITS activities and provide the first line of customer support.

The division's mission statement is to promote and support OCC-wide desktop services in a customer sensitive, cost effective, and timely manner. Efforts are focused on five critical areas of responsibility: customer outreach, technical support, implementation activities and PC hardware and software upgrades/replacements, office automation budget execution, and depot maintenance.

2001 accomplishments include:

- Led the development and implementation of four beta versions of the Windows 2000 desktop operating system, including an upgrade to Office 2000
- Implemented an application test lab for the Windows 2000 operating system upgrade
- Implemented Windows 2000 feedback forms and repository databases to document customer feedback
- Implemented a change control procedure for Windows 2000 beta testing
- Developed Windows 2000 customer training materials
- Developed automated presentations for the various cultural/historical observances
- Developed automated, annual, all-employee security awareness and ethics training
- Implemented the OCC's conversion from McAfee to Norton Anti-Virus software
- Implemented and installed fax server services within each district office

- Supported the transition of the community bank program (CBP) to the nationally supported national credit tool (NCT)
- Promoted and expanded the " Exam On-Site Hardware Support" program
- Supported the implementation of "Examiner View" (EV2001), "EV Reports," "HQEV," and "Office View"
- Resolved over 42,000 IT issues for OCC staff
- Repaired or replaced over 2,700 pieces of IT equipment

Information Services Division

The Information Services division is responsible for the development and maintenance of application systems used to support OCC business objectives. It also creates and maintains corporate data repositories and the standard OCC desktop configuration. Major responsibilities include introducing new technologies, maintaining existing applications, developing new applications, researching and customizing software, and providing cost-effective and efficient ways to meet customer technology needs.

The technical achievements of the IS division are a broad-based collection of systems, spanning multiple platforms and utilizing numerous technologies. Listed below are just a few of the division's 2001 technical accomplishments:

- *$MART.* $MART, the OCC's integrated financial and acquisition management system, was implemented. This system will allow OCC to meet all federal accounting and acquisitions standards. For the first time, OCC has formal funds management and budget controls.
- *Data advisory board and data working group.* During this period, the data warehouse team worked with the data advisory board (DAB), the data working group and bank supervisory and Office of Management customers, to improve the data warehouse environment by adding and creating refresh processes for new administrative and bank supervision data. They also developed new data integration capabilities, produced new and enhanced front-ends for business users, and widened the audience and capabilities of users.
- *"Examiner View."* The project team released the 2001 suite of 'Examiner View" applications, including "Examiner View," "Office View," and "EV Reports." In March, the project team released "HQEV," a read-only version of the application that permitted wide access to EV data through an EV like interface, but without replication. By the end of the year, the team was ready to release the next version of the suite of EV applications.
- *Section 508 of the Rehabilitation Act.* To ensure that the information and features of OCC's Web sites are accessible to all site visitors, Net Development completed the renovation of all HTML-based pages and content for compliance with Section 508 of the Rehabilitation Act.
- *National BankNet Expansion.* Important security infrastructure upgrades were completed to enhance intrusion protection and isolation of critical components. BankNet subscriptions continue to rise with registration extended to over 4,000 bankers representing 1,400 institutions. In 2001, two additional components were added to BankNet's features list, including "Canary", OCC's early warning tool designed to support the identification of emerging risks and "Supervision-In-The-Future (SITF)", which provides the capability for banks to upload pre-examination documents for OCC internal use. In addition to Canary and SITF, Net Development prototyped an enhanced version of e-Corp using digital certificates to provide an electronic signature function.

In addition to the tremendous volume of technical achievements, IS has also integrated new methodologies to improve the overall systems development process. Tools and controls were implemented to facilitate the adoption of new technologies, manage the development of both large and small, diverse software application systems and better utilize common modules, objects and processes. Several initiatives were begun, piloted, enhanced and/or implemented to improve Information Services' ability to adapt to the rapidly changing demands on its services.

Network Services Division

The Network Services division is responsible for maintaining reliable access to the agency's technology infrastructure. This infrastructure covers several components of OCC's technology architecture including database operations, local area networks, server and mainframe operations, and voice and data telecommunications services. The division is based at the data center facility in Landover, Maryland.

2001 accomplishments include:

- *Windows 2000.* Converted all file and print servers and one third of the production application servers to Windows 2000 and successfully created the new domain within Microsoft's Active Directory. We have also created a SQL server 2000 environment and are working with Information Systems to convert all OCC database applications to use the new facilities. All this will position us to implement Microsoft's Active Directory once the user's desktop is converted. The remaining production application servers are scheduled for conversion in the first half of 2002.

- *Data center electrical upgrade.* The upgrade involved installation of a new uninterruptible power supply (UPS), replacement of 186 batteries, and installation of a fourth power distribution unit (PDU) in the computer room. Over the past several years, the OCC data center has experienced rapid growth in the amount of computer hardware that has been added to the computer room. In addition, the old UPS and batteries were 15 years old and had exceeded their recommended operational life. The new equipment improves power reliability and provides additional electrical capacity for future growth.

- *Anti-virus software.* All Network Services controlled servers were converted to the corporate version of Norton Anti-Virus software. This gives the OCC centralized control over updates and version upgrades.

- *Telecommunications.* In response to poor performance by Sprint, Network Services made the decision to discontinue use of the FTS 2001 contract for data circuits and 1-800 services. The new contract arrangements are more cost-effective than the FTS 2001 contract and will result in better service delivery.

- *Virtual private networking.* We have successfully piloted and installed virtual private network technology on the OCC's network, using both DSL and cable modems. Several small bank locations and work-at-home users have been converted saving the agency thousands of dollars in monthly access fees.

- *Headquarters cabling.* The network cabling in the headquarters building was converted from something close to CAT-3 to the latest CAT-6 standard. This not only cut cable related problems by over 90 percent, but positions the OCC to provide greater bandwidth to the desktop in the future.

During 2001, Network Services continued work on preparing new workstation images (OCC release candidate 1) of Windows 2000 for the 10 different models of OCC PC platforms. The division is upgrading data circuits for 21 field office and Large Bank locations. Network Services is also exploring alternate dial-in solutions to lower costs and to facilitate and complement implementation of Windows 2000. The upgrade of OCC's electronic mail system from Exchange 5.5 to Exchange2000 to improve performance, reliability and take advantage of new capabilities is also in process.

Ombudsman

In 2001, the ombudsman was responsible for overseeing the national bank appeals process and the Customer Assistance Group (CAG). The CAG reviews and processes complaints received from customers of national banks. The ombudsman functions independently, outside of bank supervision, and reports directly to the Comptroller.

The primary ongoing activities of the national bank appeals process included resolution of individual appeals from national banks, administration of the examination questionnaire process, and outreach activities. With the consent of the Comptroller, the ombudsman has the discretion to supersede any agency decision or action during the resolution of an appealable matter. The ombudsman often acted as a catalyst to spawn reviews of agency policies, processes, and procedures as a result of issues identified through his activities. The ombudsman also acted as liaison between the OCC and anyone with unresolved problems in dealing with the OCC regarding its regulatory activities.

The ombudsman also oversees the CAG. This group reviews and processes complaints received from customers of national banks. The office oversees a call center with trained compliance professionals and an advanced platform of equipment to enhance the group's ability to deliver responsive customer service. The CAG has adopted the philosophy of resolving as many cases as possible at the point of first contact. By facilitating communications between national banks and their customers, the CAG supports industry efforts to sustain a broad and satisfied customer base in a highly competitive financial services market. The group's constituents not only include customers of national banks, but also the national banks and OCC's bank supervision divisions.

Table 1- Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R.	Feb. 1, 1865	Apr. 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5	Cannon, Henry W.	May 12, 1884	Mar. 1, 1886	Minnesota
6	Trenholm, William L.	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H.	Apr. 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G.	Jan. 1, 1898	Sept. 30, 1901	Illinois
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois
12	Murray, Lawrence O.	Apr. 27, 1908	Apr. 27, 1913	New York
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D.R.	Mar. 17, 1921	Mar. 30, 1923	Ohio
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio
18	O'Connor, J.F.T.	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York
25	Conover, C.T.	Dec. 16, 1981	May 4, 1985	California
26	Clarke, Robert L.	Dec. 2, 1985	Feb. 29, 1992	Texas
27	Ludwig, Eugene A.	Apr. 5, 1993	Apr. 4, 1998	Pennsylvania
28	Hawke, John D., Jr.	Dec. 8, 1998	—	New York

Table 2- Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	Howard, Samuel T.	May 9, 1863	Aug. 1, 1865	New York
2	Hulburd, Hiland R.	Aug. 1, 1865	Jan. 31, 1867	Ohio
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S.	Aug. 8, 1872	Jan. 3, 1886	New York
5	Snyder, V.P.	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J.D.	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R.M.	Aug. 11, 1890	Mar. 16, 1893	Indiana
8	Tucker, Oliver P.	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9	Coffin, George M.	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10	Murray, Lawrence O.	Sept. 1, 1898	June 29, 1899	New York
11	Kane, Thomas P.	June 29, 1899	Mar. 2, 1923	District of Columbia
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana
13	McIntosh, Joseph W.	May 21, 1923	Dec. 19, 1924	Illinois
14	Collins, Charles W.	July 1, 1923	June 30, 1927	Illinois
15	Steams, E.W.	Jan. 6, 1925	Nov. 30, 1928	Virginia
16	Awalt, F.G.	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E.H.	July 6, 1927	Oct. 16, 1941	Indiana
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia
20	Prentiss, William, Jr.	Feb. 24, 1936	Jan. 15, 1938	Georgia
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas
22	Oppegard, G.J.	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C.B.	Oct. 1, 1938	Dec. 31, 1948	Iowa
24	Mulroney, A.J.	May 1, 1939	Aug. 31, 1941	Iowa
25	McCandless, R.B.	July 7, 1941	Mar. 1, 1951	Iowa
26	Sedlacek, L.H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska
27	Robertson, J.L.	Oct. 1, 1944	Feb. 17, 1952	Nebraska
28	Hudspeth, J.W.	Jan. 1, 1949	Aug. 31, 1950	Texas
29	Jennings, L.A.	Sept. 1, 1950	May 16, 1960	New York
30	Taylor, W.M.	Mar. 1, 1951	Apr. 1, 1962	Virginia
31	Garwood, G.W.	Feb. 18, 1952	Dec. 31, 1962	Colorado
32	Fleming, Chapman C.	Sept. 15, 1959	Aug. 31, 1962	Ohio
33	Haggard, Holis S.	May 16, 1960	Aug. 3, 1962	Missouri
34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas
35	Redman, Clarence B.	Aug. 4, 1962	Oct. 26, 1963	Connecticut
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio
37	Miller, Dean E.	Dec. 23, 1962	Oct. 22, 1990	Iowa
38	DeShazo, Thomas G.	Jan. 1, 1963	Mar. 3, 1978	Virginia
39	Egerston, R. Coleman	July 13, 1964	June 30, 1966	Iowa
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana
43	Motter, David C.	July 1, 1966	Sept. 20, 1981	Ohio
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi
45	Howland, W.A., Jr.	July 5, 1973	Mar. 27, 1978	Georgia
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania

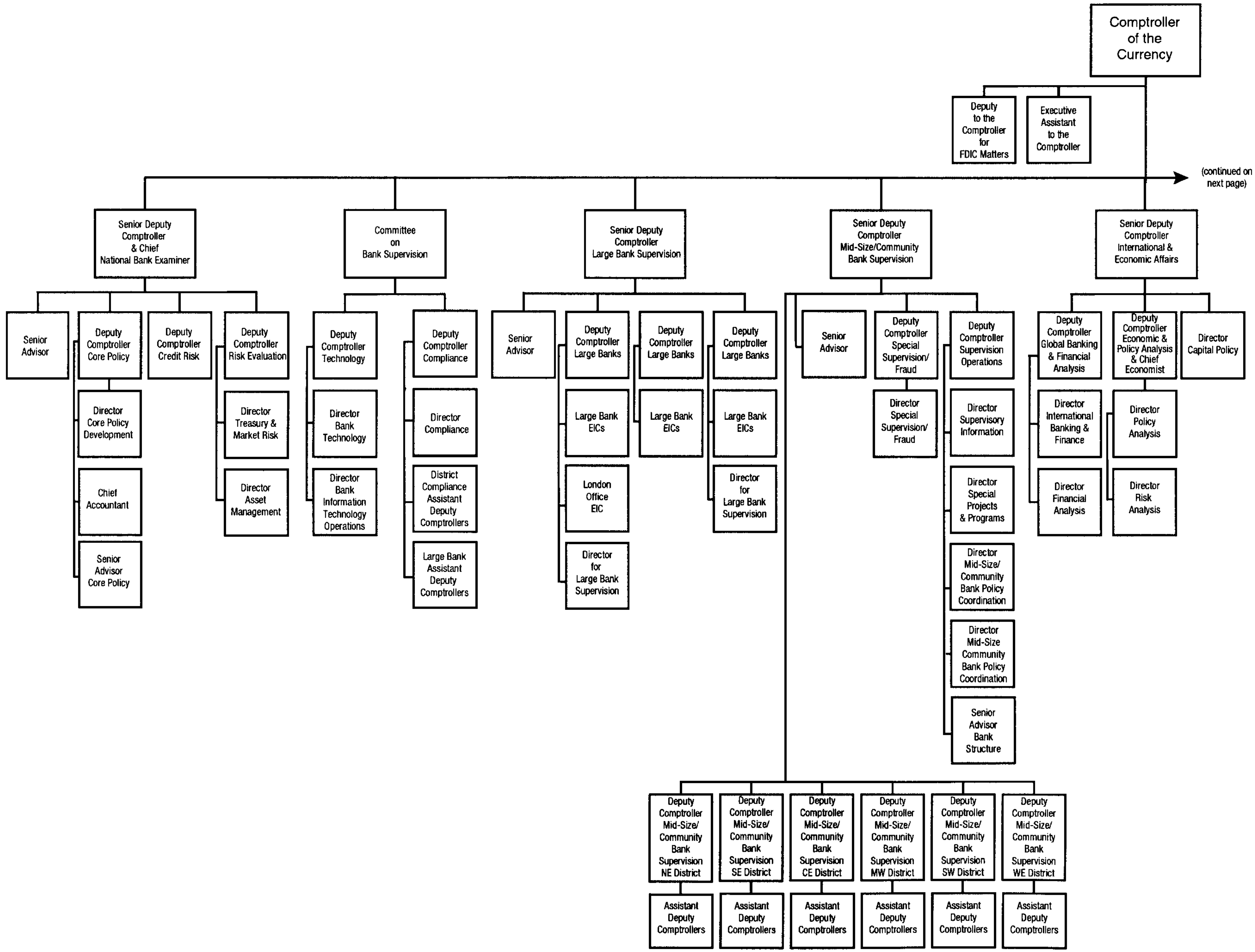
Table 2- Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present (continued)

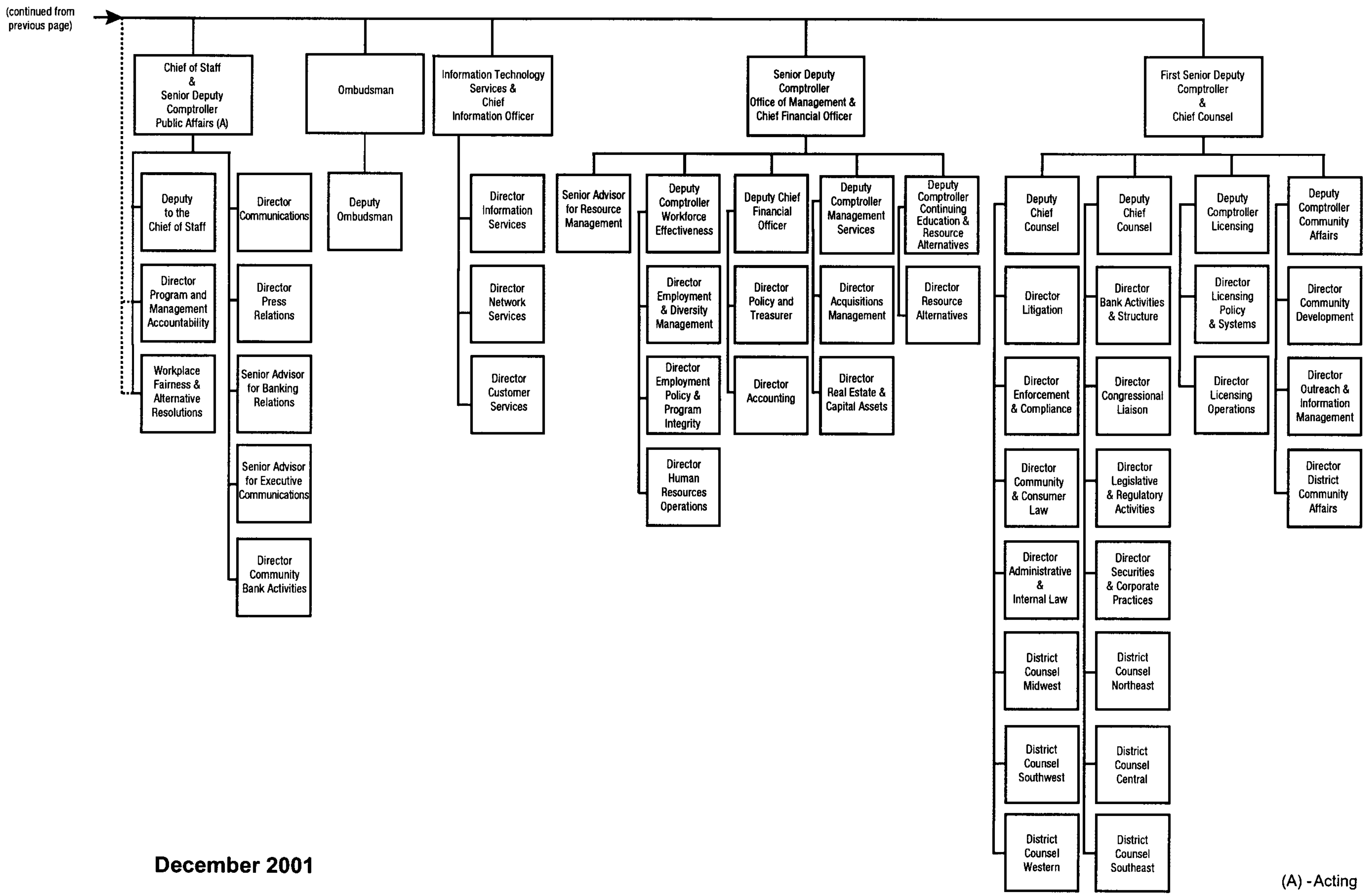
No.	Name	Dates of tenure		State
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas
54	Homan, Paul W.	Mar. 27, 1978	Jan. 21, 1983	Nebraska
55	Keefe, James T.	Mar. 27, 1978	Sept. 18, 1981	Massachusetts
56	Muckenfuss, Cantwell F., III	Mar. 27, 1978	Oct. 1, 1981	Alabama
57	Wood, Billy C.	Nov. 7, 1978	Jan. 16, 1988	Texas
58	Longbrake, William A.	Nov. 8, 1978	July 9, 1982	Wisconsin
59	Odom, Lewis G., Jr.	Mar. 21, 1979	Nov. 16, 1980	Alabama
60	Martin, William E.	May 22, 1979	Apr. 4, 1983	Texas
61	Barefoot, Jo Ann	July 13, 1979	Sept. 5, 1982	Connecticut
62	Downey, John	Aug. 10, 1980	Aug. 2, 1986	Massachusetts
63	Lord, Charles E.	Apr. 13, 1981	Mar. 31, 1982	Connecticut
64	Bench, Robert R.	Mar. 21, 1982	Sept. 25, 1987	Massachusetts
65	Klinzing, Robert R.	Mar. 21, 1982	Aug. 21, 1983	Connecticut
66	Robertson, William L.	Mar. 21, 1982	Sept. 26, 1986	Texas
67	Arnold, Doyle L.	May 2, 1982	May 12, 1984	California
68	Weiss, Steven J.	May 2, 1982	—	Pennsylvania
69	Stephens, Martha B.	June 1, 1982	Jan. 19, 1985	Georgia
70	Stirnweis, Craig M.	Sept. 19, 1982	May 1, 1986	Idaho
71	Hermann, Robert J.	Jan. 1, 1983	May 3, 1995	Illinois
72	Mancusi, Michael A.	Jan. 1, 1983	Feb. 17, 1986	Maryland
73	Marriott, Dean S.	Jan. 1, 1983	Jan. 3, 1997	Missouri
74	Poole, Clifton A., Jr.	Jan. 1, 1983	Oct. 3, 1994	North Carolina
75	Taylor, Thomas W.	Jan. 1, 1983	Jan. 16, 1990	Ohio
76	Boland, James E., Jr.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
77	Fisher, Jerry	Apr. 17, 1983	Apr. 4, 1992	Delaware
78	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
79	Wilson, Karen J.	July 17, 1983	July 3, 1997	New Jersey
80	Winstead, Bobby B.	Mar. 18, 1984	June 11, 1991	Texas
81	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
82	Walter, Judith A.	Apr. 24, 1985	Dec. 30, 1997 I	ndiana
83	Maguire, Francis E., Jr.	Jan. 9, 1986	Aug. 6, 1996	Virginia
84	Kraft, Peter C.	July 20, 1986	Sept. 15, 1991	California
85	Klinzing, Robert R.	Aug. 11, 1986	July 7, 1997	Connecticut
86	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
87	Norton, Gary W.	Sept. 3, 1986	Jan. 2, 1999	Missouri
88	Shepherd, J. Michael	Jan. 9, 1987	May 3, 1991	California
89	Rushton, Emory Wayne	Jan. 21, 1987	Sept. 20, 1989	Georgia
90	Fiechter, Jonathan	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
91	Stolte, William J.	Mar. 11, 1987	Mar. 21, 1992	New Jersey
92	Clock, Edwin H.	Feb. 29, 1988	Jan. 3, 1990	California
93	Krause, Susan F.	Mar. 30, 1988	Oct. 18, 1999	California
94	Coonley, Donald G.	June 29, 1988	May 31, 1996	Virginia
95	Blakely, Kevin M.	Oct. 12, 1988	Sept. 27, 1990	Illinois
96	Steinbrink, Stephen R.	Apr. 8, 1990	May 3, 1996	Nebraska
97	Lindhart, Ronald A.	Apr. 22, 1990	July 27, 1991	Florida
98	Hartzell, Jon K.	July 29, 1990	Dec. 5, 1995	California
99	Cross, Leonora S.	Nov. 4, 1990	Mar. 31, 1998	Utah
100	Finke, Fred D.	Nov. 4, 1990	—	Nebraska

Table 2- Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present (continued)

No.	Name	Dates of tenure		State
101	Kamihachi, James D.	Nov. 6, 1990	Feb. 18, 2000	Washington
102	Barton, Jimmy F.	July 14, 1991	May 1, 1994	Texas
103	Cross, Stephen M.	July 28, 1991	June 4, 1999	Virginia
104	Guerrina, Allan B.	Apr. 19, 1992	June 23, 1996	Virginia
105	Powers, John R.	Aug. 9, 1992	July 2, 1994	Illinois
106	Alt, Konrad S.	Sept. 5, 1993	Oct. 4, 1996	California
107	Harris, Douglas E.	May 20, 1994	June 21, 1996	New York
108	Williams, Julie L.	July 24, 1994	—	District of Columbia
109	Sharpe, Ralph E.	Oct. 30, 1994	July 6, 1997	Virginia
110	Jee, Delora Ng	May 28, 1995	—	California
111	Britton, Leann G.	Jan. 7, 1996	—	Minnesota
112	Golden, Samuel P.	Mar. 31, 1996	—	Texas
113	Abbott, John M.	Apr. 1, 1996	May 26, 2000	Texas
114	Healey, Barbara C.	June 9, 1996	Jan. 3, 1998	New Jersey
115	Calhoun, Scott G.	Sept. 29, 1996	Aug. 30, 1997	New York
116	Roberts, Matthew	Oct. 7, 1996	Oct. 18, 1997	District of Columbia
117	Nebhut, David H.	Oct. 27, 1996	Apr. 26, 1998	Pennsylvania
118	Rushton, Emory Wayne	May 5, 1997	—	Georgia
119	Reid, Leonard F., Jr.	May 19, 1997	Feb. 15, 1998	District of Columbia
120	Robinson, John F.	June 1, 1997	—	Missouri
121	Bodnar, John A.	July 6, 1997	—	New Jersey
122	Bransford, Archie L., Jr.	July 6, 1997	—	Michigan
123	Gibbons, David D.	July 6, 1997	—	New York
124	Gilland, Jerilyn	July 6, 1997	—	Texas
125	Jaedicke, Ann F.	July 6, 1997	—	Texas
126	Long, Timothy W.	July 6, 1997	—	North Dakota
127	Nishan, Mark A.	July 6, 1997	—	New York
128	Otto, Bert A.	July 6, 1997	—	Indiana
129	Roeder, Douglas W.	July 6, 1997	—	Indiana
130	Yohai, Steven M.	Feb. 17, 1998	Sept. 21, 2001	New York
131	Finister, William	Mar. 1, 1998	July 3, 2000	Louisiana
132	Hanley, Edward J.	Mar. 1, 1998	—	New York
133	Brosnan, Michael L.	Apr. 26, 1998	—	Florida
134	Brown, Jeffrey A.	June 7, 1998	Aug. 2, 1998	Iowa
135	Hammaker, David G.	June 7, 1998	—	Pennsylvania
136	McCue, Mary M.	July 20, 1998	Apr. 9, 1999	New Jersey
137	Sharpe, Ralph E.	Jan. 3, 1999	—	Michigan
138	Engel, Jeanne K.	Mar. 29, 1999	May 5, 2000	New Jersey
139	Wilcox, James A.	June 7, 1999	Aug. 10, 2001	New York
140	Kelly, Jennifer C.	November 22, 1999	—	New York
141	O'Dell, Mark L.	Jan. 2, 2000	—	Colorado
142	Fiechter, Jonathan L.	Feb. 27, 2000	—	Pennsylvania
143	Alvarez Boyd, Anna	June 4, 2000	—	California
144	Stephens, Martha B.	July 30, 2000	—	Georgia
145	Wentzler, Nancy A.	Aug. 27, 2000	—	Pennsylvania
146	Petitt, Cynthia T.	Jan. 14, 2001	—	South Dakota
147	Dailey, Grace E.	Dec. 16, 2001	—	Pennsylvania

Figure 1—Office of the Comptroller of the Currency





December 2001

(A) - Acting

Recent Corporate Decisions

The OCC publishes monthly, in its publication *Interpretations and Actions*, corporate decisions that represent a new or changed policy, or present issues of general interest to the public or the banking industry. In addition, summaries of selected corporate decisions appear in each issue of the *Quarterly Journal.* In the third quarter of 2001, the following corporate decisions were of particular importance because they were precedent setting or otherwise represented issues of importance. The OCC's decision documents for these decisions may be found in *Interpretations and Actions* using the decision number at the end of each summary.

Charters

On December 26, 2001, the OCC granted conditional approval to General Motors Corporation, New York, New York, to charter a national CEBA trust bank titled General Motors Trust Bank, National Association, New York, New York. In addition to the standard conditions imposed on all newly chartered trust banks, the approval imposed ongoing conditions addressing capital. [Approvals with conditions enforceable under 12 USC 1818, Letter No. 506]

Conversions

On December 27, 2001, the OCC granted conditional approval to Phoenix Companies, Inc., Hartford, Connecticut, to convert its state-chartered bank to a national bank titled Phoenix National Trust Company. In addition to the standard conditions imposed on all banks converting to national association, the approval imposed ongoing conditions addressing capital. [Approvals with conditions enforceable under 12 USC 1818, Letter No. 508]

Mergers

On November 29, 2001, the OCC granted approval for Stockmen's National Bank in Cotulla, Cotulla, Texas, to merge with its bank holding company, Stockmen's Financial Corporation, Cotulla, Texas, under the recently enacted amendment to 12 USC 215a-3. [Corporate Decision No. 2001-33]

On October 24, 2001, the OCC granted conditional approval to merge NBT Bank, National Association, Norwich, New York, with Central National Bank, Canajoharie, New York. The approval took into consideration the bank's agreement with the Department of Justice. [Corporate Decision Letter No. 500]

On September 28, 2001, the OCC granted approval for Neuberger Berman Trust Company, New York, New York, to merge into Neuberger Berman National Trust Company, Seattle, Washington. The decision was made that a full-service trust office located in a particular state gives the bank the relevant presence in the state to consider the bank "located" there for purposes of 12 USC 215a. [Corporate Decision No. 2001-29]

Conversions

On December 7, 2001, the OCC granted conditional approval for UBS Trust Company, New York, New York, to convert to a national trust bank titled UBS PaineWebber Trust Company, National Association, and relocate its main office to Weehawken, New Jersey. In addition to the standard conditions imposed on all banks converting to national association, the approval imposed ongoing conditions addressing capital. [Approvals with conditions enforceable under 12 USC 1818, Letter No. 504]

Change in Bank Control

On October 29, 2001, the OCC stated its intention not to object to a Change in Bank Control notice filed by Valero Energy Corporation, San Antonio, Texas, to acquire control of DSRM National Bank, Albuquerque, New Mexico, a nondepository national trust bank. The no objection took into consideration certain representations made to the OCC.

Operating Subsidiary

On October 10, 2001, the OCC granted approval for American National Bank and Trust company of Chicago, Chicago, Illinois, to expand the activities of an existing subsidiary, Bank One Exchange, to include acting as an exchange accommodation titleholder for reverse like-kind exchanges. [Corporate Decision No. 2001-30]

Special Supervision/Fraud and Enforcement Activities

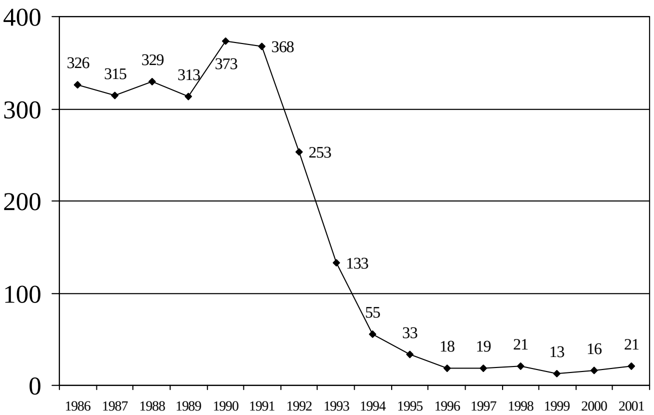
The Special Supervision/Fraud division of the Mid-Size/Community Bank Supervision department supervises the resolution of critical problem banks through rehabilitation or orderly failure management, monitors the supervision of delegated problem banks, coordinates fraud/white collar crime examinations, provides training, disseminates information, and supports OCC supervisory objectives as an advisor and liaison to OCC management and field staff on emerging problem bank and fraud/white collar crime related issues. Fraud experts are located throughout the United States representing each of the OCC's district offices, and they also provide support to the OCC's largest supervised banks.

This section includes information on problem national banks, national bank failures, and enforcement actions. Data on problem banks and bank failures is provided by OCC's Special Supervision/Fraud division in Washington. Information on enforcement actions is provided by the Enforcement and Compliance division (E&C) of the law department. The latter is principally responsible for presenting and litigating administrative actions on the OCC's behalf against banks requiring special supervision.

Problem National Banks and National Bank Failures

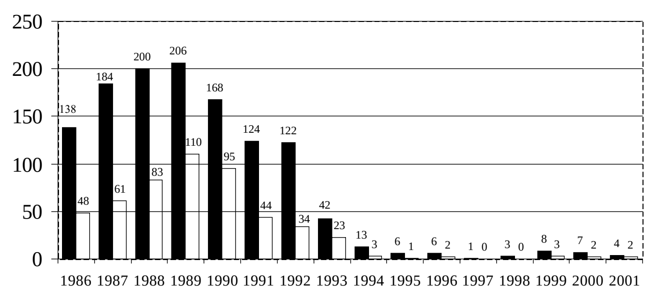
Problem banks represented less than 1 percent of the national bank population as of December 31, 2001. The volume of problem banks, those with a CAMELS rating of 4 or 5, has been stable for several years. The CAMELS rating is the composite bank rating based on examiner assessment of capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. The total number of problem banks is 21 at December 31, 2001, up from 16 at June 30, 2001. This low volume of problem banks reflects the stable economy and generally favorable economic conditions enjoyed for the past several years. Two national bank failures occurred during 2001 out of the four commercial bank failures.

Figure 1– Problem national bank historical trend line



Source: Special Supervision. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

Figure 2– Bank failures



Source: OCC Supervisory Monitoring System (SMS) data. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

Enforcement Actions

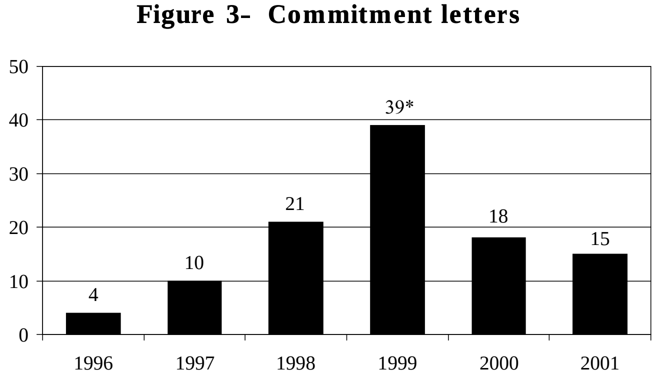
The OCC has a number of remedies with which to carry out its supervisory responsibilities. When it identifies safety and soundness or compliance problems, these remedies range from advice and moral suasion to informal and formal enforcement actions. These mechanisms are designed to achieve expeditious corrective and remedial action to return the bank to a safe and sound condition.

The OCC takes enforcement actions against national banks, individuals associated with national banks, and servicing companies that provide data processing and other services to national banks. The OCC's informal enforcement actions against banks include commitment letters and memorandums of understanding (MOUs). Informal enforcement actions are meant to handle less serious supervisory problems identified by the OCC in its supervision of national banks. Failure to honor informal enforcement actions will provide strong evidence of the need for the OCC to take formal enforcement action. The charts below show total numbers of the various types of enforcement actions completed by the OCC against banks in the last several years. (Year-2000 related actions taken in 1999 are noted in parentheses.)

The most common types of formal enforcement actions issued by the OCC against banks over the past several years have been formal agreements and cease-and-desist orders. Formal agreements are documents signed by a national bank's board of directors and the OCC in which specific corrective and remedial measures are enumerated as necessary to return the bank to a safe and sound condition. Cease-and-desist orders (C&Ds), sometimes issued as consent orders, are similar in content to formal agreements, but may be enforced either through assessment of civil money penalties (CMPs) or by an action for injunctive relief in federal district court.

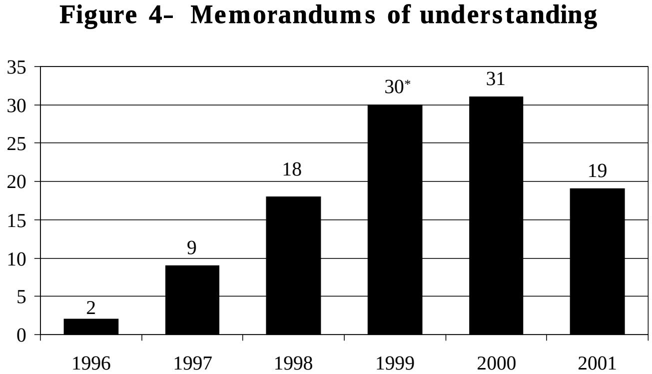
The OCC issued no CMPs against national banks in 2001, but did issue three notices of deficiency, which notified the affected banks that they needed to submit a plan for bringing their operations into compliance with safety and soundness standards. In 2001, the OCC did not issue any safety and soundness orders.

Figure 3– Commitment letters



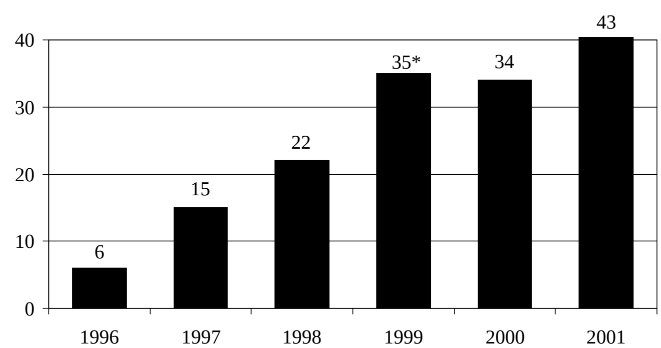
Source: OCC Supervisory Monitoring System (SMS). Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.
*6 of which are for year-2000 problems

Figure 4– Memorandums of understanding



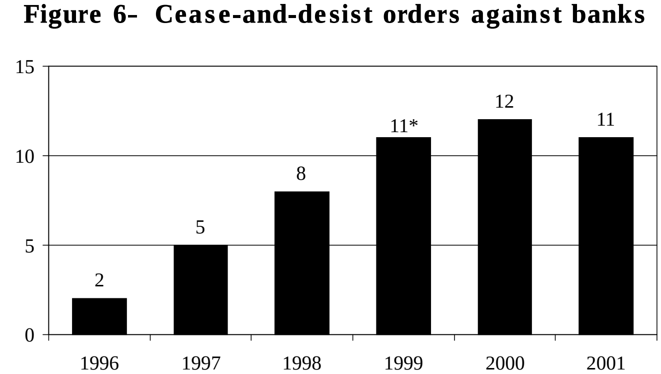
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.
*6 of which are for year-2000 problems

Figure 5– Formal agreements



Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.
*2 of which are for year-2000 problems

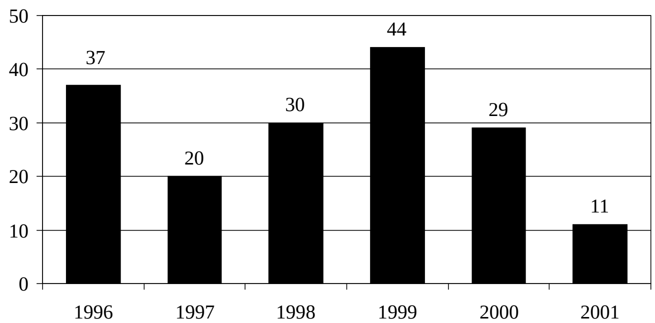
Figure 6– Cease-and-desist orders against banks



Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.
*1 of which is for year-2000 problems

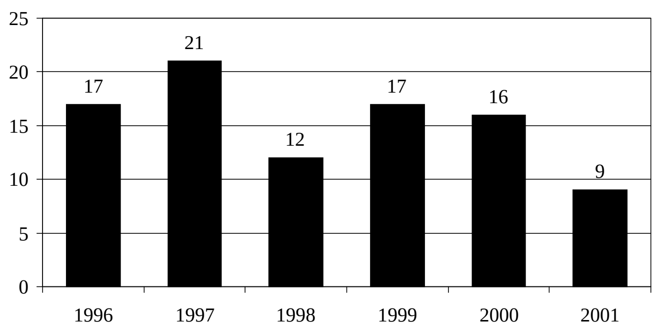
The most common enforcement actions against individuals are CMPs, personal C&Ds, and removal and prohibition orders. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and under certain circumstances, unsafe or unsound banking practices and breaches of fiduciary duty. Personal C&Ds may be used to restrict individuals' activities and to order payment of restitution. Removal and prohibition actions, which are used in the most serious cases, result in lifetime bans from the banking industry.

Figure 7– Civil money penalties against individuals



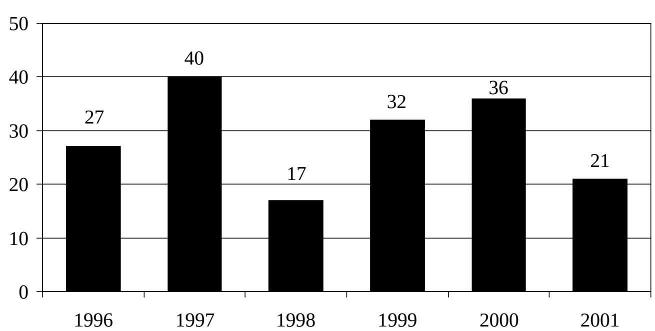
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

Figure 8– Cease-and-desist orders against individuals



Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

Figure 9– Removal and prohibition orders



Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

Notable Enforcement Actions and Decisions

In August 2001, the OCC issued a prompt corrective action directive against Sinclair National Bank, Gravette, Arkansas, requiring it to recapitalize and correct numerous unsafe or unsound practices. The bank's capital had been completely eroded by the bank's continued purchase of subprime retail installment loans and its failure to price, monitor, or service these loans in a safe and sound manner. Because the bank did not successfully recapitalize or correct its unsafe or unsound practices, the OCC placed the bank into receivership on September 7, 2001. *In the Matter of Sinclair National Bank.*

In August 2001, the OCC issued a cease-and-desist order, by consent, to Mauriceville National Bank, Mauriceville, Texas. The order required the bank to recapitalize and correct numerous deficiencies in its operations, especially in its policies regarding paying against uncollected funds. *In the Matter of Mauriceville National Bank.*

On August 24, 2001, during an administrative hearing before an administrative law judge (ALJ), in which the OCC sought prohibitions, restitution orders, and civil money penalties against two former senior bank officers, the respondents sought emergency relief before the U.S. Court of Appeals for the Ninth Circuit from the ALJ's order denying a postponement of the hearing scheduled to recommence on August 27, 2001. E&C filed a responsive brief immediately and on Monday, August 27th, the 9th Circuit denied the emergency motion and the administrative hearing recommenced. The OCC alleges that the respondents caused the bank to violate the legal lending limit and engaging in unsafe and unsound lending practices. The matter was still pending at year-end. *In the Matter of Gene Ulrich and Susan Diehl-McCarthy, Six Rivers National Bank, Eureka, California.*

In September 2001, the OCC successfully defended two of its investigative subpoenas for access to financial records of two national bank directors as part of the OCC's investigation into their actions. The directors owned and ran Sinclair National Bank, Gravette, Arkansas (failed) until the bank was placed into receivership on September 7, 2001. The OCC issued subpoenas for the bank account records of the directors at the unaffiliated bank where the directors had accounts. Under the Right to Financial Privacy Act, the directors brought separate actions to quash the subpoenas in the U.S. District Court for the Western District of Missouri, claiming that the OCC's investigation was improper, illegal, and retaliatory. Upon OCC motion, the court consolidated their cases and filed its brief for enforcement of the subpoenas in camera. The court denied the directors' motions to quash, and ordered the subpoenas enforced, "for the reasons set forth in the OCC's [brief]." *Damian and Susan Sinclair v. United States Department of the Treasury*, 01-MC-9020, 01-MC-9021 (W.D. Mo., Sep. 11, 2001).

In September 2001, the former president of a national bank in Mississippi consented to the OCC's issuance of a restitution order for over $880,000 and a civil money penalty of $150,000 payable over two years. The restitution amount includes $550,000 in a guaranty against loss. In December 2001, the OCC also issued, by consent, a prohibition order against another employee at the same bank. The employee: (1) assisted the former president in (a) improper origination of questionable and poorly underwritten loans made by the bank to nominee borrowers in which the proceeds were paid directly or indirectly for the improper benefit of the bank's former president, (b) obstructing OCC examinations, and (c) preparing and issuing at least 10 unauthorized and undocumented letters of credit on behalf of the bank's largest criticized borrowers; (2) breached her fiduciary duty to the bank by working for two bank customer companies (at the former president's direction) by maintaining their books and records, and performing her duties of outside employment at the bank during bank business hours; (3) received the benefit of the proceeds of approximately $50,576.60 in checks made payable to both actual and fictitious business entities that she presented to the bank for payment; and (4) diverted bank funds to establish, fund, and exercise control over a joint savings account at another Bank. *In the matter of John H. O'Neal Jr. and Kelly Y. Ashley, First National Bank of Lucedale, Lucedale, Mississippi.*

In November 2001, the OCC issued a prohibition order and assessed a civil money penalty of $2,500 by consent in the case of a former executive vice president of a national bank in New Mexico. Beginning in April 1999, the former banker began taking kickbacks from a repossession and collections agent whom the bank had hired to do collections work. The payments totaled approximately $6,000 to $8,000 and were uncovered in December 1999. When confronted about the matter, the bank executive resigned, and made full restitution. *In the Matter of Ronald R. Firestone, Carlsbad National Bank, Carlsbad, New Mexico.*

In November 2001, the OCC assessed a $10,000 civil money penalty against the former director and CEO of a national bank in Oklahoma. The former CEO violated insider rules involving overdrafts on his personal account and on the account of another director. In response to the OCC's Notice of Assessment, the former CEO failed to file an answer and E&C successfully sought a default judgment from both the administrative law judge and the Comptroller. *In the Matter of Gary W. Flanders, MetroBank, N.A., Oklahoma City, Oklahoma.*

In November 2001, the OCC issued an immediately effective Prompt Corrective Action Directive against NextBank, Phoenix, AZ. OCC examination of this Internet credit card bank revealed numerous unsafe or unsound practices, including poor quality credits, questionable accounting practices, data integrity issues, poor management information systems, and a securitization that appears to offer its investors recourse to the bank, making it likely that the entire securitization would be returned to the bank, adversely affecting the bank's already weakening capital position. The bank was given 45 days to come up with an acceptable capital restoration plan to avoid being placed into receivership and the matter was still pending at year-end. *In the Matter of NextBank, Phoenix, AZ.*

In November 2001, the OCC entered into a Formal Agreement with Providian National Bank, Tilton, New Hampshire, a monoline credit card bank that was experiencing substantial asset deterioration. In addition to the Formal Agreement, the bank also executed a Capital and Liquidity Maintenance Agreement to be executed by the bank. The terms of the formal agreement require, among other things, that the bank submit a Capital Plan and to immediately restrict the Bank's growth in certain credit card products. *In the Matter of Providian National Bank, Tilton, New Hampshire.*

In November and December 2001, the E&C and the former president and compliance officer of a national bank in Missouri filed briefs in the individual's claim against the OCC for legal fees and expenses of approximately $67,000 under the Equal Access to Justice Act ("EAJA"). This claim stems from the Notice of Assessment of a $2,000 civil money penalty filed against the individual for his participation in the bank's violation of 12 CFR 21.21. The civil money penalty assessment was dismissed following the issuance of a Letter of Reprimand. As of year-end, the parties were still awaiting the recommended decision from the administrative law judge. *In the Matter of Dale E. Washburn, Equal Access to Justice Applicant.*

In December 2001, the OCC entered into a Formal Agreement with First Community Bank, N.A., Alice, Texas. The Formal Agreement addressed deficiencies in the bank's capital levels, credit risk levels, credit concentrations, asset quality, levels of credit and collateral exceptions, and its methodology for calculating its allowance for loan and lease losses. The Formal Agreement also required the bank to develop and implement a profit plan. *In the Matter of First Community Bank, N.A., Alice, Texas.*

In December 2001, the OCC issued a prohibition order, by consent, against a former senior loan officer of a national bank in Ohio. The loan officer made numerous leases on behalf of the bank through a lease broker. Many of these leases were based on nonexistent collateral and fictitious businesses. The loan officer, who claimed he had no knowledge of the fraud, failed to perform any due diligence and admits that he received approximately $20,000 in "gifts." *In the Matter of Darren A. Lossia, Fifth Third Bank of Northwestern Ohio.*

In December 2001, the OCC issued a cease-and-desist order, by consent, against the First National Bank of Marin, N.A., Henderson, Nevada. The OCC alleged that the bank engaged in deceptive practices, in violation of the Federal Trade Commission Act, in its marketing of credit cards and associated fees to subprime customers. The credit card solicitations gave an overall net impression that consumers would receive a secured credit card that would have a useable amount of credit when received by the consumer, when in fact consumers that received the Bank's lowest credit line (typically $250)—representing a majority of consumers during the time period covered by the OCC's order—were left with little or no available credit. The cease-and-desist order required the bank, among other things, to address these practices and to make appropriate restitution payments to harmed consumers, including the establishment of an initial reserve of $4 million for that purpose. *In the Matter of First National Bank of Marin, N.A., Henderson, Nevada.*

In December 2001, the OCC issued an amended cease-and-desist order by consent against the First National Bank of Sumner, Sumner, Illinois. The amended order, which replaced an earlier order executed in May 2001, requires, among other things, that the bank: (i) ensure that it has proper management in place; (ii) achieve and maintain Tier 1 capital at least equal to 12.5 percent of risk-weighted assets, and 11 percent of adjusted total assets; (iii) develop an acceptable three-year capital plan, or, alternatively, sell, merge, or liquidate itself; (iv) stop lending on ocean-going vessels, or to vehicle rental dealerships; and (v) hire third parties to review the collector car portfolio, to develop workout plans for the vessel loans, and to manage the bank's auto lending program. *In the Matter of First National Bank of Sumner, Sumner, Illinois.*

In December 2001, the OCC issued a cease-and-desist order, by consent, against Eagle National Bank, Upper Darby, Pennsylvania. The order required the bank to stop making short-term consumer loans, known in the industry as "payday loans." In addition, the order required a series of other corrective action to ensure the safe and sound operation of the bank. The need for the order grew out of the bank's aggressive growth in payday loans and its failure to comply with an earlier informal enforcement action. The bank also affiliated with a third-party vendor who essentially used the bank's federal banking powers to evade state laws that would otherwise have applied directly to the vendor. *In the Matter of Eagle National Bank, Upper Darby, Pennsylvania.*

Appeal 1- Appeal of Noncompliance with Two Articles in a Formal Agreement

Background

A bank appealed the OCC's conclusions contained in the Report of Examination (ROE) regarding the bank's compliance with two articles in their formal agreement. Specifically, bank management disagreed with the OCC's noncompliance determination with articles focusing on loan administration and criticized assets.

The appeal was based on the following:

Loan administration

- The article required the board to, within 60 days, develop and implement a written program to improve the bank's loan administration. A copy of the program was to be forwarded to the assistant deputy comptroller (ADC), along with a copy of the revised job descriptions and policies and procedures. The article also required the board to ensure that the bank had processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this article.
- The report of examination (ROE) noted noncompliance with this article because of a number of relationships with credit and collateral documentation exceptions, while noting that the framework had been established to improve the administration of the portfolio. The ROE further stated that achieving full compliance with this article is negatively affected by the continuation of the newly hired management's education of the existing customers and review of the existing relationships.
- The bank appealed the conclusion on the level of compliance with this article because the bank was doing all that was required. The assistant deputy comptroller had been forwarded a copy of all adopted policies and procedures. Moreover, the bank has put in place and is implementing the systems to ensure compliance with these policies and procedures.

Criticized assets

- The article required the bank to take immediate and continuing action to protects its interest in those assets criticized in the ROE, in any subsequent ROE, by internal or external loan review, or in any list provided to management by the bank examiners during any examination. Within 60 days the board was to adopt, implement, and thereafter ensure bank adherence to a written program to eliminate the basis of criticism of assets noted in the ROE, in any subsequent ROE, or by any internal or external loan review, or in any list provided by the bank's examiners during any examination as "doubtful," "substandard," or "special mention." A copy of the adopted program for all criticized assets equal to or exceeding $100,000 was to be forwarded to the ADC. The article also required the board to ensure that the bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this article. Other requirements included a quarterly review of the criticized assets, a submission to the ADC of these quarterly reviews, and the establishment of a committee to review loan activity involving these credits.
- The ROE noted noncompliance with this article because the supervisory office, while recognizing the bank's efforts and results thus far, could not assess the bank's adherence to the criticized assets initiatives.
- The bank also appealed the conclusion on the compliance level of this article because the bank board had adopted and implemented plans to eliminate the basis of criticism for each of its problem loans. The appeal submission also stated that the board realized that compliance with this article would be judged on an ongoing basis.

Discussion

OCC's Policy and Procedures Manual (PPM) 5310-3 (REV), "Bank Supervision Operations—Enforcement Action Policy," provides internal OCC guidance for assessing compliance with enforcement actions. The PPM states that a rating of compliance can only be achieved on a particular article if the bank has adopted, implemented, and adhered to all of the corrective actions set forth in the article; the corrective actions are effective in addressing the bank's problems; and OCC examiners have verified through the examination process that this has been accomplished. It also states that a bank should not be considered in compliance with an article in an enforcement document simply because they have made progress or a good faith effort toward complying with the article.

The PPM further states that articles for which a bank has not achieved compliance include those articles where the bank has adopted and begun the implementation of all of the corrective actions required by the article, but sufficient time has not passed to verify that the actions have been fully implemented, are being adhered to, and are effective in addressing the bank's problems. In these situations, there is nothing additional for management and the board to do other than fully implement, adhere to, and assess the effectiveness of the corrective actions.

Conclusion

Both articles in the bank's formal agreement contain the following paragraph that requires not only the implementation of, but also the adherence to, the developed program under each of the corresponding articles:

> The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Bank management had taken appropriate action to implement the policies and procedures to comply with these two articles. However, at the time of examination, given the relatively short time since implementation, the supervisory office could not assess the bank's *adherence* to the loan administration and criticized assets initiatives. Therefore, it was concluded that the supervisory office's assessment of noncompliance with articles, at the time of the examination, was appropriate and consistent with OCC's "Enforcement Action Policy."

Appeal 2- Appeal of an Insider Violation for Preferential Treatment

Background

A bank appealed a violation of 12 USC 375b and 12 CFR 215.4(a)(1)(i) cited in the bank's Report of Examination (ROE) in connection with a loan extended by the bank to a director. Bank management believed the facts associated with the transaction did not represent preferential terms on the credit extended to the insider.

The transaction involved the refinancing of an automobile loan from the insider's business to the insider personally. The loan to the business was at the bank's prime rate for commercial customers plus 100 basis points and was structured on an interest-only time/demand note. When the loan was refinanced into the individual's name, the borrower paid down over 40 percent of the outstanding balance, and received the going installment loan rate for a 48 month auto loan, approximately 200 basis points less than the previous loan. However, the loan was left on an interest-only time/demand note, maturing in 12 months with quarterly interest payments. An analysis of the financial information supported the borrower's credit worthiness with minimum debt, strong net worth, and good liquidity.

The bank's rate sheet detailed separate rates for loans structured on an installment basis versus those on a time/demand basis. The supervisory office cited the violation because management granted the lower installment loan rate for a loan secured by a 1999 automobile for a 48 month term, not the higher time/demand rate listed on the bank's rate sheet. The supervisory office position was that an installment loan rate should only be applicable for loans actually on an installment basis with monthly or quarterly principal and interest payments. During the examination, bank management was not able to provide any acceptable transactions that were comparable in pricing and structure to demonstrate that the terms extended to the director were also available to other non-insider customers of the bank.

Discussion

Regulation O, 12 CFR 215, "Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks," section 215.4(a)(1)(i), states:

(1) No member bank may extend credit to any insider of a bank or insider of its affiliates unless the extension of credit:

    (i) Is made on substantially the same terms (including interest rates and collateral) as, and following credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions by the bank with other persons that are not covered by this part and who are not employed by the bank.

The bank provided the ombudsman with an example of a similarly structured loan that was granted to a non-insider to demonstrate that the time/demand structure of the loan was available to other customers of the bank. The ombudsman found the loan to the non-insider was extended before the insider's loan and the pricing methodology and the structure were consistent for both transactions, although other terms varied slightly.

Conclusion

The ombudsman found the bank's loan rate sheet to be ambiguous and determined that it could be interpreted in various ways. It did not clearly specify whether the rate should be based on the collateral or structure. According to the rate sheet:

- The rate on personal loans was determined by the collateral, in this case rates for the collateral (1999 vehicle) were 7.50 percent for 36 months, 7.75 percent for 48 months and 7.90 percent for 60 months.
- The rate on time/demand loans was prime rate (9.50 percent) plus 50 or 100 basis points, even when secured by deposits in the bank.

As shown above, it would not be clear which rate should be applied on a personal loan, with an automobile as collateral and structured on a time/demand basis.

Considering all the above, the ombudsman did not believe the loan in question represented preferential treatment for an insider and thus it was not a violation of 12 CFR 215.4. While the bank was able to provide a comparable transaction, that was not the basis for the ombudsman's conclusion.

Directors' business and personal dealings with the bank must be structured to comply with legal requirements and to avoid even the appearance of a conflict of interest. The ombudsman encouraged bank management and the board to thoroughly review and revise the bank's rate sheet so that all ambiguities are eliminated.

Speeches and Congressional Testimony

Page

Of the Comptroller of the Currency

Of the First Senior Deputy Comptroller and Chief Counsel

Remarks by John D. Hawke Jr., Comptroller of the Currency, before a virtual conference of the American Bankers Association, on the banking system's commendable continuation of operations during and future banking challenges because of September 11 events, Washington, D.C., October 12, 2001

Among the millions of Americans who sat riveted to their radios on December 8, 1941 was Henry W. Koeneke, president of the Security Bank of Ponca, Oklahoma, who also happened to be president of the American Bankers Association. After listening to President Roosevelt's stirring address to Congress and the nation describing the Japanese attack on Pearl Harbor, Koeneke dashed off this message to the White House: "Deeply conscious of the import of your historic message to which I have just listened, on behalf of the American Bankers Association I pledge to you and to the people of America the complete support of the nation's banks."

Some skeptics doubted that this expression of support was heartfelt—or worth very much. The industry was still recovering from its near-collapse a decade earlier; its condition, reputation, and self-confidence were weak. But the industry rapidly revived in the face of the national crisis. Banks were instrumental in mobilizing the nation's savings and providing a ready source of capital to both government and the private sector in meeting critical wartime needs. Freedom triumphed in the end, and the banking industry made a key contribution to that success.

Today, our nation faces a new crisis, and the banking industry, led by the ABA, has again stepped forward to extend its support. We will need every ounce of that support, for the challenges that lie ahead for our nation and the banking industry are enormous.

In the days following the attacks on New York and Washington, the banking system continued to operate with only minor disruption. Some banks went to extraordinary lengths to meet their customers' needs for cash and other essential banking services. You provided reassurance that the financial system was still standing, still functioning, still capable of delivering virtually any service on September 11 that it offered on September 10. I applaud the steadiness and resolve that you demonstrated during those first frightful days. We all grieve for the victims, a disproportionate number of whom were at their desks at financial services firms when the terrorists struck.

But the response of the banking system was as much the product of preparation as one of character. You were able to carry on in the midst of crisis because you planned for it. Bank information systems continued to operate without interruption because they had been tested and upgraded and reinforced. It was partly the result of the time and resources invested in the Y2K effort—an investment that now looks especially prescient.

Many challenges lie ahead for our nation and our banks. But with challenge comes opportunity—the opportunity, for example, for banks to play a leadership role in the global effort to locate and cut off the money trail that sustains terrorist enterprise.

I have always believed that the privacy of banks' customer relationships is a value of enormous importance to the maintenance of confidence in our banking system. Recent events have demonstrated dramatically, however, that our banks can be used by terrorists to facilitate unspeakable criminal conduct. In the aftermath of September 11, we are seeing important efforts to strengthen the hand of law enforcement by imposing new requirements for banks aimed at the prevention and detection of international money laundering and the financing of terrorism. Now is the time for bankers themselves to demonstrate leadership in this area, to be vigorous and pro-active in assuring that their products and services are not used to facilitate unlawful conduct.

And there is rebuilding to be done. Billions of dollars of property have been lost, and the affected communities and individuals are already turning to the banking system for the wherewithal to start anew. The OCC and our regulatory colleagues are committed to supporting banks in these efforts, as evidenced by our decision to award CRA credit to banks that participate in recovery efforts in communities affected by the events of September 11.

In other ways, too, directly and indirectly, your customers will be affected by the changes that are taking place in our economy and in the world. Some businesses have been devastated by the terrorist attacks; others will feel the impact over time. Many Americans will be asked to put their civilian lives on hold in order to serve in uniform. We encourage you to continue to work with your customers to help them adjust to these changes and to ensure that credit continue to be available on reasonable terms. Where it can be done prudently, you should consider extending the terms of loan repayments, restructuring a borrower's debt obligations, and easing credit terms for new loans to certain borrowers. Such prudent efforts to work with borrowers will not be subject to criticism by national bank examiners.

Fortunately, national banks are well positioned to cope with the stresses that our national emergency may bring. Despite the economic difficulties of recent months, the industry is strong. Earnings actually rose in the second quarter of 2001, and capital remains high. National banks have done an excellent job controlling costs and managing problem loans. I would urge you to continue in that spirit.

And I would urge you once more to review and test your disaster recovery and business resumption plans, and revise them as needed. The events of recent weeks offer a sad reminder of the vulnerabilities of a free society. We will not abandon the values of openness and tolerance that are synonymous with America, but we must be vigilant and we must be prepared for any foreseeable contingency. And banks, which are so crucial to our economy life, must be more vigilant than most.

As in crises past, the country will look to you for financial strength, to rebuild where rebuilding is necessary and to provide the means to continue revitalizing our economy. I know the American banking system will again be equal to whatever challenges the future holds.

Remarks by John D. Hawke Jr., Comptroller of the Currency, before the New York State Department of Banking, on its 150-year history and the dual banking system, New York, N.Y., October 15, 2001

A few years ago Chairman Greenspan of the Federal Reserve remarked to a former Comptroller of the Currency that the OCC had an important but little recognized advantage in the bureaucratic competition that goes with the territory the banking agencies share. He was referring to our history. After all, the OCC has been around since the Civil War, eclipsing such newcomers as the FDIC and the Federal Reserve itself by 50 years or more. History *is* important to the OCC—important enough that we have been steadfast in resisting suggestions that we change our name to something more closely approximating our actual mission, which has had virtually nothing to do with the currency for roughly 75 years—something I am condemned to explain at every cocktail party I attend.

So I take special pleasure in recognizing the remarkable history of the only financial regulatory agency in this great country to which the OCC must defer in terms of longevity: the New York State Department of Banking, now 150 years old. And I hope that when the OCC itself reaches that milestone 12 years from now, in 2013, we will have the opportunity to repay the hospitality you have extended to me today. Needless to say, I am honored to be with you on this historic occasion.

It also gives me an opportunity to express our heartfelt admiration for the way you and all New Yorkers have borne up under the awful and unprecedented strains of the past month. The banking department deserves a large share of the credit for the way that the financial institutions that make this great city their home were able to bounce back as quickly as they did. It is exactly what we would have expected from the most venerable of our financial regulatory agencies.

By itself, of course, longevity proves little beyond an aptitude for self-preservation, but that is hardly the case with the New York Department of Banking. Indeed, New York State legislators and regulators have been responsible for many of the basic concepts upon which the structure of bank regulation in this country is based.

When the New York State legislature passed the Safety Fund Act (as it came to be called) in 1829, it broke ground in two essential ways. For one thing, it established an effective mechanism for insuring bank obligations. How serious a problem this had become is illustrated by this contemporary newspaper account of the scene that erupted when a Pennsylvania bank stopped redeeming its notes:

> Hundreds of poor laborers were running in every direction with their hands full of the trash and not able to induce a broker to give six-pence to a dollar for them. We passed in the market a woman who makes her living by selling eggs, butter, and vegetables, who had almost all she was worth, about $17, in the bank's notes. When apprised that it was worthless, she sank down in agony upon her stool and wept like a child. This is but one of a hundred similar cases.

Such poignant scenes prompted the New York law, requiring banks to pay an amount equal to one-half of one percent of their capital each year for six years into a fund, from which the obligations of failed banks would be paid out. A half dozen states adopted similar laws of their own. In New York, the Safety Fund worked wonders in restoring public confidence, and when the fund was liquidated in 1866, it even had a small surplus to show for it. But this happy experience was not universal. Losses had put the safety funds of states like Michigan and Vermont out of commission in short order. How can we account for this mixed record of success?

According to most historians, the answer lies in a key feature in the New York law that was missing in the others. New York provided for the appointment of three bank commissioners to examine the financial status of banks and report annually to the legislature. With that provision, professional bank supervision in the United States essentially began.

More than a century later, the safety fund concept came to the nation at large in the form of federal deposit insurance. But the FDIC is not the only federal banking agency inspired by New York. The OCC—and the national banking system—owe a similar debt to New York banking law and practice.

In the Free Banking Act of 1838, the Albany legislature—in an historic act of self-denial—sought to expand the availability of banking services for a rapidly growing economy by curtailing its own power to grant bank charters one at a time by legislative action. That requirement had inevitably introduced political considerations into the chartering process, and New York lawmakers wisely recognized that this was an area in which politics did not belong. So it decided that bank charters would henceforth be available to any qualified organizers who met certain standards and conditions. Among them was that the organizers deposit with a state official—the

Comptroller of the Currency—an amount of government securities, which would serve as the basis for the new institution's notes. In the event of insolvency, the securities would be sold to redeem the notes.

Congress adopted precisely the same provisions in the National Currency Act of 1863. In a real sense, the national banking system that the OCC supervises today was the banking system of the State of New York on a national scale. Again, what began in New York became a blueprint for the nation.

The history I've just cited certainly supports the argument we often hear in support of the dual banking system, namely that the states have been the main engines of the innovation in the banking industry. That argument has more than a grain of truth to it. But it lacks refinement and ultimately does not comprehend the real value of duality in our banking system. While the states have surely been innovators, national banks and the OCC also have a proud record of innovation. Just by way of example, national banks issued the first negotiable certificate of deposit in 1961, securitized loans for the first time in 1984, and introduced a whole range of new financial products and services to the banking public over the past several decades. The wild card statutes on the books in most states—which effectively tie state bank powers to innovation in the national system—testify to that leadership.

The fact is that innovation is inherent in the dual banking system—and perhaps the most powerful argument that can be offered in its defense. State banks led the way with new products and services in the nineteenth century because they had to do so as a matter of survival. In the National Bank Act of 1864, Congress had deliberately stacked the deck against them, fully expecting that state banking would succumb to the competitive disadvantages imposed against them in the law. Indeed, in 1865 Congress passed a "death tax" on state bank notes, intended to drive state banks to the national charter. Instead, state bankers proved resourceful in pursuing deposit banking and in developing new markets and new ways to serve existing ones. They ensured that they would be around for many years to come. By the same token, national banks, facing increasing competition from state banks and nonbanks in the 1960s and since, were obliged to come up with ways of reinvigorating the national charter—and they did, in the ways I've just mentioned.

In short, neither the state *nor* national banking systems have had a monopoly on innovation, at least not for more than a few years at a time. For no sooner has one side gained the lead, then the other has redoubled its efforts to take it back. The result has been a dynamic, competitive, and creative industry, responsive to the people and communities it serves.

This happy outcome could hardly have been predicted. Indeed, some people still scratch their heads in wonderment that the dual banking system, with its further division of *federal* authority among a number of agencies, has worked as well as it has. Its most ardent supporters concede that on paper, it probably shouldn't. The idea of duality has withstood repeated assaults—beginning with Congress in 1863—from those who saw it as unwieldy, if not irrational, that the banks of the country should be free to choose the regulatory regime under which they would operate. It is true—but not widely known—that the laws creating the Federal Reserve system and the FDIC had an ulterior purpose: the elimination—or at least the reduction—of state banking, which many thoughtful people saw as a less safe and sound brand of banking than the U.S. economy could afford.

How then do we account for the persistence of the dual banking system in America? Part of the answer, I believe, is that the dual banking system is a true expression of our national character—reflecting core national values of competition, federalism, and freedom of choice.

It took a while for this truth to sink in, but once it did, Congress reversed its opposition to the dual banking system and instead worked diligently to nurture it, intervening at critical intervals to ensure a healthy balance between the state and national bank charters. Through legislation, federal regulators and national banks obtained the authority to match innovations and incentives coming from their state counterparts. For example, following a Supreme Court decision holding that national banks did not have the right to branch, Congress, in 1927, passed the McFadden Act, granting national banks branching powers roughly equivalent to those already enjoyed by many state banks. And it relaxed other legal restrictions—such as those barring national banks from offering safe deposit boxes and making most real estate loans—which were eroding the value of the national bank franchise.

At the same time, Congress has been cautious about encroaching on the authority of the states to charter and empower banks. For example, excepting only insurance underwriting, the states have been left free to allow their banks to engage in activities not permissible for national banks so long as the FDIC determines the activity would not pose a significant risk to the insurance fund.

Let me add that this process has not been a one-way street. As I've already noted, many states have enacted "wild card" statutes—laws that allow state-chartered banks to exercise powers available to national banks.

More recent federal legislation has equalized many of the powers of state and national banks in the context of interstate branching. And working through the Conference of State Bank Supervisors, state authorities have been able to streamline the process of interstate branching by state banks.

Nor—despite what some critics say—has the process been a "race to the bottom." For example, in early 1960s, under Comptroller James J. Saxon, the OCC concentrated on upgrading the qualifications and skills of its examination force. This led to calls from state bankers and action by state supervisors to match these improvements. The quality of examinations improved significantly on both sides, and the whole dual banking system emerged the stronger for it.

In short, what former Federal Reserve Board chairman Arthur Burns called—in memorable, if misleading terms—"a competition in laxity" between state and federal banking authorities—has actually been a textbook case of federalism in action. The competitive tension between state and national authority has produced a safe and sound banking system, an efficient and effective supervisory regime, and regulatory structures capable of adapting to the demands of an evolving marketplace. The financial system's response to the events of September 11 offers the latest proof of its adaptability and strength.

One lesson we can draw from this history is that while the dual banking system today is healthy and strong, it requires care and feeding to keep it that way. Experience teaches us that the absence of needed legislation—or the enactment of the wrong kind of legislation—can do the dual banking system real harm.

For example, while Congress has not encroached upon the chartering authority of the states, the balance of responsibility for the supervision and regulation of state-chartered banks has steadily shifted toward their *federal* regulators. For more than 30 years, almost every time Congress has imposed new federal bank supervisory and regulatory responsibilities, it has parceled that authority and responsibility among the three federal banking agencies. That approach was originally shaped by concerns that some states lacked the resources to carry out Congress's mandates. As a consequence, the Federal Reserve and the FDIC today perform for state banks virtually every supervisory function that the OCC performs for national banks. The result has been to deprive the states of much of the opportunity to take full responsibility for the supervision of their own state-chartered banks.

A related issue concerns the funding of bank supervision. Today, the total cost of supervising state-chartered banks is significantly subsidized—not only by the two federal agencies that supervise such banks, but also by national banks, primarily through their contributions to the deposit insurance fund from which FDIC supervisory expenses are drawn. This anomaly has had the effect of magnifying the assessment disparity between state and national supervisors, encouraging many banks to make charter choices based on comparative costs, rather than on the values inherent in the charter or the quality of supervision. This has tended to undermine the substantive and qualitative competition between the charters that has always been our system's hallmark.

My hope is that this matter will be addressed—if not when Congress reconsiders the subject of deposit insurance reform, as it has pledged to do, then in the not too distant future. The preservation of a strong, competitive dual banking system is crucial to our ability to meet the very real economic challenges our country faces, and putting supervisory funding on a more rational basis, I believe, is crucial to the future of the dual banking system. Under a plan that we have put forward, the costs of both national bank supervision by the OCC and state bank supervision by our state counterparts would be paid out of the FDIC insurance fund, under a formula that made the allocations automatic and nondiscretionary.

In the meantime, we can never forget, particularly at this moment in our nation's history, that whatever differences may separate us are far, far less important than what unites us. In our case, it's a common commitment by federal and state regulators to a safe, sound, and competitive banking system—a commitment that has expressed itself through cooperation *and* competition. And I can think of no better model for that relationship than the one that the Office of the Comptroller of the Currency and the New York State Department of Banking have had for much more than a century.

Again, heartiest congratulations on your 150th anniversary.

Remarks by John D. Hawke Jr., Comptroller of the Currency, before a Symposium on Emerging Risks in Banking, on accountability, OIG oversight, risk, supervision, and resources, Washington, D.C., November 14, 2001

The law in ancient Rome required that when the scaffolding was removed from a completed arch, the engineer who had supervised its construction had to stand beneath it. It's no wonder that so many of those arches are still standing today.

We no longer take the principle of accountability quite to that extreme. Still, accountability is at the core of our system of government—in an obvious way for elected officials, and less obviously (but no less certainly) for those like myself who are privileged to hold appointed positions. We in the regulatory community are accountable to the public and to Congress, and you, in the offices of the inspector general, are the transmission belt for that accountability. We are, of course, also answerable to the institutions we supervise, who, under our unique system, are free to register their dissatisfaction with our actions by exercising their option to be supervised by another agency.

Those who persist in talking about the alleged tyranny of an unelected and unresponsive "fourth branch" of government have obviously never sweated under the spotlights of a Congressional oversight panel or been confronted by the probing questioning of OIG and GAO investigators delving into some aspect of our work.

Such demanding oversight can make for some awkward and uncomfortable moments. But we all recognize that oversight is crucial to upholding the public interest in effective regulation and a safe and sound financial system. The insight and perspective that you provide is invaluable to us, and I trust that you have found that appreciation reflected in the kind of cooperation you receive from us. That's the least you should expect from an agency that sounds off with what some view as tedious regularity on the importance of robust, independent audits for the banking organizations we supervise.

The relationship with the OIG has been a source of varied and tangible benefit to the OCC in recent years. We have worked together, side by side, in dealing with a variety of difficult cases. None was more difficult than the First National Bank of Keystone, West Virginia. You have just finished a panel discussion on this case, one of the costliest bank failures in recent history—and among the most traumatic ever for the OCC.

As you know, senior Keystone officials embarked on a quite unprecedented effort to block our examiners in their efforts to unravel that institution's finances—and get to the bottom of what turned out to be a massive fraud that proved to be the bank's undoing. Besides resorting to physical and verbal intimidation, bank officials manufactured evidence, altered documents, disabled microfilm readers, and buried documents. But the painstaking analysis conducted by OIG investigators exposed these efforts for what they were, and the case against the responsible bank officials proceeded. Two of them are now serving lengthy sentences in federal prison for criminally obstructing bank examiners. They have plenty of time on their hands to reflect on their crimes—while they await sentencing for their recent conviction for fraud and embezzlement.

Reflection, of course, is good for the soul whether you're a sinner or a saint, and, in the aftermath of Keystone, we were eager to reexamine the record and see what we might have done differently to achieve an earlier understanding of the bank's true condition—and its officers' true nefarious motives. The OIG auditors played an enormously important role in this process; the material loss review you conducted after the fact offered both thoughtful analysis and a series of recommendations for improvements in our supervision, many of which have already been adopted. I believe that our supervision has been significantly strengthened—and the risk of future Keystones significantly diminished—as a result of your insight and hard work.

There's something else I want to thank you for—a subtle thing, perhaps, but no less crucial to our ability to carry out our supervisory responsibilities. I'm referring to the sensitivity you've consistently shown to the supervisory relationship between bankers and bank supervisors. I know that you occasionally are petitioned to step into the middle of disputes between banks and their examiners. Yet you have steadfastly resisted becoming a court of interlocutory appeals in ongoing supervisory disputes. We have no reluctance at all to have our supervisory conduct evaluated by any appropriate oversight body after a matter has been concluded. But you have prudently abstained from becoming involved in ongoing matters, and we appreciate that.

We are also appreciative for the very constructive assistance the OIG has rendered in helping us improve the effectiveness of our compliance program. Over the past couple of years, OCC enforcement of the Bank Secrecy Act has come in for intensive OIG scrutiny—timely scrutiny, I should say, given the urgency that anti-money-laundering activities have taken on in connection with the ongoing war on terrorism. In your most recent audit report, you encouraged us to rely more heavily on risk assessments in determining where our limited supervisory resources should be deployed. We have taken that advice to heart not only in adjusting our BSA supervisory priorities, but also in reshaping our entire compliance program—a program that will increasingly embody the same risk-based approach that the OCC developed and implemented a decade ago for safety and soundness supervision.

Risk-based supervision was a response to some of the fundamental questions that have weighed heavily on bank supervisors almost from the beginning. How much supervision is enough? How much is too much? And where should it be directed? The U.S. banking system has always been a uniquely sprawling and diverse entity. Do we need—and can we afford—to have comparably large numbers of examiners nosing into every nook and cranny of each bank's operations in order to ferret out all possible acts of mismanagement and malfeasance? I suspect there is no bank in the country in which we could not find some violation of some compliance law or regulation, if we threw enough resources into the effort. But does it really make sense—is the public interest really served—when regulators play "gotcha" with the banks they supervise?

For most of the last century, there was thought to be no other way; bank examination was pretty much "by the book." But the question kept recurring—especially after banking crises—as to whether this kind of across-the-board, all-things-being-equal supervision made the banking system any more safe and sound. Indeed, it became increasingly clear that in many instances the burdens of supervision had become counterproductive—so intrusive, so costly, so lacking in discrimination, and generally so burdensome that it was becoming a drag on banks and their ability to serve customers effectively.

Timing and perspective have also been recurring problems in the supervisory process. An examiner identifies a problem in an otherwise healthy institution, and brings it to the attention of the CEO. Examiner criticism is rarely welcome; but it is most likely to be brushed off when the bank is riding high and its leaders are heady with their own success. And the examiner, understandably, decides not to force the issue, which can likely be rationalized as a minor one, preferring to avoid confrontation in order to preserve a trusting, harmonious relationship with that banker.

What we discovered anew during the banking crisis of the early 1990s is that the "relationship" must never stand in the way of frank and forthright action to identify and address problems early on in the supervisory process, while the bank has a cushion to help it absorb small setbacks and before its viability can be affected—and while corrective action may still be successful. Bankers may insist otherwise, but at the end of the day, frank and forthright is what they too expect from us. Unfortunately, back then we struggled—struggled with our conflicting urges and struggled to find the right balance between forbearance when problems first came to light, and abrupt and Draconian reactions when problems had matured to the point that they could no longer be ignored.

When banks showed reluctance to provide credit even to creditworthy borrowers, supervisors were blamed for creating a "credit crunch." Since this issue has recently resurfaced, let me state my firm belief that credit crunches are caused by conditions in the economy, and by banks that make economic decisions based on their own self-interest—not by bank examiners. I also recognize that regulators can become an easy scapegoat for bankers to point to when they have decided for their own reasons to tighten up, and a bank officer responsible for a customer relationship has to be the bearer of bad news.

Nonetheless, we learned a lot from the experience of the early 1990s, and we now recognize the value of a supervisory approach that is more selective and efficient and more attuned to the systemic risk that a particular institution or activity poses. And we have tried to make our supervision more modulated and predictable. Since becoming Comptroller, I've emphasized the importance of fashioning a carefully calibrated response to changes we see taking place in the banks we supervise. But that does not mean sitting by silently as conditions deteriorate. It means addressing problems as we see them developing—while we still may be able to do something about them—and doing so consistently and in a measured way. Both in public and in our private meetings with bankers, we have addressed issues of declining underwriting standards and eroding credit quality, and we will continue to address these issues, keeping in mind the need to do so in a balanced manner. The greatest contribution we as bank supervisors can make to the maintenance of a healthy economy is to do what we can to help preserve the ability—and the capacity—of our banks to extend credit to creditworthy borrowers.

Technology has also enhanced our ability to spot problems brewing in the banking system so that we can assess the risks they pose and target those problems in a timely and efficient manner. Early in my tenure as Comptroller, I initiated a major effort to improve our early warning tools. We dubbed it "Project Canary," alluding to the practice of coal miners who brought canaries down into the mineshafts with them to detect dangerous gases. Through this effort we have developed a series of financial ratios and measures that correlate with high levels of credit, liquidity, and interest rate risk. By applying these measures to our population of banks, we can make better judgments about what problems may arise and how we can deploy supervisory resources more efficiently.

I would like to think that the refinements we have made in both the practical and theoretical sides of our supervision have something to do with the current strength of the national banking system—strength that is being tested right now and will surely be tested further in the coming months.

When you prepared your agenda for this conference, you asked for a broad-brush overview of what we see as the emerging risks in the banking system. Since then, we have had the momentous events of September 11, with their profound impact on all Americans and on the economy. Many of the secondary issues that had previously absorbed us were suddenly eclipsed by the question that is now on everyone's mind: how will the economy—and the banking system—fare in the difficult weeks and months that surely lie ahead? Let me now turn briefly to that pressing issue.

We should remember that even before September 11, the short-term outlook for the economy was unpromising. The horrific events of that date were a disaster for all Americans. But in some already struggling industries, particularly travel and tourism, the effects have been particularly devastating. Thousands of jobs have been lost all over the country. Rising unemployment and the prospect of further layoffs ahead have severely damaged consumer confidence, put a crimp in consumer spending, and made it more difficult for consumers to service their debt—debt which remains at historic highs. Some institutions that specialize in providing credit to higher-risk consumers have already seen a sharp reversal in their fortunes, and others will almost certainly follow if distress becomes more generalized throughout the population.

Yet, although the Bear Market on Wall Street is now two years old and credit quality has been slipping in some parts of the portfolio for nearly that long, the national banking system seems to be holding its own. Certainly, the capital strength of the industry is now far better than it was at a similar stage of the last economic slowdown 10 years ago. Total equity capital today stands at more than twice what it was a decade ago, and the related ratios—capital-to-assets and capital-to-loans—are also much healthier. Clearly, bankers have internalized a key lesson of the 1990s—that it's possible to meet all the regulatory capital requirements and still not have the level of capital you need to weather a time of great stress. Indeed, at a recent OCC conference, the highly respected former CEO of one of our major banks said that one of the great lessons he learned over the past decade was the critical importance of maintaining capital ratios appreciably in excess of what we bank supervisors required. Never again, he said, would he let capital fall to even the highest level defined by the regulators. To the extent that view prevails industry-wide, it bodes well for the system's ability to ride out the storms we're facing.

We also believe that the industry is structurally stronger. Consolidation over the past 10 years has given us a banking system that should be more stable and more resistant to the current downturn. Certainly the whole industry is more diversified than it was a decade ago. Although community banks are still subject to some inherent limitations in this regard, the kinds of deep sectoral and geographic concentrations we saw in the early 1990s—concentrations that proved fatal for many banks—are much less evident today. In addition, noninterest income has come to play an increasingly important role in the composition of bank earnings. The industry has taken advantage of changes in the law and regulations to offer new products and services, thus diversifying their income streams and reducing their dependence on volatile net interest income.

This movement toward diversification has come as part of a dramatic overall improvement in most banks' risk management and mitigation capabilities. Bankers today—and not only the largest banks—are using more sophisticated analytical tools and computer models to manage increasingly complex risks. And bankers have far greater opportunity through the use of syndication and credit derivatives, and through the securitization markets, to design and structure the types of balance sheets and business franchises they desire.

Certainly there's basis for hope in all this that the national banking system will make it through the turbulent times ahead and continue to provide the credit that our economy so sorely needs to stage a full and timely recovery. Much will depend, of course, on how serious and protracted those challenges are. But at this stage, I remain optimistic—both about the fundamental strength of our banking system and the ability of the OCC to provide the right kind of supervision at the right time, to ensure that the public interest in a safe, sound, and competitive banking system is properly safeguarded.

If there is a potential risk in this picture, it's on the resource side. At the outset of my remarks, I alluded to the ability of banks to switch their supervision to another agency. Such accountability through competition can have the desirable effect of making the regulatory agencies leaner, more efficient, and more responsive.

But not all of the regulatory agencies are subject to the same incentives. The Fed and FDIC, who could charge for their examinations of state banks, as the OCC *must* do in the case of national banks, choose not to do so. Instead, they draw upon other funding sources to finance their supervision—funding, which in the case of the FDIC, is derived in significant part, perversely, from national banks. In effect, national banks pay not only for their own supervision, but for more than half of the FDIC's cost of supervising state banks.

The other problem with this arrangement is that is works pro-cyclically. When there is widespread stress in the banking system, as there was in the late 1980s and early 1990s, significantly increased supervisory attention is demanded and supervisory costs rise. As this occurs, healthy national banks, which already pay more than their state counterparts, face the prospect of substantial increases in assessments to pay the costs of more intensive supervision of problem banks. This creates a strong incentive to convert to a state charter. Such conversions, in turn, reduce the resources available to the OCC to fund increased supervisory needs.

We hope that this is one case in which history will not repeat itself.

Let me close by congratulating you on your decision to hold this event—an event in whose success I confess to having a selfish interest. For the better you understand what we do, the more likely you'll be able to assist us in doing our jobs better. In that way, we both serve the public interest.

Remarks by Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel, before the McAuley Institute's 7th National Women and Housing Conference, on challenges faced by women in building and maintaining assets, Washington, D.C., November 9, 2001

I would like to thank Jo Ann Kane, a tireless advocate for low-income women and their families, for inviting me to speak here today. I am also honored to share the podium with two leaders in the community development arena—Sister Barbara Aires, a longtime advocate of socially responsible institutional investment, and Elsie Meeks, who has spent many years working to increase the availability of capital on Native American tribal lands.

I want to explore three related issues with you today. Where do women fit into the current financial environment? How do women, particularly low- and moderate-income women, successfully build and maintain financial assets? And how do women, as consumers and asset builders, *keep* those assets and avoid financial pitfalls such as predatory lending? I can think of no better venue to address these important questions than here, among a group of people who have dedicated themselves to improving the economic security of women and their families.

Women in the Financial Environment

Women have made enormous gains in the last 30 years on the political, social, and economic fronts. Women, as individuals, have the potential to become major financial players, and women, as a group, are a major economic force. Today, nearly 60 percent of all adult women are employed. While women made up 30 percent of the labor force in 1950, we now make up more than 46 percent, nearly half of the labor force today. The U.S. Labor Department reports that 99 percent of women will work for pay at some point in their lives. In recent years, retailers and financial services institutions have recognized the growing importance of women in the economy. Women spent $3.5 trillion on retail products and services in 1997, and advertising industry studies have found that women are the primary consumer decision-maker in more than *80 percent* of all households.

Homeownership rates among women are increasing. As of last year, 53 percent of women head of households owned their own homes, a figure that continues to show an upward trend. Thirty years ago, women faced tremendous barriers to purchasing their own home. However, the Equal Credit Opportunity Act, enacted in 1974, set the framework for increased access to home mortgages and other loans for women and minorities. For women, this legislation eliminated gender and marital status as factors that lenders could consider in the credit review process. Over time, this led to further changes by mortgage lenders to eliminate many of the historical barriers women faced when trying to obtain credit on their own. For example, mortgage lenders now treat as income the proceeds from part-time or multiple-job employment, alimony and child support, foster-care services, and rental payments received from boarders. In addition, mortgage products have been expanded to decrease the amount of savings required for down payment and closing costs.

On the commercial lending side, women, in increasing numbers, are gaining access to capital to start or expand their own businesses. Since 1987, the number of women-owned firms in the U.S. has more than doubled, with women-owned firms now representing 38 percent of all firms. Women-owned firms are found across all industries, and are experiencing the greatest growth in the construction, wholesale trade, and transportation industries. And while banks' market share of small-business loans has declined, the percentage of women-owned firms using bank credit has increased. As banks and other financial service institutions develop a growing recognition of the market opportunity of women-owned businesses, they are developing products and services geared specifically to women entrepreneurs. Banks and other companies are also increasingly recognizing women as investors, with marketing programs and investment products targeted toward women.

However, the challenge that women face in this new century is the need to maintain and build upon the economic gains of the last 30 years. The number and proportion of families in which a woman is the sole financial supporter of the household has grown. In 1996, nearly 20 percent of all families were maintained by women, up from 11 percent in 1970. Although the trend is encouraging, with the poverty rate for female-headed households dropping to a record low of 24.7 percent in 2000, women, particularly the elderly, are still disproportionately living in poverty.

The financial needs of women differ across economic strata, but all of these needs center on acquiring, expanding, and maintaining assets. And the ability to acquire and manage assets depends in a large part on education and access—being adequately informed as to how asset generation works, and being in a position to acquire and deploy assets. Naturally, there are a variety of financial products and services to fit the spectrum of women's financial needs—products that allow us to save, borrow, and invest effectively. Regardless of the need, whether it is opening a first savings account, putting away money for a down payment, investing in a new business, or planning for retirement, women need to gain a familiarity with financial products and services in the marketplace that will allow them to better handle financial needs.

Building Financial Assets

Asset creation can be viewed as a series of steps for the individual woman and her family, beginning with the need for short-term financial protection and then expanding to provide future financial security and financial opportunity. The starting point, and a difficult one for disadvantaged women, is a stable income flow to cover routine and expected expenses—the rent or the mortgage payment, the shoes and blue jeans, the utility bills, supper on the table, or a birthday celebration.

The first step consists of building savings and acquiring insurance to deal with next week's emergency or unexpected event, such as a health crisis or major car repair bill. With some protection against emergencies, a woman can then begin to think about her long-term future needs, including retirement planning. Today, retirement planning needs to take place many years in advance of a woman's actual retirement date, and means a lot more than depending on Social Security. Women need to take advantage of opportunities to participate in a pension plan at their place of employment or utilize Keogh plans and other options available to the women business owner, and make what personal investments they can, including investments in IRAs, or savings bonds, that will grow and provide future cash flows. But because they are often busy caring for others, women may have difficulty focusing on retirement planning. Social Security Administration surveys found that, as a group, women experienced the smallest gain in knowledge about Social Security following the annual mailing of Social Security statements. Women surveyed were interested in the statements, but did not read them carefully because they did not have the time.

The final step in building and maintaining assets is the acquisition of productive assets to expand future income and to leverage into additional asset growth. The major productive asset for most American families, including women-headed households, is ownership of a home, which allows the family to grow equity. Automobile ownership can be a vital asset, used to access a higher paying job, for the suburban or rural woman. Business ownership is a productive asset that is not limited to the wealthy. Finally, although it is a nonfinancial asset, investment in *human capital*, through the acquisition of education, is possibly the most productive asset of all.

How do women acquire productive assets? By leveraging their existing assets, whether tangible or intangible. By accumulating enough savings to make a down payment on a home. By developing a business concept and operating plan that will lead to financing from a bank, a loan guarantee by the SBA, or funding from a nonprofit organization. By having a stable enough environment, adequate childcare, the confidence, and the support to apply for a student loan or grant, and to attend classes. Through the assistance and caring of organizations such as the McAuley Institute, and the realization of profitable partnership opportunities between banks and community organizations.

Needs and Challenges of Low- and Moderate-Income Women

As women are now recognized as an established part of the financial landscape by the mortgage and commercial lending industries, greater attention has turned to the financial needs of low- and moderate-income women. As these needs gain greater attention from the marketplace, the availability of capital is expanding for low- and moderate-income women as well. Increasingly, low-income women are finding new products and services that are particularly relevant to their unique needs. These products may be provided solely by commercial organizations, or, as is often the case, provided through subsidy programs funded by foundations or the government, alone or in partnership with for-profit businesses. Some products are specifically tailored for women, while others are appropriate for the entire low-income market, in which women are, as noted, over-represented.

These products include individual development accounts, microenterprise loans, low down-payment, home-mortgage loans, and low-interest student loans.

It has often been said, in one form or another, that without assets, poor families are likely to remain poor. And while spending is unlikely to help anyone escape poverty, saving is the most common first step to economic mobility. But it is difficult to put away a portion of one's income when it seems like all of it, and more, is already allocated to paying for basic necessities. That is why programs and incentives to help people build savings, like those supplied by Individual Development Accounts, or IDAs, are critical. IDAs combine the incentive of matched participant savings with education and personal support from program staff and other account holders.

Low- and moderate-income women who operate their own small businesses out of the home, and have no banking history, may find that when they want to expand their businesses, banks may be unwilling to lend them money. Despite the ability of small businesses to create wealth and income for their owners, these microentrepreneurs drop through the cracks of conventional financing for a variety of reasons. They may have credit needs that are too small for a bank to profitably handle, flawed or no credit history, little collateral, incomplete financial records, or language barriers. However, partnerships between community organizations and banks have resulted in microenterprise programs that combine microlending with entrepreneurial training, mentoring, and on-the-job training to maximize the potential for self-sufficiency.

By far, owning a home is the primary means by which low-income Americans build long-term assets and increase their financial net worth. Homeownership is the primary means of accumulating wealth in the United States, and the most important financial asset that many women have is their home.

Through homeownership, women invest in an asset that can grow in value and generate financial security. As mortgage payments are made, the homeowner's equity grows and can serve as a financial base for other investments, including education. Homeownership programs targeted to lower-income individuals, such as the NeighborWorks' Section 8 Homeownership Program which allows section 8 vouchers to be used toward mortgage payments, are an important vehicle for expanding access to homeownership. Many of these programs, including NeighborWorks', report that a high percentage of their participants are women.

Along with the potential for asset appreciation, homeownership confers other benefits. It strengthens neighborhoods by increasing stability, keeping capital in the community, attracting outside investment, and raising property values. Homeownership is also positively correlated with civic involvement, self-esteem, and the sense of control that one has over her own life.

The Challenge of Maintaining Assets

Given how important home equity is as an asset for low- and moderate-income women, it is vital that once such a precious asset is acquired, it not be pirated away through predatory lending practices. We have seen tremendous advances over the last several years in credit availability. Not surprisingly, improved access to credit may mean higher loan prices for subprime borrowers whose credit profiles present greater risks. However, responsible subprime lending should not be confused with predatory lending. There are a great many responsible subprime lenders who make credit available at rates that reflect the costs and risks of such lending without engaging in abusive lending practices. But we do need to recognize that some of the characteristics that cause a borrower to be a subprime credit are also characteristics that may make that customer vulnerable to abusive lending practices.

Consider the example of the elderly woman whose home is badly in need of repairs. With not enough cash on hand to pay for them, the homeowner is steered to a lender who arranges a refinancing loan for debt consolidation and home repairs. The homeowner pays 3 points on the loan and the loan carries a prepayment penalty. A few months later the homeowner is convinced to refinance the loan again. The new loan is for a higher principal amount, and the borrower is forced to pay the pre-payment penalty on the original loan as well as another 2 points in fees in the new loan. This is the practice known as equity stripping.

Because of schemes such as these, the challenge of maintaining assets, especially for financially unsophisticated individuals, has become at least as important as the challenge of building assets. Elderly female homeowners are primary targets for predatory loans, as many of their homes have little or no mortgage debt. These women are likely to have incomes of less than $30,000 and equity of $100,000 or more. They are vulnerable to predatory lending because they face bills from medical expenses or repairs to their older homes. To pay off their debt, they have to tap into their home equity. However, their knowledge of financial alternatives is sometimes limited, and thus they may unknowingly replace unsecured credit card and personal loan balances with secured debt using their home as collateral. This is an attractive market for lenders as estimates based on the American Housing Survey suggest that elderly female single person households hold approximately *$570 billion* in home equity.

One of the most important ways you can make homeowners aware of predatory lending practices is to help them recognize a loan with abusive features. The term "predatory lending" is often used to refer to a wide range of practices and does not lend itself to a clear or simple definition. These practices include, but are not limited to:

- Loans made in reliance on the value of the borrower's home or other collateral, without a proper evaluation of the borrower's ability to repay;
- Pricing terms—whether interest rates or fees—that far exceed the true risk and cost of making the loan; and
- Inadequate disclosure of the true costs and risks of the transaction.

Other abusive features include the improper use of credit life insurance, balloon payment structures that leave the borrower owing most of the principal amount at the end of the loan period, and repeated refinancing which can occur from an inability to meet either the monthly or the final balloon payment. Each of these products has a place in mortgage financing, when used in an appropriate manner. For instance, while balloon payments make it possible for young homeowners to buy their first house and match payments with a rising income stream, they can spell financial disaster for those whose income is not likely to rise significantly. Likewise, refinancing enables borrowers to take advantage of lower interest rates, but they can be used inappropriately to repeatedly flip borrower's loan, resulting in high loan processing fees and other unnecessary costs.

Addressing the Challenge

Without a doubt, government has a role in addressing abusive lending practices, but by no means does it have the only role. The majority of these loans are made by lenders over whom the federal banking agencies have little control. Unlike regulated financial institutions, many nonbank lenders do not undergo periodic compliance examinations. I can report, however, on steps the OCC is taking to limit the involvement of national banks in these lending practices.

The OCC issued guidance directing our examiners to review bank lending policies to ensure that they do not permit loans to be made or purchased for which there is no reasonable expectation of repayment without resort to collateral. We have alerted our examiners to look for practices such as collateral or equity stripping and the use of pricing terms that far exceed the lender's true risk and cost.

Likewise, we have made it clear that national banks should not make or purchase loans having these characteristics. We have emphasized that such loans violate safety and soundness standards and increase the risks of unlawful discrimination. And indeed the industry has responded in a variety of ways. For example, several large lenders have discontinued offering single-premium credit insurance. We are also encouraged by lenders that establish "two-way" referrals in which an applicant who qualifies for a prime loan will be referred by the subprime lender up to the prime lender, rather than referrals only taking place in the other direction.

In the same vein, we encourage industry efforts to develop standards for best practices for the subprime lending community, in order to eradicate predatory lending at the source. I note that Treasury Assistant Secretary Sheila Bair just yesterday applauded this type of industry effort and commented that for regulated depository institutions, such best practices might be incorporated into bank supervisory standards and enforced through the supervisory process.

The OCC has also taken enforcement actions against banks that we believed were engaged in unfair and deceptive practices in violation of the Federal Trade Commission Act. Finally, we will continue using our chartering and licensing authority to ensure that subprime lending by national banks and their subsidiaries is conducted responsibly and with appropriate consumer protections.

Through education and counseling, organizations such as the McAuley Institute are playing a tremendous role in helping consumers recognize abusive lending practices. Financial literacy programs enhance consumer financial skills and provide individuals with a better understanding of the financial products and services that meet their needs. Understanding the range of available financial products and services enables consumers of all income levels to make better-informed choices in the financial marketplace.

Many of you here today are on the front lines in efforts to combat abusive lending practices. Those of you who support McAuley's Women's Homeownership Campaign are working with a program that includes many of the asset building and maintenance techniques I have discussed today. By providing technical assistance and training to local organizations, the McAuley Institute enables a large number of groups across the country to provide the counseling, educational services, and funding that can help low-income women obtain the benefits of stable, affordable homeownership.

Conclusion

Today, I've discussed the financial progress of women, outlined ways for low- and moderate-income women to participate in that progress through asset building and maintenance, and addressed the serious issue of abusive lending and its potential to rob low- and moderate- income women of the precious gains that they have made.

It is critically important that organizations such as McAuley continue teaching women the importance of building and maintaining equity in their homes. In addition, many banks have worked with community organizations and governmental agencies to develop financial literacy programs or provide employees to serve as educators and trainers. Others support financial literacy organizations through volunteer staff assistance, loans, and contributions. Building partnerships is what makes these programs work. The OCC will continue to allow our institutions to be flexible, innovative, and to try new products that help low-income individuals become part of the financial mainstream. Together, community organizations, banks, and government can draw the best from each other to help all of our Nation's residents build and maintain the assets that will provide financial security for themselves and their families.

Interpretations- September 1 to December 31, 2001

Interpretive Letters

916– May 22, 2001

12 USC 24(7)
12 CFR 7.4002(a)
12 CFR 7.4002(b)
12 CFR 7.4002(b)(1–4)

Dear [ ]: This responds to your letter of February 21, 2001, in which you request the concurrence of this office that a decision by [ ] ("the bank") to change the order of check posting is a pricing decision authorized by 12 USC 24(Seventh) and 12 CFR 7.4002. You also request our concurrence with your view that the process followed by the bank in deciding to change the order of check posting is consistent with the safety and soundness considerations of 12 CFR 7.4002(b).

Based on our review of your letter and supporting materials and the relevant considerations set forth in our regulations, we agree that the bank may establish a given order of posting as a pricing decision pursuant to section 24(Seventh) and section 7.4002. We further agree that the process the bank used in deciding to change the order of check posting, as described in your submissions, is consistent with section 7.4002. The bases for these conclusions are described below.

I. Background

You have submitted materials[1] stating that the bank charges customers a fee (referred to in this letter as a not-sufficient funds ("NSF") fee) if they write checks against insufficient funds in their deposit accounts. The amount of the NSF fee will vary, based on (a) whether the bank pays the check or returns it unpaid and (b) the total number of items presented against insufficient funds in the same account during the preceding 12-month period.

The bank would like to change its current check-posting practice to post checks so that the largest check to be paid from an account would be paid first in a given 24-hour cycle. As a consequence, the available balance in any account will be depleted more quickly than if the items were posted in another order. The bank has offered several reasons for this decision, including the benefits of a standardized approach across the [ ] Group and the effect that the "high-to-low" check posting order would have on the bank's revenues.

The bank, which is doing business in California, has provided a copy of a provision in the California Commercial Code that states, in relevant part, "items may be accepted, paid, certified, or charged to the indicated account of its customer *in any order*." Cal. Com. Code § 4303(b) (West Cum. Pocket Part 2001) (emphasis supplied). The bank notes, however, that the California Code Commentary ("Commentary") to that section states—

> The only restraint on the discretion given to the payor bank under subsection (b) [of § 4303] is that the bank act in good faith. For example, the bank could not properly follow an established practice of maximizing the number of returned checks for the sole purpose of increasing the amount of returned check fees charged to the customer. On the other hand, the bank has the right to pay items for which it is itself liable ahead of those for which it is not. (1992 Senate Daily Journal 7350).[2]

This Commentary has prompted the bank to seek the OCC's views on whether the decision to post checks in a particular order is a pricing decision authorized by federal law.

II. Authority to Charge a Fee

Section 24(Seventh) authorizes a national bank to engage in activities that are part of, or incidental to, the business of banking[3] as well as to engage in certain specified activities listed in the statute. Pursuant to section 24(Seventh) and the OCC's regulations, a national bank may charge its customers a fee. The relevant section of the OCC regulation states:

> (a) *Customer charges and fees.* A national bank may charge its customers non-interest charges and fees, including deposit account service charges. For example, a national bank may impose deposit account service charges that its board of directors determines to be reasonable on dormant accounts. A national

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[1] The bank has requested confidential treatment of the submission, based on the bank's conclusion that the submission includes information that is exempt from disclosure under the Freedom of Information Act ("FOIA"), 12 USC 552(b). The FOIA exempts matters constituting "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

[2] We note that, while this Commentary does not have the force of law, it provides persuasive evidence of legislative intent.

[3] The powers clause of section 24(Seventh) provides that a national bank may "exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking. . . ." 12 USC 24(Seventh). *See NationsBank v. Variable Annuity Life Ins. Corp.*, 513 US 251 (1995) (the "business of banking" is not limited to the list of powers enumerated in section 24(Seventh)).

> bank may also charge a borrower reasonable fees for credit reports or investigations with respect to a borrower's credit. All charges and fees should be arrived at by each bank on a competitive basis and not on the basis of any agreement, arrangement, undertaking, understanding, or discussion with other banks or their officers.

12 CFR. 7.4002(a).

The bank's authority in this, as in all other, areas must be exercised in a manner that is consistent with safe and sound banking practices. Paragraph (b) of section 7.4002 sets out the factors that the bank should consider to ensure that its process for setting its fees and charges is consistent with safety and soundness:

> (b) *Considerations.* The establishment of non-interest charges and fees, and the amounts thereof, is a business decision to be made by each bank, in its discretion, according to sound banking judgment and safe and sound banking principles. A bank reasonably establishes non-interest charges and fees if the bank considers the following factors, among others:
>
> (1) The cost incurred by the bank, plus a profit margin, in providing the service;
>
> (2) The deterrence of misuse by customers of banking services;
>
> (3) The enhancement of the competitive position of the bank in accordance with the bank's marketing strategy; and
>
> (4) The maintenance of the safety and soundness of the institution.

If a bank uses a decisionmaking process that takes these factors into consideration, then there is no supervisory impediment to the bank exercising its discretionary authority to charge customers non-interest fees and charges pursuant to section 7.4002(a).[4]

A bank's authorization to establish fees pursuant to 12 CFR 7.4002(a) necessarily includes the authorization to decide how they are computed. Here, according to the information the bank has submitted, the amount of the NSF fee the bank charges depends on, among other factors, the number of items presented against insufficient funds in the same account during the preceding 12-month period. The number of items presented against insufficient funds is determined by the order of posting a bank uses. For example, the high-to-low posting order that the bank wishes to use will result in the bank's payment of the depositor's largest checks first. If the depositor has written a number of checks against insufficient funds that are presented on the same day, the high-to-low posting order may result in a greater number of checks being presented against insufficient funds than if the bank used a different posting order. Thus, posting order is one component that affects the bank's NSF fee-setting computation.

On this point, federal law governing national bank fees, as embodied in section 7.4002(a), is consistent with the check-posting provision of the California Commercial Code cited by the bank, which permits the bank to post checks "in any order." The Commentary to the California provision glosses this provision with the application of a "good faith" standard. While this letter does not address the applicability to the bank of the California Commercial Code check-posting provision or the standard articulated in the Commentary, we note that a relevant factor in evaluating good faith would be whether a bank's actions were inconsistent with the practices it had represented to its customers that it would follow. Based on the materials submitted, such is not the case here.

III. The Bank's Consideration of the Section 7.4002(b) Factors

The bank has provided analysis and supporting documentation demonstrating that the bank has considered each of the four factors listed in section 7.4002(b)(1)–(4) in its process of deciding to change the order of check posting.

The bank's submission contains projections showing that revenue is likely to increase as a result of adopting a high-to-low order of check posting. The bank also notes that the decision to use a high-to-low order of posting will standardize the bank's practices in the affected parts of the bank, thereby removing inefficiencies that currently exist.

The bank also has considered the deterrent effect that a high-to-low order of posting likely will have on its customers. The bank's submission contains a discussion of the bank's experience in the aftermath of decisions made by its competitors to adopt a high-to-low order of posting. The bank concludes that it needs to adopt the high-to-low order of posting so that customers who frequently write checks against insufficient funds do not do business with the bank primarily because the bank's fee for checks pre-

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[4] The OCC has recently proposed amendments to section 7.4002 that would eliminate certain ambiguities in the text of the regulation. *See 66 Fed. Reg.* 8178 (January 30, 2001) (the NPRM). As indicated in the preamble to the NPRM, however, these amendments would not affect the substance of the regulation or the way it operates.

sented against insufficient funds is lower than its competitors'.

The bank has considered the impact that the change in the order of check posting will have on the quality of service for its customers. The bank suggests that it is more difficult for its employees to handle customer interactions about overdraft processing if there is more than one order of posting. The bank concludes that standardization will simplify this task. This would improve the service the bank provides, thereby enhancing the competitive position of the bank.

The bank also has considered the impact that the high-to-low order of posting would have on the maintenance of the bank's safety and soundness. The bank states its belief that a high-to-low order of posting is consistent with the majority of its customers' preferences. The bank surmises that the intended order, which will result in a customer's largest bills being paid first, will have the consequence of the customer's most important bills (such as mortgage payments) being paid first. The bank thus concludes that a high-to-low order is aligned with the majority of its customers' priorities and preferences.[5]

Given the factors considered by the bank noted above, we conclude that the bank's process for deciding the order of check posting is consistent with the safety and soundness considerations set forth in section 7.4002(b) and that the bank may therefore post checks in the order it desires pursuant to the authority vested in the bank by section 7.4002(a) and section 24(Seventh) of the National Bank Act.[6]

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

[5] While not required by any federal law, specific disclosure of the chosen order of check posting minimizes customer confusion and helps to address assertions that a bank has acted unfairly.

[6] We note that the authority of the bank and other national banks to charge fees is not conditioned on obtaining an individual confirming opinion, since national banks are authorized to charge noninterest fees and charges as an inherent element of their authority to conduct the business of banking.

917- September 4, 2001

[Note: This OCC Interpretive Letter was released jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Bureau of Consumer Protection of the Federal Trade Commission.]

15 USC 6802(d)
15 USC 6802(e)(1)
15 USC 6809(7)

Re: Borrower's Loan Number on Recorded Documents

Dear [Company A]:

This letter responds to your letter to the 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"), and Federal Trade Commission ("FTC") (collectively, "the Agencies"), dated June 8, 2001. You ask the Agencies whether it is permissible under the Gramm–Leach–Bliley Act ("GLBA"), Pub. L. No. 106–102 (Nov. 12, 1999), for an originating lender to place the borrower's loan account number on mortgages, deeds of trust, and assignments and releases of mortgages (collectively, "mortgage loan documents") that are then recorded in public records. For the reasons discussed below, it is our opinion that such practice falls within section 502(e)(1) of the GLBA, which excepts from the opt-out requirements disclosures of nonpublic personal information that are "necessary to effect, administer, or enforce the transaction" as that term is defined in section 509(7) of GLBA.[1] It also is our opinion that the practice is not prohibited by section 502(d) of GLBA, which, as a general rule, bans the disclosure of account numbers to nonaffiliated third parties for use in marketing.

You state in your letter that it is a longstanding common practice for a mortgage lender to place the borrower's account number on a mortgage loan document to enable the document to be tracked and placed in the proper file once the document is recorded and returned from the recording office. You also state that the return of the document might take several months, and you note that the presence of the account number provides an efficient

[1] The Agencies' rules implement section 502(e)(1) in 12 CFR 40.14 (OCC); 12 CFR 216.14 (FRB); 12 CFR 332.14 (FDIC); 12 CFR 573.14 (OTS); 12 CFR 716.14 (NCUA); and 16 CFR 313.14 (FTC).

method for the receiving party (who might be the purchaser or servicer of the loan) to correctly identify the file in which to place the instrument.

Your letter raises two issues. The first is whether the disclosure of account numbers fits within the exceptions to the opt-out requirements. The second is whether the practice you ask about is permissible in light of the prohibition against disclosing account numbers to third parties for use in marketing. These issues are addressed below.

Exceptions to opt-out requirements. A financial institution may not disclose nonpublic personal information unless either (a) the institution first informs a consumer that it intends to do so and gives the consumer an opportunity to opt out or (b) the disclosure fits within one of the exceptions to the opt-out requirement. You note that the lender will be disclosing nonpublic personal information by adding the account number to the mortgage loan document and then having it recorded, but you maintain that this disclosure fits within the exception to the opt-out rules for disclosures that are "necessary to effect, administer, or enforce a transaction requested or authorized by the consumer." GLBA, section 502(e)(1).

As you point out, the exception for disclosures that are "necessary to effect, administer, or enforce a transaction" applies to, among other things, a disclosure that is "required, or is a usual, appropriate, or acceptable method to carry out the transaction or the product or service business of which the transaction is a part, and record or service or maintain the consumer's account in the ordinary course of providing the financial service or financial product. . . ." *Id.* section 509(7)(A). Your letter suggests that, since the practice of placing account numbers on mortgages is so widespread and because the account number on a recorded instrument assists the recipient of the document in placing the instrument in the appropriate file, the disclosure of the mortgage account number under the circumstances you describe should be viewed as a "usual" and "appropriate" method of carrying out a transaction and of recording the instruments in question.

We agree that the presence of an account number on a mortgage loan document facilitates the appropriate handling of that document, and note that many mortgage lenders use account numbers on loan documents for this reason. In many cases, ownership of the loan will have changed hands between the time the document is submitted for recordation and the time it is returned from the recording office. The presence of the account number on the mortgage loan documents in such situations is particularly helpful to ensure proper filing. Thus, we believe that the disclosure of the account number on the mortgage loan document fits within the exception provided for by Congress in section 502(e)(1).

Applicability of prohibition against disclosing account numbers for use in marketing. Section 502(d) generally prohibits a financial institution from disclosing account numbers of credit card accounts, deposit accounts, or transaction accounts to any nonaffiliated third party for use in telemarketing, direct mail marketing, or other marketing through electronic mail to a consumer. This prohibition overrides the exceptions to the opt-out requirements. Thus, if the disclosure of a mortgage account number on a mortgage loan document is deemed to be the disclosure of a "transaction account" number, the disclosure will be prohibited if it is "for use in marketing."

We believe that this prohibition does not apply to the disclosure of mortgage account numbers on mortgage loan documents. The disclosure in question is not "for use in marketing." The account number is placed on the mortgage loan document solely for the purpose of facilitating the accurate processing of the document, and the document is disclosed to the recording office solely for the purpose of recordation. Accordingly, the prohibition against disclosing account numbers for use in marketing would not apply.[2]

We trust that this is responsive to your inquiry.

J. Virgil Mattingly
General Counsel
Board of Governors of the Federal Reserve System

William F. Kroener, III
General Counsel
Federal Deposit Insurance Corporation

Robert M. Fenner
General Counsel
National Credit Union Administration

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel
Office of the Comptroller of the Currency

[2] We do not address the issue in this letter of whether a mortgage account number is a "transaction account" number. As noted in the Agencies' final rules, a "transaction account" does not include an account to which a third party cannot initiate a charge. 12 CFR 40.12(c)(2) (OCC); 12 CFR 216.12(c)(2) (FRB); 12 CFR 332.12(c)(2) (FDIC); 12 CFR 573.12(c)(2) (OTS); 12 CFR 716.12(c)(2) (NCUA); and 16 CFR 313.12(c)(2) (FTC). For additional discussion of the limits on disclosures of transaction account numbers, see joint letter from the Chief Counsels and General Counsels of the OCC, FRB, FDIC, OTS, and NCUA, dated May 25, 2001, regarding Limits on Disclosing Account Numbers (retrievable in redacted form from the OCC's Web site at http://www.occ.treas.gov/foia/int910.pdf).

Carolyn J. Buck
Chief Counsel
Office of Thrift Supervision

Howard Beales
Director
Bureau of Consumer Protection
Federal Trade Commission

918– September 4, 2001

[Note: This OCC Interpretive Letter was released jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Bureau of Consumer Protection of the Federal Trade Commission.]

15 USC 6802(d)
15 USC 6802(e)(1)
15 USC 6809(7)

Re: Borrower's Loan Number on Recorded Documents

Dear [Company B]:

This letter responds to your letter to the Board of Governors of the Federal Reserve System ("FRB"), Federal Deposit Insurance Corporation ("FDIC"), Office of the Comptroller of the Currency ("OCC"), Office of Thrift Supervision ("OTS"), and Federal Trade Commission ("FTC") (collectively, "the Agencies"[1]), dated June 8, 2001. You ask the Agencies whether it is permissible under the Gramm–Leach–Bliley Act (GLBA), Pub. L. No. 106–102 (Nov. 12, 1999), for an originating lender to place the borrower's loan account number on mortgages, deeds of trust, and assignments and releases of mortgages (collectively, "mortgage loan documents") that are then recorded in public records. For the reasons discussed below, it is our opinion that such practice falls within section 502(e)(1) of the GLBA, which excepts from the opt-out requirements disclosures of nonpublic personal information that are "necessary to effect, administer, or enforce the transaction" as that term is defined in section 509(7) of GLBA.[2] It also is our opinion that the practice is not prohibited by section 502(d) of GLBA, which, as a general rule, bans the disclosure of account numbers to nonaffiliated third parties for use in marketing.

You state in your letter that it is a longstanding common practice for a mortgage lender to place the borrower's account number on a mortgage loan document to enable the document to be tracked and placed in the proper file once the document is recorded and returned from the recording office. You also state that the return of the document might take several months, and you note that the presence of the account number provides an efficient method for the receiving party (who might be the purchaser or servicer of the loan) to correctly identify the file in which to place the instrument.

Your letter raises two issues. The first is whether the disclosure of account numbers fits within the exceptions to the opt-out requirements. The second is whether the practice you ask about is permissible in light of the prohibition against disclosing account numbers to third parties for use in marketing. These issues are addressed below.

Exceptions to opt-out requirements. A financial institution may not disclose nonpublic personal information unless either (a) the institution first informs a consumer that it intends to do so and gives the consumer an opportunity to opt out or (b) the disclosure fits within one of the exceptions to the opt-out requirement. You note that the lender will be disclosing nonpublic personal information by adding the account number to the mortgage loan document and then having it recorded, but you maintain that this disclosure fits within the exception to the opt-out rules for disclosures that are "necessary to effect, administer, or enforce a transaction requested or authorized by the consumer." GLBA, section 502(e)(1).

As you point out, the exception for disclosures that are "necessary to effect, administer, or enforce a transaction" applies to, among other things, a disclosure that is "required, or is a usual, appropriate, or acceptable method to carry out the transaction or the product or service business of which the transaction is a part, and record or service or maintain the consumer's account in the ordinary course of providing the financial service or financial product. . . ." *Id.* section 509(7)(A). Your letter suggests that, since the practice of placing account numbers on mortgages is so widespread and because the account number on a recorded instrument assists the recipient of the document in placing the instrument in the appropriate file, the disclosure of the mortgage account number under the circumstances you describe should be viewed as a "usual" and "appropriate" method of carrying out a transaction and of recording the instruments in question.

We agree that the presence of an account number on a mortgage loan document facilitates the appropriate handling of that document, and note that many mortgage

[1] The National Credit Union Administration (NCUA), while not a recipient of your letter, joins in this response.

[2] The Agencies' rules implement section 502(e)(1) in 12 CFR 40.14 (OCC); 12 CFR 216.14 (FRB); 12 CFR 332.14 (FDIC); 12 CFR 573.14 (OTS); 12 CFR 716.14 (NCUA); and 16 CFR 313.14 (FTC).

lenders use account numbers on loan documents for this reason. In many cases, ownership of the loan will have changed hands between the time the document is submitted for recordation and the time it is returned from the recording office. The presence of the account number on the mortgage loan documents in such situations is particularly helpful to ensure proper filing. Thus, we believe that the disclosure of the account number on the mortgage loan document fits within the exception provided for by Congress in section 502(e)(1).

Applicability of prohibition against disclosing account numbers for use in marketing. Section 502(d) generally prohibits a financial institution from disclosing account numbers of credit card accounts, deposit accounts, or transaction accounts to any nonaffiliated third party for use in telemarketing, direct mail marketing, or other marketing through electronic mail to a consumer. This prohibition overrides the exceptions to the opt-out requirements. Thus, if the disclosure of a mortgage account number on a mortgage loan document is deemed to be the disclosure of a "transaction account" number, the disclosure will be prohibited if it is "for use in marketing."

We believe that this prohibition does not apply to the disclosure of mortgage account numbers on mortgage loan documents. The disclosure in question is not "for use in marketing." The account number is placed on the mortgage loan document solely for the purpose of facilitating the accurate processing of the document, and the document is disclosed to the recording office solely for the purpose of recordation. Accordingly, the prohibition against disclosing account numbers for use in marketing would not apply.[3]

We trust that this is responsive to your inquiry.

J. Virgil Mattingly
General Counsel
Board of Governors of the Federal Reserve System

William F. Kroener, III
General Counsel
Federal Deposit Insurance Corporation

[3] We do not address the issue in this letter of whether a mortgage account number is a "transaction account" number. As noted in the Agencies' final rules, a "transaction account" does not include an account to which a third party cannot initiate a charge. 12 CFR 40.12(c)(2) (OCC); 12 CFR 216.12(c)(2) (FRB); 12 CFR 332.12(c)(2) (FDIC); 12 CFR 573.12(c)(2) (OTS); 12 CFR 716.12(c)(2) (NCUA); and 16 CFR 313.12(c)(2) (FTC). For additional discussion of the limits on disclosures of transaction account numbers, see joint letter from the Chief Counsels and General Counsels of the OCC, FRB, FDIC, OTS, and NCUA, dated May 25, 2001, regarding Limits on Disclosing Account Numbers (retrievable in redacted form from the OCC's Web site at http://www.occ.treas.gov/foia/int910.pdf).

Robert M. Fenner
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National Credit Union Administration

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel
Office of the Comptroller of the Currency

Carolyn J. Buck
Chief Counsel
Office of Thrift Supervision

Howard Beales
Director
Bureau of Consumer Protection
Federal Trade Commission

919– November 9, 2001

12 CFR 9.18

RE: Model-Driven Funds

Dear [ ]:

This is in response to your request for confirmation that the OCC permits model-driven funds, established pursuant to 12 CFR 9.18, to allocate costs to individual participants being admitted to or withdrawing from such funds in the same manner and to the same extent as section 9.18 index funds. Based on your representations and for the reasons set forth below, we conclude that model-driven funds, as defined below, may allocate costs to individual participants in the manner described below.[1]

Background

You represent a national bank that administers index funds and model-driven funds, established pursuant to 12 CFR 9.18.[2] The index funds are collective investment

[1] You have represented that the proposed allocation, if properly disclosed, complies with applicable law, including the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to the extent that the model-driven funds have assets of clients subject to ERISA. The OCC has not addressed and does not opine whether the proposed allocation complies with ERISA or applicable federal securities law and state law.

[2] Section 9.18 collective investment funds include funds maintained by the bank, exclusively for the collective investment or reinvestment of money contributed to the fund by the bank, or one or more affiliated banks, in its capacity as trustee, executor, administrator, guardian, or custodian under a uniform gifts to minors act. 12 CFR 9.18(a)(1). Section 9.18 collective investment funds also in-

funds that seek to replicate the performance of a specified index, such as the Standard and Poor's 500 Index. Trading decisions are made according to a formula that tracks the rate of return of the index by replicating the entire portfolio of the index or by investing in a representative sample of that portfolio.

The model-driven funds are collective investment funds that seek to outperform a specified index or benchmark based on a pre-determined investment strategy.[3] In the model-driven funds, a computer model selects the identity and amount of securities contained in the funds. The model is based on prescribed objective criteria, using independent third party data that is not within the control of the fund manager.

Proposal

The bank has proposed to charge or credit fund participants who are admitted to, or withdraw from its model-driven funds with the costs, expenses and related adjustments (collectively, the "costs") involved in the acquisition of securities when the participants are admitted to the funds, and the disposition of securities upon the participants' withdrawal from the funds.[4] The bank currently charges or credits fund participants who are admitted to, or withdraw from its index funds in this manner. With respect to domestic model-driven funds, these costs would include:

(1) commissions paid by the fund to broker/dealers on purchases or sales, as applicable, of portfolio investments relating to the participant's contribution or redemption, respectively;

(2) Securities and Exchange Commission fees on sales of portfolio investments of U.S. listed and traded securities by the fund relating to the participant's redemption; and

(3) the net difference (positive or negative) between:

(a) the market value of the portfolio investments purchased or sold by the funds, relating to the participant's contribution or redemption, on the date the fund's investments are valued for purposes of determining the number of units in the fund to be issued to or redeemed for the participant, and

(b) the fund's execution price for such portfolio investments.[5]

The bank has represented that it will inform all participants in the model-driven funds it manages that these costs will be allocated to contributing and redeeming participants.

You contend on behalf of the bank that allocating costs in this manner is appropriate for two reasons. First, you believe that allocating costs to individual participants entering or exiting the fund will be fair and equitable to all the participants in the fund. You believe that a procedure that did not allocate costs to a contributing or withdrawing participant could be unfair to other participants in the fund because these other participants would bear the expenses and charges attributable to the contributing or withdrawing participant.

Second, you note that the OCC has previously permitted section 9.18 index funds to charge brokerage fees and expenses to accounts that are purchasing or selling units of the index fund. You believe that model-driven funds should be treated in the same manner as index funds for purposes of allocating costs, given the similarities between these types of funds. You note that both index funds and model-driven funds limit the discretion of fund managers, are based upon certain pre-specified formulae or algorithms, and are quantitative in nature.

For these reasons, you believe the OCC should permit model-driven funds, established pursuant to 12 CFR 9.18, to allocate costs to individual participants being admitted

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clude funds consisting solely of assets of retirement, pension, profit sharing, stock bonus or other trusts that are exempt from federal income tax. 12 CFR 9.18(a)(2).

[3] The index or benchmark must represent the investment performance of a specific segment of the public market for debt or equity securities. In addition, the index or benchmark must be established and maintained by an independent organization that is in the business of providing financial information or brokerage services to institutional clients, a publisher of financial news or information or a public stock exchange or association of securities dealers. The index or benchmark must be a standardized index of securities that is not specifically tailored for the use of the manager.

[4] The bank has represented that trades would be effected in a prudent and expeditious manner. The bank has committed that the fund would not engage in any "market timing" (*i.e.*, the fund would not seek to "time" the transactions in anticipation of broad market movements).

[5] With respect to international model-driven funds investing in foreign securities, these costs would include items (1) and (3) listed above, as well as the following: (1) transaction-related charges to convert, as applicable, the participant's contribution of U.S. dollars to the relevant foreign currencies or the proceeds on sales relating to the participant's redemption to U.S. dollars from the relevant foreign currencies, and any applicable stamp taxes or other types of transfer fees imposed by a foreign jurisdiction or a foreign exchange; and (2) bank custodian charges paid by the fund representing fees levied on a per-portfolio transaction basis relating to the participant's contribution or redemption, as applicable. In general, you state that the charges to contributing and redeeming participants are higher in foreign markets than in U.S. markets because the costs associated with purchases and sales of securities are higher in foreign markets.

to or withdrawing from such funds in the same manner and to the same extent as section 9.18 index funds.

Discussion

Collective investment funds, established pursuant to 12 CFR 9.18, generally are not permitted to charge individual participants with the cost of entering or exiting a fund.[6] The OCC has determined, however, that funds with certain characteristics may charge individual participants the costs associated with being admitted to or withdrawing from a fund. In particular, the OCC has permitted a section 9.18 index fund to charge brokerage fees and expenses to accounts that are purchasing or selling units of the index fund provided that the fund document authorizes such charges.[7]

Model-driven funds, established pursuant to 12 CFR 9.18(a)(2), have characteristics similar to section 9.18 index funds. In particular, both index funds and model-driven funds do not involve any significant exercise of investment discretion by investment managers managing the funds. For example, an investment manager of an index fund makes investments according to a formula that tracks the rate of return, risk profile, or other characteristics of an independently maintained index by either replicating the entire portfolio of the index or by investing in a representative sample of such portfolio designed to match the projected risk/return profile of that index.

Similarly, an investment manager of a model-driven fund makes investments based upon a formula by which an ''optimal'' portfolio is created to implement a pre-determined investment strategy that is either based upon or measured by an independently maintained index of securities. A computer model must select the identity and the amount of the securities contained in a model-driven fund. Although managers may use their discretion to design the computer model, the model must be based on prescribed objective criteria using third party data, not within the control of the managers, to transform an independently maintained index.[8]

This limited management discretion helps ensure that all fund participants, including those entering or exiting a fund, will be treated fairly and equitably. For example, the bank has committed that fund participants being admitted to or withdrawing from a fund will have the same access to and benefit from cross-trading opportunities and other low cost trading mechanisms as other fund participants.[9] For these reasons, we conclude that model-driven funds, as defined in this letter, should be permitted to allocate costs to individual participants being admitted to or withdrawing from such funds in the same manner and to the same extent as index funds.[10]

Model Validation and Testing

As noted above, trading decisions in model-driven funds are made by computer models, based on pre-determined investment strategies and prescribed objective criteria.

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[6] Section 9.18(b)(10) permits a bank that manages a collective investment fund to charge reasonable expenses (except expenses incurred in establishing or reorganizing a collective investment fund) to the fund as long as those expenses are permissible under state law and are fully disclosed to fund participants. 12 CFR 9.18(b)(10).

[7] OCC Fiduciary Precedent 9.5980, which interpreted the former Part 9, stated, among other things, that the OCC will not object to an index fund charging brokerage fees and expenses to accounts that are purchasing or selling units of an index fund provided the fund document authorizes such charges. *See* OCC Fiduciary Precedent 9.5980, *Comptroller's Handbook for Fiduciary Activities* (September 1990). *See also* OCC Trust Interpretive Letter No. 228 (August 8, 1989), where the OCC permitted an index fund to charge individual participants with brokerage expenses and certain trading or market gains or losses. Part 9, including 12 CFR 9.18, was amended effective January 29, 1997. 61 *Fed. Reg.* 68,543 (1996). The fiduciary precedents and trust interpretive letters preceding the January 29, 1997 effective date of 12 CFR Part 9 are interpretations of the former regulation. Those precedents and interpretations can still be persuasive in interpreting the language in the new Part 9, however. Furthermore, in many instances the precedents and interpretations have become industry practice or simply articulate sound fiduciary principles.

[8] Fund managers do not have discretion to override trading decisions made by the computer model. Fund managers may, however, verify the data the computer model is relying on and make adjustments to the model output to correct inaccuracies or outdated information. Fund managers may not make such adjustments for arbitrary reasons or to benefit the fund manager, its affiliates, of any party in which the manager or its affiliates have an interest. In addition, any adjustment must be made in compliance with written policies and procedures.

[9] Cross-trading refers to a practice where an investment manager offsets an order to buy a particular security with an order to sell a particular security between two or more accounts under its management without a broker acting as intermediary. The Department of Labor has granted the bank exemptive authority to engage in cross-trading securities with regard to its index funds and model-driven funds.

[10] The Department of Labor has recognized these similarities in its proposed class exemption for model-driven funds and index funds under ERISA. The proposed class exemption would treat model-driven funds and index funds identically for purposes of allowing certain cross-trades of securities under ERISA. The proposed class exemption is based on the limited management discretion associated with these types of funds. *See* 64 *Fed. Reg.* 70057, 70069 (December 15, 1999). The DOL has adopted this same approach for many years with respect to numerous individual prohibited transaction exemptions relating to cross-trading. *See, e.g.*, PTE 95–96, Mellon Bank, N.A., 60 *Fed. Reg.* 35,933 (July 12, 1995); PTE 94–47, Bank of America National Trust and Savings Association, 59 *Fed. Reg.* 32,021 (June 21, 1994); and PTE 94–43, Fidelity Management Trust Company, 59 *Fed. Reg.* 30,041 (June 10, 1994).

These computer models are designed to systematically control risk and costs and achieve above benchmark returns. Computer models that are improperly validated or tested, however, may expose the bank to risks from erroneous model input or output or incorrect interpretation of model results. To mitigate those risks, the bank should ensure that its computer models are frequently verified, validated and reviewed. To ensure proper validation and testing, the bank should develop formal written policies and procedures consistent with the guidance provided in OCC Bulletin 2000–16 on Risk Modeling and Model Validation (May 30, 2000).

Conclusion

Model-driven funds, established pursuant to 12 CFR 9.18(a)(2), may allocate costs to individual participants being admitted to or withdrawing from such funds in the same manner and to the same extent as section 9.18 index funds, provided the fund document authorizes such charges. If you have any questions, please do not hesitate to contact me at (202) 874–5210.

Beth Kirby
Special Counsel
Securities and Corporate Practices

920– December 6, 2001

12 CFR 9.18

Subject: [ ] Trust Company—[ ] Fund

Dear [ ]:

This is in response to your request for an exemption under 12 CFR 9.18(c)(5) to permit annual admissions to and withdrawals from a collective investment fund established by [ ] Trust Company. For the reasons discussed below, we have concluded that annual admissions and withdrawals are permitted under 12 CFR 9.18 and, therefore an exemption from 12 CFR 9.18 is not required.

Proposal

[ ] ("trust company"), a [ ] trust company, seeks to establish a collective investment fund, [ ] ("CIF"), exclusively for the collective investment and reinvestment of money contributed to the fund by the trust company in its capacity as trustee of certain trusts. The trust company is forming the CIF in order to enable several small trusts for which it serves as trustee to invest in [ ] ("limited partnership"), a limited partnership formed by the trust company. Those trusts are not qualified to invest directly in the limited partnership because of their size.

The limited partnership invests in third-party investment partnerships engaged in hedge fund investing. The limited partnership will receive cash flow from its partnership investments once a year. As a result, the limited partnership will only allow annual admissions and withdrawals. Because the limited partnership only permits annual admissions and withdrawals, the trust company has proposed that the CIF only allow annual admissions and withdrawals.

The CIF will be valued quarterly. The trust company will use the valuation reports provided to it from the third-party investment partnerships that constitute the underlying investments of the limited partnership to determine the fund's fair value. To comply with 12 CFR 9.18(b)(4)(ii), the trust company must determine that the valuation provided by the limited partnerships represents the fair value of the fund's assets as of the date of the valuation.

Discussion

The OCC's regulation governing collective investment funds does not mandate the frequency of admissions and withdrawals from collective investment funds. The regulation requires that the written plan governing the administration of the CIF include appropriate provisions related to the terms and conditions governing the admission and withdrawal of participating accounts.[1]

In addition, the regulation provides that admissions and withdrawals may only be "on the basis of the valuation described in paragraph (b)(4)." Section 9.18(b)(4), in turn, provides in part that,

> A bank administering a CIF shall determine the value of the fund's assets at least once *every three months.* However, in the case of a fund described in paragraph (a)(2) of this section that is invested primarily in real estate or other assets that are not readily marketable, the bank shall determine the value of the fund's assets *at least once a year*.[2]

These provisions require that bank trustees use the valuation derived under section 9.18(b)(4) to determine the

[1] The regulation also provides that certain funds may require a prior notice period of up to one year for withdrawals. 12 CFR 9.18(b)(5)(iii).

[2] 12 CFR 9.18(b)(4)(i). Section 9.18(b)(4) also establishes the method of valuation. In general, bank trustees are required to value fund assets at market value as of the date set for valuation, unless the bank cannot readily ascertain market value, in which case the bank shall use a fair value determined in good faith. *See* 12 CFR 9.18(b)(4)(ii)(A). Different valuation methods apply to short term investment funds. *See* 12 CFR 9.18(b)(4)(ii)(B).

amount participants are entitled to when they are admitted to or withdraw from a fund. It does not mandate the frequency of admissions and withdrawals.[3] National banks and institutions that must comply with this regulation to receive favorable tax treatment should have valid reasons for limiting admissions and withdrawals, however. In addition, the admissions and withdrawal policies must be consistent with fiduciary duties.

In this case, you have represented that the CIF will not have sufficient liquidity to permit admissions and withdrawals more than once a year because the CIF is invested in a limited partnership that only permits annual admissions and withdrawals. You also have represented that the amount of the investment that each participating trust will make in the CIF will not impair the liquidity of the participating trusts. The CIF is designed as, and will be used as, only one part of an overall investment strategy for the participating trusts.

Based on these representations and consistent with applicable law, the trust company may permit annual admissions and withdrawals from the CIF. The proposed schedule of admissions and withdrawals must be disclosed to fund participants in the CIF's written plan.

I trust this is responsive to your inquiry. Please do not hesitant to contact me if you have any questions.

Beth Kirby
Special Counsel
Securities and Corporate Practices

[3] OCC Trust Interpretive Letters interpreting the prior version of 12 CFR 9.18 concluded that admissions and withdrawals must occur as frequently as valuations. *See e.g.*, Trust Interpretive Letter #13 (February 14, 1986). Upon closer examination of the regulation, however, we have concluded that the regulation does not mandate the frequency of admissions and withdrawals.

Mergers- October 1 to December 31, 2001

Mergers– October 1 to December 31, 2001

Most transactions in this section do not have accompanying decisions. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction has minimal or no adverse competitive effects. The OCC found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects. In addition, the Attorney General either filed no report on the proposed transaction or found that the proposal would not have a significantly adverse effect on competition.

Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks), from October 1 to December 31, 2001

Title and location (charter number)	Total assets
California	
Valley Oaks National Bank (022324)	63,598,000
and Montecito Interim Bank (State Interim Bank), Santa Barbara, California	1,000
merged on October 1, 2001 under the title of Valley Oaks National Bank, Solvang (022324)	63,598,000
First Professional Bank, National Association, Santa Monica (017423)	247,000,000
and First Charter Bank, National Association, Beverly Hills, California (017731)	135,000,000
merged on October 8, 2001,under the title of First Professional Bank, National Association, Santa Monica (017423)	382,000,000
Iowa	
Metrobank, National Association, Davenport (023175)	392,207,000
and Farmers State Bank Chadwick and Mount Carroll, Mount Carroll, Illinois	66,327,000
and Community Bank, Preston, Iowa	98,159,000
merged on November 1, 2001 under the title of Metrobank, National Association, Davenport (023175)	556,798,000
Massachusetts	
First Massachusetts Bank, National Association, Worcester (023043)	7,752,321,000
and Metrowest Bank, National Association. Framingham, Massachusetts (024277)	935,814,000
merged on October 31, 2001 under the title of First Massachusetts Bank, National Association, Worcester (023043)	8,812,533,000
New York	
NBT Bank, National Association, Norwich (001354)	2,559,666,000
and Central National Bank, Canajoharie, Canajoharie, New York (001122)	957,834,000
merged on November 8, 2001 under the title of NBT Bank, National Association, Norwich (001354)	3,517,500,000

Comptroller's Decision

Introduction

On July 31, 2001, application was made to the Office of the Comptroller of the Currency for prior authorization to merge NBT Bank, National Association, (NBT), Norwich, N.Y., with Central National Bank, (CNB), Canajoharie, Canajoharie, N.Y. NBT will be the resulting institution, continuing to operate under its current charter. This application was based on an agreement finalized between the proponents on June 19, 2001.

Participating Financial Institutions

As of March 31, 2001,CNB had total assets of $958 million and total deposits of $830 million. As of the same date, NBT had total deposits of $2 billion. NBT is 100 percent owned by NBT Bancorp, Norwich, N.Y. CNB is 100 percent owned and controlled by CNB Financial Corp. NBT and CNB are members of the Bank Insurance Fund (BIF).

Competitive Analysis

The relevant geographic markets for this proposal include the Albany and Utica–Rome banking markets (as defined by the Federal Reserve Bank of New York), Chenango

County, and Otsego County.[1] These are the areas where competition between NBT and CNB is direct and immediate.

The OCC finds that the markets are delineated in such a way as to accurately measure any adverse competitive effects from the proposed transaction and that the effects of the proposed transaction, as now structured, will not result in a monopoly or be in furtherance of any combination or conspiracy to monopolize the business of banking in any part of the United States, and will not substantially lessen competition in any part of the country, or tend to create a monopoly, and will not be in restraint of trade. In making this determination, the OCC carefully considered the report of the Department of Justice, which similarly found the proposed transaction would not have a significantly adverse effect on competition.[2]

Albany and Utica–Rome Banking Markets

The OCC reviewed the competitive effects of this transaction in the Albany and Utica–Rome banking markets by using its standard procedures for determining whether a business combination clearly has minimal or no adverse competitive effects. For these two areas, the OCC finds the transaction satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

Chenango County Market

Chenango County is where CNB's Norwich branch (CNB's only branch in the county) derives the bulk of its deposits, and where the branch competes directly and immediately with NBT. Subject to NBT's proposed divestiture of CNB's Norwich branch, the OCC finds that this transaction will have no or minimal adverse competitive effects in the Chenango County market.

[1] NBT also has branches in the Binghamton, NY–Pennsylvania, banking market (Broome and Tioga Counties, NY), the Plattsburgh, NY, banking market (Clinton and Essex Counties, NY), Delaware County (NY), the Scranton/Wilkesbarre, PA, banking market (Lackawanna, Luzerne, and Wayne Counties, PA), the Monroe County, PA, banking market, and in Pike County (PA). CNB does not have any branches in these markets/counties.

[2] In reaching this conclusion, the Department of Justice relied on commitments by NBT to divest of CNB's branch in Norwich, Chenango County, New York. These commitments are included in the Letter of Agreement between the Department of Justice and NBT dated October 15, 2001. NBT agreed that it would not consummate the merger until a contract with a competitively suitable purchaser, as determined by the Department of Justice, is signed by NBT or CNB and the purchaser for the sale of the divested branch.

Otsego County Market

Within the Otsego County market, five commercial banks and one thrift compete for approximately $775 million in deposits. NBT is the fourth largest depository institution, with approximately 4 percent of the market's total deposits. CNB ranks second, with approximately 33 percent of the market's deposits. Upon consummation of this transaction, NBT would become the second largest depository institution, with approximately 37 percent of the market's deposits. While the proposed transaction would eliminate some direct competition in this market, any adverse competitive effects would be mitigated by the presence of other banking alternatives, including offices of three large regional banking companies. Accordingly, consummation of this proposal would not have a significantly adverse effect on competition in the Otsego County market.

Based on an analysis of these competitive factors, the merger application may be approved under section 1828(c).[3]

Banking Factors

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and the managerial resources of NBT and CNB do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

Convenience and Needs

The merger will not have an adverse impact on the convenience and needs of the communities to be served. The resulting bank will continue to serve the same areas that it now serves. NBT currently offers a full line of banking services and there will be no changes in these products or services as a result of this transaction. No public comments were received.

[3] The Federal Reserve Bank of New York, acting on behalf of the Board of Governors of the Federal Reserve System, reported that the merger could have significant adverse effects on competition, although it qualified its report by noting that it had not evaluated all of the economic factors that may be relevant to the competitive effects of the proposal.

Community Reinvestment Act

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities, revealed no evidence that the applicants' record of helping to meet the credit needs of their communities, including low-and-moderate-income neighborhoods, is less than satisfactory.

Conclusion

We have analyzed this proposal pursuant to the Bank Merger Act 12 USC 1828(c) and 12 CFR 5.33, and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. This approval is also subject to the following condition:

- NBT Bank shall comply with the agreement between NBT Bank and the Department of Justice dated October 15, 2001.

Please note that the above conditions to this approval are conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818. As such, the conditions are enforceable under 12 USC 1818.

This conditional approval, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or an officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

[Application control number: 2001-NE-020044]

Nonaffiliated mergers (continued)

Title and location (charter number)	Total assets
Ohio	
The Second National Bank of Warren, Warren (002479)	1,576,652,000
and Commerce Exchange Bank, Beachwood, Ohio	119,225,000
merged on October 25, 2001 under the title of The Second National Bank of Warren, Warren (002479)	1,710,547,000
The National Bank & Trust Company, Wilmington (001997)	606,000,000
The Sabina Bank, Sabina, Ohio	52,000,000
merged on December 10, 2001 under the title of The National Bank & Trust Company, Wilmington (001997)	651,000,000

Comptroller's Decision

Introduction

On September 10, 2001 an application was made to the Office of the Comptroller of the Currency (OCC) for prior authorization for The National Bank and Trust Company, Wilmington, Ohio (hereinafter "NB of Wilmington) to purchase substantially all of the assets and assume all of the deposit liabilities of The Sabina Bank, Sabina, Ohio (hereinafter "Sabina") under the title and charter of The National Bank and Trust Company. This application was based on an agreement entered into between the proponents on July 9, 2001.

Participating Financial Institutions

As of June 30, 2001 NB of Wilmington had total deposits of $438 million and operated 16 offices. On the same date, Sabina had total deposits of $44 million and operated three offices. Sabina is a banking subsidiary of Premier Financial Bancorp, Inc., Georgetown, Kentucky. NB of Wilmington is the sole banking subsidiary of NB&T Financial Group, Inc., Wilmington, Ohio.

Competitive Analysis

The relevant geographic market for analyzing the competitive effects of this proposal is the Wilmington, Ohio banking market. This market consists of all the townships in Clinton County except Chester and Marion and only the townships of Dodson and Fairfield in Highland County. The Wilmington, Ohio banking market is the area where competition between NB of Wilmington and Sabina is direct and immediate.

As of June 30, 2000, within the Wilmington, Ohio banking market, nine financial institutions competed for $504 million in deposits. NB of Wilmington ranked first in the market with $145 million in deposits, or 29 percent of the market share of total deposits. Sabina ranked sixth with $28 million in deposits, or 6 percent of the market share of total deposits.

After the transaction, NB of Wilmington will have a 34 percent market share of total deposits and continue to rank first in the market. Following the elimination of Sabina from the market, NB of Wilmington will compete with three banks and four thrifts. Two of the competing banks are large out-of-state institutions with a 23 percent and 7 percent market share of deposits. While the purchase and assumption will eliminate one competitor in the market, any adverse effect would be mitigated by the presence of numerous other banking alternatives. Therefore, consummation of this proposal will not have a significantly adverse effect on competition in this relevant geographic market.

Banking Factors

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and the convenience and needs of the community to be served." We find that the financial and managerial resources of Empire and Huntington do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable. All existing offices of the applicant will continue operating and no products or services will be discontinued. Given these facts, the resulting bank is expected to meet the convenience and needs of the communities being served.

Community Reinvestment Act

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities has revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low-to-moderate-income neighborhoods, are less than satisfactory.

Conclusion

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC 1828 (c)) and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, this application is approved.

[Application control number: 2001-CE-020036]

Nonaffiliated mergers (continued)

Title and location (charter number)	Total assets
Oklahoma	
First National Bank of Edmond, Edmond (022957)	65,566,000
and Rockwell Bank, Oklahoma City, Oklahoma	44,610,000
merged on October 18, 2001 under the title of First National Bank of Edmond, Edmond (022957)	112,126,000
Texas	
Hondo National Interim Bank, Hondo (024272)	6,000
and The Hondo National Bank, Hondo, Texas (014351)	41,665,000
merged on November 30, 2001 under the title of The Hondo National Bank, Hondo (014351)	41,665,000
South Texas National Bank of Laredo, Laredo (016686)	331,613,000
and Del Rio National Bank, Del Rio, Texas (007433)	143,735,000
merged on November 30, 2001 under the title of South Texas National Bank of Laredo, Laredo (016686)	485,098,000

Affiliated mergers (mergers consummated involving affiliated operating banks), from October 1 to December 31, 2001

Title and location (charter number)	Total assets
California	
Chase Manhattan Bank and Trust Company, National Association (023470)	67,688,000
and The Chase Manhattan Private Bank, National Association (021177)	138,164,000
and Chase Interim National Bank, Pittsburgh, Pennsylvania (024276)	213,579,000
merged December 1, 2001 under the title of J.P. Morgan Trust Company, National Association, Los Angeles (023470)	419,431,000
Illinois	
The Mid-City National Bank of Chicago, Chicago (013684)	958,651,000
and First National Bank of Morton Grove, Morton Grove, Illinois (014662)	309,561,000
and First National Bank of Elmhurst, Elmhurst Illinois (023404)	166,220,000
and Manufacturers Bank, Chicago, Illinois	1,495,759,000
merged on November 7, 2001 under the title of The Mid-City National Bank of Chicago, Chicago (013684)	2,955,391,000
Bank One, National Association, Chicago (000008)	141,620,578,000
and Bank One, Utah, National Association, Salt Lake City, Utah (018785)	1,168,727,000
and Bank One, Arizona, National Association, Phoenix, Arizona (014324)	24,782,115,000
merged on November 9, 2001 under the title of Bank One, National Association, Chicago (000008)	167,571,520,000
Kansas	
Sunflower Bank, National Association, Salina (004742)	808,865,000
and The First National Bank of Canon City, Colorado, Canon City, Colorado (003879)	101,108,000
merged on November 7, 2001 under the title of Sunflower Bank, National Association, Salina (004742)	919,832,000
Louisiana	
Whitney National Bank, New Orleans (014977)	6,801,414,000
and Northwest Bank, National Association, Houston, Texas (023070)	170,645,000
merged on October 26, 2001 under the title of Whitney National Bank, New Orleans (014977)	6,972,059,000
Minnesota	
U.S. Bank National Association, Minneapolis (013405)	79,691,000, 000
and U.S. Bank, National Association, Canby, Oregon (023714)	5,000,000
merged on August 9, 2001 under the title of U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
Winona National and Savings Bank, Winona (010865)	151,052,000
and Town & Country State Bank of Winona, Winona, Minnesota	91,002,000
merged on October 5, 2001 under the title of Winona National Bank, Winona (010865)	241,695,000
Mississippi	
Trustmark National Bank, Jackson (010523)	6,980,218,000
and Nashoba Bank, Germantown, Tennessee	177,226,000
merged on December 14, 2001 under the title of Trustmark National Bank, Jackson (010523)	7,145,529,000
New Mexico	
Vectra Bank Colorado, National Association, Farmington (023849)	2,296,000
and The Minnequa Bank of Pueblo, Pueblo, Colorado	319,000
merged on November 9, 2001 under the title of Vectra Bank Colorado, National Association, Farmington (023849)	2,635,000
North Dakota	
U.S. Bank National Association ND, Fargo (023446)	2,525,000, 000
and Firstar Bank U.S.A., National Association, Waukegan, Illinois (022869)	558,000, 000
merged on October 1, 2001 under the title of U.S. Bank National Association ND, Fargo (023446)	3,083,000,000
Ohio	
Firstar Bank, National Association, Cincinnati (000024)	36,506,629,000
Firstar Bank, National Association, Overland Park , Overland Park, Kansas (024094)	4,253,851,000
merged on July 13, 2001 under the title of Firstar Bank, National Association, Cincinnati (000024)	40,760,480,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Pennsylvania	
PNC Bank, National Association, Pittsburgh (001316)	64,533,206,000
and Hilliard Lyons Trust Company, Louisville, Kentucky	58,454,000
merged on September 30, 2001 under the title of PNC Bank, National Association, Pittsburgh (001316)	64,591,123,000
Omega Bank, National Association, State College (010506)	640,085,000
and Penn Central National Bank, Huntingdon, Pennsylvania (000031)	183,271,000
and Hollidaysburg Trust Company, Hollidaysburg, Pennsylvania	299,952,000
merged on October 19, 2001 under the title of Omega Bank, National Association, Huntingdon (000031)	1,123,308,000
Tennessee	
First Tennessee Bank National Association, Memphis (000336)	18,627,331,000
and Peoples Bank of Senatobia, Senatobia, Mississippi	134,644,000
merged on November 16, 2001 under the title of First Tennessee Bank National Association, Memphis (000336)	18,735,520,000
Texas	
Citizens National Bank, Henderson (013443)	460,337,000
and Peoples State Bank, Henderson, Texas	54,152,000
merged on October 26, 2001 under the title of citizens National Bank, Henderson (013443)	514,489,000
First National Bank, Edinburg (014124)	723,620,000
and Nueces National Bank, Corpus Christi, Texas (016063)	107,206,000
merged on November 30, 2001 under the title of First National Bank, Edinburg (014124)	842,905,000
Stockmens National Bank in Cotulla, Cotulla (014302)	32,884,000
and Stockmen's Financial Corporation, Cotulla, Texas	3,379,000
merged on December 10, 2001 under the title of Stockmens National Bank in Cotulla, Cotulla (014302)	32,884,000
Virginia	
Cardinal Bank, National Association, Fairfax (023606)	81,160,000
and Cardinal Bank—Dulles, National Association, Reston, Virginia (023878)	41,588,000
and Cardinal Bank—Potomac, McLean, Virginia	57,890,000
merged on November 1, 2001 under the title of Cardinal Bank, National Association, Fairfax (023606)	178,413,000
Washington	
Neuberger Berman National Trust Company, Seattle (024151)	3,677,000
and Neuberger Berman Trust Company, New York, New York	3,837,000
merged on September 30, 2001 under the title of Neuberger Berman National Trust Company, Seattle (024151)	4,737,000
Wisconsin	
The American National Bank of Beaver Dam, Beaver Dam (004602)	105,666,000
and Bank of Helenville, Helenville, Wisconsin	8,854,000
merged on November 19, 2001 under the title of The American National Bank of Beaver Dam, Beaver Dam (004602)	113,921,000
Associated Bank, National Association, Green Bay (023695)	9,142,069,000
and Associated Commercial Mortgage, Inc., Milwaukee, Wisconsin	448,334,000
merged on October 26, 2001 under the title of Associated Bank, National Association, Green Bay (023695)	9,590,403,000

Affiliated mergers- thrift (mergers consummated involving affiliated national banks and savings and loan associations), from October 1 to December 31, 2001

Title and location (charter number)	Total assets
California	
California National Bank, Los Angeles (023543)	857,962,000
and People's Bank of California, Los Angeles, California	3,278,116,000
merged on November 13, 2002 under the title of California National Bank, Los Angeles (023543)	4,136,078,000
Florida	
The Chase Manhattan Private Bank, National Association, Tampa (021177)	65,954,000
and J.P. Morgan FSB, Palm Beach, Florida	72,210,000
merged on December 1, 2001 under the title of The Chase Manhattan Private Bank, National Association, Tampa (021177)	138,164,000
Kansas	
Security National Bank, Manhattan (023038)	155,443,000
and Landmark Federal Savings Bank, Dodge City, Kansas	217,744,000
merged on October 9, 2001 under the title of Landmark National Bank, Manhattan (023038)	372,587,000
Michigan	
Michigan National Bank, Farmington Hills (016660)	8,270,409,000
and Standard Federal Bank, Troy Michigan	9,873,980,000
merged on October 5, 2001 under the title of Standard Federal Bank National Association, Troy (016660)	18,144,389,000
New Jersey	
Sun National Bank, Vineland (018606)	1,811,507,000
and Delaware City Bank (SUC: De City Bldg & Loan Assoc), Delaware City, Delaware	169,245,000
merged on November 16, 2001 under the title of Sun National Bank, Vineland (018606)	1,948,877,000
Ohio	
The Security National Bank and Trust Company, Springfield (006594)	658,978,000
and The Third Savings and Loan Company, Piqua, Ohio	193,197,000
merged on December 27, 2001 under the title of The Security National Bank and Trust Company, Springfield (006594)	852,175,000

Tables on the Corporate Structure of the National Banking System

Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks), from January 1 to December 31, 2001

Title and location (charter number)	Total assets
California	
Valley Oaks National Bank (022324)	63,598,000
and Montecito Interim Bank (State Interim Bank), Santa Barbara, California	1,000
merged on October 1, 2001 under the title of Valley Oaks National Bank, Solvang (022324)	63,598,000
First Professional Bank, National Association, Santa Monica (017423)	247,000,000
and First Charter Bank, National Association, Beverly Hills, California (017731)	135,000,000
merged on October 8, 2001,under the title of First Professional Bank, National Association, Santa Monica (017423)	382,000,000
Delaware	
Chase Manhattan Bank USA, National Association, Newark (023160)	34,871,568,000
and First USA Financial Services, Inc., Salt Lake City	151,893,000
merged on April 1, 2001 under the title of Chase Manhattan Bank USA, National Association, Newark (023160)	35,059,873,000
Indiana	
Integra Bank National Association, Evansville (012132)	2,536,224,000
and West Kentucky Bank, Madisonville	293,247,000
merged on January 31, 2001 under the title of Integra Bank National Association, Evansville (012132)	2,834,308,000
Illinois	
Community Trust Bank, National Association, Pikeville (007030)	2,246,362,000
and The Bank of Mt. Vernon, Richmond	132,020,000
merged on January 26, 2001 under the title of Community Trust Bank, National Association, Pikeville (007030)	2,357,382,000
First Mid-Illinois Bank & Trust, National Association, Mattoon (010045)	640,000,000
and American Bank of Illinois in Highland, Highland	33,000,000
merged on April 20, 2001 under the title of First Mid-Illinois Bank & Trust, National Association, Mattoon (010045)	674,000,000
Iowa	
Metrobank, National Association, Davenport (023175)	392,207,000
and Farmers State Bank Chadwick and Mount Carroll, Mount Carroll, Illinois	66,327,000
and Community Bank, Preston, Iowa	98,159,000
merged on November 1, 2001 under the title of Metrobank, National Association, Davenport (023175)	556,798,000
Kentucky	
Community Trust Bank, National Association, Pikeville (007030)	2,246,362,000
and The Bank of Mt. Vernon, Richmond	132,020,000
merged on January 26, 2001 under the title of Community Trust Bank, National Association, Pikeville (007030)	2,357,382,000
Massachusetts	
First Massachusetts Bank, National Association, Worcester (023043)	7,752,321,000
and Metrowest Bank, National Association. Framingham, Massachusetts (024277)	935,814,000
merged on October 31, 2001 under the title of First Massachusetts Bank, National Association, Worcester (023043)	8,812,533,000
Minnesota	
Wells Fargo Bank Minnesota, National Association, Minneapolis (002006)	50,040,860,000
and The Buffalo National Bank, Buffalo (012959)	127,428,000
merged on January 13, 2001 under the title of Wells Fargo Bank Minnesota, National Association, Minneapolis (002006)	50,167,446,000
Mississippi	
Trustmark National Bank, Jackson (010523)	6,804,269,000
and Peoples Bank, Barretville	336,235,000
merged on April 6, 2001 under the title of Trustmark National Bank, Jackson (010523)	7,108,346,000
Missouri	
First National Bank of St. Louis, Clayton (012333)	883,529,000
and MidAmerica Bank of St. Clair County, O'Fallon	30,640,000
merged on March 1, 2001 under the title of First National Bank of St. Louis, Clayton (012333)	909,217,000

Nonaffiliated mergers (continued)

Title and location (charter number)	Total assets
Nebraska	
Cornerstone Bank, National Association, York (002683)	303,448,000
and The First National Bank of Stromsburg, Stromsburg (008286)	25,898,000
merged on February 22, 2001 under the title of Cornerstone Bank, National Association, York (002683)	326,443,000
New Jersey	
Valley National Bank, Passaic (015790)	6,243,176,000
and The Merchants Bank of New York, New York City	1,370,000,000
merged on January 19, 2001 under the title of Valley National Bank, Passaic (015790)	7,613,176,000
New York	
Community Bank, National Association, Canton (008531)	1,928,997,000
and The Citizens National Bank of Malone, Malone (011897)	115,214,000
merged on January 26, 2001 under the title of Community Bank, National Association, Canton (008531)	2,044,211,000
Community Bank, National Association, Canton (008531)	1,971,371,000
and First Liberty Bank & Trust, Jermyn	646,502,000
merged on May 11, 2001 under the title of Community Bank, National Association, Canton (008531)	2,617,873,000
NBT Bank, National Association, Norwich (001354)	1,508,597,000
and The First National Bank of Northern New York, Norfolk (010895)	114,239,000
merged on June 1, 2001 under the title of NBT Bank, National Association, Norwich (001354)	2,742,823,000
Citibank, N.A., New York City (001461)	382,106,000,000
and European American Bank, Uniondale	15,427,000,000
merged on July 17, 2001 under the title of Citibank, National Association, New York City (001461)	398,363,000,000
Intervest National Bank, New York (023712)	117,384,000
and Intervest Bank, Clearwater	218,588,000
merged on July 20, 2001 under the title of Intervest National Bank, New York (023712)	335,788,000
NBT Bank, National Association, Norwich (001354)	2,559,666,000
and Central National Bank, Canajoharie, Canajoharie, New York (001122)	957,834,000
merged on November 8, 2001 under the title of NBT Bank, National Association, Norwich (001354)	3,517,500,000
Oklahoma	
The First National Bank and Trust Co., Chickasha (005547)	152,791,000
and The First American Bank, Minco	15,107,000
merged on July 1, 2001 under the title of The First National Bank and Trust Co., Chickasha (005547)	166,069,000
First National Bank of Edmond, Edmond (022957)	65,566,000
and Rockwell Bank, Oklahoma City, Oklahoma	44,610,000
merged on October 18, 2001 under the title of First National Bank of Edmond, Edmond (022957)	112,126,000
Ohio	
The Farmers' National Bank of Canfield, Canfield (003654)	433,852,000
and The Security Dollar Bank, Niles	170,712,000
merged on December 31, 2000 under the title of The Farmers' National Bank of Canfield, Canfield (003654)	604,564,000
Peoples Bank, National Association, Marietta (005552)	1,117,275,000
and The Lower Salem Commercial Bank, Lower Salem	24,787,000
merged on February 23, 2001 under the title of Peoples Bank, National Association, Marietta (005552)	1,141,804,000
The Second National Bank of Warren, Warren (002479)	1,576,652,000
and Commerce Exchange Bank, Beachwood, Ohio	119,225,000
merged on October 25, 2001 under the title of The Second National Bank of Warren, Warren (002479)	1,710,547,000
The National Bank & Trust Company, Wilmington (001997)	606,000,000
The Sabina Bank, Sabina, Ohio	52,000,000
merged on December 10, 2001 under the title of The National Bank & Trust Company, Wilmington (001997)	651,000,000

Nonaffiliated mergers (continued)

Title and location (charter number)	Total assets
Rhode Island	
Fleet National Bank, Providence (000200)	160,470,487,000
and Summit Bank, Hackensack	33,291,598,000
and Summit Bank, Norwalk	1,350,855,000
and Summit Bank, Bethlehem	4,388,149,000
merged on March 1, 2001 under the title of Fleet National Bank, Providence (000200)	199,501,089,000
South Carolina	
The National Bank of South Carolina, Sumter (010660)	1,860,708,000
and Carolina Southern Bank, Spartanburg	212,410,000
merged on February 16, 2001 under the title of The National Bank of South Carolina, Sumter (010660)	2,073,118,000
Tennessee	
First Farmers & Merchants National Bank of Columbia, Columbia (014710)	627,356,000
and Peoples and Union Bank, Lewisburg	340,692,000
merged on April 27, 2001 under the title of First Farmers & Merchants National Bank of Columbia, Columbia (014710)	792,791,000
National Bank of Commerce, Memphis (013681)	16,533,514,000
and First Vantage Bank—Tennessee, Knoxville	168,242,000
merged on August 13, 2001 under the title of National Bank of Commerce, Memphis (013681)	16,705,818,000
Texas	
Southwest Bank of Texas National Association, Houston (017479)	3,260,427,000
and Citizens Bank and Trust Company of Baytown, Texas, Bayton	285,451,000
and Baytown State Bank, Baytown	83,922,000
and Pasadena State Bank, Pasadena	34,491,000
merged on December 29, 2000 under the title of Southwest Bank of Texas National Association, Houston (017479)	3,665,521,000
First National Bank in Munday, Munday (013593)	26,397,000
and Home State Bank, Rochester	24,753,000
merged on December 29, 2000 under the title of First National Bank in Munday, Munday (013593)	49,958,000
First National Bank, Alpine (024185)	43,338,000
and West Texas National Bank, Apline (014643)	228,985,000
merged on January 19, 2001 under the title of West Texas National Bank, Alpine (024185)	275,943,000
First Mercantile Bank, National Association, Dallas (023466)	207,010,000
and TownBank, National Association, Mesquite (022975)	78,410,000
merged on September 10, 2001 under the title of First Mercantile Bank, National Association, Dallas (023466)	291,487,000
Hondo National Interim Bank, Hondo (024272)	6,000
and The Hondo National Bank, Hondo, Texas (014351)	41,665,000
merged on November 30, 2001 under the title of The Hondo National Bank, Hondo (014351)	41,665,000
South Texas National Bank of Laredo, Laredo (016686)	331,613,000
and Del Rio National Bank, Del Rio, Texas (007433)	143,735,000
merged on November 30, 2001 under the title of South Texas National Bank of Laredo, Laredo (016686)	485,098,000
Wisconsin	
The First National Bank and Trust Company of Beloit, Beloit (002725)	266,660,000
and Macktown State Bank, Rockton	80,896,000
merged on February 23, 2001 under the title of The First National Bank and Trust Company of Beloit, Beloit (002725)	340,061,000
State Financial Bank, National Association, Hales Corners (000945)	1,071,079,000
and Liberty Bank, Milwaukee	96,863,000
merged on July 7, 2001 under the title of State Financial Bank, National Association, Hales Corners (000945)	1,167,942,000

Nonaffiliated mergers- thrift (mergers consummated involving nonaffiliated national banks and savings and loan associations), from January 1 to December 31, 2001

Title and location (charter number)	Total assets
Missouri	
Bank Midwest, National Association, Kansas City (022015)	2,260,200,000
and The Cameron Savings and Loan Association, A FSB, Cameron	267,077,000
merged on January 12, 2001 under the title of Bank Midwest, National Association, Kansas City (022015)	2,527,277,000

Affiliated mergers (mergers consummated involving affiliated banks), from January 1 to December 31, 2001

Title and location (charter number)	Total assets
Arizona	
First National Bank of Arizona, Chandler (024189)	125,760,000
First Bank of Arizona, National Association, Scottsdale (023876)	177,403,000
merged on June 1, 2001 under the title of First National Bank of Arizona, Chandler (024189)	303,163,000
Arkansas	
First National Bank of Phillips County, Helena (013520)	126,424,630,000
and The Delta State Bank, Elaine	7,433,448,000
merged on April 20, 2001 under the title of First National Bank of Phillips County, Helena (013520)	132,463,078,000
California	
Valley Merchants Bank, National Association, Hemet (022078)	61,588,000
and BBOC Interim Bank, San Bernardino	240,000
merged on August 31, 2000 under the title of Valley Merchants Bank, National Association, Hemet (022078)	61,588,000
Chase Manhattan Bank and Trust Company, National Association (023470)	67,688,000
and The Chase Manhattan Private Bank, National Association (021177)	138,164,000
and Chase Interim National Bank, Pittsburgh, Pennsylvania (024276)	213,579,000
merged December 1, 2001 under the title of J.P. Morgan Trust Company, National Association, Los Angeles (023470)	419,431,000
Colorado	
The Bank of Cherry Creek, National Association, Denver (022332)	273,214,000
and The Bank of Cherry Creek in Boulder, National Association, Boulder (023194)	34,566,000
merged on April 27, 2001 under the title of The Bank of Cherry Creek, National Association, Denver (022332)	307,780,000
Colorado Business Bank, National Association, Denver (016723)	663,386,000
and First Capital Bank of Arizona, Phoenix	119,450,000
merged on September 7, 2001 under the title of Colorado Business Bank, National Association, Denver (016723)	782,836,000
District of Columbia	
Century National Bank, Washington (017278)	291,342,000
and GrandBank, Rockville	117,402,000
merged on May 18, 2001 under the title of Century National Bank, Washington (017278)	427,203,000
Florida	
First National Bank of Naples, Naples (021830)	814,525,000
and Cape Coral National Bank, Cape Coral (022723)	373,945,000
and First National Bank of Fort Myers, Fort Myers (021643)	107,391,000
merged on February 16, 2001 under the title of First National Bank of Naples, Naples (021830)	1,295,861,000
West Coast Guaranty Bank, National Association, Sarasota (023829)	281,138,000
and First National Bank of Florida, Clearwater (023498)	350,021,000
merged on February 16, 2001 under the title of West Coast Guaranty Bank, National Association, Sarasota (023829)	631,159,000
Illinois	
Bank One, National Association, Chicago (000008)	98,120,032,000
and Bank One, Louisiana, National Association, Baton Rouge (013655)	11,427,48?,000
and Bank One, Texas, National Association, Dallas (021969)	31,319,925,000
merged on February 8, 2001 under the title of Bank One, National Association, Chicago (000008)	140,810,579,000
First National Bank of Blue Island, Blue Island (012779)	251,472,000
and Bank of Homewood, National Association, Homewood (024145)	330,405,000
merged on February 16, 2001 under the title of Great Lakes Bank, National Association, Blue Island (012779)	581,877,000
The First National Bank in Toledo, Toledo (013682)	97,827,000
and The Greenup National Bank, Greenup (008115)	53,913,000
merged on June 23, 2001 under the title of The First National Bank in Toledo, Toledo (013682)	151,740,000
Bank One, National Association, Chicago (000008)	141,439,135,000
and Bank One, Florida, Venice	213,009,000
merged on August 23, 2001 under the title of Bank One, National Association, Chicago (000008)	141,650,041,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
The Mid-City National Bank of Chicago, Chicago (013684)	958,651,000
and First National Bank of Morton Grove, Morton Grove, Illinois (014662)	309,561,000
and First National Bank of Elmhurst, Elmhurst Illinois (023404)	166,220,000
and Manufacturers Bank, Chicago, Illinois.	1,495,759,000
merged on November 7, 2001 under the title of The Mid-City National Bank of Chicago, Chicago (013684)	2,955,391,000
Bank One, National Association, Chicago (000008)	141,620,578,000
and Bank One, Utah, National Association, Salt Lake City, Utah (018785)	1,168,727,000
and Bank One, Arizona, National Association, Phoenix, Arizona (014324)	24,782,115,000
merged on November 9, 2001 under the title of Bank One, National Association, Chicago (000008).	167,571,520,000
Indiana	
Old National Trust Company, Terre Haute (022729)	2,888,000
and Old National Trust Company—Illinois, Mt. Carmel (022809)	975,000
and Old National Trust Company—Kentucky, Morganfield (022810)	687,000
merged on December 31, 2000 under the title of Old National Trust Company, Terre Haute (022729)	4,212,000
Old National Banks, Evansville (008846)	8,536,949,000
and Orange County Bank, Paoli	112,827,000
merged on March 8, 2001 under the title of Old National Bank Evansville (008846)	8,649,776,000
American National Trust and Investment Management Company, Muncie (022148)	6,853,000
and Old National Trust Company, Terre Haute (022729)	4,998,000
merged on July 31, 2001 under the title of American National Trust and Investment Management Company, Muncie (022148)	11,851,000
Iowa	
The National Bank, Bettendorf (024171)	5,000,000
and First Illinois National Bank, Savanna (013886)	83,000,000
merged on January 22, 2001 under the title of The National Bank, Bettendorf (024171)	88,000,000
Kansas	
Community National Bank, Chanute (021389).	129,026,000
and First State Bank, Edna	71,346,000
merged on December 31, 2000 under the title of Community National Bank, Chanute (021389)	200,372,000
Teambank, National Association, Paola (003350)	369,896,000
and Iola Bank and Trust Company, Iola	85,992,000
merged on February 24, 2001 under the title of TeamBank, National Association, Paola (003350).	465,006,000
TeamBank, National Association, Paola (003350)	374,940,000
and Fort Calhoun State Bank, Fort Calhoun	27,332,000
merged on July 23, 2001 under the title of TeamBank, National Association, Paola (003350)	402,272,000
The Coldwater National Bank, Coldwater (006767)	11,785,000
The Wilmore State Bank, Wilmore	4,427,000
merged on August 1, 2001 under the title of The Coldwater National Bank, Coldwater (006767)	16,212,000
InTrust Bank, National Association, Wichita (002782)	2,355,831,000
and Will Rogers Bank, Oklahoma City	136,119,000
merged on August 10, 2001 under the title of InTrust Bank, National Association, Wichita (002782)	2,473,047,000
Sunflower Bank, National Association, Salina (004742).	808,865,000
and The First National Bank of Canon City, Colorado, Canon City, Colorado (003879).	101,108,000
merged on November 7, 2001 under the title of Sunflower Bank, National Association, Salina (004742)	919,832,000
Kentucky	
Whitaker Bank, National Association, Lexington (022246)	443,416,000
and The Bank of Whitesburg, Whitesburg	148,833,000
merged on July 16, 2001 under the title of Whitaker Bank, National Association, Lexington (022246)	592,249,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Louisiana	
Whitney National Bank, New Orleans (014977)	5,811,000,000
and First National Bank of Gonzales, Gonzales (015041)	89,000,000
merged on February 9, 2001 under the title of Whitney National Bank, New Orleans (014977)	5,900,000,000
Whitney National Bank, New Orleans (014977)	6,240,312,000
and American Bank, Houston	274,930,000
merged on March 9, 2001 under the title of Whitney National Bank, New Orleans (014977)	6,517,092,000
Whitney National Bank, New Orleans (014977)	6,136,937,000
and Bank of Prattville, Prattville	160,626,000
merged on June 8, 2001 under the title of Whitney National Bank, New Orleans (014977)	6,674,018,000
Whitney National Bank, New Orleans (014977)	6,801,414,000
and Northwest Bank, National Association, Houston, Texas (023070)	170,645,000
merged on October 26, 2001 under the title of Whitney National Bank, New Orleans (014977)	6,972,059,000
Michigan	
Comerica Bank & Trust, National Association, Ann Arbor (021527)	1,457,000
and Comerica Bank, National Association, Toledo (018021)	9,522,000
merged on March 30, 2001 under the title of Comerica Bank & Trust, National Association, Ann Arbor (021527)	10,979,000
Minnesota	
First National Bank of the North, Sandstone (016871)	53,834,000
and Prairie National Bank, Belle Plaine (022942)	38,913,000
merged on April 6, 2001 under the title of First National Bank of the North, Sandstone (016871)	85,647,000
American National Bank of Minnesota, Brainerd (024219)	242,405,000
and American National Bank of Alexandria, Alexandria (024218)	1,129,000
and American National Bank of Detroit Lakes, Detroit Lakes (024216)	1,129,000
and American National Bank of Grand Rapids, Grand Rapids (024215)	1,129,000
and American National Bank of Pequot Lakes, Pequot Lakes (024217)	1,069,000
and American National Bank of Walker, Walker (024213)	1,069,000
merged on August 1, 2001 under the title of American National Bank of Minnesota, Brainerd (024219)	247,450,000
U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
and U.S. Bank, National Association, Canby (023714)	5,000,000
merged on August 9, 2001 under the title of U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
Winona National and Savings Bank, Winona (010865)	151,052,000
and Town & Country State Bank of Winona, Winona, Minnesota	91,002,000
merged on October 5, 2001 under the title of Winona National Bank, Winona (010865)	241,695,000
Mississippi	
Trustmark National Bank, Jackson (010523)	6,980,218,000
and Nashoba Bank, Germantown, Tennessee	177,226,000
merged on December 14, 2001 under the title of Trustmark National Bank, Jackson (010523)	7,145,529,000
Missouri	
Commerce Bank, National Association, Kansas City (018112)	9,139,975,000
and The Centennial Bank, Breckenridge Hills	272,232,000
merged on March 1, 2001 under the title of Commerce Bank, National Association, Kansas City (018112)	9,411,956,000
First National Bank, Mountain View (023530)	87,076,000
and First National Bank, Houston (023529)	53,883,000
merged on June 15, 2001 under the title of First National Bank, Mountain View (023530)	140,959,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Nevada	
Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	6,816,129,000
and First Security Bank of Nevada, Mesquite	272,815,000
merged on April 21, 2001 under the title of Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	7,088,944,000
Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	6,785,598,000
and First Security Trust Company of Nevada, Las Vegas	309,594,000
merged on August 10, 2001 under the title of Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	7,095,054,000
New Jersey	
Commerce Bank National Association, Cherry Hill (017094)	4,382,066,000
and Commerce Bank/Central, National Association, Raritan Township (023840)	397,552,000
merged on March 31, 2001 under the title of Commerce Bank National Association, Cherry Hill (017094)	4,778,610,000
New Mexico	
Vectra Bank Colorado, National Association, Farmington (023849)	2,296,000
and The Minnequa Bank of Pueblo, Pueblo, Colorado	319,000
merged on November 9, 2001 under the title of Vectra Bank Colorado, National Association, Farmington (023849)	2,635,000
New York	
NBT Bank, National Association, Norwich (001354)	1,495,971,000
and PennStar Bank, National Association, Scranton (009886)	1,020,841,000
merged on March 16, 2001 under the title of NBT Bank, National Association, Norwich (001354)	2,516,812,000
North Carolina	
Bank of America, National Association, Charlotte (013044)	581,367,273,000
and NationsBank Trust Company of New York, New York	3,240,000
merged on May 31, 2001 under the title of Bank of America, National Association, Charlotte (013044)	581,370,513,000
Wachovia Bank, National Association, Winston-Salem (001559)	68,284,706,000
and Republic Security Bank, West Palm Beach	2,842,930,000
merged on August 24, 2001 under the title of Wachovia Bank, National Association, Winston-Salem (001559)	70,999,967,000
North Dakota	
Community First National Bank, Fargo (005087)	5,782,671,000
and Community First State Bank, Vermillion	269,090,000
merged on March 22, 2001 under the title of Community First National Bank, Fargo (005087)	6,020,760,000
U.S. Bank National Association ND, Fargo (023446)	2,525,000, 000
and Firstar Bank U.S.A., National Association, Waukegan, Illinois (022869)	558,000,000
merged on October 1, 2001 under the title of U.S. Bank National Association ND, Fargo (023446)	3,083,000,000
Ohio	
Firstar Bank, National Association, Cincinnati (000024)	75,821,000,000
and U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
merged on August 9, 2001 under the title of U.S. Bank National Association, Cincinnati (000024)	154,347,000,000
Firstar Bank, National Association, Cincinnati (000024)	36,506,629,000
Firstar Bank, National Association, Overland Park , Overland Park, Kansas (024094)	4,253,851,000
merged on July 13, 2001 under the title of Firstar Bank, National Association, Cincinnati (000024)	40,760,480,000
Bank One, National Association, Columbus (007621)	38,768,134,000
and First Chicago NDB Mortgage Company, Troy	2,540,420,000
and Bank One Mortgage Corporation, Indianapolis	1,000
merged on September 1, 2001 under the title of Bank One, National Association, Columbus (007621)	41,205,320,000
Oklahoma	
The American National Bank and Trust Company of Sapulpa, Oklahoma, Sapulpa (007788)	272,564,000
and Heritage Bank, Mannford	80,254,000
merged on March 2, 2001 under the title of The American National Bank and Trust Company of Sapulpa, Oklahoma, Sapulpa (007788)	352,763,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
The First National Bank of Heavener, Heavener (009888)	34,663,000
and The State National Bank of Heavener, Heavener (010239)	46,161,000
merged on April 20, 2001 under the title of First National Bank of Heavener, Heavener (009888)	80,824,000
Pennsylvania	
National Penn Bank, Boyertown (002137)	2,264,162,000
and Bernville Bank, National Association, Bernville (017721)	105,281,000
merged on January 4, 2001 under the title of National Penn Bank, Boyertown (002137)	2,369,443,000
First National Trust Company, Hermitage (023778)	904,000
and First National Interim Trust Company, Hermitage (023211)	240,000
merged on February 16, 2001 under the title of FIrst National Trust Company, Hermitage (023778)	904,000
First National Bank of Pennsylvania, Greenville (000249)	1,325,149,000
and Reeves Bank, Beaver Falls	176,282,000
merged on March 16, 2001 under the title of First National Bank of Pennsylvania, Greenville (000249)	1,491,431,000
PNC Bank, National Association, Pittsburgh (001316)	69,361,303,000
and PNC Advisors, National Association, Boston (023938)	13,235,000
merged on March 31, 2001 under the title of PNC Bank, National Association, Pittsburgh (001316)	69,374,538,000
PNC Bank, National Association, Pittsburgh (001316)	64,533,206,000
and Hilliard Lyons Trust Company, Louisville, Kentucky	58,454,000
merged on September 30, 2001 under the title of PNC Bank, National Association, Pittsburgh (001316)	64,591,123,000
Omega Bank, National Association, State College (010506)	640,085,000
and Penn Central National Bank, Huntingdon, Pennsylvania (000031)	183,271,000
and Hollidaysburg Trust Company, Hollidaysburg, Pennsylvania	299,952,000
merged on October 19, 2001 under the title of Omega Bank, National Association, Huntingdon (000031)	1,123,308,000
Tennessee	
First Tennessee Bank National Association, Memphis (000336)	18,293,677,000
and Cleveland Bank and Trust Company, Cleveland	267,186,000
merged on March 23, 2001 under the title of First Tennessee Bank, National Association, Memphis (000336)	18,547,805,000
First Tennessee Bank National Association, Memphis (000336)	18,627,331,000
and Peoples Bank of Senatobia, Senatobia, Mississippi	134,644,000
merged on November 16, 2001 under the title of First Tennessee Bank National Association, Memphis (000336)	18,735,520,000
Texas	
Bank of Texas, National Association, Dallas (024082)	1,095,482,000
and Citizens National Bank of Texas, Bellaire (017954)	424,483,000
merged on January 5, 2001 under the title of Bank of Texas, National Association, Dallas (024082)	1,567,438,000
State National Bank of West Texas, Lubbock (023117)	216,836,000
and State National Bank of West Texas, Abilene (017614)	478,071,000
merged on March 9, 2001 under the title of State National Bank of West Texas, Lubbock (023117)	694,907,000
State National Bank of West Texas, Lubbock (023117)	216,836,000
and State National Bank of West Texas, Abilene (017614)	478,071,000
merged on March 9, 2001 under the title of State National Bank of West Texas, Lubbock (023117)	694,907,000
NBC Bank, National Association, Eagle Pass (004490)	308,294,000
and NBC Bank—Laredo National Association, Larado (016127)	110,136,000
and NBC Bank—Rockdale, Rockdale	111,101,000
merged on March 30, 2001 under the title of NBC Bank, National Association, Eagle Pass (004490)	569,099,000
Associated Bank Green Bay, National Association, Green Bay (023695)	2,505,239,000
and Associated Bank Milwaukee, Milwaukee on April 20, 2001	3,016,091,000
and Associated Bank North, Wausau on May 25, 2001	1,486,648,000
and Associated Bank South Central, Madison on May 25, 2001	993,744,000
and Associated Bank, National Association, Neenah (023700) on April 20, 2001	759,622,000
and Associated Bank Lakeshore, National Association, Manitowoc (023701) on May 25, 2001	615,360,000
merged on those respective dates under the title of Associated Bank, National Association, Green Bay (023695)	9,050,668,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Summit National Bank, Fort Worth (016422)	247,657,000
and Summit Community Bank, National Association, Fort Worth (018188)	366,806,000
merged on May 14, 2001 under the title of Summit Bank, National Association, Fort Worth (016422)	614,463,000
State National Bank, El Paso, Texas, El Paso (016369)	505,496,000
and Ruidoso State Bank, Ruidoso	114,880,000
merged on May 18, 2001 under the title of State National Bank, El Paso, Texas, El Paso (016369)	620,376,000
Bank of Texas, National Association, Dallas (024082)	1,155,638,000
and Citizens National Bank of Texas, Bellaire (017954)	435,255,000
merged on May 18, 2001 under the title of Bank of Texas, National Association, Dallas (024082)	1,635,781,000
The First National Bank and Trust Company of Beloit, Beloit (002725)	355,718,000
and First National Bank of Winnebago, Winnebago (015225)	43,028,000
merged on May 31, 2001 under the title of The First National Bank and Trust Company of Beloit, Beloit (002725)	398,746,000
Bank of Texas, National Association, Dallas (024082)	586,755,000
and Mid-Cities National Bank, Hurst (017010)	93,689,000
merged on June 23, 2000 under the title of Bank of Texas, National Association, Dallas (024082)	680,444,000
First National Bank of Borger, Borger (023511)	53,484,000
and Citizens National Bank of Childress, Childress (023512)	20,880,000
merged on June 25, 2001 under the title of First National Bank of Borger, Borger (023511)	74,364,000
Wells Fargo Bank Texas, National Association, San Antonio (014208)	21,581,981,000
and Midland Trust Company, National Association, Midland (024128)	10,000,000
merged on June 28, 2001 under the title of Wells Fargo Bank Texas, National Association, San Antonio (014208)	21,591,981,000
Citizens National Bank, Henderson (013443)	460,337,000
and Peoples State Bank, Henderson, Texas	54,152,000
merged on October 26, 2001 under the title of citizens National Bank, Henderson (013443)	514,489,000
First National Bank, Edinburg (014124)	723,620,000
and Nueces National Bank, Corpus Christi, Texas (016063)	107,206,000
merged on November 30, 2001 under the title of First National Bank, Edinburg (014124)	842,905,000
Stockmens National Bank in Cotulla, Cotulla (014302)	32,884,000
and Stockmen's Financial Corporation, Cotulla, Texas	3,379,000
merged on December 10, 2001 under the title of Stockmens National Bank in Cotulla, Cotulla (014302)	32,884,000
Utah	
Zions First National Bank, Salt Lake City (004341)	8,080,294,000
and Draper Bank, Draper	260,597,000
merged on January 26, 2001 under the title of Zions First National Bank, Salt Lake City (004341)	8,340,891,000
Virginia	
Cardinal Bank, National Association, Fairfax (023606)	81,160,000
and Cardinal Bank—Dulles, National Association, Reston, Virginia (023878)	41,588,000
and Cardinal Bank—Potomac, McLean, Virginia	57,890,000
merged on November 1, 2001 under the title of Cardinal Bank, National Association, Fairfax (023606)	178,413,000
Washington	
Neuberger Berman National Trust Company, Seattle (024151)	3,677,000
and Neuberger Berman Trust Company, New York, New York	3,837,000
merged on September 30, 2001 under the title of Neuberger Berman National Trust Company, Seattle (024151)	4,737,000
Wisconsin	
Associated Bank, National Association, Green Bay (023695)	9,142,069,000
and Associated Commercial Mortgage, Inc., Milwaukee, Wisconsin	448,334,000
merged on October 26, 2001 under the title of Associated Bank, National Association, Green Bay (023695)	9,590,403,000
The American National Bank of Beaver Dam, Beaver Dam (004602)	105,666,000
and Bank of Helenville, Helenville, Wisconsin	8,854,000
merged on November 19, 2001 under the title of The American National Bank of Beaver Dam, Beaver Dam (004602)	113,921,000

Affiliated mergers- thrift (mergers consummated involving affiliated national banks and savings and loan associations), from January 1 to December 31, 2001

Title and location (charter number)	Total assets
California	
California National Bank, Los Angeles (023543)	857,962,000
and People's Bank of California, Los Angeles, California	3,278,116,000
merged on November 13, 2002 under the title of California National Bank, Los Angeles (023543)	4,136,078,000
Florida	
The Chase Manhattan Private Bank, National Association, Tampa (021177)	65,954,000
and J.P. Morgan FSB, Palm Beach, Florida	72,210,000
merged on December 1, 2001 under the title of The Chase Manhattan Private Bank, National Association, Tampa (021177)	138,164,000
Iowa	
Wells Fargo Bank Iowa, National Association, Des Moines (002307)	6,100,550,000
and Brenton Bank, Des Moines	1,954,495,000
and Brenton Savings Banks, FSB, Ames	219,368,000
merged on March 24, 2001 under the title of Wells Fargo Bank Iowa, National Association, Des Moines (002307)	8,069,987,000
Kansas	
Security National Bank, Manhattan (023038)	155,443,000
and Landmark Federal Savings Bank, Dodge City, Kansas	217,744,000
merged on October 9, 2001 under the title of Landmark National Bank, Manhattan (023038)	372,587,000
Kentucky	
Community Trust Bank, National Association, Pikeville (007030)	2,066,478,000
and Community Trust Bank FSB, Campbellsville	180,095,000
merged on December 29, 2000 under the title of Community Trust Bank, National Association, Pikeville (007030)	2,212,715,000
Michigan	
Michigan National Bank, Farmington Hills (016660)	8,270,409,000
and Standard Federal Bank, Troy Michigan	9,873,980,000
merged on October 5, 2001 under the title of Standard Federal Bank National Association, Troy (016660)	18,144,389,000
Missouri	
Bank Midwest, National Association, Kansas City (022015)	2,260,200,000
and Hardin Federal Savings and Loan Association, Hardin	134,059,000
merged on February 16, 2001 under the title of Bank Midwest, National Association, Kansas City (022015)	2,394,259,000
New Jersey	
Sun National Bank, Vineland (018606)	1,811,507,000
and Delaware City Bank (SUC: De City Bldg & Loan Assoc), Delaware City, Delaware	169,245,000
merged on November 16, 2001 under the title of Sun National Bank, Vineland (018606)	1,948,877,000
Ohio	
The Security National Bank and Trust Company, Springfield (006594)	658,978,000
and The Third Savings and Loan Company, Piqua, Ohio	193,197,000
merged on December 27, 2001 under the title of The Security National Bank and Trust Company, Springfield (006594)	852,175,000
Texas	
First National Bank, Fairfield (012423)	89,262,000
and Texas Bank, S.S.B., Buffalo	9,772,000
merged on March 30, 2001 under the title of First National Bank, Fairfield (012423)	98,134,000

Changes in the corporate structure of the national banking system, by state, July 1 to December 31, 2001

	In operation July 1, 2001	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214 Converted to non-national institutions	12 USC 214 Merged with non-national institutions	In operation December 31, 2001
Alabama	23	1	0	0	0	0	1	23
Alaska	4	0	0	0	0	0	0	4
Arizona	18	2	1	0	0	0	1	18
Arkansas	43	0	0	0	0	0	1	42
California	90	5	1	0	0	1	1	92
Colorado	56	1	1	0	0	0	1	55
Connecticut	10	0	0	0	0	0	0	10
Delaware	22	0	0	0	0	0	0	22
District of Columbia	7	0	0	0	0	0	1	5
Florida	81	1	1	0	0	0	1	80
Georgia	66	2	0	1	0	1	6	60
Hawaii	1	0	0	0	0	0	0	1
Idaho	2	0	0	0	0	0	0	2
Illinois	195	0	3	0	0	4	3	185
Indiana	35	2	1	0	0	0	0	36
Iowa	49	0	0	0	0	0	0	48
Kansas	109	0	1	1	0	1	1	105
Kentucky	54	0	0	0	0	0	0	54
Louisiana	17	0	0	0	0	0	0	17
Maine	7	0	0	0	0	0	0	7
Maryland	15	0	0	0	0	2	0	13
Massachusetts	22	2	1	0	0	0	0	23
Michigan	29	0	0	0	0	1	0	28
Minnesota	130	7	7	0	0	0	1	129
Mississippi	20	0	0	0	0	0	0	20
Missouri	47	0	0	0	0	0	1	46
Montana	18	0	0	0	0	0	0	18
Nebraska	79	0	0	0	0	0	0	79
Nevada	8	0	0	0	0	1	0	8
New Hampshire	7	0	0	0	0	0	0	7
New Jersey	26	0	0	0	0	1	1	24
New Mexico	15	0	0	0	0	0	0	15
New York	62	1	1	0	0	0	0	62
North Carolina	08	0	0	0	0	0	0	8
North Dakota	15	0	0	0	0	0	0	15
Ohio	93	0	0	0	0	0	1	92
Oklahoma	98	2	0	0	0	1	0	99
Oregon	5	0	1	0	0	0	0	4
Pennsylvania	91	3	3	0	0	0	5	86
Rhode Island	4	1	0	0	0	0	0	5
South Carolina	24	1	0	0	0	0	0	25
South Dakota	19	1	0	0	0	0	0	20
Tennessee	29	0	0	0	0	0	1	28
Texas	353	1	6	0	0	0	2	346
Utah	8	0	1	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	37	1	1	0	0	0	0	38
Washington	17	0	0	0	0	0	0	17
West Virginia	24	0	0	0	0	0	0	24
Wisconsin	52	0	0	0	0	0	0	52
Wyoming	20	0	0	0	0	0	0	20
United States	2276	34	30	2	0	13	29	2236

Notes: The column "organized and opened for business" includes all state banks converted to national banks as well as newly formed national banks. The column titled "merged" includes all mergers, consolidations, and purchases and assumptions of branches in which the resulting institution is a nationally chartered bank. Also included in this column are immediate FDIC-assisted "merger" transactions in which the resulting institution is a nationally chartered bank. The column titled "voluntary liquidations" includes only straight liquidations of national banks. No liquidation pursuant to a purchase and assumption transaction is included in this total. Liquidations resulting from purchases and assumptions are included in the "merged" column. The column titled "payouts" includes failed national banks in which the FDIC is named receiver and no other depository institution is named as successor. The column titled "merged with non-national institutions" includes all mergers, consolidations, and purchases and assumptions of branches in which the resulting institution is a non-national institution. Also included in this column are immediate FDIC-assisted "merger" transactions in which the resulting institution is a non-national institution.

Applications for new, full-service national bank charters, approved and denied, by state, July 1 to December 31, 2001

Title and location	Approved	Denied
California		
Granite Community Bank, National Association, Granite Bay	December 17	
Pacific Capital Bank, National Association, Santa Barbara	December 20	
Premier Commercial Bank, National Association, Anaheim	July 27	
Shanghai Commercial Bank of USA, National Association, Alhambra	August 31	
Colorado		
Southern Colorado National Bank, Pueblo	August 16	
Georgia		
Douglas National Bank, Douglas	August 9	
First National Bank West Metro, Dallas	October 4	
First Southern National Bank, Statesboro	August 31	
Illinois		
First National Bank in Champaign, Champaign	October 3	
Massachusetts		
Metrowest Bank, National Association, Framingham	September 13	
Nebraska		
Citizens National Bank in Loup City, Loup City	September 14	
New Mexico		
Bank of Santa Fe, National Association, Santa Fe	December 21	
New York		
Shanghai Commercial Bank (New York), National Association, New York	August 31	
Ohio		
Signature Bank, National Association, Toledo	December 5	
Pennsylvania		
Chase Interim National Bank, Pittsburgh	September 13	
Rhode Island		
Freedom National Bank, Greenville	August 3	
Texas		
Sunbelt National Bank, Houston	August 1	
The Right Bank for Texas, National Association, Houston	October 15	
Virginia		
Bank of Goochland, National Association, Manakin Sabot	December 20	
Franklin Community Bank, National Association, Rocky Mount	October 24	

Applications for new, limited-purpose national bank charters, approved and denied, by state, July 1 to December 31, 2001

Title and location	Type of bank	Approved	Denied
Arizona			
First Hawaiian Bankcard, National Association, Scottsdale	Cred card	August 2	
Georgia			
U.S. Bank Trust National Association, Atlanta	Trust (non-deposit)	December 20	
Massachusetts			
Family Capital Trust Company, National Association, Boston	Trust (non-deposit)	August 27	
Missouri			
Country Club Trust Company, National Association, Kansas City	Trust (non-deposit)	November 26	
Nebraska			
Nebraska Bankers' Bank, National Association, Lincoln	Banker's bank	December 20	
New Jersey			
Alger National Trust Company, MOrristown	Trust (non-deposit)	September 28	
New York			
General Motors Trust ank, National Association, New York	Trust (non-deposit)	December 26	
Pennsylvania			
First National Trust Company, Hermitage	Trust (non-deposit)	October 23	

New, full-service national bank charters issued, July 1 to December 31, 2001

Title and location	Charter number	Date opened
Alabama		
First National Bank of Baldwin County, Foley	024220	December 28
Arizona		
BNC National Bank of Arizona, Tempe	024224	July 9
United Arizona Bank, National Association, Cave Creek	023969	August 6
California		
Premier Commercial Bank, National Association, Anaheim	024250	November 28
Regents Bank, National Association, La Jolla	024214	September 14
Commercewest Bank, National Association, Newport Beach	024208	September 24
Calnet Business Bank, National Association, Sacramento	024102	November 5
Ramona National Bank, Ramona	024100	December 18
Florida		
Centerbank of Jacksonville, National Association, Jacksonville	024043	August 9
Georgia		
Douglas National Bank, Douglas	024249	November 19
Indiana		
Bank of Evansville, National Association, Evansville	024167	July 2
Massachusetts		
Metrowest Bank, National Association, Framingham	024277	October 31
Commonwealth National Bank, Worcester	024119	November 19
Minnesota		
Neighborhood National Bank, Alexandria	024223	September 4
American National Bank of Alexandria, Alexandria	024218	August 1
American National Bank of Pequot Lakes, Pequot Lakes	024217	August 1
Minnesota		
American National Bank of Detroit Lakes, Detroit Lakes	024216	August 1
American National Bank of Grand Rapids, Grand Rapids	024215	August 1
American National Bank of Walker, Walker	024213	August 1
Oklahoma		
First National Bank of Muskogee, Muskogee	024202	July 16
Pennsylvania		
Chase Interim National Bank, Pittsburgh	024276	December 2
American Home Bank, National Association, Lancaster	024212	August 6
Rhode Island		
Freedom National Bank, Greenville	024257	November 29
South Carolina		
Islands Community Bank, National Association, Beaufort	023982	July 9
Texas		
Bank of Brenham, National Association, Brenham	024153	August 7

New, limited-purpose national bank charters issued, July 1 to December 31, 2001

Title and location	Charter number	Date opened
Colorado		
AMG Guaranty Trust, National Association, Greenwood Village	024182	August 1
New York		
The Goldman Sachs Trust Company, National Association, New York	024173	October 1
Pennsylvania		
Vanguard National Trust Company, National Association, Valley Forge	024121	August 10
South Dakota		
Marquette Trust Company of South Dakota, National Association, Sioux Falls	024245	October 1

Non-banking institutions converted to full-service national banks, July 1 to December 31, 2001

Title and location (charter number)	Effective date	Total assets
Indiana		
First Indiana Bank, National Association (024256)		
conversion of First Indiana Bank, a Federal Savings Bank, Indianapolis	August 1	2,090,711,000
Virginia		
FNB-Southwest, National Association (024274)		
conversion of Southwest Virginia Savings Bank, FSB, Roanoke	October 10	94,364,352,000

Applications for national bank charters, by state and charter type, July 1 to December 31, 2001

	Received	Approved	Denied	Charters issued: New, full-service national bank charters issued	New, limited-purpose national bank charters issued	Full-service national charters issued to converting state-chartered banks	Limited-purpose national charters issued to converting state-chartered banks	Full-service national charters issued to converting nonbanking institutions	Limited-purpose national charters issued to converting nonbanking institutions
Alabama	0	0	0	1	0	0	0	0	0
Alaska	0	0	0	0	0	0	0	0	0
Arizona	1	1	0	2	0	0	0	0	0
Arkansas	0	0	0	0	0	0	0	0	0
California	4	4	0	5	0	0	0	0	0
Colorado	0	1	0	0	1	0	0	0	0
Connecticut	0	0	0	0	0	0	0	0	0
Delaware	0	0	0	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	0	0	0	0
Florida	1	0	0	1	0	0	0	0	0
Georgia	0	4	0	1	0	1	0	0	0
Hawaii	0	0	0	0	0	0	0	0	0
Idaho	0	0	0	0	0	0	0	0	0
Illinois	0	1	0	0	0	0	0	0	0
Indiana	0	0	0	1	0	0	0	1	0
Iowa	0	0	0	0	0	0	0	0	0
Kansas	1	0	0	0	0	0	0	0	0
Kentucky	0	0	0	0	0	0	0	0	0
Louisiana	0	0	0	0	0	0	0	0	0
Maine	0	0	0	0	0	0	0	0	0
Maryland	0	0	0	0	0	0	0	0	0
Massachusetts	0	2	0	2	0	0	0	0	0
Michigan	0	0	0	0	0	0	0	0	0
Minnesota	1	0	0	6	0	1	0	0	0
Mississippi	0	0	0	0	0	0	0	0	0
Missouri	1	1	0	0	0	0	0	0	0
Montana	0	0	0	0	0	0	0	0	0
Nebraska	2	2	0	0	0	0	0	0	0
Nevada	1	0	0	0	0	0	0	0	0
New Hampshire	0	0	0	0	0	0	0	0	0
New Jersey	1	1	0	0	0	0	0	0	0
New Mexico	0	1	0	0	0	0	0	0	0
New York	1	2	0	0	1	0	0	0	0
North Carolina	0	0	0	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0	0	0	0
Ohio	0	1	0	0	0	0	0	0	0
Oklahoma	0	0	0	1	0	1	0	0	0
Oregon	0	0	0	0	0	0	0	0	0
Pennsylvania	0	2	0	2	1	0	0	0	0
Rhode Island	0	1	0	1	0	0	0	0	0
South Carolina	1	0	0	1	0	0	0	0	0
South Dakota	0	0	0	0	1	0	0	0	0
Tennessee	0	0	0	0	0	0	0	0	0
Texas	1	2	0	1	0	0	0	0	0
Utah	0	0	0	0	0	0	0	0	0
Vermont	0	0	0	0	0	0	0	0	0
Virginia	3	2	0	0	0	0	0	1	0
Washington	0	0	0	0	0	0	0	0	0
West Virginia	0	0	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0	0	0	0
American Samoa	0	0	0	0	0	0	0	0	0
Canal Zone	0	0	0	0	0	0	0	0	0
Fed St of Micronesia	0	0	0	0	0	0	0	0	0
Guam	0	0	0	0	0	0	0	0	0

Applications for national bank charters, by state and charter type (continued)

	Received	Approved	Denied	Charters issued					
				New, full-service national bank charters issued	New, limited-purpose national bank charters issued	Full-service national charters issued to converting state-chartered banks	Limited-purpose national charters issued to converting state-chartered banks	Full-service national charters issued to converting nonbanking institutions	Limited-purpose national charters issued to converting nonbanking institutions
No. Mariana Is.	0	0	0	0	0	0	0	0	0
Midway Islands......	0	0	0	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0	0	0	0
Trust Territories	0	0	0	0	0	0	0	0	0
Virgin Islands........	0	0	0	0	0	0	0	0	0
Wake Island.........	0	0	0	0	0	0	0	0	0
Total	19	28	0	25	4	3	0	2	0

These figures may also include new national banks chartered to acquire a failed institution, trust company, credit card bank, and other limited-charter national banks.

Voluntary liquidations of national banks,
July 1 to December 31, 2001

Title and location (charter number)	Effective date	Total assets
Georgia		
First Retail Bank, National Association, Flowery Branch (023998)	October 29	2,769,000
Kansas		
MCFC National Bank, Lenexa (022473)	September 30	0

National banks merged out of the national banking system, July 1 to December 31, 2001

Title and location	Charter number	Effective date
Alabama		
The Farmers National Bank of Opelika, Opelika	009550	December 14
Arizona		
Bank of Hawaii Credit Card, National Association, Phoenix	024001	September 27
California		
Valley Oaks National Bank, Solvang	022324	October 1
Colorado		
First National Bank in Walsenburg, Walsenburg	014826	August 31
District of Columbia		
Century National Bank, Washington	017278	December 7
Florida		
First American Bank of Pensacola, National Association, Pensacola	017292	December 7
Georgia		
Century South Bank of Fannin County, N.A., Blue Ridge	009027	November 9
First National Bank of Grady County, Cairo	015947	November 2
Pinnacle Bank, National Association, Elberton	014061	November 13
Century South Bank of Northeast Georgia, National Association, Gainesville	023837	November 9
Century South Bank of Central Georgia, NA, Macon	022531	November 9
Century South Bank of the Coastal Region, N.A., Savannah	020150	November 9
Illinois		
Success National Bank, Lincolnshire	016101	November 17
First National Bank in Newton, Newton	014074	August 17
First Midwest Trust Company, National Association, Seneca	021799	June 29
Kansas		
Enterprise Banking, National Association, Overland Park	006963	September 30
Minnesota		
National City Bank of Minneapolis, Minneapolis	015295	November 1
Missouri		
South Side National Bank in St. Louis, St. Louis	014128	October 19
New Jersey		
The National Bank of Sussex County, Branchville	013855	June 29
Ohio		
The First National Bank of Ottawa, Ottawa	007006	June 29
Pennsylvania		
First American National Bank of Pennsylvania, Everett	006220	October 12
Citizens National Bank of Southern Pennsylvania, Greencastle	005832	October 12
First National Bank of Herminie, Herminie	010188	August 14
First National Trust Bank, Sunbury	001237	October 12
Williamsport National Bank, Williamsport	001464	November 2
Tennessee		
The First National Bank and Trust Company, Athens	003341	July 13
Texas		
The Farmers National Bank of Forney, Forney	009369	June 29
Chase Bank of Texas—San Angelo, National Association, San Angelo	013587	august 1

Failed national banks acquired by other than national banks, July 1 to December 31, 2001

Title and location (charter number)	Effective date
Arkansas	
Sinclair National Bank, Gravette (023126)	September 7

National banks converted out of the national banking system, July 1 to December 31, 2001

Title and location (charter number)	Effective date	Total assets
California		
Vineyard National Bank Cucamonga, Rancho Cucamonaga (017089)	August 3	153,972,000
Georgia		
Embry National Bank, Lawrenceville (021537)	December 17	102,185,000
Illinois		
First Midwest Bank, National Association (013660)	June 29	5,730,670,000
Marquette National Bank, Chicago (014504)	June 29	892,540,000
Heritage National Bank, Lawrenceville (023059)	December 27	67,362,000
The First National Bank of Xenia, Xenia (012096)	October 30	24,237,000
Kansas		
The First National Bank of Medicine Lodge, Medicine Lodge (010575)	December 17	79,451,000
Maryland		
Harford National Bank, Aberdeen (015314)	July 2	134,154,000
Sandy Spring National Bank of Maryland, Olney (005610)	September 21	1,992,017,000
Michigan		
Old Kent Bank, National Association, Jonesville (023174)	May 29	140,364
Nevada		
Eaglemark Bank, National Association, Carson City (023154)	September 27	3,076,000
New Jersey		
Equity Bank, National Association, Atco (012617)	October 12	385,000,000
Oklahoma		
The American National Bank and Trust Company of Sapulpa, Oklahoma, Sapulpa (007788)	June 30	230,847,000

Federal branches and agencies of foreign banks in operation, July 1 to December 31, 2001

	In operation July 1, 2001	Opened July 1–December 31, 2001	Closed July 1–December 31, 2001	In operation December 31, 2001
Federal branches				
California	1	0	0	1
Connecticut	1	0	0	1
District of Columbia	1	0	0	1
New York	36	0	0	36
Washington	1	0	0	1
Limited federal branches				
California	7	0	0	7
District of Columbia	1	0	0	1
New York	3	0	0	3
Federal agency				
Illinois	1	0	0	1
Total United States	52	0	0	52

Tables on the Financial Performance of National Banks

Assets, liabilities, and capital accounts of national banks
December 31, 2000 and December 31, 2001
(Dollar figures in millions)

	December 31, 2000	December 31, 2001	Change December 31, 2000–December 31, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,230	2,137	(93)	(4.17)
Total assets	$3,414,446	$3,634,997	$220,551	6.46
Cash and balances due from depositories	211,097	220,286	9,189	4.35
Noninterest-bearing balances, currency and coin	162,810	163,349	538	0.33
Interest bearing balances	48,287	56,938	8,651	17.92
Securities	502,295	575,895	73,600	14.65
Held-to-maturity securities, amortized cost	37,592	26,735	(10,857)	(28.88)
Available-for-sale securities, fair value	464,703	549,160	84,457	18.17
Federal funds sold and securities purchased	117,315	145,210	27,895	23.78
Net loans and leases	2,187,051	2,226,846	39,795	1.82
Total loans and leases	2,227,071	2,272,398	45,327	2.04
Loans and leases, gross	2,228,655	2,274,329	45,674	2.05
Less: Unearned income	1,584	1,931	347	21.93
Less: Reserve for losses	40,020	45,552	5,532	13.82
Assets held in trading account	109,835	120,740	10,905	9.93
Other real estate owned	1,553	1,794	241	15.49
Intangible assets	76,900	87,665	10,765	14.00
All other assets	208,399	256,560	48,161	23.11
Total liabilities and equity capital	3,414,446	3,634,997	220,551	6.46
Deposits in domestic offices	1,827,126	2,001,302	174,175	9.53
Deposits in foreign offices	423,338	383,161	(40,177)	(9.49)
Total deposits	2,250,464	2,384,462	133,998	5.95
Noninterest-bearing deposits	442,611	523,553	80,942	18.29
Interest-bearing deposits	1,807,853	1,860,909	53,056	2.93
Federal funds purchased and securities sold	249,245	267,740	18,494	7.42
Other borrowed money	349,997	351,335	1,338	0.38
Trading liabilities less revaluation losses	22,971	21,658	(1,313)	(5.72)
Subordinated notes and debentures	62,463	68,230	5,767	9.23
All other liabilities	177,323	200,579	23,256	13.12
Trading liabilities revaluation losses	62,039	58,703	(3,337)	(5.38)
Other	115,284	141,877	26,593	23.07
Total equity capital	293,838	340,993	47,155	16.05
Perpetual preferred stock	581	1,252	671	115.40
Common stock	13,604	12,895	(709)	(5.21)
Surplus	156,968	189,739	32,771	20.88
Retained earnings and other comprehensive income	123,842	139,304	15,461	12.48
Other equity capital components	0	(35)	(35)	NM

NM indicates calculated percent change is not meaningful.

Quarterly income and expenses of national banks
Fourth quarter, 2000 and fourth quarter, 2001
(Dollar figures in millions)

	Fourth quarter 2000	Fourth quarter 2001	Change Fourth quarter, 2000–fourth quarter, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,230	2,137	(93)	(4.17)
Net income	$9,957	$12,581	$2,624	26.35
Net interest income	29,243	34,880	5,637	19.28
Total interest income	62,506	53,649	(8,856)	(14.17)
On loans	49,068	41,605	(7,463)	(15.21)
From lease financing receivables	1,965	1,950	(15)	(0.74)
On balances due from depositories	964	526	(438)	(45.40)
On securities	8,102	7,557	(544)	(6.72)
From assets held in trading account	880	778	(103)	(11.67)
On federal funds sold and securities repurchased	1,527	958	(568)	(37.23)
Less: Interest expense	33,263	18,769	(14,494)	(43.57)
On deposits	22,052	12,889	(9,162)	(41.55)
Of federal funds purchased and securities sold	3,784	1,790	(1,993)	(52.68)
On demand notes and other borrowed money*	6,293	3,240	(3,053)	(48.51)
On subordinated notes and debentures	1,135	849	(285)	(25.14)
Less: Provision for losses	6,959	9,548	2,589	37.20
Noninterest income	24,581	26,383	1,802	7.33
From fiduciary activities	2,352	2,728	376	16.01
Service charges on deposits	4,016	4,713	697	17.36
Trading revenue	1,419	1,806	387	27.29
From interest rate exposures	384	741	357	92.85
From foreign exchange exposures	790	678	(112)	(14.14)
From equity security and index exposures	214	388	175	81.73
From commodity and other exposures	31	12	(20)	NM
Total other noninterest income	16,795	17,275	480	2.86
Gains/losses on securities	239	581	342	NM
Less: Noninterest expense	31,926	34,374	2,448	7.67
Salaries and employee benefits	12,274	13,361	1,087	8.86
Of premises and fixed assets	4,013	3,945	(68)	(1.70)
Other noninterest expense	15,639	15,539	(100)	(0.64)
Less: Taxes on income before extraordinary items	5,174	5,334	159	3.08
Income/loss from extraordinary items, net of income taxes	(46)	(8)	39	NM
Memoranda:				
Net operating income	9,472	12,177	2,705	28.56
Income before taxes and extraordinary items	15,178	17,922	2,745	18.08
Income net of taxes before extraordinary items	10,004	12,589	2,585	25.84
Cash dividends declared	11,790	6,766	(5,024)	(42.61)
Net charge-offs to loan and lease reserve	6,238	8,556	2,319	37.17
Charge-offs to loan and lease reserve	7,178	9,772	2,594	36.14
Less: Recoveries credited to loan and lease reserve	940	1,215	275	29.30

* Includes mortgage indebtedness
NM indicates calculated percent change is not meaningful.

Year-to-date income and expenses of national banks
Through December 31, 2000 and through December 31, 2001

(Dollar figures in millions)

	December 31, 2000	December 31, 2001	Change December 31, 2000–December 31, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,230	2,137	(93)	(4.17)
Net income	$38,959	$44,373	$5,415	13.90
Net interest income	115,906	125,674	9,768	8.43
Total interest income	240,415	227,248	(13,167)	(5.48)
On loans	186,899	175,698	(11,200)	(5.99)
From lease financing receivables	7,453	7,732	279	3.75
On balances due from depositories	3,321	2,631	(690)	(20.78)
On securities	33,761	30,813	(2,948)	(8.73)
From assets held in trading account	3,284	3,662	379	11.54
On federal funds sold and securities repurchased	5,697	5,635	(62)	(1.08)
Less: Interest expense	124,509	101,574	(22,935)	(18.42)
On deposits	81,072	68,463	(12,609)	(15.55)
Of federal funds purchased and securities sold	14,665	10,035	(4,630)	(31.57)
On demand notes and other borrowed money*	24,620	19,301	(5,319)	(21.60)
On subordinated notes and debentures	4,152	3,775	(377)	(9.08)
Less: Provision for losses	20,555	28,974	8,419	40.96
Noninterest income	96,183	99,540	3,357	3.49
From fiduciary activities	9,576	8,832	(744)	(7.77)
Service charges on deposits	15,410	17,230	1,820	11.81
Trading revenue	5,836	7,309	1,473	25.24
From interest rate exposures	1,870	3,308	1,438	76.85
From foreign exchange exposures	2,916	3,144	228	7.83
From equity security and index exposures	979	718	(261)	(26.70)
From commodity and other exposures	71	181	111	NM
Total other noninterest income	65,362	66,170	808	1.24
Gains/losses on securities	(1,823)	2,386	4,210	NM
Less: Noninterest expense	128,538	131,149	2,612	2.03
Salaries and employee benefits	48,393	51,238	2,844	5.88
Of premises and fixed assets	15,514	15,560	46	0.30
Other noninterest expense	64,630	58,787	(5,843)	(9.04)
Less: Taxes on income before extraordinary items	22,184	22,725	542	2.44
Income/loss from extraordinary items, net of income taxes	(31)	(378)	(347)	NM
Memoranda:				
Net operating income	40,209	43,145	2,935	7.30
Income before taxes and extraordinary items	61,173	67,477	6,304	10.31
Income net of taxes before extraordinary items	38,989	44,751	5,762	14.78
Cash dividends declared	32,327	27,736	(4,591)	(14.20)
Net charge-offs to loan and lease reserve	17,240	25,173	7,933	46.01
Charge-offs to loan and lease reserve	20,919	29,459	8,540	40.82
Less: Recoveries credited to loan and lease reserve	3,679	4,286	607	16.50

* Includes mortgage indebtedness

NM indicates calculated percent change is not meaningful.

Assets of national banks by asset size
December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Total assets	$3,634,997	$51,688	$253,533	$413,932	$2,915,844	$6,569,240
Cash and balances due from	220,286	3,110	12,471	26,488	178,218	390,998
Securities	575,895	12,778	61,686	88,282	413,150	1,179,562
Federal funds sold and securities purchased	145,210	3,011	9,732	18,278	114,189	317,645
Net loans and leases	2,226,846	30,344	155,268	250,503	1,790,731	3,823,246
Total loans and leases	2,272,398	30,761	157,505	255,062	1,829,070	3,895,355
Loans and leases, gross	2,274,329	30,811	157,702	255,148	1,830,668	3,898,465
Less: Unearned income	1,931	50	197	86	1,598	3,110
Less: Reserve for losses	45,552	417	2,237	4,559	38,340	72,110
Assets held in trading account	120,740	4	292	714	119,731	303,285
Other real estate owned	1,794	70	249	188	1,287	3,568
Intangible assets	87,665	124	1,690	5,980	79,870	122,415
All other assets	256,560	2,247	12,145	23,499	218,669	428,520
Gross loans and leases by type:						
Loans secured by real estate	976,092	17,898	101,006	140,094	717,094	1,803,587
1–4 family residential mortgages	472,705	7,983	40,916	63,913	359,893	811,996
Home equity loans	102,094	445	4,433	9,404	87,812	154,303
Multifamily residential mortgages	30,072	420	3,576	5,267	20,809	64,141
Commercial RE loans	236,452	5,315	37,143	43,286	150,709	507,611
Construction RE loans	91,487	1,696	10,621	16,271	62,899	193,241
Farmland loans	12,614	2,039	4,315	1,822	4,438	35,600
RE loans from foreign offices	30,668	0	3	130	30,534	36,695
Commercial and industrial loans	597,255	5,197	28,004	46,370	517,684	982,480
Loans to individuals	389,879	4,092	19,066	52,002	314,719	631,160
Credit cards*	166,528	170	2,543	22,812	141,003	232,421
Other revolving credit plans	22,616	67	381	2,229	19,939	27,758
Installment loans	200,735	3,855	16,143	26,961	153,777	370,982
All other loans and leases	311,103	3,624	9,626	16,683	281,171	481,238
Securities by type:						
U.S. Treasury securities	14,763	732	2,673	3,780	7,579	45,055
Mortgage-backed securities	346,728	3,566	22,061	48,227	272,873	613,586
Pass-through securities	226,245	2,435	13,177	30,318	180,315	382,551
Collateralized mortgage obligations	120,483	1,131	8,884	17,909	92,558	231,035
Other securities	168,102	8,450	36,549	32,718	90,385	412,744
Other U.S. government securities	61,280	5,746	20,654	15,388	19,492	195,789
State and local government securities	43,150	2,068	11,041	8,609	21,432	96,489
Other debt securities	55,580	450	3,685	7,712	43,733	99,749
Equity securities	8,093	186	1,169	1,010	5,728	20,717
Memoranda:						
Agricultural production loans	21,311	3,092	5,203	3,201	9,815	47,762
Pledged securities	262,607	4,866	27,554	42,550	187,637	554,914
Book value of securities	573,492	12,660	61,123	87,591	412,117	1,171,254
Available-for-sale securities	546,757	10,447	52,064	77,377	406,869	1,074,787
Held-to-maturity securities	26,735	2,213	9,059	10,214	5,249	96,466
Market value of securities	576,247	12,813	61,821	88,368	413,246	1,180,839
Available-for-sale securities	549,160	10,564	52,627	78,067	407,901	1,083,096
Held-to-maturity securities	27,088	2,248	9,194	10,301	5,345	97,743

Past-due and nonaccrual loans and leases of national banks by asset size
December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Loans and leases past due 30–89 days	$31,431	$477	$2,081	$3,353	$25,520	$53,294
Loans secured by real estate	13,831	243	1,152	1,523	10,912	23,664
1–4 family residential mortgages	8,495	136	639	906	6,814	13,527
Home equity loans	998	4	29	73	893	1,405
Multifamily residential mortgages	225	2	20	29	174	440
Commercial RE loans	2,020	56	314	323	1,326	4,577
Construction RE loans	1,167	27	114	169	856	2,338
Farmland loans	131	17	37	23	54	381
RE loans from foreign offices	795	0	0	0	795	997
Commercial and industrial loans	5,646	88	370	538	4,651	9,995
Loans to individuals	9,336	112	468	1,146	7,610	15,579
Credit cards	4,196	4	115	529	3,547	6,259
Installment loans and other plans	5,140	108	353	617	4,063	9,320
All other loans and leases	2,618	34	91	146	2,347	4,056
Loans and leases past due 90+ days	8,817	101	422	901	7,393	13,675
Loans secured by real estate	3,092	51	231	245	2,565	4,761
1–4 family residential mortgages	2,203	26	126	119	1,932	3,100
Home equity loans	133	1	4	12	116	205
Multifamily residential mortgages	33	0	3	12	18	59
Commercial RE loans	352	15	69	58	209	785
Construction RE loans	241	4	15	41	182	392
Farmland loans	25	5	15	4	3	102
RE loans from foreign offices	105	0	0	0	105	117
Commercial and industrial loans	787	21	77	100	589	1,503
Loans to individuals	4,579	19	98	540	3,921	6,897
Credit cards	3,008	3	51	371	2,582	4,225
Installment loans and other plans	1,571	16	47	169	1,339	2,672
All other loans and leases	360	10	16	16	318	513
Nonaccrual loans and leases	25,653	248	1,050	1,588	22,767	41,188
Loans secured by real estate	7,102	124	554	842	5,581	12,555
1–4 family residential mortgages	2,748	38	172	267	2,272	4,695
Home equity loans	300	1	10	26	263	402
Multifamily residential mortgages	112	3	11	15	82	217
Commercial RE loans	2,084	50	268	353	1,412	4,168
Construction RE loans	809	10	53	151	594	1,662
Farmland loans	203	22	39	29	113	433
RE loans from foreign offices	845	0	1	0	844	977
Commercial and industrial loans	13,792	73	320	557	12,843	22,119
Loans to individuals	1,578	15	107	91	1,365	2,570
Credit cards	422	0	61	28	332	779
Installment loans and other plans	1,157	15	46	63	1,033	1,791
All other loans and leases	3,295	35	70	99	3,090	4,110

Liabilities of national banks by asset size
December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Total liabilities and equity capital	3,634,997	51,688	253,533	413,932	2,915,844	6,569,240
Deposits in domestic offices	2,001,302	43,533	204,968	266,792	1,486,008	3,761,942
Deposits in foreign offices	383,161	0	444	2,044	380,673	629,681
Total deposits	2,384,462	43,533	205,412	268,836	1,866,681	4,391,623
Noninterest bearing	523,553	7,106	32,965	52,713	430,768	873,671
Interest bearing	1,860,909	36,427	172,446	216,122	1,435,913	3,517,952
Federal funds purchased and securities sold	267,740	602	7,287	43,195	216,656	503,159
Other borrowed funds	351,335	1,275	11,727	48,451	289,882	566,792
Trading liabilities less revaluation losses	21,658	0	0	108	21,550	59,801
Subordinated notes and debentures	68,230	3	175	3,232	64,820	95,317
All other liabilities	200,579	475	3,589	9,483	187,032	355,092
Equity capital	340,993	5,800	25,343	40,627	269,222	597,457
Total deposits by depositor:						
Individuals and corporations	1,800,487	27,608	142,324	210,031	1,420,524	3,345,971
U.S., state, and local governments	93,767	3,610	14,795	16,530	58,832	187,610
Depositories in the U.S.	45,337	438	1,715	278	42,906	59,707
Foreign banks and governments	62282.651	2	439	1,039	60,803	114,585
Domestic deposits by depositor:						
Individuals and corporations	1514684.433	27,608	142,296	208,386	1,136,395	2,866,284
U.S., state, and local governments	93,767	3,610	14,795	16,530	58,832	187,610
Depositories in the U.S.	5,784	438	1,658	263	3,425	14,840
Foreign banks and governments	4,793	2	80	663	4,048	9,994
Foreign deposits by depositor:						
Individuals and corporations	285802.12	0	28	1,645	284,129	479,687
Depositories in the U.S.	39552.845	0	57	15	39,481	44,867
Foreign banks and governments	57,490	0	359	377	56,755	104,591
Deposits in domestic offices by type:						
Transaction deposits	413,410	13,234	51,238	44,939	303,999	746,803
Demand deposits	341,061	7,030	29,626	36,532	267,873	575,894
Savings deposits	978,393	9,109	62,235	128,992	778,057	1,718,407
Money market deposit accounts	710155.84	5,178	37,399	87,083	580,496	1,226,540
Other savings deposits	268236.993	3,931	24,836	41,909	197,561	491,867
Time deposits	609,499	21,190	91,495	92,861	403,952	1,296,730
Small time deposits	355,893	14,331	58,951	56,554	226,057	740,496
Large time deposits	253,606	6,859	32,544	36,306	177,896	556,234

Off-balance-sheet items of national banks by asset size
December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Unused commitments	$3,392,705	$82,123	$402,738	$292,938	$2,614,906	$4,875,335
Home equity lines	152,815	332	4,039	10,727	137,717	207,816
Credit card lines	2,124,774	78,093	374,884	227,983	1,443,814	2,907,642
Commercial RE, construction and land	82,157	909	6,778	12,889	61,581	160,796
All other unused commitments	1,032,960	2,788	17,038	41,340	971,795	1,599,081
Letters of credit:						
Standby letters of credit	158,416	118	1,479	5,265	151,554	264,866
Financial letters of credit	128,492	77	885	3,870	123,661	220,201
Performance letters of credit	29,924	41	594	1,395	27,894	44,665
Commercial letters of credit	16,419	26	402	461	15,531	23,331
Securities lent	107,280	0	231	9,611	97,438	542,899
Spot foreign exchange contracts	82,149	0	25	173	81,951	110,859
Credit derivatives (notional value)						
Reporting bank is the guarantor	67,902	0	20	0	67,882	221,721
Reporting bank is the beneficiary	59,565	0	50	0	59,515	173,126
Derivative contracts (notional value)	20,641,447	6	1,353	36,795	20,603,293	45,407,179
Futures and forward contracts	5,255,326	1	324	2,049	5,252,952	9,313,406
Interest rate contracts	3,103,440	1	308	1,684	3,101,448	5,309,823
Foreign exchange contracts	2,086,435	0	16	365	2,086,053	3,862,465
All other futures and forwards	65,451	0	0	0	65,451	141,118
Option contracts	4,917,794	0	364	11,477	4,905,953	10,053,803
Interest rate contracts	4,354,973	0	362	11,416	4,343,195	8,617,704
Foreign exchange contracts	379,420	0	0	0	379,420	742,652
All other options	183,401	0	1	60	183,339	693,447
Swaps	10,340,859	5	595	23,269	10,316,990	25,645,123
Interest rate contracts	9,854,514	5	593	18,731	9,835,186	24,401,155
Foreign exchange contracts	439,542	0	2	4,176	435,365	1,128,821
All other swaps	46,803	0	1	362	46,439	115,147
Memoranda: Derivatives by purpose						
Contracts held for trading	19,106,414	1	125	8,081	19,098,207	43,246,755
Contracts not held for trading	1,407,565	5	1,158	28,713	1,377,688	1,765,577
Memoranda: Derivatives by position						
Held for trading—positive fair value	242,541	0	1	98	242,443	625,731
Held for trading—negative fair value	229,780	0	0	107	229,673	599,796
Not for trading—positive fair value	12,548	0	5	355	12,188	17,140
Not for trading—negative fair value	8,678	0	25	165	8,489	12,417

Quarterly income and expenses of national banks by asset size
Fourth quarter 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Net income	$12,581	$116	$746	$2,075	$9,644	$18,672
Net interest income	34,880	505	2,548	4,218	27,608	58,188
Total interest income	53,649	845	4,172	6,516	42,116	92,746
On loans	41,605	644	3,190	5,090	32,680	70,128
From lease financing receivables	1,950	3	26	70	1,852	2,748
On balances due from depositories	526	8	22	11	484	193
On securities	7,557	165	837	1,182	5,373	15,087
From assets held in trading account	778	0	2	11	765	2,179
On fed. funds sold & securities repurchased	958	20	73	107	759	1,797
Less: Interest expense	18,769	340	1,623	2,298	14,508	34,558
On deposits	12,889	321	1,443	1,511	9,615	24,247
Of federal funds purchased & securities sold	1,790	4	42	250	1,495	3,103
On demand notes & other borrowed money*	3,240	15	137	495	2,593	5,990
On subordinated notes and debentures	849	0	2	42	805	1,214
Less: Provision for losses	9,548	47	295	156	9,051	15,195
Noninterest income	26,383	248	1,446	3,063	21,626	40,450
From fiduciary activities	2,728	9	213	359	2,148	5,854
Service charges on deposits	4,713	61	293	427	3,931	7,208
Trading revenue	1,806	0	(13)	4	1,815	2,262
From interest rate exposures	741	0	2	(9)	748	1,283
From foreign exchange exposures	678	0	0	1	677	595
From equity security and index exposures	388	0	0	9	379	434
From commodity and other exposures	12	0	0	0	11	(35)
Total other noninterest income	17,275	178	979	2,278	13,840	25,266
Gains/losses on securities	581	6	18	77	480	1,210
Less: Noninterest expense	34,374	546	2,673	4,056	27,098	57,608
Salaries and employee benefits	13,361	256	1,114	1,403	10,588	23,869
Of premises and fixed assets	3,945	64	307	405	3,169	7,058
Other noninterest expense	15,539	223	1,204	2,073	12,038	24,669
Less: Taxes on income before extraord. items	5,334	49	298	1,064	3,922	8,392
Income/loss from extraord. items, net of taxes	(378)	(12)	25	(53)	(338)	(248)
Memoranda:						
Net operating income	12,177	112	732	2,028	9,305	17,803
Income before taxes and extraordinary items	17,922	166	1,044	3,146	13,566	27,045
Income net of taxes before extraordinary items	12,589	117	746	2,082	9,644	18,653
Cash dividends declared	6,766	161	643	1,218	4,745	15,070
Net loan and lease losses	8,556	38	223	885	7,410	12,725
Charge-offs to loan and lease reserve	9,772	46	269	1,002	8,454	14,481
Less: Recoveries credited to loan & lease resv.	1,215	9	46	117	1,045	1,757

* Includes mortgage indebtedness

Year-to-date income and expenses of national banks by asset size
Through December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Net income	$44,373	$483	$2,913	$6,128	$34,849	$74,310
Net interest income	125,674	1,945	9,581	16,112	98,035	215,202
Total interest income	227,248	3,504	17,193	28,301	178,250	402,915
On loans	175,698	2,617	13,127	22,053	137,902	299,376
From lease financing receivables	7,732	12	106	289	7,325	10,985
On balances due from depositories	2,631	37	111	106	2,377	5,320
On securities	30,813	689	3,336	4,906	21,882	62,964
From assets held in trading account	3,662	0	6	50	3,606	9,552
On fed. funds sold & securities repurchased	5,635	132	416	662	4,426	12,551
Less: Interest expense	101,574	1,559	7,612	12,189	80,214	187,713
On deposits	68,463	1,469	6,793	7,790	52,411	130,626
Of federal funds purchased & securities sold	10,035	22	245	1,661	8,108	19,691
On demand notes & other borrowed money*	19,301	67	564	2,569	16,101	32,020
On subordinated notes and debentures	3,775	0	10	170	3,595	5,376
Less: Provision for losses	28,974	154	881	2,337	25,602	43,074
Noninterest income	99,540	872	5,205	11,283	82,180	157,172
From fiduciary activities	8,832	33	675	1,472	6,652	20,751
Service charges on deposits	17,230	234	1,088	1,605	14,302	26,473
Trading revenue	7,309	0	(40)	17	7,332	12,505
From interest rate exposures	3,308	0	7	(15)	3,316	6,076
From foreign exchange exposures	3,144	0	0	6	3,138	4,339
From equity security and index exposures	718	0	0	21	697	1,878
From commodity and other exposures	181	0	0	1	181	232
Total other noninterest income	66,170	604	3,482	8,190	53,894	97,443
Gains/losses on securities	2,386	18	85	238	2,045	4,478
Less: Noninterest expense	131,149	2,000	9,894	15,853	103,402	222,316
Salaries and employee benefits	51,238	947	4,187	5,428	40,675	92,644
Of premises and fixed assets	15,560	241	1,175	1,622	12,522	27,572
Other noninterest expense	58,787	798	4,373	7,974	45,642	94,719
Less: Taxes on income before extraord. items	22,725	185	1,208	3,263	18,069	36,904
Income/loss from extraord. items, net of taxes	(378)	(12)	25	(53)	(338)	(248)
Memoranda:						
Net operating income	43,145	481	2,825	6,017	33,821	71,480
Income before taxes and extraordinary items	67,477	681	4,096	9,443	53,257	111,462
Income net of taxes before extraordinary items	44,751	495	2,888	6,180	35,188	74,558
Cash dividends declared	27,736	391	1,687	4,386	21,273	54,085
Net loan and lease losses	25,173	112	628	2,806	21,628	36,459
Charge-offs to loan and lease reserve	29,459	143	801	3,245	25,271	42,823
Less: Recoveries credited to loan & lease resv.	4,286	31	173	439	3,643	6,364

* Includes mortgage indebtedness

Quarterly net loan and lease losses of national banks by asset size
Fourth quarter 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Net charge-offs to loan and lease reserve	$8,556	$38	$223	$885	$7,410	$12,725
Loans secured by real estate	692	5	29	61	597	963
1–4 family residential mortgages	246	2	12	9	224	342
Home equity loans	130	0	1	8	121	146
Multifamily residential mortgages	7	0	1	1	5	12
Commercial RE loans	193	2	12	29	150	282
Construction RE loans	64	0	2	11	50	114
Farmland loans	10	1	1	3	5	17
RE loans from foreign offices	0	0	0	0	0	0
Commercial and industrial loans	3,710	15	69	182	3,444	6,014
Loans to individuals	3,769	14	113	627	3,015	5,150
Credit cards	2,577	2	63	490	2,022	3,530
Installment loans and other plans	1,192	12	49	137	993	1,620
All other loans and leases	385	3	13	16	353	598
Charge-offs to loan and lease reserve	9,772	46	269	1,002	8,454	14,481
Loans secured by real estate	776	6	33	75	661	1,096
1–4 family residential mortgages	266	2	14	10	240	379
Home equity loans	143	0	1	14	128	164
Multifamily residential mortgages	9	0	1	2	6	15
Commercial RE loans	230	2	14	33	181	338
Construction RE loans	70	0	3	14	53	127
Farmland loans	11	1	1	3	6	20
RE loans from foreign offices	48	0	0	0	48	54
Commercial and industrial loans	4,101	18	79	203	3,801	6,581
Loans to individuals	4,430	18	140	705	3,567	6,081
Credit cards	2,909	2	76	536	2,294	4,006
Installment loans and other plans	1,521	15	64	169	1,273	2,075
All other loans and leases	465	4	17	19	425	722
Recoveries credited to loan and lease reserve	1,215	9	46	117	1,045	1,757
Loans secured by real estate	84	1	4	14	64	133
1–4 family residential mortgages	20	0	2	1	16	37
Home equity loans	13	(0)	0	6	7	17
Multifamily residential mortgages	1	0	0	1	0	3
Commercial RE loans	37	1	1	4	31	55
Construction RE loans	6	0	0	3	3	12
Farmland loans	1	0	0	0	0	3
RE loans from foreign offices	6	0	0	0	6	6
Commercial and industrial loans	391	3	10	21	356	567
Loans to individuals	661	3	27	78	552	931
Credit cards	331	0	13	46	272	476
Installment loans and other plans	330	3	15	32	279	455
All other loans and leases	80	1	4	3	72	124

Year-to-date net loan and lease losses of national banks by asset size
Through December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,137	996	968	131	42	8,080
Net charge-offs to loan and lease reserve	25,173	112	628	2,806	21,628	36,459
Loans secured by real estate	2,513	13	68	221	2,212	3,239
1–4 family residential mortgages	1,521	5	30	113	1,373	1,799
Home equity loans	321	0	2	20	299	375
Multifamily residential mortgages	11	1	2	2	7	22
Commercial RE loans	404	5	27	57	315	639
Construction RE loans	127	1	7	23	97	242
Farmland loans	27	1	1	6	19	42
RE loans from foreign offices	103	0	0	0	103	120
Commercial and industrial loans	9,461	43	175	498	8,745	14,617
Loans to individuals	11,787	41	351	2,015	9,379	16,607
Credit cards	8,264	5	205	1,608	6,446	11,696
Installment loans and other plans	3,522	37	146	406	2,933	4,910
All other loans and leases	1,412	14	34	72	1,291	1,996
Charge-offs to loan and lease reserve	29,459	143	801	3,245	25,271	42,823
Loans secured by real estate	2,894	17	90	263	2,523	3,795
1–4 family residential mortgages	1,695	6	38	127	1,524	2,034
Home equity loans	362	0	4	29	329	431
Multifamily residential mortgages	20	1	2	3	14	37
Commercial RE loans	515	7	36	70	403	811
Construction RE loans	148	1	8	29	110	282
Farmland loans	30	2	2	6	20	54
RE loans from foreign offices	123	0	0	0	123	146
Commercial and industrial loans	10,667	52	213	574	9,828	16,404
Loans to individuals	14,201	55	452	2,321	11,373	20,172
Credit cards	9,459	6	250	1,792	7,412	13,527
Installment loans and other plans	4,742	49	201	530	3,961	6,645
All other loans and leases	1,697	18	46	86	1,547	2,452
Recoveries credited to loan and lease reserve	4,286	31	173	439	3,643	6,364
Loans secured by real estate	380	4	22	43	311	557
1–4 family residential mortgages	174	2	8	13	151	235
Home equity loans	41	0	2	9	30	56
Multifamily residential mortgages	9	0	1	1	8	16
Commercial RE loans	111	2	9	12	88	173
Construction RE loans	20	0	1	7	13	40
Farmland loans	3	0	1	0	1	12
RE loans from foreign offices	21	0	0	0	21	25
Commercial and industrial loans	1,205	9	38	76	1,083	1,787
Loans to individuals	2,415	14	101	307	1,994	3,565
Credit cards	1,195	1	46	183	966	1,830
Installment loans and other plans	1,220	13	55	123	1,028	1,735
All other loans and leases	286	4	12	14	256	456

Number of national banks by state and asset size
December 31, 2001

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
All institutions	2,137	996	968	131	42	8,080
Alabama	23	13	9	1	0	158
Alaska	3	1	0	2	0	6
Arizona	17	8	5	2	2	43
Arkansas	40	11	28	1	0	178
California	83	36	37	7	3	301
Colorado	52	26	23	2	1	176
Connecticut	8	3	5	0	0	25
Delaware	15	2	8	2	3	33
District of Columbia	4	2	2	0	0	4
Florida	75	26	42	7	0	260
Georgia	59	28	28	2	1	324
Hawaii	1	0	1	0	0	8
Idaho	1	0	1	0	0	17
Illinois	180	72	97	7	4	692
Indiana	33	8	17	6	2	154
Iowa	46	24	20	2	0	417
Kansas	104	75	26	3	0	373
Kentucky	52	24	25	3	0	230
Louisiana	16	7	7	1	1	143
Maine	6	1	4	1	0	15
Maryland	13	5	8	0	0	74
Massachusetts	13	4	7	2	0	43
Michigan	27	10	16	0	1	162
Minnesota	125	76	45	2	2	481
Mississippi	20	9	9	2	0	99
Missouri	45	23	18	3	1	351
Montana	17	13	2	2	0	82
Nebraska	78	56	20	2	0	275
Nevada	8	1	3	4	0	34
New Hampshire	6	2	2	1	1	15
New Jersey	23	1	15	7	0	81
New Mexico	15	6	6	3	0	53
New York	59	12	38	8	1	140
North Carolina	8	0	5	0	3	75
North Dakota	15	6	6	3	0	104
Ohio	88	36	38	8	6	202
Oklahoma	97	56	37	4	0	282
Oregon	3	0	2	1	0	33
Pennsylvania	82	22	50	7	3	181
Rhode Island	4	2	0	1	1	8
South Carolina	25	15	9	1	0	77
South Dakota	18	8	8	1	1	93
Tennessee	28	6	19	0	3	189
Texas	342	203	129	9	1	686
Utah	7	2	3	1	1	55
Vermont	11	3	7	1	0	18
Virginia	36	7	27	2	0	138
Washington	14	10	4	0	0	76
West Virginia	23	9	11	3	0	72
Wisconsin	49	16	30	3	0	281
Wyoming	20	10	9	1	0	45
U.S. territories	0	0	0	0	0	18

Total assets of national banks by state and asset size
December 31, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
All institutions	$3,634,997	$51,688	$253,533	$413,932	$2,915,844	$6,569,240
Alabama	3,830	798	1,951	1,080	0	189,689
Alaska	5,201	64	0	5,137	0	6,272
Arizona	41,137	244	2,514	5,430	32,950	43,713
Arkansas	8,232	659	6,501	1,072	0	28,171
California	214,428	1,827	11,587	14,652	186,363	360,823
Colorado	29,844	1,325	5,616	4,979	17,925	49,986
Connecticut	1,459	264	1,194	0	0	3,776
Delaware	117,496	88	1,951	4,599	110,858	163,379
District of Columbia	430	90	340	0	0	430
Florida	27,673	1,655	10,692	15,326	0	62,196
Georgia	28,111	1,540	6,222	9,254	11,094	175,542
Hawaii	334	0	334	0	0	23,418
Idaho	263	0	263	0	0	2,841
Illinois	297,566	3,732	23,829	18,798	251,208	435,935
Indiana	76,154	408	6,492	19,047	50,206	113,671
Iowa	16,195	1,256	4,965	9,974	0	47,385
Kansas	15,935	3,747	7,512	4,677	0	36,505
Kentucky	24,298	1,539	5,045	17,713	0	55,742
Louisiana	25,607	442	1,359	7,236	16,570	42,799
Maine	6,483	15	1,602	4,866	0	8,492
Maryland	2,522	261	2,261	0	0	49,154
Massachusetts	9,919	208	1,642	8,069	0	116,973
Michigan	47,060	402	4,570	0	42,088	163,832
Minnesota	82,582	3,695	11,115	3,975	63,797	107,334
Mississippi	10,621	520	2,029	8,072	0	35,445
Missouri	28,328	1,232	4,731	11,469	10,896	71,325
Montana	3,629	559	505	2,565	0	13,945
Nebraska	16,566	2,702	4,804	9,060	0	30,890
Nevada	21,640	40	826	20,774	0	34,566
New Hampshire	22,712	60	396	4,997	17,260	25,064
New Jersey	32,944	80	4,496	28,369	0	74,686
New Mexico	10,528	360	1,977	8,190	0	15,110
New York	483,837	826	11,461	19,207	452,343	1,350,823
North Carolina	857,515	0	1,484	0	856,031	956,151
North Dakota	12,393	270	1,752	10,371	0	18,699
Ohio	391,015	1,835	11,347	17,804	360,029	470,023
Oklahoma	26,044	2,780	7,305	15,958	0	45,921
Oregon	9,429	0	473	8,956	0	17,411
Pennsylvania	132,864	1,311	15,679	11,308	104,567	193,504
Rhode Island	194,756	19	0	6,789	187,949	205,511
South Carolina	5,641	830	2,524	2,287	0	26,838
South Dakota	42,090	252	2,747	8,261	30,830	51,079
Tennessee	78,264	441	6,181	0	71,642	100,124
Texas	85,630	10,300	31,084	23,114	21,131	144,679
Utah	29,599	66	756	8,669	20,108	131,637
Vermont	3,461	202	2,161	1,098	0	7,906
Virginia	15,102	369	7,474	7,259	0	69,899
Washington	1,815	556	1,259	0	0	21,861
West Virginia	10,435	496	2,183	7,756	0	18,118
Wisconsin	20,753	850	6,710	13,192	0	82,429
Wyoming	4,628	475	1,629	2,524	0	7,034
U.S. territories	0	0	0	0	0	60,505

CFO's Annual Report- Fiscal Year 2001

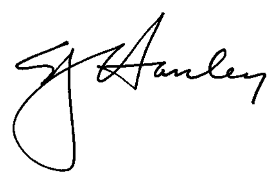
Chief Financial Officer's Message

I am pleased to present the Office of the Comptroller of the Currency (OCC) Fiscal Year 2001 Annual Report. The OCC received an unqualified opinion on its financial statements. This accomplishment exemplifies our continued commitment and resolve to sound financial management.

Each year, we further position ourselves to improve our resource management systems, business processes and internal controls. This fiscal year, we achieved significant results by successfully completing the implementation of our new Management and Accountability Reporting Tools system ($MART) and reengineering the related business processes. Launched on October 1, 2001, $MART replaces the OCC's legacy network of disparate accounting systems with a fully integrated, federally compliant financial and acquisition management system that produces reliable, real-time information. In addition, we converted to a new compensation system designed to better ensure that employees are compensated commensurate with their contributions to the agency. Also noteworthy are our enhancements to the OCC's Internet website. National banks can now access assessment forms and instructions, an assessment calculator, and notices of fees with ease. We also implemented a toll-free assessment hotline and group mailbox to facilitate communications with national banks.

With respect to internal controls, we developed and implemented our Management Accountability Program that helps protect the OCC's resources from waste, fraud, abuse and mismanagement. As a complement to the program, we are developing, publishing and implementing a comprehensive set of OCC financial management policies and procedures. For our Travel Charge Card program, we implemented a system of outreach efforts and internal control enhancements that enable us to effectively maintain accurate cardholder information, monitor accounts, prevent and detect unauthorized use, and ensure the timely resolution of disputed balances.

We are proud of our accomplishments and will continue our efforts to strengthen controls, modernize business processes, and provide accurate, reliable and timely information to our stakeholders.



Edward J. Hanley
Senior Deputy Comptroller and
Chief Financial Officer

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I. Management's Discussion and Analysis

Organizational Profile and Structure

Profile

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the United States (U.S.) Department of the Treasury. The OCC is responsible for licensing, regulating, and supervising the nation's federally chartered banks.

Today, the OCC regulates and supervises more than 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the total assets of all U.S. commercial banks.

The OCC's operations are primarily funded by semiannual assessments levied on national banks and from various licensing fees. The OCC also receives interest revenue from its investments in U.S. Treasury securities.

Structure

At the end of fiscal year 2001, the OCC had 2,867 employees in locations throughout the U.S. Headquartered in Washington, DC, the OCC also has six district offices in New York, Atlanta, Chicago, Kansas City, Dallas, and San Francisco. In addition to the district office sites, the OCC maintains a network of 63 field offices in cities throughout the U.S., maintains resident examiner teams in the 25 largest banks supervised, and an examining office in London, England.

The Comptroller receives advice on policy and operational issues from an Executive Committee comprised of the First Senior Deputy Comptroller and Chief Counsel, the Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, the Senior Deputy Comptroller for Large Bank Supervision, the Senior Deputy Comptroller for Mid-Size/Community Bank Supervision, the Senior Deputy Comptroller for International and Economic Affairs, the Chief Information Officer, the Senior Deputy Comptroller for Management and Chief Financial Officer, the Ombudsman, and the Chief of Staff.

Mission and Vision

Professionalism, responsiveness, and respect for others are the core values underlying the OCC's mission and vision.

Mission

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 U.S.

Vision

The OCC helps ensure that 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.

Strategies and Program Performance Measures

OCC Strategic Goal 1: A safe and sound national banking system

The OCC works proactively to identify and mitigate risks in the national banking system. On an ongoing basis, the OCC assesses banking industry risks utilizing its examiners and other professional staff and through analyses developed by the OCC National Risk Committee, which is comprised of senior examiners, legal experts, economists, and technical experts, and the OCC National Credit Committee, which is comprised of OCC credit experts and economists. These two committees jointly serve as the focal point for communicating and evaluating risks to the national banking system and identifying areas that require further study and analysis.

The OCC is a leader in developing and using modern supervisory practices and readily adapts to the rapidly evolving and highly complex financial products and services offered by the banking industry. OCC examiners are provided a wide array of supervisory and economic predictive tools to assist in identifying potential risks to the national banking system as a whole, as well as to individual banks.

During fiscal year 2001, the tools available to the OCC examination staff continued to be refined, including significant enhancements to the OCC's "Canary" system, which provides early indication of potential banking problems, and "Examiner View," a bank supervision database that allows the collection and analysis of systemic and bank specific data.

During the fiscal year, the Comptroller announced a reorganization of OCC's structure to reflect distinctions between two lines of business. As a result, Bank Supervision Operations was reorganized into the Large Bank Supervision and Mid-Size/Community Bank Supervision departments, effective October 1, 2001. This new structure is intended to promote greater accountability in the supervision of problem banks and revise the OCC's enforcement policy to improve its effectiveness in directing banks in addressing weaknesses in their operations. In addition, the position of Senior Deputy Comptroller for Bank Supervision Policy was changed to Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner.

The OCC has also been active in combating money laundering. In addition to its supervisory and enforcement activities related to the Bank Secrecy Act and money laundering, the OCC participated in interagency efforts in these areas. The OCC works with law enforcement officials in combating money laundering and provides guidance to national banks concerning banking relationships with alleged terrorists.

OCC's examiners participate in a wide range of training initiatives to enhance their skills. Relevant training topics in fiscal year 2001 included problem bank supervision, liquidity/interest rate risk, Internet banking, credit, and combating money laundering. The OCC also lends its expertise to others by conducting training sessions on Internet banking and combating money laundering for other domestic and foreign supervisors and regulatory agencies.

OCC's examiners use these tools and their expertise to evaluate the safety and soundness of national banks primarily during bank examinations and as part of the OCC's ongoing supervisory monitoring program. These processes are crucial to promoting safety and soundness because they identify risks and enable the OCC to take prompt actions to minimize those risks. These actions include timely enforcement actions as well as coordination of failure resolution policies and procedures with the Federal Deposit Insurance Corporation (FDIC).

As part of the OCC's efforts to continually improve the quality of supervisory practices, the Ombudsman's findings on supervisory appeals along with information from banker and bank customer feedback are communicated throughout the agency. In addition, during fiscal year 2001, the OCC piloted a program to evaluate the supervision of community banks. This program seeks to better utilize risk assessment models and techniques, and technology to develop more effective and efficient supervision of mid-size/community and large banks.

The OCC's ability to ensure bank safety and soundness is accomplished through timely and effective bank examinations. The OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Percent of bank examinations conducted as scheduled.	95%	94%

The OCC's goal is to conduct 95% of examinations in compliance with the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), excluding approved exceptions related to conversions, pending mergers, system conversions, and the resource demands of problem bank examinations that impact the timeliness of low risk bank examinations. For fiscal year 2001, 94 percent of bank examinations were conducted on time. At the beginning of the fiscal year, the conversion and migration of data to a new examination monitoring and tracking system resulted in minor miscalculations of FDICIA examination due dates. Data validation improved the timeliness of examinations as the fiscal year progressed, with 95 percent of bank examinations conducted on time during the final quarter.

OCC Strategic Goal 2: A flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services

The OCC fosters a competitive banking system by allowing banks to offer new financial products and services to consumers when risks are effectively managed and consumer protections are ensured. OCC's approval of new products and services (considering appropriate legal and policy factors) is timely and allows for appropriate flexibility. Bank safety and soundness concerns pertaining to new products, activities, corporate structures, and delivery systems are considered when licensing approvals and legal opinions are issued.

During fiscal year 2001, the OCC amended its legal lending limit regulation (12 CFR Part 32) to provide national banks greater parity with state banks that have a higher legal lending limit. This amendment establishes a three-year pilot program that creates special lending limits for residential real estate and small business loans. To use these special lending limits, eligible banks must apply and obtain approval. The objective of the program is to enable community banks to remain competitive with state-chartered institutions while maintaining safety and soundness protections.

The OCC's timely approval of corporate applications contributes to the nation's economy as national banks engage in corporate transactions and introduce new financial products and services. Effective and timely approval balances safety and soundness with the national banks' ability to operate efficiently and provide a competitive array of financial services. In addition, the OCC's issuance of clear banking regulations and guidance allows banks to more effectively and efficiently conduct business operations. As a result, the OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Percent of regulations and handbooks drafted that incorporate plain language criteria.	100%	100%
Percentage of on-time performance for processing corporate applications.	95%	96%

OCC Strategic Goal 3: Fair access to financial services and fair treatment of bank customers

The OCC endeavors to ensure fair access to financial services for all Americans by enforcing the Community Reinvestment Act (CRA) and fair lending laws, encouraging national bank involvement in community development activities, and promoting fair treatment of bank customers and compliance with the consumer protection laws. The OCC pursues initiatives that eliminate impediments to banking services for certain segments of the population, particularly small businesses, low-income individuals, and individuals and businesses located in rural areas.

The OCC conducts outreach programs to heighten awareness of fair access issues within the banking industry. The OCC also provides information and analyses to banks to increase their knowledge and awareness of available community development activities. Information on affordable housing, financing for minority small businesses, Native American initiatives, and other community and economic development activities is provided to the banking industry routinely. The OCC also continues to provide leadership in the development of sound policies and procedures with respect to customer information privacy.

The OCC also responds to complaints and inquiries from customers of national banks. The OCC's Customer Assistance Group captures, monitors, and analyzes data related to these complaints and inquiries to identify trends that are used in developing new policies and positions. Because complaints and inquiries provide critical feedback on banks, it is important that the OCC processes complaints and inquiries in a timely manner. As a the OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Average time to process consumer complaints and consumer inquiries (average days).	50	46

OCC Strategic Goal 4: An expert, highly motivated, and diverse workforce and efficient utilization of other OCC resources

The OCC recognizes that effective management of its human, financial, and other resources can further enhance program results. As a result, the OCC places a high priority on resource management.

The OCC implemented a new compensation system in fiscal year 2001 designed to better ensure that employees are compensated commensurate with their contributions to the agency. In addition, the OCC provided training on a broad range of topics to its staff to ensure staff expertise in carrying out OCC's mission. The OCC also continued to monitor and address work-life issues raised by its employees. The OCC surveyed staff on a broad range of work-life issues and is in the process of analyzing the survey results. Also during the fiscal year, OCC developed a 5-year plan for creating and sustaining an expert, highly motivated, and diverse workforce. This plan will be implemented in three stages with the initial phase occurring over the next year.

OCC's information technology was expanded and upgraded to ensure that financial and supervisory data are available and easier to access agency-wide. For example, the OCC implemented phase I of a new Management and Accountability Reporting Tools system ($MART). $MART is an integrated financial management system that promotes the efficient use of resources by providing users with accurate, reliable, and timely financial information.

To ensure ongoing financial integrity, the OCC maintains and reviews internal controls to comply with the Federal Managers' Financial Integrity Act. The OCC also commissions an audit of its financial statements by an independent public accounting firm. Senior management is dedicated to ensuring the effectiveness of internal financial controls, continued compliance with accounting standards, and effective budgeting and reporting.

Effective training, sound financial information and leading edge information technology are critical to achieving OCC's mission. Performance in these areas is measured as follows:

Performance Measure	2001 Target	2001 Actual
Percent of planned training accomplished.	90%	90%
Statement of Reasonable Assurance under the Federal Managers' Financial Integrity Act (FMFIA) and Substantial Compliance under the Federal Financial Management Improvement Act (FFMIA).	Met	Not Met

Performance Measure	2001 Target	2001 Actual
Percent of capital projects for major systems meeting funding, schedule, and performance targets.	100%	100%

The OCC did not meet its goal of issuing statements of "reasonable assurance" under FMFIA and "substantial compliance" under FFMIA. The performance goal was established based on a 2001 calendar year reporting cycle. The OCC implemented its new JFMIP compliant financial management system, $MART, on October 1, 2001, which was the final action needed. Because of the change from a calendar year to a fiscal year reporting cycle, the OCC could only issue a qualified assurance for FMFIA and a noncompliance for FFMIA for the fiscal year ended September 30, 2001. See page 18 for the assurance letter.

The OCC is committed to achieving its strategic goals and ensuring that they remain aligned with those of the U.S. Department of the Treasury. In fiscal year 2002, the OCC will continue to monitor and respond appropriately to rapidly changing circumstances in the banking industry, including the effects of a slowing economy. The OCC will also continue its anti-money laundering efforts in support of national and international efforts to combat terrorism.

Core Processes

The OCC's goals and objectives are met by day-to-day operations supporting the mission-critical core processes of:

- licensing national banks and their activities;
- establishing regulations and policies that apply to all national banks;
- supervising each national bank;
- addressing systemic risks and marketplace trends;
- managing OCC resources; and
- managing external relations.

Licensing

Licensing involves ongoing activities that result in the chartering or liquidation of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries.

Rulemaking

Rulemaking consists of ongoing activities that result in the establishment of regulations, policies, operating guidance and interpretations of general applicability to national banks.

Supervision

Individual bank supervision consists of ongoing supervision and enforcement activities undertaken to ensure each national bank is operating in a safe and sound manner and is complying with applicable laws, rules and regulations relative to the bank and the customers and communities it serves. This core process includes bank examinations and enforcement activities, resolution of disputes through the Ombudsman process, and the ongoing monitoring of banks.

Systemic Analysis

Systemic analysis consists of ongoing activities that identify, analyze, and respond to emerging systemic risks and market trends that could impact the safety and soundness of the national banks, the national banking system or groups of national banks, the financial services industry, or the economic and regulatory environment in which banks operate.

Resource Management

Resource management consists of those ongoing activities related to prudently managing human, financial, physical, and technology resources in a manner designed to ensure that OCC programs achieve their intended results in an efficient manner. The management of human resources includes the recruitment, retention, recognition, and ongoing development of OCC staff.

Managing External Relations

Managing external relations consists of the activities of discrete organizational functions that educate key agency stakeholders, facilitate their interactions with the OCC or its national bank clientele, or advance specific OCC policy interests to targeted external audiences.

Key Factors Affecting the Achievement of Goals

Economic Changes

Shifts in national and global economies may significantly impact the risk profiles of national banks and corresponding OCC supervisory strategies. Changes in business conditions, interest and exchange rates, inflation, and unemployment influence the lending and funding strategies of national banks. Longer-term structural changes in the banking business, such as the shift to fee-based income, increased reliance on non-core deposit funding sources, and consolidated industries continue to change the dynamics of the banking business.

An economic downturn could slow asset growth, increase loan losses and reduce the profitability of national banks. All of these events could result in a greater amount of time spent on examinations. Rapid changes in the fabric of the financial services marketplace could outpace the OCC's ability to provide timely training to its staff and would place greater pressure on its systemic risk analysis function.

Since the preponderance of OCC funding comes from semiannual assessments levied on national bank assets, an economic downturn accompanied by a decline in national bank assets could reduce agency revenues at a time when OCC supervisory resource needs are the highest. An internal task team has been commissioned to analyze the OCC's long-term revenue options.

Changes in the Workforce

Changing national and local economies may cause employment market variances that could impact the OCC's ability to attract and retain the technical expertise required to support supervisory efforts.

Legislative Changes

Legislative changes are altering the lines of business permissible for national banks and may require revised supervisory initiatives to address new powers or business models. Legislative changes also affect the OCC's outreach programs with bankers, consumers, and community groups by creating the need for more outreach activities and the distribution of informational and educational materials.

Emerging Technology

Emerging technology has introduced ways for banks to offer traditional products and services through new delivery channels and to develop innovative products and services. Examples include Internet banking, e-commerce initiatives, and stored-value card systems. Technology changes have influenced the operating strategies of many banks and non-banks as they seek to compete in the increasingly fast-paced and globally interdependent business environment. The OCC's rulemaking as well as its consumer compliance and the safety and soundness examination functions continue to evolve and adapt in order to appropriately address the new risks presented by technology.

Financial Management Discussion

Financial Management Initiatives

Training and testing were completed for the implementation of $MART, OCC's new Management and Accountability Reporting Tools system. $MART was designed to strengthen funds management and budgetary control as well as streamline many of the OCC's financial and acquisition processes through one central system that provides reliable, real-time information. This new system, launched on October 1, 2001, marks a major step forward in modernizing and integrating the OCC's financial and acquisition systems.

The OCC has made great strides in enhancing its revenue forecasting techniques. The OCC is now able to make multi-year projections. In addition, the OCC revised its assessment schedule to better match assessments with the costs of supervising different types of institutions.

In keeping with the reporting requirements of the U.S. Department of the Treasury and the Federal government, the OCC converted from a calendar to a fiscal year. This change eliminates the need for duplicative recordkeeping, and allows the OCC to redirect resources to help strengthen controls and modernize business processes.

In recognizing the need to produce more outcome-based measures, the OCC established a strategic planning team within Financial Management for the purpose of enhancing Congress' and other stakeholders' understanding of how OCC's programs impact the viability of the national banking system.

The OCC made significant progress towards capturing the full costs of its activities. This fiscal year, the OCC constructed a costing model that accumulates and reports full-time equivalency data by five major programs, as follows:

- Charter
  - —Organizing
  - —Licensing
- Regulate
  - —Establishing Policy/Rulemaking
  - —Representing/Defending
- Supervise
  - —Examining
  - —Enforcing
  - —Ensuring Fair Access
- Analyze Risk
  - —Addressing Systemic Risk
- General and Administrative

The plan for next fiscal year is to develop a schematic that aligns the OCC's costs not only with their programs but also with their strategic goals and objectives. The OCC looks forward to continuing to improve its cost accounting processes by capturing and reporting cost information that better serves the needs of OCC management.

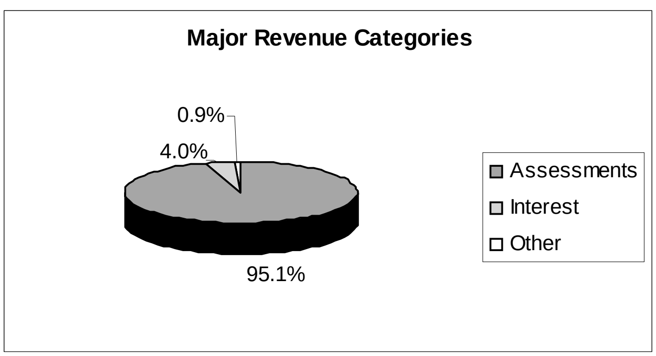
Funding Sources

The OCC does not receive any appropriations from Congress. The OCC's operations are funded primarily by semiannual assessments from national banks and federal branches of foreign banks.

To carry out its responsibilities, the OCC may levy and collect assessments, fees, or other charges as necessary or appropriate (12 USC 482). Such assessments, fees, and other charges are set to meet OCC's expenses.

In fiscal year 2001, the OCC's revenues were $415.9 million with semiannual assessments of $395.5 million accounting for 95.1 percent. The other sources of revenue were interest income on investments at $16.8 million or 4 percent and other income at $3.6 million or .9 percent. The OCC's investment income comes from investing its operating funds in U.S. Treasury securities.

Other income primarily consists of revenue from corporate fees and publications.



Furthermore, the Office of Personnel Management (OPM) contributed an additional $15.4 million towards the retirement benefits of OCC employees. The OCC recognized this contribution as an Imputed Financing Source as a result of not having to reimburse OPM.

In accordance with the Chief Financial Officers Act of 1990, OCC reviews its fee schedule annually to verify that its fees along with investment income and other miscellaneous income cover the full cost of the OCC's operations. The results of these reviews are incorporated in the annual notice of assessment fees. The OCC must provide notice of its assessment fees no later than the first business day in December of each year for fees to be charged during the upcoming calendar year.

Funding Uses

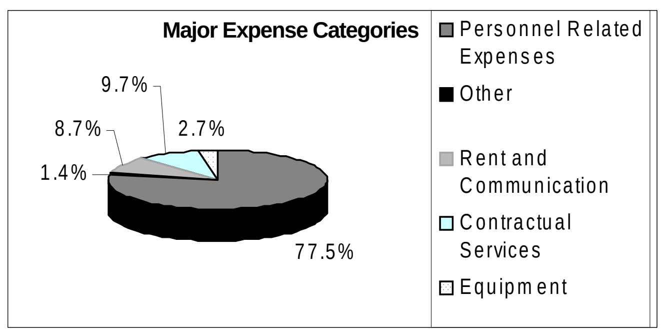
The OCC's operations are personnel-intensive. In fiscal year 2001, the OCC's expenses were $420.1 million, with $325.5 million, or 77.5 percent, of total expenses paying for personnel compensation and benefits, travel, education and employee relocation.

Contractual services were $40.9 million and accounted for 9.7 percent of total expenses. A significant component of these expenses related to ongoing information technology services contracts.

Rent and communications expenses at $36.5 million or 8.7 percent of total expenses supported the nationwide system of examiner offices and the headquarters location.

Office equipment and supplies at $11.4 million or 2.7 percent of total expenses primarily consisted of major technology enhancements and upgraded office software.

The remaining OCC expenses at $5.8 million represented 1.4 percent of total expenses and included costs for depreciation and amortization and printing and reproduction.



Payments

The Prompt Payment Act and Office of Management and Budget (OMB) Circular A-125 require agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date. In fiscal year 2001, 98% of OCC's invoices were paid on time. The OCC processed nearly 29,037 invoices representing over $94 million in purchases.

Using electronic funds transfer (EFT) for payments provides greater control over the timing of payments and lower payment cost compared with paper checks. The Debt Collection Improvement Act of 1996 requires government agencies to issue all contractual, and employee payments by electronic funds transfer. During fiscal year 2001, 99% of OCC's travel reimbursements to employees and 80% of vendor payments were made using EFT.

Limitations of the Financial Statements

The financial statements have been prepared to report the assets, liabilities, and net position of the OCC and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, pursuant to the requirements 31 USC 3535(b). While the statements have been prepared from the books and records of the OCC in accordance with the format prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without authorization that provides resources to do so.

Systems, Controls, and Legal Compliance

The OCC evaluated its system of management control during fiscal year 2001. The results indicate that OCC's system of internal management, accounting and administrative control, taken as a whole, are sufficient and effective except for the matter noted below.

Financial Management Systems

The OCC financial management systems that were in effect for fiscal year 2001 did not comply with Federal financial management system requirements and the U.S. Government Standard General Ledger at the transaction level. This instance of noncompliance was eliminated on October 1, 2001 with the successful implementation of an entirely new financial management system. Until converting to the new system, the OCC took the necessary steps to compensate for the limitations of the systems in effect for fiscal year 2001. The OCC ensured that the information reported was accurate, reliable, and timely, and that it was in accordance with accounting principles generally accepted in the United States of America for federal reporting entities (GAAP).

This was also reported in OCC's Annual Assurance Statement for the year 2001, which was signed by the Comptroller of the Currency in December 2001.

Department of the Treasury
Office of the Comptroller of the Currency

Annual Assurance Statement
2001

As the Comptroller of the Currency, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control at the OCC has been conducted in a conscientious and thorough manner during 2001. The results indicate that the OCC's system of internal management, accounting and administrative control, taken as a whole, is sufficient and effective. As a result, I can provide a reasonable assurance that FMFIA Section 2 objectives are being achieved and a qualified assurance that FMFIA Section 4 objectives have been met. OCC's financial management systems that existed through September 30, 2001 did not comply with Federal financial management systems requirements. This situation and its effect on FMFIA Section 4 assurance were remedied when our new financial management system became operational on October 1, 2001.

John D. Hawke, Jr.
Comptroller of the Currency

II. Auditor's Report

KPMG

2001 M Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended. These financial statements are the responsibility of the OCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 OCC, as of September 30, 2001, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the OCC adopted the provisions of Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, effective October 1, 2000.

The information in the Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 4, 2002, on our consideration of the OCC'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 performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 4, 2002

KPMG

2001 M Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated January 4, 2002. Our report refers to the OCC's change in accounting principles relating to accounting for internal use software costs. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the OCC's internal control, determining whether 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. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on the OCC's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the OCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable 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. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

KPMG

We noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of these reportable conditions are considered to be material weaknesses. Exhibit II presents the status of prior year reportable conditions.

With respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that we have reported to the management of the OCC in a separate letter dated January 4, 2002.

This report is intended solely for the information and use of the OCC's management, the U.S. Department of the Treasury Office of the Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 4, 2002

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Exhibit I

Office of the Comptroller of the Currency
Reportable Conditions
For the Fiscal Year Ended September 30, 2001

1. Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place

We noted examples where OCC procedures related to TTRS disbursements processing were not followed. Internal controls over the TTRS disbursements process should be properly designed to achieve desired control objectives, and subsequently placed in operation. The nature of the OCC's operations require its personnel to travel considerably. As such, the controls surrounding the TTRS process should be operating effectively to ensure only accurately completed TTRS with appropriate supporting documentation and approvals are paid. In instances where TTRS disbursements controls are not operating effectively, potential accounting misstatements, irregularities, and other errors may occur.

During our audit, we identified 7 instances, out of a sample of 45 items, where the internal controls over disbursements were not functioning as designed. The exceptions included inadequate supporting documentation and missing supervisory approvals. In addition, we noted TTRS are not always submitted timely. The prior year findings in this area were similar.

Recommendations
In order to improve internal controls over TTRS disbursements, we recommend the OCC continue to take action to improve on its performance in monitoring and enforcing time and travel expense reporting procedures. Such actions should include increased supervisory and quality control reviews.

Office of the Comptroller of the Currency
Reportable Conditions
For the Fiscal Year Ended September 30, 2001

2. Internal controls over timekeeping were not adequate

The OCC did not consistently follow its timekeeping procedures relating to certifying rosters and applications for leave. We noted 7 exceptions out of 45 sample items tested. The nature of the errors included inadequate and untimely leave slip and certifying roster approvals, and inaccurate certifying rosters. The findings are similar to those reported in the prior year.

Untimely or inadequate review of certifying rosters increases the risk that errors, fraud, or omissions in reporting annual leave, sick leave, and comp time taken will go undetected. In the absence of adequate review and recording of annual leave slips, the risk of employees taking leave without their annual leave balances being charged is increased. Furthermore, annual leave slips may be processed with errors if not adequately reviewed by a supervisor.

Recommendations

We recommend the OCC:

- Implement procedures to enforce controls surrounding completion, submission, and accounting for annual leave and certifying rosters.
- Develop a periodic internal audit program for current employees related to certifying rosters and annual leave processing. The audits should be performed by personnel not responsible for entering leave data into the system.

OCC Management Response

OCC management concurs with the findings and will address the reportable conditions.

Exhibit II

Office of the Comptroller of the Currency
Status of Prior Year Reportable Conditions

2000 Reportable Conditions	2001 Status
Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place. *(OCC did not consistently follow procedures related to TTRS disbursements.)*	Current year status: Reportable condition.
Internal controls over timekeeping were not adequate *(OCC did not consistently follow timekeeping procedures.)*	Current year status: Reportable condition.

KPMG

2001 M Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the balance sheet of the Comptroller of the Currency (OCC) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated January 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of the OCC'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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OCC. 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, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Additionally, as a bureau within the U.S. Department of the Treasury, the OCC reported one instance in which its financial management systems did not substantially comply with FFMIA in its fiscal year 2001 annual assurance statement submitted to Treasury. This instance of noncompliance relates to Federal financial management systems requirements.

On October 1, 2001, the OCC implemented a new financial management system which management anticipates will eliminate this instance of noncompliance.

This report is intended solely for the information and use of the OCC's management, the U.S. Department of the Treasury Office of the Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 4, 2002

III. Financial Statements

Office of the Comptroller of the Currency
Balance Sheet
September 30, 2001

Assets:	
Intragovernmental:	
Fund balance with Treasury	$ 546,160
Investments and related interest (Note 3)	349,923,315
Advances and prepayments	256,185
Total intragovernmental	350,725,660
Cash	26,092
Accounts receivable, net	293,127
Property and equipment, net (Note 4)	18,860,398
Advances and prepayments	1,971,573
Total assets	$ 371,876,850
Liabilities:	
Intragovernmental:	
Accounts payable	$ 1,905,591
Total intragovernmental	1,905,591
Accounts payable	7,544,602
Accrued payroll and employee benefits	19,993,142
Deferred revenue (Note 5)	100,244,784
Accrued annual leave	20,855,576
Post retirement benefits (Note 8)	7,563,945
Total liabilities	158,107,640
Net position (Note 7)	213,769,210
Total liabilities and net position	$ 371,876,850

The accompanying notes are an integral part of these financial statements

Office of the Comptroller of the Currency
Statement of Net Cost
For the Year Ended September 30, 2001

Program Costs:	
Regulate and Supervise National Banks	
Intragovernmental	$ 58,011,797
With the public	362,107,646
Total Program Costs (Note 9)	420,119,443
Less: Earned revenues	(415,875,984)
Net Cost of Operations	$ 4,243,459

The accompanying notes are an integral part of these financial statements

Office of the Comptroller of the Currency
Statement of Changes in Net Position
For the Year Ended September 30, 2001

Beginning Balance	$ 213,992,812
Change in Accounting Principle (Note 4)	(11,419,731)
Financing Source	
Imputed financing from costs absorbed by others (Note 8)	15,439,588
Net Cost of Operations	(4,243,459)
Ending Balance	$ 213,769,210

The accompanying notes are an integral part of these financial statements

Office of the Comptroller of the Currency
Statement of Budgetary Resources
For the Year Ended September 30, 2001

Budgetary Resources:	
Unobligated balance, Beginning of Period	$ 268,658,850
Spending Authority from collections	419,154,401
Total Budgetary Resources	687,813,251
Status of Budgetary Resources:	
Obligations incurred	406,334,021
Unobligated balance available	281,479,230
Total Status of Budgetary Resources	$ 687,813,251
Relationship of Obligations to Outlays:	
Obligated Balance, net, beginning of year	59,749,322
Less: Obligated Balance, net, end of year	(63,078,883)
Obligations incurred	406,334,021
Less: Offsetting collections	(419,154,401)
Net Collections in Excess of Outlays	$ (16,149,941)

The accompanying notes are an integral part of these financial statements

Office of the Comptroller of the Currency
Statement of Financing
For the Year Ended September 30, 2001

Resources Used to Finance Activities	
Obligations Incurred	$ 406,334,021
Less: Spending authority from offsetting collections	(419,154,401)
Imputed financing from costs absorbed by others (Note 8)	15,439,588
Total resources used to finance activities:	2,619,208
Resources Used to Finance Items not Part of the Net Costs of Operations	
Change in resources obligated for goods, services and benefits ordered but not yet provided	397,749
Change in Accounts Receivable	(169,054)
Resources that finance the acquisition of assets	(6,045,753)
Total resources used to finance items not part of the net cost of operations	(5,817,058)
Total resources used to finance the net cost of operations	(3,197,850)
Components of the Net Cost of Operations that will not Require Resources:	
Loss on Disposition of Assets	60,681
Depreciation	3,285,844
Total Components of Net Cost of Operations that will not require resources	3,346,525
Components Generating Resources in Future Periods:	
Change in Deferred Revenue	4,094,784
Total Components of Net Cost of Operations	7,441,309
Net Cost of Operations	$ 4,243,459

The accompanying notes are an integral part of these financial statements

Office of the Comptroller of the Currency
Notes to the Financial Statements
As of September 30, 2001

Note 1- Organization

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

OCC's revenue is derived primarily from assessments and fees paid by national banks and income on investments in U.S. government securities. The OCC does not receive Congressional appropriations to fund any of its operations.

By federal statute 12 USC § 481, OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller of the Currency.

The OCC collects Civil Monetary Penalties (CMP) due to the Federal government that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections transferred to the Department's General Fund amounted to $159,016 during fiscal year 2001. Current outstanding CMP amount to $785,258.

Departmental Offices (DO), another entity of the U.S. Department of Treasury, provides certain administrative services to the OCC. The OCC pays DO for services rendered pursuant to established interagency agreements. Administrative services provided by DO totaled $2,765,467 for fiscal year 2001.

The OCC converted from a calendar to a fiscal year for its fiscal year 2001 financial statement presentation. This change was made to conform to the requirements of the U.S. Department of the Treasury and the Federal government.

Note 2- Significant Accounting Policies

Basis of Accounting

The OCC's financial statements have been prepared from the OCC's accounting records in conformity with accounting principles generally accepted in the United States of America (GAAP). These financial statements consist of the balance sheet, and the statements of net cost, changes in net position, budgetary resources, and financing. These financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

Fund Balance with Treasury

The OCC's cash receipts and disbursements are processed by the U.S. Treasury. Sufficient funds are maintained in a U.S. Government trust revolving fund and are available to pay current liabilities. The OCC invests all the funds that are not immediately needed in U.S. Government securities (Note 3).

Accounts Receivable, net

Accounts receivable represent monies owed to the OCC for services and goods provided. At fiscal year-end, accounts receivable amounted to $312,171 less an allowance for doubtful accounts of $19,044.

Advances and Prepayments

Advances and prepayments to other government agencies represent amounts paid to the DO prior to the receipt of goods and services. Advances and prepayments to the public consist of rent and insurance paid. The amounts are recorded as prepaid expenses at the time of payment and are expensed when related goods and services are received.

Liabilities

Liabilities represent the amount of monies that are likely to be paid by the OCC as the result of a transaction or event that has already occurred. Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective and the invoice is paid by the discount date.

Annual, Sick, and Other Leave

Annual leave is accrued and funded by the OCC as earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of leave are expended as taken.

Use of Estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Note 3- Investments and Related Interest

Investments are U.S. Government securities stated at amortized cost and the related accrued interest. The OCC plans to hold these investments to maturity. Discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The fair market value of investment securities was $350,441,058 at September 30, 2001.

Investments and related interest receivable as of September 30, 2001, are as follows:

Cost	$ 344,722,000
Unamortized Discount	105,534
Net Amortized Value	344,827,534
Interest Receivable	5,095,781
Investments and Related Interest	$ 349,923,315

Maturity	Par Value	Interest Rate
Overnight	$ 90,722,000	5.990%
During 2001	$149,000,000	5.875%
During 2002	$ 80,000,000	5.750%
During 2006	$ 25,000,000	6.875%

Note 4- Property and Equipment, Net

Property and equipment purchased with a cost greater than or equal to the noted thresholds below and useful lives of two years or more are capitalized at cost and depreciated or amortized, as applicable.

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The following table summarizes property and equipment balances as of September 30, 2001:

Class of Asset	Capitalization Threshold/Useful Life		Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$ 50,000	5-20	$22,164,561	$11,776,363	$10,388,198
ADP Software	$ 50,000	5-10	2,022,472	2,021,763	709
Equipment	$ 50,000	5-10	11,369,857	8,331,805	3,038,052
Furniture and Fixtures	$ 50,000	5-10	1,723,156	1,230,193	492,963
Internal Use Software	$500,000	5-10	3,036,657	—	3,036,657
Internal Use Software-Dev	$500,000	5-10	1,903,819	—	1,903,819
			$42,220,522	$23,360,124	$18,860,398

The OCC adopted the provisions of Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, effective October 1, 2000, which represents a change in accounting principle. The OCC followed the U.S. Department of Treasury's guidance for the implementation of the standard. The effect of this change is a write-off of $11,419,731 of costs capitalized in prior years. Costs incurred during fiscal year 2001 will be amortized once the software has been successfully tested.

Note 5- Deferred Revenue

OCC activities are principally financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due January 31 and July 31 of each year based on asset balances as of call dates on December 31 and June 30, respectively. Assessments are paid in advance and are recognized as earned revenue on a straight-line basis over the six months following the call date. The unearned portions are recorded as deferred revenue until earned.

Note 6- Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for the district and field operations through the General Services Administration of the U.S. government. The lease agreements expire at various dates through 2008. These leases are treated as operating leases. Future lease payments are as follows:

Year	Amount
2002	$ 23,425,454
2003	20,417,635
2004	17,245,985
2005	15,178,776
2006	9,541,736
2007 and Beyond	932,790
Total	$ 86,742,376

Note 7- Net Position

The OCC sets aside a portion of its Net Position as Special and Contingency Reserves to be used at the discretion of the Comptroller.

The Special Reserve supplements revenue from assessments and other sources that are made available to fund the OCC's annual budget. The Special Reserve serves to reduce the impact on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities.

The Contingency Reserve supports the OCC's ability to accomplish its mission in the case of unforeseeable but rare events. Unforeseeable but rare events are beyond the control of the OCC such as a major change in the National Bank System or a disaster such as a fire, flood, or significant impairment of its information technology systems.

Net Position availability as of September 30, 2001, is as follows:

Contingency Reserve	$ 166,234,445
Special Reserve	15,000,000
Available to Cover Consumption of Assets	22,222,956
Available to Cover Undelivered Orders	10,311,809
Net Position	$ 213,769,210

Note 8- Retirement Plans and Other Benefits

Retirement

OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984 are covered by the Civil Service Retirement System (CSRS) unless they elected to join the Federal Employees Retirement System (FERS) and Social Security during the election period. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the OCC contributes 8.51 percent of their adjusted base pay to the plan. For employees covered by FERS, the OCC contributes 10.7 percent of their adjusted base. The OCC contributions totaled $20,551,397 in fiscal year 2001.

Furthermore, the Office of Personnel Management (OPM) contributed an additional $15,439,588 towards these retirement plans during the fiscal year. The OCC recognized these contributions as "Imputed Costs Absorbed by Others" and an offset in equal amount to "Imputed Financing from Costs Absorbed by Others" as a result of not having to reimburse OPM.

The OCC does not report in its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are presently the responsibility of the OPM.

Other Benefits

OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory 1 percent of adjusted base pay to this account. In addition, the OCC matches employee contributions up to an additional 4 percent of pay, for a maximum OCC contribution amounting to 5 percent of adjusted base pay. Employees under CSRS may participate in the TSP, but do not receive the OCC automatic (1 percent) and matching employer contributions. OCC contributions for the TSP totaled $5,304,214 in fiscal year 2001. The OCC also contributed a total of $10,558,496 for Social Security and Medicare benefits for all eligible employees.

Employees can elect to contribute up to 10 percent of their adjusted base salary in the OCC 401(K) Plan, subject to Internal Revenue regulations. Prudential Securities Incorporated currently administers the plan. The OCC contributes a fixed 1 percent of the adjusted base salary to the Plan for all of participating employees. Approximately 2,400 employees are enrolled in the plan. The OCC 1 percent matching contribution amounted to $1,863,769 during fiscal year 2001.

The OCC sponsors a life insurance benefit plan for current and former employees. This plan is a defined benefit plan. Premium payments made during fiscal year 2001 totaled $110,595.

The following shows the accrued post-retirement benefit cost and the net periodic post-retirement benefit cost for this plan at September 30, 2001:

Accumulated Post Retirement Benefit Obligation	$ (7,303,739)
Unrecognized Transition Obligation	1,901,219
Unrecognized Net Gain	(2,161,425)
Accrued Post-Retirement Benefits	(7,563,945)

Service Cost	$ 294,498
Interest Cost	496,830
Amortization of Gain	(139,829)
Amortization of Transition Obligation	172,837
Net Periodic Post-Retirement Benefit Cost	$ 824,336

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are amortized over the service life of the plan.

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits (FEHB) plans and Federal Employees Group Life Insurance (FEGLI) plan, which are cost sharing employee benefit plans administered by the OPM. Total OCC contributions for active employees who participate in the FEHB plans were $10,103,674 for fiscal year 2001. OCC contributions for active employees who participate in the FEGLI plan were $184,792 for fiscal year 2001.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees under FECA are administered by the Department of Labor (DOL) and later billed to the OCC. The OCC accrued $4,111,801 of workers' compensation costs as of September 30, 2001. This amount includes unpaid costs and an actuarial estimated liability for unbilled costs incurred as of year-end calculated by DOL.

Note 9- Expenses by Budget Object Classification

Personnel Compensation	$ 223,923,416
Personnel Benefits	58,352,700
Benefits to Former Employees	2,112,678
Travel and Transportation of Persons	24,741,781
Travel and Transportation of Things	1,019,015
Rent, Communication & Utilities	36,484,468
Printing and Reproduction	1,074,570
Other Contractual Services	40,858,089
Supplies and Materials	3,528,000
Equipment	7,830,554
Land and Structures	608,371
Insurance Claims and Indemnities	197,731
Depreciation	3,948,482
Imputed costs	15,439,588
Total	$ 420,119,443

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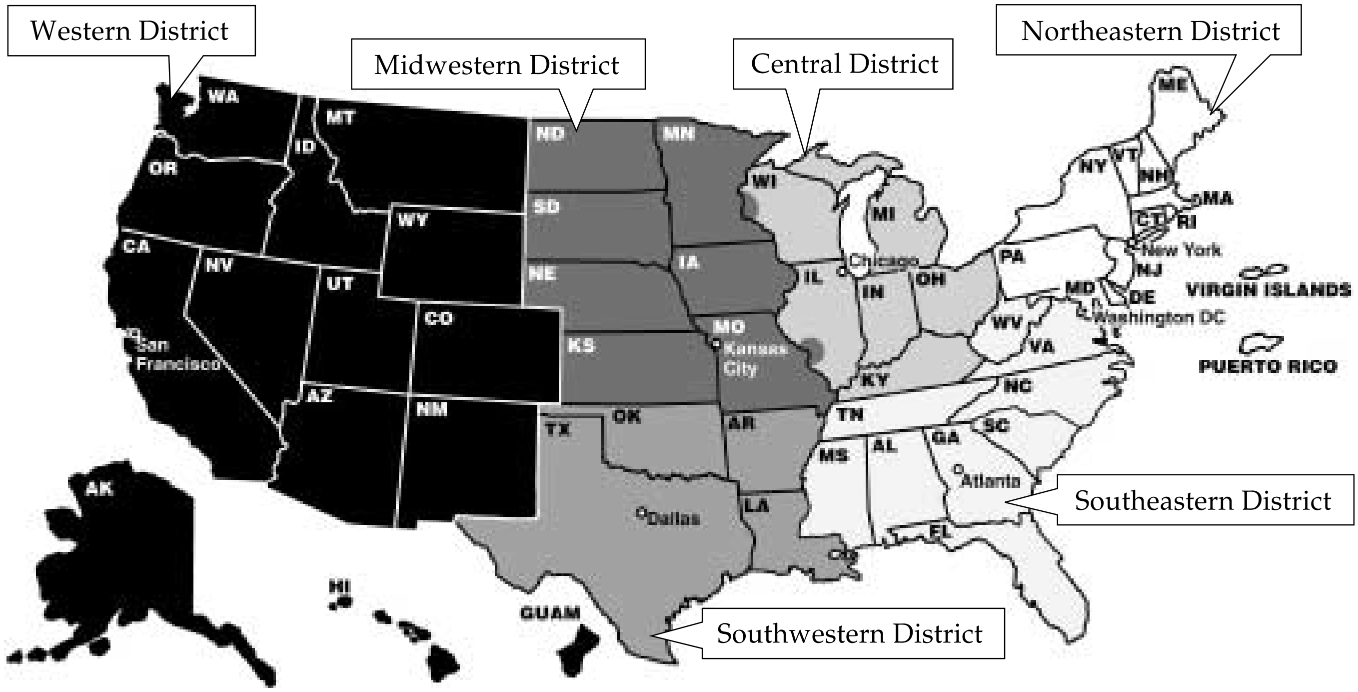

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