

Office of the Comptroller of the Currency

March 2001

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 United States 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 70004, Chicago, IL 60673-0004. The *Quarterly Journal* is on the Web at <http://www.occ.treas.gov/qj/qj.htm>.

Quarterly Journal



Office of the Comptroller of the Currency

John D. Hawke Jr.

Comptroller of the Currency

The Administrator of National Banks

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Condition and Performance of Commercial Banks

Bank profitability weakened in 2000 and will be under continued pressure in 2001, but the condition of the banking industry remains healthy. This quarter we analyze the sources of the decline in profitability and explore prospects for the coming year. We then focus on causes and implications of the growing reliance of banks on wholesale funding.

Summary of Condition and Performance

The banking industry's string of eight consecutive years of record annual earnings came to an end in 2000 as the U.S. economy slowed in the second half of the year. Net income dropped by \$400 million to \$71.2 billion, and the industry's return on assets (ROA) and return on equity (ROE) both declined, as shown in Table 1. While down from its peak in the mid-1990s, bank profitability remains historically high.

Table 1—Summary of annual data for commercial and national banks, 1999 and 2000

All commercial banks		
Annual data:	1999	2000
Net Income	\$71.6 billion	\$71.2 billion
ROA	1.31%	1.19%
ROE	15.31%	14.07%
Noncurrent C&I loans ratio	1.17%	1.67%
Equity capital to assets	8.37%	8.49%
Banks well capitalized	97.5%	97.7%
All national banks		
Annual data:	1999	2000
Net Income	\$42.6 billion	\$39.0 billion
ROA	1.35%	1.18%
ROE	15.57%	13.73%
Noncurrent C&I loans ratio	1.11%	1.67%
Equity capital to assets	8.50%	8.61%
Banks well capitalized	97.9%	98.5%

The downward pressure on profitability in 2000 was due to slower revenue growth, losses on the sale of securities, and higher provisions for loan losses spurred by slippage in credit quality for commercial and industrial (C&I) loans. These negative trends were most evident at large banks, but to a lesser degree were also felt at small banks. Consequently, the decline in annual ROA and ROE was more pronounced in large banks.

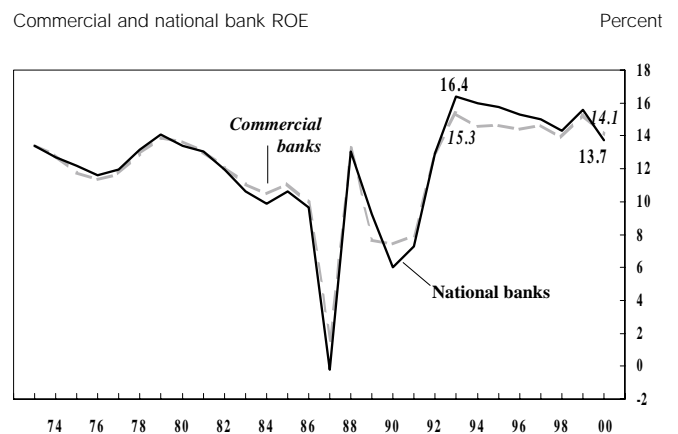
Even with their profitability under pressure, banks improved their capital ratios over the last year. The equity capital ratio of the banking industry rose to 8.49 percent, and almost 98 percent of all commercial banks are well capitalized as defined by regulatory risk-based capital standards.

Assets of all commercial banks grew 8.8 percent from the fourth quarter of 1999, while the number of banks fell by 265. For national banks, assets increased by 4.4 percent, while the number of national banks declined by 134. As of year-end 2000, national banks accounted for 55 percent of commercial bank assets and 27 percent of all FDIC-insured commercial banks.

Key Trends

Although the banking industry's eight-year run of record earnings came to an end in 2000, bank profitability remains historically high. During the run of record earnings from 1992 to 1999, annual ROE for commercial banks averaged 14.5 percent, peaking in 1993 at 15.3 percent (as shown in Figure 1). Earnings and profitability slipped

Figure 1—Bank profitability under pressure

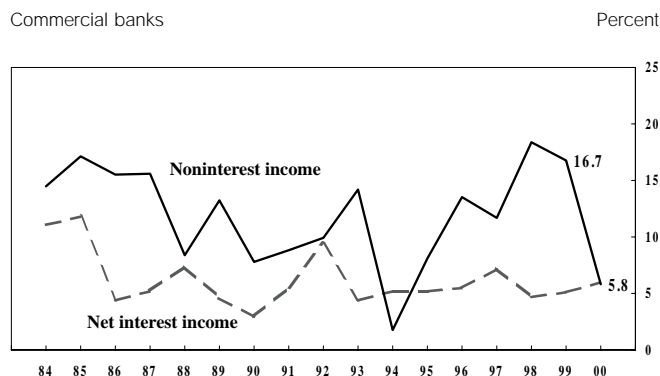


Source: Integrated Banking Information System

in 2000 as noninterest income growth—the primary engine of recent revenue growth—slowed, while losses on the sale of securities and loan loss provisions both increased. Return on equity declined to 14.1 percent for commercial banks and to 13.7 for national banks in 2000. The greater slide in national bank ROE reflects that the slowdown in noninterest income growth and rise in provisioning are currently affecting large banks more than small banks, and that a high proportion of these large banks are national banks. The ROE for non-specialty commercial banks with assets over \$1 billion declined by 139 basis points to 13.6 percent, while the ROE for non-specialty banks with assets under \$1 billion declined by 44 basis points to 12.2 percent.¹

Revenue growth. Net operating revenues (noninterest income plus net interest income) grew 6 percent in 2000 compared to 10 percent growth in each of the previous two years. Noninterest income had been the primary engine of revenue growth in the 1990s as banks sought alternative sources of revenue to offset the compression in their net interest margin. The share of banks' revenues coming from noninterest income rose from 31 percent in 1989 to 43 percent in 1999. However, noninterest income growth slowed from 17 percent to 6 percent in 2000, as shown in Figure 2, while net interest income growth rose modestly from 5 percent to 6 percent. The modest pick-up in net interest income occurred even as net interest margins continued to fall because loan growth accelerated in 2000.

Figure 2— Growth rate of noninterest income slows



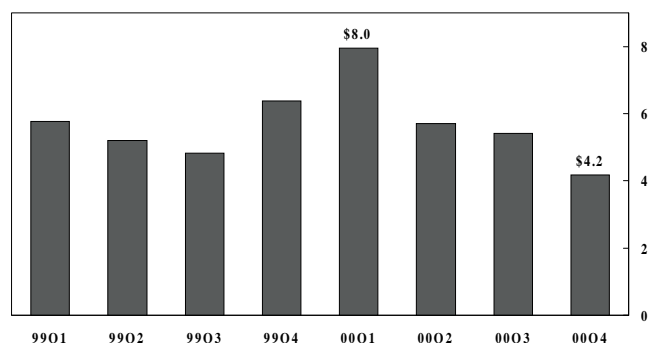
Source: Integrated Banking Information System

¹ Excludes specialty banks that have credit card loans (or securitized credit card credits) in excess of 25 percent of assets or loans less than 10 percent of assets.

The decline in market-sensitive revenues at large banks was one of the principal causes of the slowdown in noninterest income growth in 2000. A significant portion of the growth in noninterest income in the 1990s came from the strategic movement by large banks into “market-sensitive” sources of revenue such as brokerage and trading activities and investment banking.² Although potentially highly profitable, these activities also have the potential for greater volatility caused by fluctuations in interest rates and equity markets. In conjunction with the slowdown in the U.S. economy and swings in financial markets, total market-sensitive revenues of large bank holding companies slid from \$8 billion in the first quarter of 2000 to \$4.2 billion in the fourth quarter,³ as shown in Figure 3. Small banks also experienced slower noninterest income growth in 2000; consequently, the noninterest income to assets ratio dropped 5 basis points to 1.02 percent for non-specialty commercial banks with assets under \$1 billion.

Figure 3— Market-sensitive revenues decline

Market-sensitive revenues of selected large BHCs \$ billions



Source: Quarterly earnings announcements for 11 (12 prior to 2000:Q4) of the largest bank holding companies.

² For a more detailed analysis of the growing reliance on noninterest income and its implications, see the “Condition and Performance of Commercial Banks” article in *OCC Quarterly Journal*, Vol. 19, No. 2, June 2000.

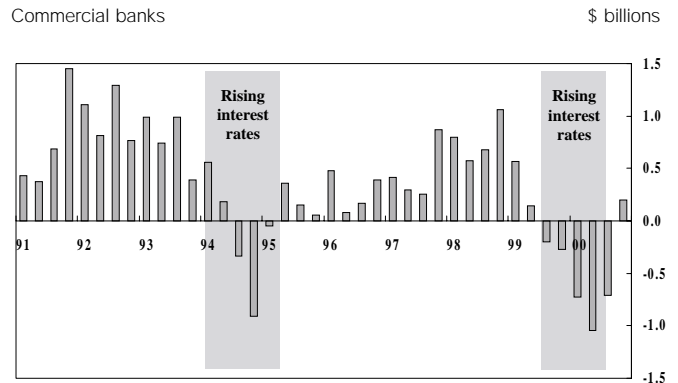
³ The 11 (12 prior to 2000:Q4) bank holding companies analyzed were (in asset size order): J.P. Morgan Chase, Bank of America, Wells Fargo, Bank One, First Union, FleetBoston, SunTrust, National City, KeyCorp, U.S. Bancorp, and PNC.

Revenue growth will remain an issue for banks in 2001 as slow economic growth and uncertainty in financial markets are expected to continue for most of the year. Noninterest income growth is likely to remain subdued. For example, some large banks have announced that market-sensitive revenues are not expected to reach those experienced in 2000 given current economic and market conditions. Also, the March 2001 Federal Reserve Beige Book indicated that bank lending was sluggish, except for home mortgage refinancing. Several Federal Reserve districts reported declining loan demand as firms in a variety of industries have cancelled or postponed plans to expand—particularly in high-tech, telecommunication, and Internet firms.

On a positive note, banks in 2001 are likely to experience some temporary relief from the downward pressure on their net interest margins as a result of declining interest rates and an inflow of deposits. Margins generally stabilize or improve in a declining rate environment as funding costs initially fall faster than interest income. Also, deposit growth usually increases in an economic slowdown and in periods of market turmoil as the opportunity cost of holding bank deposits (difference in expected yields) diminishes and investors seek a refuge from declining equity markets. This allows banks to temporarily decrease their reliance on higher-rate wholesale funding. Through the first two months of 2001, deposits were up about 12 percent from a year ago, compared to 3 percent growth in the first quarter of 1999. This is in contrast to most of the 1990s when deposit growth lagged loan growth and banks turned increasingly to wholesale funding. For a further discussion of bank funding and liquidity issues, see below.

Security sales gains/losses. Rising interest rates in 1999 and the first half of 2000 led to a reduction in the value of securities held by banks and transformed security sales from a source of earnings to a drain on earnings. Beginning in the third quarter of 1999, banks reported realized losses on security sales for five consecutive quarters, as shown in Figure 4. Interest rates stabilized in the second half of 2000, however, and banks realized a small gain of \$200 million on security sales in the fourth quarter. But for 2000 as a whole, banks realized net losses on security sales of \$2.3 billion. Given the drop in interest rates in the first quarter of 2001, security sales are likely to be a source rather than a drag on earnings this year.

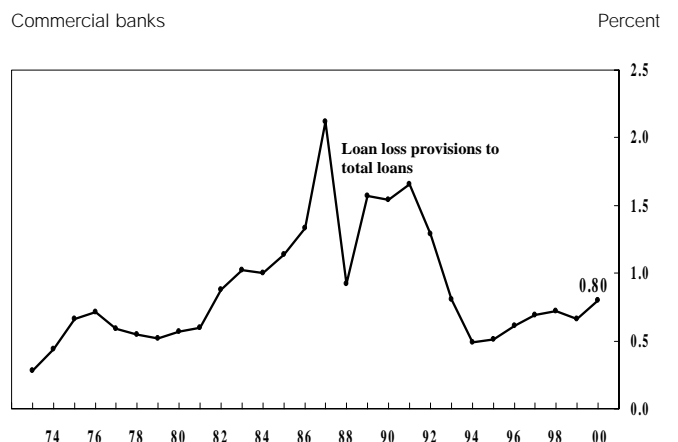
Figure 4— Losses on the sale of securities a drain on earnings for most of 2000



Source: Integrated Banking Information System

Provisioning and asset quality. A critical element in maintaining the banking industry's string of record earnings in the 1990s was strong and stable asset quality. Provisioning for loan losses (relative to total loans) remained relatively low during this period, rising modestly between 1995 and 1998, then declining in 1999, as shown in Figure 5. Spurred by slippage in asset quality, particularly for C&I loans at large banks, the dollar value of loss provisions rose 34 percent in 2000 and the provisions to loans ratio rose to 0.80 percent, its highest rate since 1993. The rise in provisioning was most pronounced at large banks and credit card banks, but provisioning at non-specialty commercial banks under \$1 billion also increased to its highest rate since 1993. Nonetheless, provisioning remains below the rates experienced during the banking turmoil of the 1980s and early 1990s.

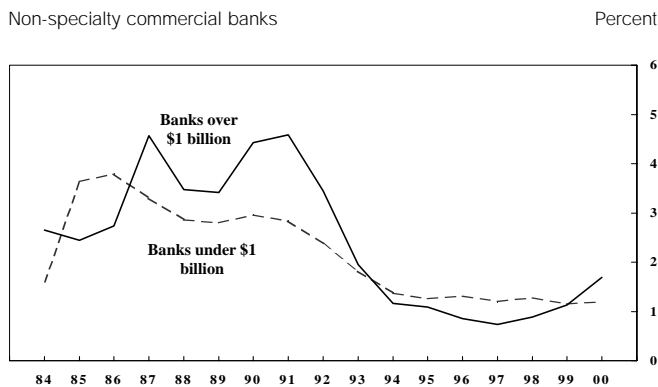
Figure 5— Loan loss provisioning on the rise



Source: Integrated Banking Information System

The deterioration in credit quality indicators for C&I loans at large banks that began three years ago picked up steam in 2000. As shown in Figure 6, the noncurrent ratio for C&I loans for large non-specialty banks increased by 56 basis points to 1.7. Nonetheless, the noncurrent C&I loan rate for large non-specialty banks remains substantially below its peak of 4.6 percent in 1991. Similarly, the noncurrent ratio for total loans at large banks rose by 21 basis points to 1.1 percent in 2000, but remains substantially below its peak of 4.4 percent in 1990 and 1991.

Figure 6— Noncurrent C&I loans ration on the rise for large banks



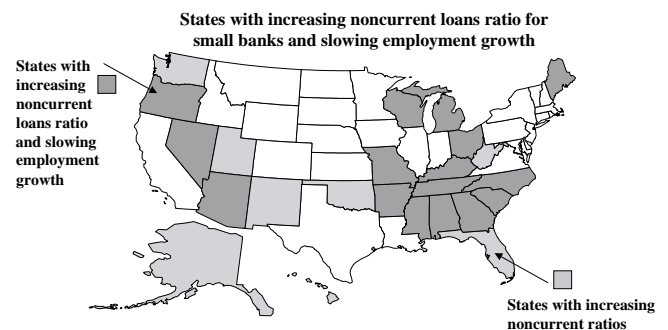
Note: For banks under \$1 billion, noncurrent C&I ratio includes all loans other than real estate loans and loans to individuals.

Source: Integrated Banking Information System.

The slippage in credit quality indicators in 2000 was much more modest at small banks than for large banks. For small non-specialty banks, the noncurrent C&I loans ratio increased by only 3 basis points in 2000 (as shown Figure 6) and the total noncurrent ratio rose by only 4 basis points. However, these nationwide aggregate noncurrent ratios understate the impact that the slowdown in economic growth is having on small bank credit quality in some geographic areas. The total noncurrent loans ratio for non-specialty small banks increased by at least 5 basis points in 25 states last year, compared to a rise in just one state in 1999.

Not surprising, small bank credit quality indicators have slipped in those regions of the country that were the first to feel the impact of the economic slowdown. The slowdown has been most pronounced in the manufacturing sector, with the Midwest and industrialized South being hit hardest. Correspondingly, 17 of the 25 states with deterioration in the noncurrent loans ratio for small non-specialty banks experienced a slowdown in employment growth in 2000. As shown in Figure 7, these states were predominately in the Midwest and South. Small banks in other states are also likely to see slippage in credit quality if the economic slowdown persists and widens.

Figure 7— State-level noncurrent loans ratios rising as economy slows, particularly in Midwest and South



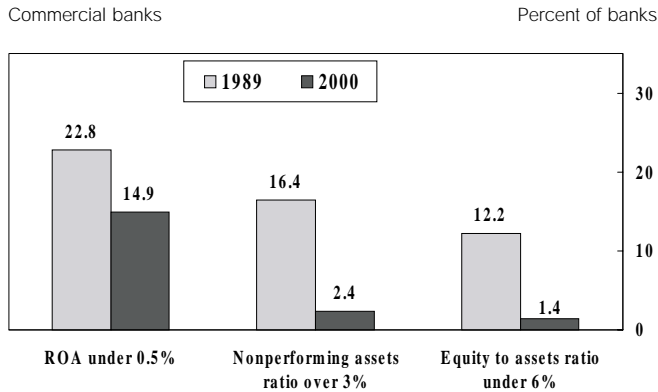
Source: Integrating Banking Information System and Haver Analytics.

Credit quality issues are expected to remain for banks throughout 2001 as the financial position of some businesses and households weaken due to slow economic growth. For example, Moody's forecast in February was that the default rate on speculative grade corporate bonds would rise by two-thirds to 9.5 percent over the year.⁴ Deterioration in credit quality will be an additional drag on bank earnings, but recall that the banking industry generally continues to have strong earnings, credit quality, and capital ratios. The proportion of the banking

⁴ Hamilton, David T., Greg Gupton, and Alexandra Berthault, "Default and Recovery Rates of Corporate Bond Issuers: 2000," Moody's Investor Service, Global Credit Research, Special Comment, February 2001.

industry facing the economic slowdown from a position of weak performance is substantially less than in 1989 prior to the last recession, as shown in Figure 8. For example, less than 1.5 percent of the banking industry currently has an equity capital ratio under 6 percent, compared to 12 percent in 1989.

Figure 8— Fewer banks with “weak” performance indicators



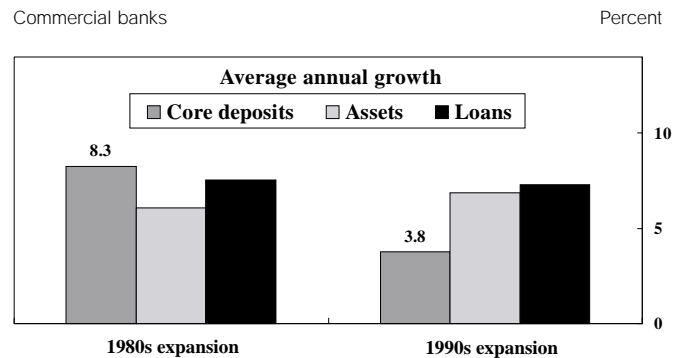
Source: Integrated Banking Information System

The potential for further deterioration in credit quality does raise the specter of bank funding and liquidity issues for banks that develop substantial credit quality issues. As discussed below, this issue becomes even more important given the change in bank funding towards greater reliance on wholesale (non-core deposit) funding that was necessitated by deposit growth lagging behind loan growth in the 1990s.

Greater Reliance on Wholesale Funding

During the current economic expansion, core deposit growth at commercial banks has not kept pace with asset and loan growth. As seen in Figure 9, while annual asset and loan growth between 1993 and 2000 averaged 6.9 percent and 7.3 percent, respectively, core deposits advanced at a mere 3.8 percent average annual pace.

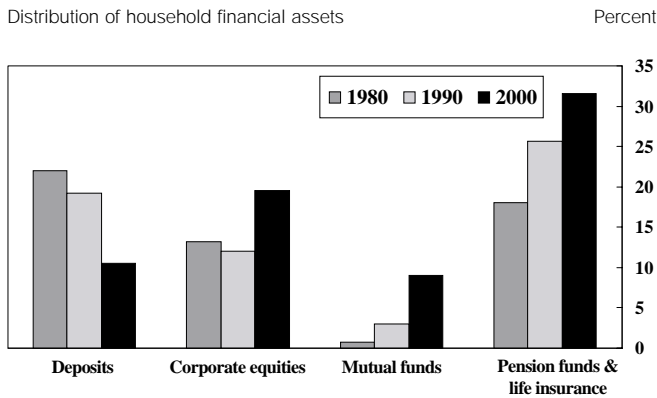
Figure 9— Core deposit growth has not kept pace with asset and loan growth in the current expansion



Note: Average of annual growth rates for 1983–1989 versus 1993–2000.
Source: Integrated Banking Information System

The lagging growth in core deposits is in large part attributable to households shifting to investing in “higher-yielding” assets. Over the last two decades households shifted a substantial share of their financial assets from deposits into alternative savings instruments such as corporate equities, mutual funds, and pensions funds and life insurance reserves. As seen in Figure 10, deposits in banks and thrifts accounted for 10.5 percent of household financial assets in 2000, down substantially from 19 percent in 1990 and 22 percent in 1980. So in response to the long-run, secular trend of slow deposit growth, banks have turned increasingly to higher interest-rate wholesale funding.

Figure 10— Slower deposit growth reflects households shifting to investing in “higher-yielding” assets

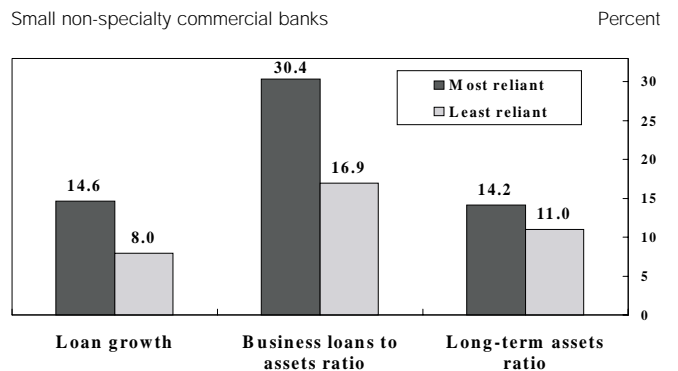


Source: Board of Governors of the Federal Reserve System, “Flow of Funds.”

Both large and small banks have increased their reliance on wholesale (non-core deposit) funding sources to fund their incremental loan and asset growth. Consequently, traditional measures of bank liquidity, such as the core deposits to assets ratio and the loans to core deposits ratio, reflect increased liquidity risk for both small and large banks. For example, core deposits as a percentage of assets for non-specialty banks with less than \$1 billion in assets declined from 79.8 percent in 1992 to 69.6 percent in 2000. Small banks traditionally have relied more heavily on core deposits than large banks. Because of costs and information constraints, small banks have found it more difficult than larger banks to raise funds through public debt offerings, securitizations, and other capital markets instruments. For large non-specialty banks, the core deposits to assets ratio went from 56.6 percent in 1992 to 43.9 percent in 2000. This shift from core deposits to wholesale funding increases liquidity risk, because wholesale funds are generally provided to banks by professional money managers who are sensitive to changes in the credit quality of an institution and are more apt to withdraw funds from banks experiencing credit problems.

In addition to heightened liquidity risk, the increase in wholesale funding has also put pressure on bank net interest margins. The net interest margin for all commercial banks has dropped about 50 basis points since 1993. To mitigate the downward pressure on their net interest margins from higher interest expenses, banks may be taking on higher levels of credit and interest rate risk to boost loan yields. As shown in Figure 11, small non-specialty banks most reliant on wholesale funding had faster loan growth, higher concentrations in business loans, and a higher concentration in long-term assets than banks least reliant on wholesale funding.⁵ As a result, the median interest yield for the banks most reliant on wholesale funding is about 50 basis higher than for the banks least reliant on wholesale funding, partially offsetting the impact of their roughly 85 basis cost disadvantage in their interest expense ratio. However, rapid loan growth is often a precursor to future credit quality issues, and banks with a predominance of business loans have historically been the most prone to earnings problems in an economic downturn. Also, a higher share of long-term assets makes these banks more sensitive to a rapid increase in interest rates.

Figure 11— Banks most reliance on wholesale funding may also have higher credit and interest rate risk



Source: Integrated Banking Information System

⁵ Business loans include C&I loans, commercial and constructions real estate loans, and multifamily residential mortgages. The banks most reliant on wholesale funding were in the highest quartile of the distribution of the non-core deposits liabilities to assets ratio for non-specialty banks with assets under \$1 billion as of year-end 2000. The least reliant banks were in the lowest quartile.

Conclusions

Commercial banks are finding it increasingly difficult to sustain the extraordinary high level of profitability they experienced in the latter part of the 1990s. Earnings growth and profitability slipped in 2000 as the noninterest income growth slowed, realized security losses increased, and loan loss provisions rose as C&I credit quality deteriorated. Revenue growth and credit quality will continue to be an issue for banks in the current environment of slow economic growth. Nonetheless, the profitability of the banking industry remains strong, and banks continue to have a historically high level of capitalization.

On a long-term basis, core deposit growth will likely remain below that of bank loans and assets. Prudent risk

management, therefore, is crucial, particularly for banks that are highly wholesale funded and have invested in more risky loans. In particular, community banks that focus on business lending and have high levels of wholesale funding should ensure effective internal controls and management expertise. These banks have historically been more prone to asset quality and earnings problems, and they may be less experienced in using capital market instruments for funding due to their historic reliance on core funding. Therefore, they need to ensure effective internal controls and management expertise in asset-liability and liquidity management.

Key indicators, FDIC-insured national banks
Annual 1996- 1999, year-to-date through December 31, 2000, fourth quarter 1999, and fourth quarter 2000
(Dollar figures in millions)

	1996	1997	1998	1999	Preliminary 2000YTD	1999Q4	Preliminary 2000Q4
Number of institutions reporting	2,726	2,597	2,456	2,364	2,230	2,364	2,230
Total employees (FTEs)	850,737	912,463	974,871	983,186	941,454	983,186	941,454
Selected income data (\$)							
Net income	\$30,497	\$35,782	\$37,607	\$42,591	\$39,036	\$10,165	\$10,016
Net interest income	94,564	106,639	110,985	114,535	115,901	29,097	29,238
Provision for loan losses	9,598	13,065	15,242	15,548	19,866	4,049	6,301
Noninterest income	56,100	65,429	81,344	92,671	95,534	24,953	23,933
Noninterest expense	93,690	104,682	122,606	125,812	128,454	34,373	31,843
Net operating income	30,095	34,993	35,548	42,415	40,285	10,192	9,531
Cash dividends declared	25,279	28,587	25,414	29,870	32,325	8,635	11,790
Net charge-offs to loan and lease reserve.	9,968	12,661	14,492	14,175	16,101	3,942	5,099
Selected condition data (\$)							
Total assets	2,528,057	2,893,910	3,183,384	3,271,262	3,414,489	3,271,262	3,414,489
Total loans and leases	1,641,464	1,840,485	2,015,585	2,127,881	2,227,104	2,127,881	2,227,104
Reserve for losses	31,992	34,865	36,810	37,687	40,001	37,687	40,001
Securities	380,615	452,118	516,117	537,185	502,295	537,185	502,295
Other real estate owned	2,761	2,112	1,833	1,572	1,554	1,572	1,554
Noncurrent loans and leases	17,223	17,878	19,513	20,814	27,157	20,814	27,157
Total deposits	1,801,043	2,004,867	2,137,946	2,154,276	2,250,464	2,154,276	2,250,464
Domestic deposits	1,525,565	1,685,316	1,785,856	1,776,129	1,827,126	1,776,129	1,827,126
Equity capital	207,166	244,794	274,192	278,014	293,899	278,014	293,899
Off-balance-sheet derivatives	7,488,663	8,704,481	10,953,514	12,077,568	15,502,911	12,077,568	15,502,911
Performance ratios (annualized %)							
Return on equity	15.28	15.00	14.29	15.57	13.73	14.78	13.67
Return on assets	1.25	1.29	1.24	1.35	1.18	1.26	1.18
Net interest income to assets	3.88	3.83	3.67	3.63	3.50	3.62	3.46
Loss provision to assets	0.39	0.47	0.50	0.49	0.60	0.50	0.74
Net operating income to assets	1.24	1.26	1.18	1.35	1.22	1.27	1.13
Noninterest income to assets	2.30	2.35	2.69	2.94	2.89	3.11	2.83
Noninterest expense to assets	3.85	3.76	4.05	3.99	3.88	4.28	3.76
Loss provision to loans and leases	0.61	0.73	0.79	0.76	0.92	0.78	1.13
Net charge-offs to loans and leases	0.63	0.71	0.75	0.70	0.74	0.76	0.92
Loss provision to net charge-offs	96.29	103.19	105.12	109.68	123.39	102.69	123.58
Performance ratios (%)							
Percent of institutions unprofitable	4.77	4.89	5.94	7.06	6.64	10.66	9.96
Percent of institutions with earnings gains	67.83	67.96	61.60	62.18	67.35	60.07	56.64
Nonint. income to net operating revenue	37.24	38.02	42.29	44.72	45.18	46.17	45.01
Nonint. expense to net operating revenue	62.18	60.84	63.75	60.72	60.75	63.59	59.89
Condition ratios (%)							
Nonperforming assets to assets	0.80	0.70	0.68	0.70	0.86	0.70	0.86
Noncurrent loans to loans	1.05	0.97	0.97	0.98	1.22	0.98	1.22
Loss reserve to noncurrent loans	185.75	195.01	188.65	181.06	147.29	181.06	147.29
Loss reserve to loans	1.95	1.89	1.83	1.77	1.80	1.77	1.80
Equity capital to assets	8.19	8.46	8.61	8.50	8.61	8.50	8.61
Leverage ratio	7.40	7.42	7.43	7.49	7.50	7.49	7.50
Risk-based capital ratio	11.95	11.84	11.79	11.72	11.86	11.72	11.86
Net loans and leases to assets	63.66	62.39	62.16	63.90	64.05	63.90	64.05
Securities to assets	15.06	15.62	16.21	16.42	14.71	16.42	14.71
Appreciation in securities (% of par)	0.50	1.11	0.82	-2.45	-0.01	-2.45	-0.01
Residential mortgage assets to assets	19.81	20.10	20.41	20.60	19.60	20.60	19.60
Total deposits to assets	71.24	69.28	67.16	65.85	65.91	65.85	65.91
Core deposits to assets	54.08	51.59	49.72	47.01	45.61	47.01	45.61
Volatile liabilities to assets	29.83	31.42	31.77	34.81	35.18	34.81	35.18

Loan performance, FDIC-insured national banks
Annual 1996- 1999, year-to-date through December 31, 2000, fourth quarter 1999, and fourth quarter 2000
(Dollar figures in millions)

	1996	1997	1998	1999	Preliminary 2000YTD	1999Q4	Preliminary 2000Q4
Percent of loans past due 30–89 days							
Total loans and leases	1.39	1.32	1.27	1.16	1.26	1.16	1.26
Loans secured by real estate (RE)	1.45	1.39	1.33	1.22	1.42	1.22	1.42
1–4 family residential mortgages	1.63	1.65	1.50	1.61	1.95	1.61	1.95
Home equity loans	1.04	0.93	0.97	0.77	1.07	0.77	1.07
Multifamily residential mortgages	1.28	1.33	0.94	0.69	0.59	0.69	0.59
Commercial RE loans	1.25	0.95	1.02	0.70	0.72	0.70	0.72
Construction RE loans	1.63	1.63	1.82	1.07	1.12	1.07	1.12
Commercial and industrial loans*	0.89	0.76	0.81	0.71	0.71	0.71	0.71
Loans to individuals	2.46	2.52	2.44	2.36	2.40	2.36	2.40
Credit cards	2.70	2.75	2.52	2.53	2.50	2.53	2.50
Installment loans	2.26	2.34	2.37	2.24	2.31	2.24	2.31
All other loans and leases	0.41	0.46	0.46	0.50	0.57	0.50	0.57
Percent of loans noncurrent							
Total loans and leases	1.05	0.97	0.97	0.98	1.22	0.98	1.22
Loans secured by real estate (RE)	1.27	1.07	0.98	0.87	0.93	0.87	0.93
1–4 family residential mortgages	1.10	1.01	0.95	0.91	1.06	0.91	1.06
Home equity loans	0.47	0.43	0.41	0.32	0.41	0.32	0.41
Multifamily residential mortgages	1.47	1.01	0.88	0.43	0.55	0.43	0.55
Commercial RE loans	1.71	1.27	1.01	0.84	0.77	0.84	0.77
Construction RE loans	1.31	1.00	0.80	0.63	0.82	0.63	0.82
Commercial and industrial loans*	0.87	0.78	0.86	1.11	1.67	1.11	1.67
Loans to individuals	1.34	1.49	1.59	1.52	1.46	1.52	1.46
Credit cards	1.70	2.03	2.06	2.00	1.89	2.00	1.89
Installment loans	1.04	1.04	1.19	1.16	1.06	1.16	1.06
All other loans and leases	0.25	0.27	0.31	0.40	0.85	0.40	0.85
Percent of loans charged-off, net							
Total loans and leases	0.63	0.71	0.75	0.70	0.74	0.76	0.92
Loans secured by real estate (RE)	0.09	0.06	0.05	0.10	0.11	0.13	0.13
1–4 family residential mortgages	0.08	0.08	0.07	0.14	0.13	0.18	0.13
Home equity loans	0.24	0.18	0.16	0.19	0.23	0.19	0.29
Multifamily residential mortgages	0.09	0.01	0.07	0.02	0.03	0.06	0.03
Commercial RE loans	0.02	-0.01	-0.02	0.03	0.06	0.03	0.08
Construction RE loans	0.16	-0.10	-0.01	0.03	0.05	0.03	0.09
Commercial and industrial loans*	0.22	0.27	0.38	0.54	0.81	0.72	1.21
Loans to individuals	2.45	2.86	2.92	2.65	2.63	2.76	2.83
Credit cards	4.25	4.95	5.03	4.51	4.30	4.65	4.18
Installment loans	1.04	1.20	1.23	1.27	1.28	1.42	1.65
All other loans and leases	0.09	0.07	0.40	0.23	0.24	0.28	0.36
Loans outstanding (\$)							
Total loans and leases	\$1,641,464	\$1,840,485	\$2,015,585	\$2,127,881	\$2,227,104	\$2,127,881	\$2,227,104
Loans secured by real estate (RE)	646,570	725,305	764,944	853,141	892,153	853,141	892,153
1–4 family residential mortgages	329,031	363,329	381,597	433,807	443,089	433,807	443,089
Home equity loans	55,022	67,669	66,091	67,267	82,672	67,267	82,672
Multifamily residential mortgages	20,480	23,346	23,201	26,561	28,022	26,561	28,022
Commercial RE loans	170,350	190,067	200,469	214,145	221,214	214,145	221,214
Construction RE loans	38,848	47,410	56,261	71,578	76,884	71,578	76,884
Farmland loans	9,046	10,178	10,930	11,957	12,347	11,957	12,347
RE loans from foreign offices	23,794	23,306	26,396	27,825	27,923	27,825	27,923
Commercial and industrial loans	425,148	508,589	583,903	622,006	644,574	622,006	644,574
Loans to individuals	356,067	371,477	386,410	348,581	370,359	348,581	370,359
Credit cards	161,104	168,236	176,408	147,126	176,380	147,126	176,380
Installment loans	194,963	203,241	210,003	201,455	193,980	201,455	193,980
All other loans and leases	216,194	237,326	282,367	306,042	321,598	306,042	321,598
Less: Unearned income	2,515	2,212	2,039	1,890	1,581	1,890	1,581

*Includes "All other loans" for institutions under \$1 billion in asset size.

Key indicators, FDIC-insured national banks by asset size
Fourth quarter 1999 and fourth quarter 2000
(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4
Number of institutions reporting	1,202	1,100	985	955	131	131	46	44
Total employees (FTEs)	31,787	27,163	107,263	96,221	120,125	113,115	24,011	704,955
Selected income data (\$)								
Net income	\$157	\$139	\$933	\$777	\$1,492	\$1,215	\$7,582	\$7,886
Net interest income	625	576	2,743	2,474	3,879	3,597	21,850	22,591
Provision for loan losses	52	44	259	237	563	562	3,175	5,458
Noninterest income	495	309	1,486	1,404	2,969	2,732	20,003	19,489
Noninterest expense	847	643	2,802	2,533	3,955	3,945	26,769	24,722
Net operating income	159	139	806	778	1,570	1,209	7,658	7,405
Cash dividends declared	231	163	815	710	1,690	1,831	5,899	9,085
Net charge-offs to loan and lease reserve.	40	32	244	180	591	406	3,067	4,481
Selected condition data (\$)								
Total assets	60,502	55,924	263,631	251,420	393,470	400,689	2,553,660	2,706,456
Total loans and leases	35,259	33,414	164,505	159,376	247,191	249,166	1,680,925	1,785,149
Reserve for losses	469	440	2,434	2,183	5,113	4,491	29,671	32,888
Securities	16,498	14,555	68,316	62,067	91,014	87,304	361,357	338,369
Other real estate owned	64	67	206	198	161	154	1,142	1,135
Noncurrent loans and leases	327	306	1,324	1,288	2,068	2,334	17,095	23,230
Total deposits	51,229	46,986	210,755	203,375	254,691	264,786	1,637,600	1,735,317
Domestic deposits	51,229	46,976	210,259	203,110	251,933	262,118	1,262,708	1,314,923
Equity capital	6,512	6,275	24,562	24,848	38,173	36,478	208,767	226,298
Off-balance-sheet derivatives	27	28	2,490	1,339	40,612	29,273	12,089,802	15,630,534
Performance ratios (annualized %)								
Return on equity	9.62	8.98	15.18	12.73	15.80	13.36	14.70	13.95
Return on assets	1.05	1.01	1.43	1.25	1.54	1.23	1.21	1.17
Net interest income to assets	4.19	4.18	4.20	3.99	4.01	3.64	3.49	3.37
Loss provision to assets	0.35	0.32	0.40	0.38	0.58	0.57	0.51	0.81
Net operating income to assets	1.06	1.01	1.23	1.25	1.62	1.22	1.22	1.10
Noninterest income to assets	3.31	2.24	2.28	2.27	3.07	2.77	3.19	2.90
Noninterest expense to assets	5.67	4.67	4.29	4.09	4.09	3.99	4.27	3.68
Loss provision to loans and leases	0.60	0.53	0.64	0.60	0.93	0.91	0.77	1.22
Net charge-offs to loans and leases	0.46	0.39	0.60	0.46	0.97	0.66	0.75	1.00
Loss provision to net charge-offs	128.71	138.61	106.22	131.96	95.13	138.47	103.53	121.79
Performance ratios (%)								
Percent of institutions unprofitable	15.39	15.36	5.99	4.19	3.82	6.11	6.52	11.36
Percent of institutions with earnings gains	56.57	55.09	63.65	59.48	64.89	51.91	60.87	47.73
Nonint. income to net operating revenue	44.19	34.90	35.14	36.20	43.35	43.16	47.79	46.31
Nonint. expense to net operating revenue	75.60	72.71	66.25	65.31	57.76	62.34	63.96	58.75
Condition ratios (%)								
Nonperforming assets to assets	0.65	0.67	0.59	0.59	0.58	0.64	0.73	0.92
Noncurrent loans to loans	0.93	0.91	0.80	0.81	0.84	0.94	1.02	1.30
Loss reserve to noncurrent loans	143.36	144.16	183.81	169.41	247.24	192.43	173.56	141.57
Loss reserve to loans	1.33	1.32	1.48	1.37	2.07	1.80	1.77	1.84
Equity capital to assets	10.76	11.22	9.32	9.88	9.70	9.10	8.18	8.36
Leverage ratio	10.91	11.14	9.21	9.58	8.75	8.23	7.04	7.12
Risk-based capital ratio	18.09	17.97	14.71	14.76	13.28	13.12	11.17	11.40
Net loans and leases to assets	57.50	58.96	61.48	62.52	61.52	61.06	64.66	64.74
Securities to assets	27.27	26.03	25.91	24.69	23.13	21.79	14.15	12.50
Appreciation in securities (% of par)	-2.11	0.05	-2.40	0.13	-2.23	0.07	-2.53	-0.07
Residential mortgage assets to assets	21.42	21.25	25.09	23.71	26.24	26.08	19.25	18.23
Total deposits to assets	84.67	84.02	79.94	80.89	64.73	66.08	64.13	64.12
Core deposits to assets	72.79	71.01	68.24	67.86	55.94	55.40	42.83	41.57
Volatile liabilities to assets	14.26	15.37	18.90	18.45	27.59	27.73	38.05	38.25

Loan performance, FDIC-insured national banks by asset size
Fourth quarter 1999 and fourth quarter 2000
(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4
Percent of loans past due 30–89 days								
Total loans and leases	1.27	1.46	1.14	1.20	1.29	1.32	1.14	1.25
Loans secured by real estate (RE)	1.09	1.26	0.85	0.98	0.96	1.02	1.34	1.58
1–4 family residential mortgages	1.53	1.61	1.17	1.39	1.16	1.16	1.75	2.18
Home equity loans	0.51	0.75	0.58	0.70	0.77	1.16	0.79	1.09
Multifamily residential mortgages	0.98	0.79	0.56	0.37	0.39	0.50	0.78	0.65
Commercial RE loans	0.65	0.92	0.57	0.62	0.64	0.74	0.75	0.73
Construction RE loans	0.77	1.19	0.69	1.00	1.24	1.18	1.11	1.12
Commercial and industrial loans*	2.10	2.38	1.38	1.36	1.03	1.13	0.63	0.62
Loans to individuals	2.01	2.27	2.21	2.26	2.22	2.40	2.41	2.41
Credit cards	2.51	1.80	3.88	2.84	2.30	2.43	2.53	2.50
Installment loans	1.98	2.29	1.77	2.11	2.14	2.38	2.33	2.32
All other loans and leases	N/A	N/A	N/A	N/A	0.93	0.94	0.48	0.57
Percent of loans noncurrent								
Total loans and leases	0.93	0.91	0.80	0.81	0.84	0.94	1.02	1.30
Loans secured by real estate (RE)	0.75	0.74	0.60	0.66	0.65	0.64	0.96	1.03
1–4 family residential mortgages	0.63	0.62	0.59	0.58	0.68	0.60	1.00	1.22
Home equity loans	0.40	0.32	0.26	0.35	0.37	0.39	0.31	0.42
Multifamily residential mortgages	0.68	0.41	0.29	0.26	0.34	0.46	0.47	0.62
Commercial RE loans	0.74	0.88	0.67	0.76	0.77	0.67	0.91	0.79
Construction RE loans	0.58	0.67	0.34	0.68	0.37	0.84	0.75	0.85
Commercial and industrial loans*	2.35	2.22	1.40	1.45	0.84	1.39	1.10	1.70
Loans to individuals	0.64	0.74	1.09	0.88	1.29	1.38	1.63	1.53
Credit cards	1.39	1.13	3.35	2.35	1.85	2.24	1.98	1.83
Installment loans	0.60	0.72	0.49	0.51	0.70	0.74	1.37	1.21
All other loans and leases	N/A	N/A	N/A	N/A	0.40	0.48	0.40	0.90
Percent of loans charged-off, net								
Total loans and leases	0.46	0.39	0.60	0.46	0.97	0.66	0.75	1.00
Loans secured by real estate (RE)	0.08	0.06	0.07	0.08	0.12	0.13	0.14	0.14
1–4 family residential mortgages	0.06	0.06	0.07	0.08	0.17	0.18	0.20	0.13
Home equity loans	-0.07	0.20	0.10	0.04	0.12	0.14	0.21	0.33
Multifamily residential mortgages	0.11	0.18	0.05	0.00	-0.02	0.04	0.08	0.03
Commercial RE loans	0.07	0.08	0.08	0.08	0.07	0.09	0.01	0.07
Construction RE loans	0.39	0.06	0.03	0.06	0.03	0.07	0.01	0.11
Commercial and industrial loans*	1.63	1.15	1.06	0.84	1.12	0.70	0.66	1.27
Loans to individuals	0.99	1.09	2.26	1.65	2.70	2.13	2.86	3.08
Credit cards	2.78	-0.34	7.75	4.88	4.44	3.89	4.55	4.20
Installment loans	0.89	1.15	0.71	0.86	0.98	0.88	1.63	1.92
All other loans and leases	N/A	N/A	N/A	N/A	0.33	0.26	0.28	0.37
Loans outstanding (\$)								
Total loans and leases	\$35,259	\$33,414	\$164,505	\$159,376	\$247,191	\$249,166	\$1,680,925	\$1,785,149
Loans secured by real estate (RE)	20,132	19,312	99,752	98,292	119,451	133,035	613,805	641,514
1–4 family residential mortgages	9,493	9,029	45,124	42,365	57,299	62,080	321,891	329,615
Home equity loans	419	460	4,184	4,149	7,462	9,199	55,203	68,864
Multifamily residential mortgages	457	424	3,381	3,435	4,387	4,886	18,336	19,278
Commercial RE loans	5,828	5,578	34,418	35,085	36,094	40,894	137,806	139,658
Construction RE loans	1,597	1,640	8,622	9,143	12,370	13,944	48,988	52,158
Farmland loans	2,338	2,181	4,005	4,110	1,642	1,872	3,972	4,184
RE loans from foreign offices	0	0	18	5	197	161	27,610	27,757
Commercial and industrial loans	6,005	5,737	29,000	28,604	49,883	50,533	537,119	559,700
Loans to individuals	5,021	4,617	25,843	22,677	62,401	50,689	255,316	292,376
Credit cards	260	180	5,437	4,514	32,050	21,616	109,379	150,070
Installment loans	4,761	4,437	20,406	18,163	30,351	29,073	145,937	142,307
All other loans and leases	4,195	3,816	10,191	10,055	15,539	15,010	276,117	292,717
Less: Unearned income	94	69	280	252	83	101	1,434	1,159

*Includes "All other loans" for institutions under \$1 billion in asset size.

Key indicators, FDIC-insured national banks by region

Fourth quarter 2000

(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	262	314	448	439	535	232	2,230
Total employees (FTEs)	282,201	261,392	164,112	75,669	61,799	96,281	941,454
Selected income data (\$)							
Net income	\$3,676	\$2,576	\$1,295	\$1,070	\$236	\$1,162	\$10,016
Net interest income	7,840	8,241	5,031	2,760	1,840	3,527	29,238
Provision for loan losses	1,547	1,579	1,164	526	596	888	6,301
Noninterest income	9,072	5,559	2,695	2,362	643	3,603	23,933
Noninterest expense	9,919	8,168	4,753	2,981	1,601	4,422	31,843
Net operating income	3,543	2,287	1,285	1,055	218	1,143	9,531
Cash dividends declared	2,187	4,620	2,392	1,044	486	1,061	11,790
Net charge-offs to loan and lease reserve. . . .	1,615	1,405	728	520	227	603	5,099
Selected condition data (\$)							
Total assets	908,922	1,049,751	636,996	279,396	192,464	346,960	3,414,489
Total loans and leases	579,993	670,743	436,779	192,339	117,183	230,067	2,227,104
Reserve for losses	12,149	10,634	6,804	3,071	1,928	5,416	40,001
Securities	134,137	150,288	100,736	34,008	42,681	40,446	502,295
Other real estate owned	458	532	208	118	109	129	1,554
Noncurrent loans and leases	8,151	8,985	4,968	1,557	1,046	2,451	27,157
Total deposits	617,385	686,210	412,702	176,205	149,748	208,215	2,250,464
Domestic deposits	365,023	591,584	357,818	164,182	148,072	200,447	1,827,126
Equity capital	78,092	89,477	48,329	26,060	16,651	35,290	293,899
Off-balance-sheet derivatives	5,620,022	8,567,148	1,029,432	20,112	9,406	256,792	15,502,911
Performance ratios (annualized %)							
Return on equity	19.11	11.52	10.54	16.60	5.68	13.23	13.67
Return on assets	1.64	0.98	0.83	1.55	0.50	1.37	1.18
Net interest income to assets	3.50	3.12	3.21	4.01	3.88	4.16	3.46
Loss provision to assets	0.69	0.60	0.74	0.76	1.26	1.05	0.74
Net operating income to assets	1.58	0.87	0.82	1.53	0.46	1.35	1.13
Noninterest income to assets	4.05	2.10	1.72	3.43	1.36	4.25	2.83
Noninterest expense to assets	4.43	3.09	3.03	4.33	3.38	5.22	3.76
Loss provision to loans and leases	1.07	0.93	1.07	1.10	2.05	1.56	1.13
Net charge-offs to loans and leases	1.12	0.83	0.67	1.09	0.78	1.06	0.92
Loss provision to net charge-offs	95.81	112.41	159.90	101.07	262.15	147.25	123.58
Performance ratios (%)							
Percent of institutions unprofitable	6.49	14.65	8.93	6.38	10.28	15.52	9.96
Percent of institutions with earnings gains	62.98	55.10	54.46	52.16	58.88	59.05	56.64
Nonint. income to net operating revenue	53.64	40.28	34.88	46.12	25.89	50.53	45.01
Nonint. expense to net operating revenue	58.65	59.19	61.52	58.20	64.49	62.02	59.89
Condition ratios (%)							
Nonperforming assets to assets	0.97	0.91	0.84	0.60	0.60	0.79	0.86
Noncurrent loans to loans	1.41	1.34	1.14	0.81	0.89	1.07	1.22
Loss reserve to noncurrent loans	149.05	118.35	136.95	197.29	184.32	220.97	147.29
Loss reserve to loans	2.09	1.59	1.56	1.60	1.65	2.35	1.80
Equity capital to assets	8.59	8.52	7.59	9.33	8.65	10.17	8.61
Leverage ratio	7.85	7.10	7.24	7.61	7.71	8.10	7.50
Risk-based capital ratio	12.42	11.46	11.37	11.92	12.51	12.18	11.86
Net loans and leases to assets	62.47	62.88	67.50	67.74	59.88	64.75	64.05
Securities to assets	14.76	14.32	15.81	12.17	22.18	11.66	14.71
Appreciation in securities (% of par)	0.18-	-0.67	0.06	0.50	0.32	0.82	-0.01
Residential mortgage assets to assets	12.70	25.15	20.94	18.89	21.34	18.03	19.60
Total deposits to assets	67.92	65.37	64.79	63.07	77.81	60.01	65.91
Core deposits to assets	32.14	49.04	47.42	52.70	65.66	50.37	45.61
Volatile liabilities to assets	46.43	31.83	35.21	28.11	22.16	28.67	35.18

Loan performance, FDIC-insured national banks by region
Fourth quarter 2000
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30–89 days							
Total loans and leases	1.21	1.23	1.42	1.19	1.18	1.23	1.26
Loans secured by real estate (RE)	1.32	1.71	1.58	0.92	1.11	0.93	1.42
1–4 family residential mortgages	1.70	2.51	1.98	1.01	1.29	1.16	1.95
Home equity loans	0.81	0.78	1.68	0.77	0.88	1.10	1.07
Multifamily residential mortgages	0.54	0.58	0.77	0.59	0.65	0.29	0.59
Commercial RE loans	0.66	0.54	0.97	0.79	0.92	0.56	0.72
Construction RE loans	0.50	0.89	1.76	1.01	1.15	1.11	1.12
Commercial and industrial loans*	0.51	0.53	0.94	1.14	1.05	0.93	0.71
Loans to individuals	2.69	2.12	2.61	1.99	1.78	2.39	2.40
Credit cards	3.01	2.01	1.14	1.89	1.32	2.29	2.50
Installment loans	2.10	2.16	2.88	2.15	1.80	2.72	2.31
All other loans and leases	0.45	0.40	0.88	0.84	0.61	0.61	0.57
Percent of loans noncurrent							
Total loans and leases	1.41	1.34	1.14	0.81	0.89	1.07	1.22
Loans secured by real estate (RE)	1.00	1.09	1.07	0.51	0.71	0.48	0.93
1–4 family residential mortgages	0.94	1.34	1.25	0.41	0.62	0.44	1.06
Home equity loans	0.23	0.21	0.83	0.28	0.33	0.37	0.41
Multifamily residential mortgages	0.24	0.73	0.45	0.48	0.18	0.69	0.55
Commercial RE loans	0.61	0.85	0.97	0.60	0.84	0.47	0.77
Construction RE loans	0.36	1.05	0.97	0.68	0.59	0.65	0.82
Commercial and industrial loans*	1.49	2.11	1.47	1.07	1.47	1.72	1.67
Loans to individuals	2.45	0.60	0.78	1.12	0.53	1.42	1.46
Credit cards	2.43	1.21	0.73	1.33	0.48	1.69	1.89
Installment loans	2.51	0.39	0.79	0.78	0.53	0.58	1.06
All other loans and leases	0.57	1.02	0.97	0.76	0.86	1.24	0.85
Percent of loans charged-off, net							
Total loans and leases	1.12	0.83	0.67	1.09	0.78	1.06	0.92
Loans secured by real estate (RE)	0.21	0.08	0.15	0.20	0.21	0.07	0.13
1–4 family residential mortgages	0.24	0.05	0.15	0.28	0.15	0.12	0.13
Home equity loans	0.22	0.32	0.42	0.23	0.33	0.05	0.29
Multifamily residential mortgages	0.01	0.04	0.05	-0.03	0.16	-0.04	0.03
Commercial RE loans	0.07	0.06	0.08	0.05	0.33	-0.04	0.08
Construction RE loans	0.00	0.04	0.07	0.22	0.05	0.22	0.09
Commercial and industrial loans*	0.72	1.77	0.93	0.81	1.56	1.55	1.21
Loans to individuals	3.61	2.38	2.03	3.46	1.28	2.44	2.83
Credit cards	4.54	2.97	6.59	5.22	4.48	2.79	4.18
Installment loans	2.03	2.18	1.29	0.75	1.16	1.39	1.65
All other loans and leases	0.15	0.21	0.56	0.53	0.32	1.14	0.36
Loans outstanding (\$)							
Total loans and leases	\$579,993	\$670,743	\$436,779	\$192,339	\$117,183	\$230,067	\$2,227,104
Loans secured by real estate (RE)	153,663	313,742	191,558	79,110	54,234	99,846	892,153
1–4 family residential mortgages	72,802	178,579	89,684	37,651	22,066	42,307	443,089
Home equity loans	15,068	27,658	23,004	6,130	1,675	9,138	82,672
Multifamily residential mortgages	2,965	9,635	7,380	2,668	1,693	3,681	28,022
Commercial RE loans	30,271	67,205	51,051	21,256	20,153	31,278	221,214
Construction RE loans	7,017	25,215	17,070	8,344	6,992	12,247	76,884
Farmland loans	483	2,598	3,357	3,061	1,655	1,194	12,347
RE loans from foreign offices	25,057	2,852	12	0	0	1	27,923
Commercial and industrial loans	181,924	202,954	127,855	47,126	31,035	53,681	644,574
Loans to individuals	132,570	69,094	53,196	41,150	22,282	52,067	370,359
Credit cards	85,090	17,673	8,108	25,300	863	39,346	176,380
Installment loans	47,480	51,421	45,088	15,850	21,419	12,721	193,980
All other loans and leases	112,652	85,281	64,298	24,970	9,755	24,641	321,598
Less: Unearned income	815	329	128	16	123	169	1,581

*Includes "All other loans" for institutions under \$1 billion in asset size.

Key indicators, FDIC-insured commercial banks
Annual 1996- 1999, year-to-date through December 31, 2000, fourth quarter 1999, and fourth quarter 2000
(Dollar figures in millions)

	1996	1997	1998	1999	Preliminary 2000YTD	1999Q4	Preliminary 2000Q4
Number of institutions reporting	9,527	9,142	8,774	8,580	8,315	8,580	8,315
Total employees (FTEs)	1,489,186	1,538,408	1,627,073	1,657,535	1,662,335	1,657,535	1,662,335
Selected income data (\$)							
Net income	\$52,350	\$59,156	\$61,785	\$71,556	\$71,176	\$17,730	\$17,821
Net interest income	162,754	174,502	182,753	192,193	203,790	49,244	51,830
Provision for loan losses	16,285	19,851	22,216	21,814	29,254	6,134	9,491
Noninterest income	93,569	104,499	123,699	144,400	152,751	38,786	39,429
Noninterest expense	160,698	169,983	194,143	204,196	215,753	54,779	55,263
Net operating income	51,509	57,928	59,227	71,321	72,762	17,707	17,366
Cash dividends declared	38,791	42,541	41,004	51,933	53,798	16,344	18,622
Net charge-offs to loan and lease reserve.	15,500	18,318	20,740	20,360	23,613	6,027	7,658
Selected condition data (\$)							
Total assets	4,578,314	5,014,942	5,442,588	5,734,761	6,238,713	5,734,761	6,238,713
Total loans and leases	2,811,279	2,970,747	3,238,342	3,491,285	3,816,191	3,491,285	3,816,191
Reserve for losses	53,457	54,685	57,262	58,770	64,054	58,770	64,054
Securities	800,647	871,868	979,854	1,046,343	1,077,668	1,046,343	1,077,668
Other real estate owned	4,780	3,795	3,150	2,795	2,905	2,795	2,905
Noncurrent loans and leases	29,130	28,542	31,253	32,996	42,911	32,996	42,911
Total deposits	3,197,136	3,421,726	3,681,443	3,830,826	4,176,575	3,830,826	4,176,575
Domestic deposits	2,723,556	2,895,531	3,109,409	3,175,237	3,469,908	3,175,237	3,469,908
Equity capital	375,269	417,773	462,150	479,722	529,583	479,722	529,583
Off-balance-sheet derivatives	20,035,444	25,063,799	33,005,561	34,817,457	40,569,391	34,817,457	40,569,391
Performance ratios (annualized %)							
Return on equity	14.45	14.68	13.93	15.31	14.07	15.00	13.57
Return on assets	1.19	1.23	1.19	1.31	1.19	1.27	1.16
Net interest income to assets	3.70	3.64	3.51	3.51	3.41	3.52	3.37
Loss provision to assets	0.37	0.41	0.43	0.40	0.49	0.44	0.62
Net operating income to assets	1.17	1.21	1.14	1.30	1.22	1.27	1.13
Noninterest income to assets	2.13	2.18	2.37	2.64	2.56	2.77	2.56
Noninterest expense to assets	3.65	3.54	3.73	3.73	3.61	3.92	3.59
Loss provision to loans and leases	0.61	0.69	0.72	0.66	0.80	0.72	1.00
Net charge-offs to loans and leases	0.58	0.64	0.67	0.61	0.64	0.71	0.81
Loss provision to net charge-offs	105.06	108.37	104.81	107.13	123.88	101.76	123.91
Performance ratios (%)							
Percent of institutions unprofitable	4.28	4.85	6.11	7.47	7.06	11.93	12.23
Percent of institutions with earnings gains	70.78	68.35	61.23	62.83	67.76	60.59	55.79
Nonint. income to net operating revenue	36.50	37.45	40.36	42.90	42.84	44.06	43.21
Nonint. expense to net operating revenue	62.69	60.93	63.35	60.67	60.51	62.23	60.56
Condition ratios (%)							
Nonperforming assets to assets	0.75	0.66	0.65	0.63	0.74	0.63	0.74
Noncurrent loans to loans	1.04	0.96	0.97	0.95	1.12	0.95	1.12
Loss reserve to noncurrent loans	183.51	191.59	183.22	178.11	149.27	178.11	149.27
Loss reserve to loans	1.90	1.84	1.77	1.68	1.68	1.68	1.68
Equity capital to assets	8.20	8.33	8.49	8.37	8.49	8.37	8.49
Leverage ratio	7.64	7.56	7.54	7.79	7.71	7.79	7.71
Risk-based capital ratio	12.53	12.23	12.23	12.16	12.13	12.16	12.13
Net loans and leases to assets	60.24	58.15	58.45	59.85	60.14	59.85	60.14
Securities to assets	17.49	17.39	18.00	18.25	17.27	18.25	17.27
Appreciation in securities (% of par)	0.51	1.10	1.07	-2.31	0.20	-2.31	0.20
Residential mortgage assets to assets	19.79	20.03	20.93	20.77	20.19	20.77	20.19
Total deposits to assets	69.83	68.23	67.64	66.80	66.95	66.80	66.95
Core deposits to assets	52.45	50.06	49.39	46.96	46.40	46.96	46.40
Volatile liabilities to assets	30.71	31.92	31.68	34.94	34.98	34.94	34.98

Loan performance, FDIC-insured commercial banks
Annual 1996- 1999, year-to-date through December 31, 2000, fourth quarter 1999, and fourth quarter 2000
(Dollar figures in millions)

	1996	1997	1998	1999	Preliminary 2000YTD	1999Q4	Preliminary 2000Q4
Percent of loans past due 30–89 days							
Total loans and leases	1.37	1.31	1.26	1.14	1.26	1.14	1.26
Loans secured by real estate (RE)	1.41	1.33	1.26	1.09	1.26	1.09	1.26
1–4 family residential mortgages	1.57	1.59	1.44	1.43	1.72	1.43	1.72
Home equity loans	1.06	0.96	0.98	0.75	0.98	0.75	0.98
Multifamily residential mortgages	1.19	1.11	0.86	0.58	0.55	0.58	0.55
Commercial RE loans	1.24	0.97	0.99	0.69	0.74	0.69	0.74
Construction RE loans	1.58	1.42	1.50	0.98	1.06	0.98	1.06
Commercial and industrial loans*	0.95	0.83	0.88	0.79	0.83	0.79	0.83
Loans to individuals	2.50	2.50	2.43	2.33	2.46	2.33	2.46
Credit cards	2.76	2.73	2.58	2.59	2.66	2.59	2.66
Installment loans	2.31	2.33	2.33	2.18	2.32	2.18	2.32
All other loans and leases	0.37	0.51	0.51	0.55	0.65	0.55	0.65
Percent of loans noncurrent							
Total loans and leases	1.04	0.96	0.97	0.95	1.12	0.95	1.12
Loans secured by real estate (RE)	1.20	1.01	0.91	0.79	0.81	0.79	0.81
1–4 family residential mortgages	0.99	0.94	0.88	0.82	0.90	0.82	0.90
Home equity loans	0.48	0.44	0.42	0.33	0.37	0.33	0.37
Multifamily residential mortgages	1.35	0.95	0.83	0.41	0.44	0.41	0.44
Commercial RE loans	1.61	1.21	0.95	0.77	0.72	0.77	0.72
Construction RE loans	1.38	0.97	0.81	0.67	0.76	0.67	0.76
Commercial and industrial loans*	0.98	0.86	0.99	1.17	1.67	1.17	1.67
Loans to individuals	1.36	1.47	1.52	1.42	1.40	1.42	1.40
Credit cards	1.91	2.18	2.22	2.05	2.01	2.05	2.01
Installment loans	0.97	0.98	1.06	1.04	0.98	1.04	0.98
All other loans and leases	0.22	0.25	0.34	0.39	0.69	0.39	0.69
Percent of loans charged-off, net							
Total loans and leases	0.58	0.64	0.67	0.61	0.64	0.71	0.81
Loans secured by real estate (RE)	0.10	0.06	0.05	0.08	0.09	0.11	0.12
1–4 family residential mortgages	0.08	0.08	0.07	0.11	0.10	0.15	0.12
Home equity loans	0.20	0.16	0.14	0.15	0.18	0.16	0.24
Multifamily residential mortgages	0.15	0.04	0.05	0.02	0.02	0.08	0.04
Commercial RE loans	0.09	0.01	0.00	0.03	0.05	0.05	0.08
Construction RE loans	0.19	–0.02	0.01	0.04	0.05	0.07	0.10
Commercial and industrial loans*	0.26	0.28	0.42	0.58	0.77	0.79	1.15
Loans to individuals	2.28	2.70	2.69	2.32	2.30	2.41	2.52
Credit cards	4.35	5.11	5.19	4.46	4.30	4.48	4.35
Installment loans	0.89	1.04	1.04	1.04	1.03	1.20	1.30
All other loans and leases	0.06	0.08	0.39	0.26	0.23	0.39	0.33
Loans outstanding (\$)							
Total loans and leases	\$2,811,279	\$2,970,747	\$3,238,342	\$3,491,285	\$3,816,191	\$3,491,285	\$3,816,191
Loans secured by real estate (RE)	1,139,018	1,244,985	1,345,644	1,510,036	1,670,278	1,510,036	1,670,278
1–4 family residential mortgages	570,122	620,599	668,752	736,860	788,891	736,860	788,891
Home equity loans	85,300	98,163	96,647	102,338	127,493	102,338	127,493
Multifamily residential mortgages	38,162	41,231	43,242	53,133	60,178	53,133	60,178
Commercial RE loans	315,989	341,522	370,544	417,617	465,512	417,617	465,512
Construction RE loans	76,399	88,242	106,729	135,627	162,131	135,627	162,131
Farmland loans	24,964	27,072	29,096	31,902	34,040	31,902	34,040
RE loans from foreign offices	28,083	28,157	30,635	32,558	32,033	32,558	32,033
Commercial and industrial loans	709,600	794,998	898,556	970,986	1,048,248	970,986	1,048,248
Loans to individuals	562,291	561,325	570,863	558,351	609,713	558,351	609,713
Credit cards	231,664	231,092	228,781	211,998	249,370	211,998	249,370
Installment loans	330,626	330,233	342,081	346,353	360,343	346,353	360,343
All other loans and leases	405,679	373,907	427,397	455,583	490,868	455,583	490,868
Less: Unearned income	5,308	4,469	4,117	3,671	2,915	3,671	2,915

*Includes "All other loans" for institutions under \$1 billion in asset size.

Key indicators, FDIC-insured commercial banks by asset size
Fourth quarter 1999 and fourth quarter 2000
(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4
Number of institutions reporting	5,156	4,842	3,030	3,078	318	313	76	82
Total employees (FTEs)	109,841	99,560	303,754	291,702	280,031	248,311	963,909	1,022,762
Selected income data (\$)								
Net income	\$506	\$453	\$2,441	\$2,275	\$3,191	\$2,416	\$11,593	\$12,677
Net interest income	2,492	2,335	7,869	7,764	8,968	8,311	29,916	33,420
Provision for loan losses	205	197	716	776	1,215	1,563	3,997	6,955
Noninterest income	859	663	3,177	3,153	6,019	4,838	28,731	30,774
Noninterest expense	2,453	2,182	7,015	6,926	8,823	7,943	36,487	38,211
Net operating income	514	456	2,320	2,276	3,289	2,436	11,585	12,197
Cash dividends declared	649	539	2,193	1,792	3,738	3,680	9,764	12,611
Net charge-offs to loan and lease reserve...	156	151	564	551	1,139	1,129	4,168	5,828
Selected condition data (\$)								
Total assets	242,444	231,194	754,666	773,009	915,187	884,113	3,822,464	4,350,396
Total loans and leases	145,329	142,039	482,026	504,414	580,053	560,825	2,283,877	2,608,914
Reserve for losses	2,065	1,963	7,000	7,123	10,566	9,858	39,140	45,110
Securities	65,176	58,711	188,980	181,379	215,844	198,929	576,344	638,649
Other real estate owned	279	259	670	680	438	408	1,408	1,558
Noncurrent loans and leases	1,308	1,281	3,655	4,021	4,782	5,185	23,251	32,424
Total deposits	205,872	194,917	611,699	632,459	624,694	621,581	2,388,561	2,727,619
Domestic deposits	205,858	194,898	609,834	630,650	612,288	607,625	1,747,257	2,036,736
Equity capital	25,891	25,614	69,764	74,175	83,191	79,466	300,876	350,328
Off-balance-sheet derivatives	195	200	8,209	5,518	94,620	66,743	34,780,770	40,686,228
Performance ratios (annualized %)								
Return on equity	7.79	7.17	14.00	12.50	15.54	12.31	15.73	14.54
Return on assets	0.85	0.80	1.31	1.19	1.42	1.11	1.25	1.18
Net interest income to assets	4.17	4.11	4.23	4.07	4.00	3.81	3.22	3.12
Loss provision to assets	0.34	0.35	0.38	0.41	0.54	0.72	0.43	0.65
Net operating income to assets	0.86	0.80	1.25	1.19	1.47	1.12	1.25	1.14
Noninterest income to assets	1.44	1.17	1.71	1.65	2.69	2.22	3.09	2.87
Noninterest expense to assets	4.10	3.84	3.77	3.63	3.94	3.64	3.93	3.57
Loss provision to loans and leases	0.57	0.56	0.60	0.62	0.86	1.12	0.72	1.07
Net charge-offs to loans and leases	0.44	0.43	0.48	0.44	0.80	0.81	0.75	0.90
Loss provision to net charge-offs	131.04	130.29	126.94	140.89	106.70	138.47	95.90	119.32
Performance ratios (%)								
Percent of institutions unprofitable	16.64	17.66	4.88	4.45	4.09	6.07	6.58	7.32
Percent of institutions with earnings gains	57.27	52.29	65.51	61.05	66.67	57.51	64.47	58.54
Nonint. income to net operating revenue	25.63	22.10	28.76	28.88	40.16	36.80	48.99	47.94
Nonint. expense to net operating revenue	73.21	72.78	63.51	63.44	58.87	60.41	62.22	59.52
Condition ratios (%)								
Nonperforming assets to assets	0.66	0.67	0.58	0.61	0.58	0.64	0.66	0.79
Noncurrent loans to loans	0.90	0.90	0.76	0.80	0.82	0.92	1.02	1.24
Loss reserve to noncurrent loans	157.83	153.28	191.51	177.13	220.96	190.11	168.34	139.13
Loss reserve to loans	1.42	1.38	1.45	1.41	1.82	1.76	1.71	1.73
Equity capital to assets	10.68	11.08	9.24	9.60	9.09	8.99	7.87	8.05
Leverage ratio	10.88	11.01	9.20	9.28	8.49	8.36	7.13	7.11
Risk-based capital ratio	17.74	17.44	14.37	14.12	12.93	12.81	11.36	11.48
Net loans and leases to assets	59.09	60.59	62.95	64.33	62.23	62.32	58.72	58.93
Securities to assets	26.88	25.39	25.04	23.46	23.58	22.50	15.08	14.68
Appreciation in securities (% of par)	-2.19	0.08	-2.37	0.18	-2.38	0.11	-2.28	0.25
Residential mortgage assets to assets	20.99	20.81	23.77	23.03	26.56	25.03	18.78	18.66
Total deposits to assets	84.92	84.31	81.06	81.82	68.26	70.31	62.49	62.70
Core deposits to assets	73.14	71.38	68.96	68.27	56.18	56.15	38.75	39.20
Volatile liabilities to assets	13.99	15.09	18.21	18.28	28.04	27.84	41.23	40.46

Loan performance, FDIC-insured commercial banks by asset size

Fourth quarter 1999 and fourth quarter 2000

(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4	1999Q4	2000Q4
Percent of loans past due 30–89 days								
Total loans and leases	1.39	1.62	1.12	1.26	1.22	1.29	1.10	1.23
Loans secured by real estate (RE)	1.20	1.42	0.89	1.03	0.90	0.97	1.23	1.42
1–4 family residential mortgages	1.66	1.85	1.26	1.43	1.09	1.21	1.56	1.92
Home equity loans	0.71	0.75	0.63	0.69	0.74	1.04	0.78	1.02
Multifamily residential mortgages	0.75	0.80	0.48	0.51	0.46	0.48	0.64	0.58
Commercial RE loans	0.83	1.08	0.60	0.70	0.66	0.74	0.73	0.72
Construction RE loans	0.73	1.20	0.75	1.07	1.06	0.86	1.08	1.14
Commercial and industrial loans*	1.30	1.53	1.12	1.31	1.03	1.17	0.64	0.64
Loans to individuals	2.33	2.62	2.20	2.39	2.34	2.54	2.36	2.45
Credit cards	2.01	1.87	3.83	3.79	2.78	2.90	2.44	2.57
Installment loans	2.34	2.65	1.87	2.14	2.01	2.33	2.30	2.33
All other loans and leases	N/A	N/A	N/A	N/A	0.85	1.03	0.55	0.66
Percent of loans noncurrent								
Total loans and leases	0.90	0.90	0.76	0.80	0.82	0.92	1.02	1.24
Loans secured by real estate (RE)	0.73	0.75	0.59	0.64	0.70	0.70	0.89	0.91
1–4 family residential mortgages	0.69	0.71	0.61	0.60	0.75	0.72	0.91	1.05
Home equity loans	0.42	0.26	0.31	0.31	0.38	0.38	0.32	0.38
Multifamily residential mortgages	0.64	0.34	0.43	0.40	0.48	0.38	0.37	0.48
Commercial RE loans	0.72	0.83	0.61	0.64	0.72	0.71	0.89	0.76
Construction RE loans	0.55	0.64	0.49	0.75	0.66	0.77	0.77	0.76
Commercial and industrial loans*	1.28	1.21	1.11	1.20	0.93	1.39	1.17	1.73
Loans to individuals	0.78	0.87	0.91	0.87	1.13	1.15	1.65	1.56
Credit cards	1.35	0.96	2.68	2.57	1.84	1.98	2.09	1.99
Installment loans	0.76	0.86	0.55	0.57	0.60	0.65	1.34	1.17
All other loans and leases	N/A	N/A	N/A	N/A	0.44	0.60	0.40	0.74
Percent of loans charged-off, net								
Total loans and leases	0.44	0.43	0.48	0.44	0.80	0.81	0.75	0.90
Loans secured by real estate (RE)	0.09	0.11	0.08	0.08	0.12	0.11	0.12	0.13
1–4 family residential mortgages	0.09	0.09	0.09	0.09	0.14	0.13	0.17	0.13
Home equity loans	0.01	0.15	0.08	0.04	0.14	0.15	0.18	0.29
Multifamily residential mortgages	0.23	0.20	0.12	0.04	0.06	0.04	0.06	0.03
Commercial RE loans	0.09	0.14	0.06	0.07	0.10	0.09	0.01	0.07
Construction RE loans	0.20	0.11	0.08	0.08	0.14	0.12	0.02	0.10
Commercial and industrial loans*	0.84	0.76	0.74	0.81	0.94	1.28	0.73	1.14
Loans to individuals	0.97	1.08	1.83	1.59	2.50	2.52	2.57	2.73
Credit cards	1.89	2.45	6.57	5.47	4.57	5.03	4.30	4.18
Installment loans	0.93	1.03	0.84	0.91	1.04	1.08	1.37	1.48
All other loans and leases	N/A	N/A	N/A	N/A	0.41	0.52	0.42	0.33
Loans outstanding (\$)								
Total loans and leases	\$145,329	\$142,039	\$482,026	\$504,414	\$580,053	\$560,825	\$2,283,877	\$2,608,914
Loans secured by real estate (RE)	83,003	81,641	305,010	324,762	297,529	308,505	824,494	955,370
1–4 family residential mortgages	38,723	37,764	127,226	130,932	134,453	129,640	436,458	490,555
Home equity loans	1,865	2,026	12,816	13,817	18,329	19,307	69,327	92,343
Multifamily residential mortgages	1,791	1,748	10,329	10,947	11,254	12,318	29,759	35,165
Commercial RE loans	23,216	22,902	110,667	120,025	97,478	105,664	186,256	216,922
Construction RE loans	6,703	6,913	31,461	35,491	31,995	36,992	65,468	82,736
Farmland loans	10,705	10,288	12,458	13,505	3,647	4,245	5,092	6,002
RE loans from foreign offices	0	0	52	45	372	340	32,134	31,648
Commercial and industrial loans	24,710	24,580	86,822	91,673	127,501	123,890	731,954	808,105
Loans to individuals	20,162	19,148	64,798	61,958	119,262	98,164	354,129	430,443
Credit cards	815	704	10,905	9,345	51,351	36,784	148,926	202,538
Installment loans	19,347	18,444	53,894	52,613	67,910	61,381	205,203	227,905
All other loans and leases	17,757	16,876	26,234	26,754	36,419	30,850	375,173	416,387
Less: Unearned income	303	206	838	733	658	584	1,872	1,392

*Includes "All other loans" for institutions under \$1 billion in asset size.

Key indicators, FDIC-insured commercial banks by region

Fourth quarter 2000

(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West institutions	All institutions
Number of institutions reporting	665	1,425	1,791	2,144	1,384	906	8,315
Total employees (FTEs)	514,615	456,952	285,048	126,134	108,312	171,274	1,662,335
Selected income data (\$)							
Net income	\$7,052	\$4,316	\$2,513	\$1,425	\$534	\$1,982	\$17,821
Net interest income	15,750	13,474	8,668	4,155	2,956	6,827	51,830
Provision for loan losses	2,544	2,246	1,643	712	684	1,662	9,491
Noninterest income	17,904	8,430	4,475	2,686	967	4,966	39,429
Noninterest expense	20,662	13,053	7,987	4,036	2,548	6,977	55,263
Net operating income	6,934	4,039	2,492	1,409	518	1,973	17,366
Cash dividends declared	4,691	6,531	3,605	1,318	789	1,688	18,622
Net charge-offs to loan and lease reserve.	2,600	1,925	986	654	298	1,196	7,658
Selected condition data (\$)							
Total assets	2,180,963	1,610,756	1,071,929	419,023	302,320	653,723	6,238,713
Total loans and leases	1,138,781	1,058,012	727,780	286,072	182,437	423,109	3,816,191
Reserve for losses	20,913	16,018	10,775	4,544	2,809	8,994	64,054
Securities	361,741	265,868	190,827	65,981	73,893	119,357	1,077,668
Other real estate owned	751	966	415	237	236	299	2,905
Noncurrent loans and leases	14,985	12,257	7,378	2,328	1,639	4,325	42,911
Total deposits	1,371,355	1,096,010	729,830	290,727	241,388	447,264	4,176,575
Domestic deposits	882,910	980,863	654,607	278,704	239,712	433,113	3,469,908
Equity capital	174,579	138,732	84,808	39,788	27,007	64,669	529,583
Off-balance-sheet derivatives	30,517,118	8,625,702	1,102,372	21,731	10,417	292,052	40,569,391
Performance ratios (annualized %)							
Return on equity	16.31	12.55	11.82	14.53	7.96	12.42	13.57
Return on assets	1.32	1.07	0.95	1.38	0.72	1.25	1.16
Net interest income to assets	2.95	3.35	3.28	4.03	3.97	4.30	3.37
Loss provision to assets	0.48	0.56	0.62	0.69	0.92	1.05	0.62
Net operating income to assets	1.30	1.00	0.94	1.37	0.70	1.24	1.13
Noninterest income to assets	3.36	2.09	1.69	2.60	1.30	3.13	2.56
Noninterest expense to assets	3.87	3.24	3.02	3.91	3.42	4.40	3.59
Loss provision to loans and leases	0.90	0.85	0.91	1.00	1.51	1.60	1.00
Net charge-offs to loans and leases	0.92	0.73	0.55	0.92	0.66	1.15	0.81
Loss provision to net charge-offs	97.80	116.69	166.66	108.88	229.48	139.01	123.91
Performance ratios (%)							
Percent of institutions unprofitable	11.58	15.51	9.27	11.89	12.21	14.24	12.23
Percent of institutions with earnings gains	62.11	55.16	56.11	50.98	57.23	60.71	55.79
Nonint. income to net operating revenue	53.20	38.49	34.05	39.26	24.65	42.11	43.21
Nonint. expense to net operating revenue	61.40	59.59	60.77	59.00	64.93	59.16	60.56
Condition ratios (%)							
Nonperforming assets to assets	0.73	0.82	0.74	0.61	0.62	0.73	0.74
Noncurrent loans to loans	1.32	1.16	1.01	0.81	0.90	1.02	1.12
Loss reserve to noncurrent loans	139.56	130.69	146.06	195.23	171.36	207.96	149.27
Loss reserve to loans	1.84	1.51	1.48	1.59	1.54	2.13	1.68
Equity capital to assets	8.00	8.61	7.91	9.50	8.93	9.89	8.49
Leverage ratio	7.48	7.50	7.57	8.25	8.21	8.65	7.71
Risk-based capital ratio	12.47	11.66	11.64	12.60	13.27	12.39	12.13
Net loans and leases to assets	51.26	64.69	66.89	67.19	59.42	63.35	60.14
Securities to assets	16.59	16.51	17.80	15.75	24.44	18.26	17.27
Appreciation in securities (% of par)	-0.01	0.38	0.14	0.40	0.16	0.48	0.20
Residential mortgage assets to assets	16.08	25.07	22.39	18.88	21.92	18.28	20.19
Total deposits to assets	62.88	68.04	68.09	69.38	79.85	68.42	66.95
Core deposits to assets	31.92	52.05	51.16	59.07	66.45	55.60	46.40
Volatile liabilities to assets	46.75	29.54	32.23	23.62	21.39	27.20	34.98

Loan performance, FDIC-insured commercial banks by region
Fourth quarter 2000
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30–89 days							
Total loans and leases	1.21	1.26	1.36	1.27	1.28	1.17	1.26
Loans secured by real estate (RE)	1.22	1.44	1.37	1.00	1.17	0.86	1.26
1–4 family residential mortgages	1.51	2.17	1.69	1.15	1.51	1.15	1.72
Home equity loans	0.76	0.78	1.40	0.81	0.88	1.09	0.98
Multifamily residential mortgages 0.45	0.57	0.81	0.57	0.67	0.32	0.55	
Commercial RE loans	0.81	0.64	0.88	0.83	0.89	0.54	0.74
Construction RE loans	0.77	0.85	1.66	1.08	1.09	1.00	1.06
Commercial and industrial loans*	0.57	0.66	1.07	1.38	1.29	1.13	0.83
Loans to individuals	2.66	2.44	2.57	2.30	1.92	2.17	2.46
Credit cards	3.03	2.97	1.39	2.43	1.44	2.12	2.66
Installment loans	2.27	2.26	2.74	2.14	1.94	2.27	2.32
All other loans and leases	0.65	0.48	0.92	0.65	0.49	0.55	0.65
Percent of loans noncurrent							
Total loans and leases	1.32	1.16	1.01	0.81	0.90	1.02	1.12
Loans secured by real estate (RE)	0.86	0.89	0.87	0.55	0.76	0.58	0.81
1–4 family residential mortgages	0.85	1.12	0.97	0.46	0.70	0.53	0.90
Home equity loans	0.30	0.22	0.65	0.29	0.33	0.33	0.37
Multifamily residential mortgages	0.25	0.57	0.50	0.42	0.23	0.51	0.44
Commercial RE loans	0.71	0.71	0.83	0.62	0.83	0.61	0.72
Construction RE loans	0.80	0.78	0.82	0.77	0.76	0.60	0.76
Commercial and industrial loans*	1.74	1.87	1.44	1.22	1.48	1.69	1.67
Loans to individuals	2.09	0.98	0.72	1.16	0.58	1.27	1.40
Credit cards	2.42	2.06	0.82	1.54	0.64	1.63	2.01
Installment loans	1.76	0.60	0.70	0.72	0.58	0.48	0.98
All other loans and leases	0.51	0.88	0.81	0.55	0.66	0.99	0.69
Percent of loans charged-off, net							
Total loans and leases	0.92	0.73	0.55	0.92	0.66	1.15	0.81
Loans secured by real estate (RE)	0.16	0.08	0.13	0.17	0.16	0.07	0.12
1–4 family residential mortgages	0.17	0.07	0.12	0.21	0.16	0.10	0.12
Home equity loans	0.25	0.23	0.31	0.26	0.31	0.07	0.24
Multifamily residential mortgages	0.04	0.05	0.06	–0.03	0.10	0.01	0.04
Commercial RE loans	0.07	0.06	0.11	0.08	0.21	0.01	0.08
Construction RE loans	0.15	0.06	0.10	0.25	0.07	0.10	0.10
Commercial and industrial loans*	0.84	1.51	0.83	0.81	1.38	1.99	1.15
Loans to individuals	2.94	2.22	1.63	3.35	1.24	2.68	2.52
Credit cards	4.58	4.01	5.72	5.72	3.79	3.22	4.35
Installment loans	1.29	1.61	1.08	0.70	1.14	1.56	1.30
All other loans and leases	0.18	0.23	0.50	0.37	0.22	1.02	0.33
Loans outstanding (\$)							
Total loans and leases	\$1,138,781	\$1,058,012	\$727,780	\$286,072	\$182,437	\$423,109	\$3,816,191
Loans secured by real estate (RE)	359,990	543,308	346,974	131,026	91,409	197,571	1,670,278
1–4 family residential mortgages	191,329	272,767	159,684	58,252	36,528	70,331	788,891
Home equity loans	26,997	43,113	34,409	7,534	1,950	13,489	127,493
Multifamily residential mortgages	15,537	16,284	12,783	4,046	2,628	8,900	60,178
Commercial RE loans	79,397	141,100	99,541	36,824	34,465	74,185	465,512
Construction RE loans	16,943	60,444	31,970	13,841	12,086	26,847	162,131
Farmland loans	1,337	6,747	8,558	10,529	3,751	3,119	34,040
RE loans from foreign offices	28,450	2,852	30	0	0	701	32,033
Commercial and industrial loans	348,043	279,603	210,543	64,303	44,757	100,998	1,048,248
Loans to individuals	229,144	129,619	79,147	52,396	32,294	87,114	609,713
Credit cards	116,603	33,679	10,078	27,976	1,283	59,750	249,370
Installment loans	112,541	95,939	69,069	24,420	31,011	27,363	360,343
All other loans and leases	202,817	106,121	91,416	38,396	14,210	37,908	490,868
Less: Unearned income	1,213	640	299	49	233	481	2,915

*Includes "All other loans" for institutions under \$1 billion in asset size.

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—2000

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Comptroller's Report of Operations—2000

Comptroller of the Currency

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, 2000, there were about 2,300 national banks and 56 federal branches and agencies, representing about 27 percent of the number of all insured commercial banks in the United States and 56 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 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.

Executive Committee

The OCC's Executive Committee provides advice and counsel to the Comptroller in managing the operation 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 Comptroller, the first senior deputy comptroller and chief counsel, the chief of staff, the senior deputy comptroller for Administration and chief financial officer, the senior deputy comptroller for Bank Supervision Operations, the senior deputy comptroller for Bank Supervision Policy, the senior deputy comptroller for International and Economic

Affairs the senior deputy comptroller for Public Affairs, the chief information officer, and the ombudsman.

First Senior Deputy Comptroller and Chief Counsel

In 2000, 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 2000 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.

Senior Deputy Comptroller for Administration and Chief Financial Officer

The senior deputy comptroller (SDC) for Administration and chief financial officer, assisted by the deputy comptroller for Administration, is responsible for the efficient and effective administrative functioning of the OCC. In this capacity the SDC oversees the Human Resources, Administrative Services, Financial Services, Management Improvement, and Organizational Effectiveness, and Acquisitions Services divisions.

In 2000, the SDC focused on continuing efforts to strengthen OCC's financial management and internal controls and modernize OCC's financial management and related systems. Significant efforts were also made during 2000 to redesigning OCC's compensation and benefits program.

Senior Deputy Comptroller for Bank Supervision Operations

The senior deputy comptroller for Bank Supervision Operations is responsible for examinations and other supervision activities in the OCC's six districts; the Large Bank Supervision department, which supervises the largest national banks and oversees operations in the OCC's London office; and OCC's Compliance Operations, Continuing Education and Resource Alternatives, Supervision Support departments, and the Community Bank Activities division. Specific responsibilities of the senior deputy comptroller for Bank Supervision Operations include directing programs for the examination and regulation of national banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior deputy comptroller for Bank Supervision Operations was responsible during 2000 for directing the examination, supervision, and analysis of about 2,300 national banks and about 56 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, bank data software vendors and the international activities of national banks with global operations was also the responsibility of the senior deputy comptroller for Bank Supervision Operations.

Senior Deputy Comptroller for Bank Supervision Policy

The senior deputy comptroller for Bank Supervision Policy 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 department worked closely with other OCC departments, supervisory authorities, and government agencies to coordinate supervisory and monitoring efforts associated with the "century date change." The senior deputy comptroller for Bank Supervision Policy 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

In 2000, the offices of the senior deputy comptroller for International Affairs and the senior deputy comptroller for Economic and Policy Analysis were merged under a new department—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 Global Banking and Financial Analysis, Capital Policy, and Economic and Policy Analysis departments.

Senior Deputy Comptroller for Public Affairs

The senior deputy comptroller for Public Affairs 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 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.

The senior deputy comptroller for Public Affairs carries out these responsibilities through the special advisor for Executive Communications, the Banking Relations, Communications, Congressional Liaison, and Press Relations divisions.

Chief Information Officer

In 2000, the chief information officer (CIO) became a member of the Executive Committee (EC). The CIO advises the Comptroller and other EC members on technology matters and directs the development, administration, and readiness of the OCC's electronic systems and tech-

nological infrastructure. He provides executive leadership for subordinate areas that formulate, implement, and monitor technology use and standards within the agency. He chairs the OCC's Investment Review Board and recommends or supports information technology (IT) investments that closely align with OCC's mission and strategic direction. The CIO is responsible for disseminating the OCC's IT policies to promote information security and compliance with laws and regulations.

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 2000, 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 2000 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 ac-

tivities including the establishment of Internet banks, digital identity certification, electronically based finder activities, electronic bill presentment and payment, Web site development, and data processing services; assisted in speech and testimony preparation on electronic banking topics for the Comptroller and chief counsel; and participated in the establishment and issuance of supervisory policy related to Internet banking and e-commerce. The assistant chief counsel also established and implemented departmental readiness and contingency plans for the year-2000 century date change, and 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; represented the OCC in interagency privacy rulemaking under the Gramm-Leach-Bliley Act and the Fair Credit Reporting Act; worked with bank supervision and policy to devise a supervisory strategy for implementation of the privacy regulations; participated in the issuance of a bulletin summarizing the laws on financial privacy and cautioning banks about compliance risks in areas where the laws may have divergent requirements; drafted and coordinated an interagency memorandum to financial institutions on identity theft and pretext calling; coordinated and participated in the drafting of an interagency guide to small institutions for compliance with the privacy regulations; and participated in the preparation of a telephone seminar on privacy for community banks. The assistant chief counsel also spoke at numerous seminars, conferences, and courses on financial privacy.

Law Department

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, acquisitions and procurement, leasing, licensing agreements, finance, the Freedom of Information Act, the Privacy Act of 1974, and ethics. AIL provides legal advice in these areas to units throughout the OCC. The division also provides advisory

services associated with the OCC's compensation programs, and in 2000 it advised on a new compensation program for its employees and the establishment of an employee 401(k) deferred compensation program. The division, in conjunction with the district legal staffs, also administers the OCC's ethics program and the law department's attorney recruiting program.

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.

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.

The division prepares and reviews a wide range of written materials, including regulations, memoranda, correspondence, regulations, legislation, decisions on corporate applications, speeches, Congressional testimony, policy

statements, and examination procedures. In 2000, the division drafted an interagency interpretive document, *Interagency Qs and As on Community Reinvestment*, which was published by the Federal Financial Institutions Examinations Council. 65 Fed. Reg. 25,088 (April 28, 2000). CCL assisted in a number of OCC rulemaking projects, including proposed and/or final regulations relating to the Fair Credit Reporting Act and the privacy- and CRA-related provisions of the 1999 financial modernization legislation. The division drafted congressional testimony involving predatory lending practices, and advisory letters on payday lending (OCC Advisory Letter AL 2000-10) and title loan programs (OCC Advisory Letter AL 2000-11). CCL prepared a booklet titled "Privacy Laws and Regulations" that summarized the privacy-related provisions in various federal laws applicable to national banks. CCL also participates actively in numerous internal and interagency working groups and task forces.

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 13 alerts in 2000. 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 2000, the OCC issued 13 cease-and-desist orders against individuals and other institution-affiliated parties, including 10 restitution orders, and one temporary cease-and-desist order to preserve a bank insider's assets during the pendency of the administrative process. Restitution and monetary relief ordered in 2000 totaled approximately \$130 million, which included funds paid by UICI and UCS, the parent companies of United Credit National Bank, as part of the capital maintenance and liquidation of the bank. The OCC also imposed 28 civil

money penalties (CMPs) on individuals, totaling \$379,500, and issued 31 letters of reprimand and 35 supervisory letters to bank insiders. In addition, the OCC issued 35 removal and prohibition orders.

During 2000, the OCC issued five CMPs against banks, totaling \$162,400. The OCC issued 12 cease-and-desist orders against banks. This included \$300 million of restitution offered by Provident National Bank to its customers whom it had misled about the terms of its credit card pricing. In addition, the OCC issued 31 formal agreements, 28 memoranda of understanding, and 16 commitment letters against banks. The OCC also issued one temporary cease-and-desist order, required six 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 2000 appears in the September issue of the *Quarterly Journal*, "Special Supervision/Fraud and Enforcement Activities." For the last half of 2000, 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.

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 2000, the division represented the OCC or prepared *amicus* briefs in several cases relating to bank powers and federal preemption of state law. 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.

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 will be absorbed into 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 2000, LRA's regulations work focused primarily on writing regulations to implement the Gramm-Leach-Bliley Act (GLBA), the comprehensive financial services modernization legislation that was enacted in November 1999. GLBA required new rules in a number of areas. Many of these projects were done jointly with the three other federal banking agencies. LRA also provided analysis and legal advice with respect to legislation pending in a variety of areas. Two pieces of legislation enacted by the 106th Congress that are significant for national banks are the Electronic Signatures in Global and National Commerce Act, establishing, among other provisions, uniform federal rules concerning the use of electronic signatures and records in commercial and consumer transactions, and the Commodity Futures Modernization Act of 2000, which clarifies the treatment of certain swap agreements offered by banks in the over-the-counter derivatives market.

In 2000, LRA supported the execution of insurance complaint-sharing agreements with 28 state insurance departments and worked with the National Association of Insurance Commissioners to develop a model agreement to share supervisory information between OCC and state insurance departments. The division also works closely with the Board of Governors of the Federal Reserve on issues relating to bilateral arrangements with foreign bank supervisors to exchange supervisory information, and in 2000 the OCC concluded an information-sharing and cooperation framework with Germany's Bundesaufsichtsamt für Das Kreditwesen and the Hong Kong Monetary Authority.

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 2000, SCP prepared or participated in the issuance of several significant opinions and interpretations in the areas of authority for a bank subsidiary to underwrite and deal in debt and equity securities; authority for a bank to engage in hedging activities; investment advisory activities; on-line securities trading and related consumer disclosures; insurance activities, including location and type of insurance; 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 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.

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.

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.

During 2000, the department was restructured by combining all application processing operations into a single unit, the Licensing Operations division. This change was effected in order to enhance the smooth functioning of the district, large bank and headquarters-directed licensing units as an integrated licensing operation. The other Licensing department division is Licensing Policy and Systems. Also, the department's name was changed from Bank Organization and Structure to Licensing, consistent with the OCC's strategic plan nomenclature.

Application Volume and Decision Results

Table 1 summarizes corporate application activity for 2000. The total number of applications filed with the OCC decreased from 2,215 in 1999 to 2,036 in 2000. The decline occurred primarily in number of branch and charter applications, while there were increases in operating subsidiary, conversion, and capital/subordinated debt applications. The 2000 count does not include 106 operating subsidiary filings that were effected through after-the-fact notices, compared to 91 after-the-fact notices in 1999.

The OCC denied one application in 2000, compared to five in 1999. Of the 2,036 decisions, 78 were conditional approvals. Conditional approvals increased over 1999, when 49 of 2,175 decisions were conditionally approved. This increase was due primarily to the implementation on April 14, 2000, of special conditional approvals for new bank charters requiring that the OCC be notified of significant deviations or changes in operating plans within the first three years of operations.

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 1999 and 2000 (without including after-the-fact notices for subsidiaries in 1999 and 2000). 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.

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 1995, the OCC met target time frames on 88 percent of the

Table 1—Corporate application activity in 2000

	Applications received		2000 decisions			Total 2000 decisions
	1999	2000	Approved	Conditionally approved ³	Denied	
Branches	1,297	1,097	1,057	8	0	1,065
Capital/sub debt	129	145	103	5	0	108
Change in Bank Control	13	16	8	0	1	9
Charters	79	62	11	45	0	56
Conversions ¹	16	31	23	0	0	23
Federal branches	0	0	0	0	0	0
Fiduciary powers	29	19	17	2	0	19
Mergers	89	83	73	4	0	77
Relocations	263	253	246	1	0	247
Reorganizations	173	170	160	1	0	161
Stock appraisals	7	1	1	0	0	1
Subsidiaries ²	120	159	118	12	0	130
Total	2,215	2,036	1,817	78	1	1,896

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

¹ Conversions are conversions to national bank charters.

² Subsidiaries do not include 91 after-the-fact notices received in 1999 and 106 after-the-fact notices received in 2000.

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, 1999—2000

Application type	Target timeframes in days ¹	Number of decisions	1999		Number of decisions	2000		Annual change		
			Number	Within target %		Number	Within target %	Number of decisions	Number	Within target %
Branches	45/60	1,307	1,290	98.7%	1,065	1,046	98.2%	-242	-244	-0.5%
Capital/sub debt	30/45	93	82	88.2%	108	99	91.7%	15	17	3.5%
Change in Bank Control	NA/60	13	13	100.0%	9	9	100.0%	-4	-4	0.0%
Charters ²		70	56	80.0%	56	39	69.6%	-14	-17	-10.4%
Conversions	30/90	17	16	94.1%	23	22	95.7%	6	6	1.5%
Federal branches and agencies	NA/120	0	0	0.0%	0	0	0.0%	0	0	0.0%
Fiduciary powers	30/45	23	23	100.0%	19	18	94.7%	-4	-5	-5.3%
Mergers	45/60	88	85	96.6%	77	73	94.8%	-11	-12	-1.8%
Relocations	45/60	263	255	97.0%	247	243	98.4%	-16	-12	1.4%
Reorganizations	45/60	184	170	92.4%	161	157	97.5%	-23	-13	5.1%
Stock appraisals	NA/90	10	1	10.0%	1	0	0.0%	-9	-1	-10.0%
Subsidiaries	30/60	107	82	76.6%	130	117	90.0%	23	35	13.4%
Total		2,175	2,073	95.3%	1,896	1,823	96.1%	-279	-250	0.8%

Note: Most decisions (94 percent in both 1999 and 2000) 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.

applications it decided. 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 met its targets approximately 96 percent of the time in 1998, 1999, and 2000.

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 implements the OCC's licensing quality assurance program, develops systems and reporting capabilities for the department and maintains 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 activity.

Policy

In 2000, LP&S implemented policies requiring conditions on charter approvals to control supervisory risk in new

national banks. Each newly chartered national bank is required to provide prior notification to, and some cases to obtain prior approval from, the OCC before engaging in a significant deviation from its proposed operating plan during the first three years of operation. Any newly chartered national bank that is sponsored by a parent that is not a bank or financial holding company is required to enter into a binding written agreement with its parent whereby the parent is obligated to provide capital maintenance and liquidity support to the bank.

The chief counsel also issued an open letter to prospective national bank charter applicants about processing national bank charter proposals that will have a narrowly focused business plan. Such plans include *de novo* banks that use the Internet as their primary delivery channel, offer only a small number of products, or target a limited customer base. OCC advised those applicants that review is likely to exceed traditional processing time frames in order to evaluate supervisory risks of such applications. The OCC also completed "The Internet and the National Bank Charter" booklet (January 2001) of the *Comptroller's Corporate Manual*. The Internet booklet discusses the applications, policies, and procedures involved to receive approval for (1) a *de novo* charter using an Internet primary vehicle, (2) a *de novo* community bank charter incorporating an Internet operation, and (3)

an alternative entrant that acquires or converts an existing bank with the purpose to change the business plan to an Internet primary bank. Policy issues and supervisory concerns are discussed to highlight the risks that could apply to all banks using the Internet to perform its business.

Other policy changes reflected revisions to 12 CFR part 5 to incorporate provisions of the Gramm–Leach–Bliley Act. The OCC also issued an advisory letter (AL 2000–4) that established an expedited process for national banks wanting to undergo reverse stock splits, and the “Federal Branches and Agencies” booklet (December 1999) of the *Comptroller’s Corporate Manual*.

LP&S participated with other OCC divisions to provide guidance to field staff about the supervision of *de novo* and newly converted banks. The guidance standardizes supervision of these institutions nationwide starting from the time of the prefilling meeting and continuing through the early years of a new bank’s existence. In part, it requires supervision staff to monitor new bank performance against the operating plan included in the charter application. The division continues to develop or revise guidance that will clarify expectations for field staff involved in licensing activities and identify best practices. LP&S also initiated a broad review of the entire chartering process to incorporate ideas and lessons learned from recent *de novo* charter activity, identify best practices to enhance OCC’s process, and clarify policy issues for improved guidance and consistency.

In 2000, the division redesigned Licensing Web pages on OCC’s Internet site, providing for easier navigation and user-friendly access of licensing information and applications. Also, the division introduced its e-Corp application, electronic submission of branch/relocation applications, which will create efficiencies for OCC and for national bank filers. LP&S worked closely with the FDIC to quickly resolve differences that arose in connection with charter and deposit insurance applications and to continue development of a joint application process. The division also participated in numerous OCC outreach activities to provide information about the OCC corporate processes and obtain first-hand feedback to improve those processes.

Systems

Significant progress was made in 2000 in developing and implementing key aspects of Corporate View/e-Corp (the OCC’s future corporate application processing system to replace current data and application systems). Progress in 2000 included initial testing of an extranet branch and

relocation application for electronic filing and expanding 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 (formed in 2000 by the combination of Washington-Directed Licensing and District/Large Bank Licensing) processes all licensing applications, except for applications involving foreign branches and agencies, which are processed by OCC’s international unit. 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. Also, in 2000, the division established a senior advisory position that focuses on electronic banking issues.

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 2000, 97 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 lower than the prior year’s result, but still represents excellent performance.

The average rating for each of six service categories follows:

Service category	Rating
Timeliness of decision	1.22
Appropriateness of filing location/contact person	1.20
Knowledge of OCC contact	1.18
Professionalism of OCC staff	1.11
Quality of written guidance (new category for 2000)	1.46
Overall rating of service	1.17

These results compare favorably with those for 1999. In 2000, as compared to the prior year, the average rating improved for each category that was rated last year. The category regarding written guidance is a new addition for 2000.

Timeliness of decisions on applications is an important determinant of efficiency in Licensing Operations and is another measure used to monitor performance. Time frame performance overall was excellent, and unchanged from last year, with approximately 96 percent of all licensing applications decided within established time frames. Applications that were not decided within established time frames 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 2000. 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 OCC staff on electronic banking issues, provided information to foreign bank supervisors on chartering and supervision of national banks using electronic delivery channels, and participated in industry conferences and meetings.

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*.

Electronic Banking

Charter interest for new national banks with an electronic banking focus evolved this year from an Internet-only and Internet with kiosk format ("Internet-Primary") to also one that combines brick and mortar with a transactional Web site operation ("bricks-and-clicks"). During 2000, the OCC granted preliminary approval to three Internet-Primary charters. One bank opened in 2000 and the other two are in the organizational phase. The OCC granted preliminary approval to 10 "bricks-and-clicks" charters. During 2000, the OCC expanded permissible electronic banking-related activities. Two precedential operating subsidiary approvals involved Web site hosting and development for government agencies, including an electronic collection system and electronic facility enabling businesses to negotiate and organize among themselves aggregate buying, selling, or financing efforts. In addition, the OCC determined that a national bank, under the finder authority, could obtain commitments in Web linking agreements with third parties to provide preferential pricing for bank customers referred to the Web site.

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 2000, the OCC received adverse comments from the public on seven CRA-covered applications.¹ 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.

¹ Six of the seven protested applications each received one comment; the remaining application received two comments. In addition, a single community organization was responsible for submitting comments on five of the seven applications.

Table 3—List of 2000 decisions presenting Community Reinvestment Act issues

Bank, city, state	Interpretations and Actions date	Document number
Fleet National Bank, Providence, RI	March 2000	CRA Decision No. 103
Far East National Bank, Los Angeles, CA	March 2000	CRA Decision No. 104
Northern National Bank, Nisswa, MN	May 2000	CRA Decision No. 105
Norwest Bank Wisconsin NA, Milwaukee, WI	July 2000	CRA Decision No. 106
Far East National Bank, Los Angeles, CA	September 2000	CRA Decision No. 107

On February 1, 2000, the OCC granted approval for an affiliated merger of certain Fleet Financial Group Inc. bank and thrift subsidiaries, including those banks previously owned by BankBoston Corporation. While the OCC did not receive any direct protest on the application, the OCC investigated the concerns received by the Federal Reserve Board in connection with the application to merge Fleet Financial Group, Inc., and BankBoston Corporation. The OCC's investigation and analysis of the issues raised indicated no basis for denying or conditionally approving the application. The OCC's approval letter addresses the issues.

On February 3, 2000, the OCC granted conditional approval for Far East National Bank, Los Angeles, California, to relocate a branch office. In early 2000, OCC examiners identified weaknesses in the bank's CRA performance. The OCC determined that the imposition of an enforceable condition and a pre-opening requirement were appropriate and consistent with the Community Reinvestment Act and OCC policies thereunder. The OCC subsequently determined that the bank has developed a CRA Plan and had made satisfactory progress in meeting the expectations of that plan. On August 29, 2000, the OCC granted conditional approval for Far East National Bank, Los Angeles, California, to establish a branch in Fremont, California. However, the OCC determined that the imposition of an enforceable condition was appropriate under the Community Reinvestment Act and OCC policies thereunder.

On April 19, 2000, the OCC granted conditional approval for Northern National Bank, Nisswa, Minnesota, to establish a branch in Baxter, Minnesota. In March 1999, the OCC had assigned Northern National Bank a CRA rating of "needs to improve." After reviewing the bank's progress in addressing its CRA weaknesses, the OCC determined that the imposition of an enforceable condition requiring continuing progress was appropriate and consistent with the Community Reinvestment Act and OCC policies thereunder.

On June 23, 2000, the OCC granted approval for Norwest Bank Wisconsin, NA, Milwaukee, Wisconsin, to merge with Norwest Bank La Crosse, La Crosse, Wisconsin, and

Norwest Bank Hudson, NA, Hudson, Wisconsin. A community organization expressed concerns with Norwest's level of lending low- and moderate-income (LMI) and minority borrowers, and within LMI census tracts. In addition, the organization expressed "steering" concerns with a subprime unit of Wells Fargo Home Mortgage, Inc. The OCC's investigation of those concerns disclosed no information that was inconsistent with approval under the Community Reinvestment Act.

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 2000 are reflected in Table 4. As reflected in the table, the OCC received 16 change in bank control notices in 2000, three more than received in 1999. Of the 16 notices received, the OCC acted on 8, of which the OCC did not disapprove 7 and 1 it denied. Of the remaining 8 notices, 3 were withdrawn prior to decision, 2 relating to the same bank became

Table 4—Change in Bank Control Act ¹
1988-2000

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
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.

moot when the bank failed, and 3 are pending decision. Also, in 2000, the OCC did not disapprove a notice that was filed in late 1999.

Community Affairs Department

In 2000, Community Affairs (CA) expanded and restructured its divisions in order to more fully and effectively serve national banks and OCC staff. The unit was reorganized to support the distinct functions of CA—outreach to banks and their community partners, policy development, the administration of Part 24 and managing the development and distribution of publications. In April, the Community Reinvestment and Development specialists joined CA and formed the District Community Affairs division under the management of a new director. The Community Relations division was disbanded and a new position was established, special advisor for Community Relations. The special advisor provides advice to senior policy makers on the activities and priorities of consumer and national community advocacy organizations. Finally, Minority and Urban Affairs assumed responsibility for CA's communications with both internal and external customers. The name of the division changed to Outreach and Information Management to better reflect its scope of responsibilities.

CA staff organized various outreach meetings for the Comptroller on issues such as community development and access to financial services. The department organized community development tours for the Comptroller hosted by the Neighborhood Housing Services of Chicago and the Local Initiatives Support Corporation in Washington, D.C. Both tours provided valuable information about partnership efforts between nonprofit community development corporations and national banks. The department also hosted an annual Interagency Commu-

nity Affairs conference for federal financial regulators, with topics including predatory lending, multifamily housing preservation, market analysis, and financial access.

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 (CD) 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 implemented a revised Part 24 regulation, effective January 19, 2000, which resulted in the significant broadening of activities eligible for self-certification. This regulation is available in the 1999 directory of *National Bank Community Development Investments* as well as on Community Affairs' new Part 24 page on the OCC Web site. In 2000, the OCC approved 134 national bank investments under the Part 24 CD investment authority for a total of \$314 million. These bank investments, together with funding from their community development partners, totaled \$689 million in funding for affordable housing, small business, and redevelopment projects in low- and moderate-income areas during 2000. 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.

CDD staff also focused on increasing services to unbanked populations. The division developed a conceptual framework for a "consortium bank," envisioning an institution chartered as a full-service bank, owned and supported by larger banks in a given community, with a business plan tailored to the specific needs of inner-city communities that are currently underserved by traditional financial institutions. The division also prepared Advisory Letter 2000-01 on financial literacy, provided an on-line resource directory on the same subject, and continued publication of the *Community Developments* newsletter. Division staff participated in internal initiatives and inter-agency efforts related to community development issues. The division provided policy assistance in the preparation of OCC advisory letters addressing abusive lending practices (AL 2000-7), payday lending (AL 2000-10), and title loans (AL 2000-11). CDD also continues to chair the OCC's Native American Working Group.

District Community Affairs Division

The District Community Affairs division maintains responsibility for the Community Affairs officers (CAOs) assigned to each of the OCC's six districts. The CAOs provide technical assistance to appropriate OCC staff and bankers on community development issues such as investment opportunities and best practices. The CAOs also consult with examiners and bankers about barriers and possible solutions to issues in the community development field and work with banks and community groups to encourage local partnership efforts.

During 2000, the division released *Effective Strategies in Community Development Finance* and the *Community Development Resource Guide*. The division participated in the designation of financial institutions as "Banks with a Community Development Focus," discussing the designation with bank organizers as well as the requirements for obtaining it. Also, the division provided training and technical assistance to OCC staff and bankers and engaged in research and interagency informational efforts.

Outreach and Information Management Division

The Outreach and Information Management (O&IM) division is responsible for marketing Community Affairs' (CA) services to internal and external customers by leveraging technology to ensure that the department's message reaches the widest audience in the most efficient and cost-effective manner. Equally as important, O&IM serves as the national outreach liaison between national banks and community and consumer groups. In 2000, the division coordinated outreach meetings with national minority organizations on CRA and community development, coordinated a forum on minority business access to financial

services, and managed the OCC's National Minority Internship Program.

2000 Significant Legal, Licensing, and Community Development Precedents

Branching Activities

- **Loan approval and misdirected payments at loan production office (LPO).** Loan approval and the occasional receipt of misdirected loan payments from customers may take place at an LPO without causing it to become a branch. Interpretive Letter No. 902 (November 16, 2000).
- **LPO/DPO/ATM facilities not subject to state branch restrictions.** National bank LPO/DPO/ATM facilities are not "branches" subject to 12 USC 36 and state law incorporated therein. In isolation or in combination, LPOs (loan production offices), DPOs (deposit production offices), and ATMs (automated teller machines) are not branches and so are not subject to state law restrictions on branching. None of these facilities perform any of the three core functions of banking, i.e., receiving deposits, paying checks, and lending money. *First National Bank of McCook v. Fulkerson*, 98-D-1024 (USDC CO—March 10, 2000).
- **Retention of branches of converted federal savings bank.** Federal savings bank may convert to a national bank, the resulting national bank may retain all the branches of the savings bank in states where the national bank did not have branches, and the national bank may merge into an affiliated national bank and retain all the branches resulting from the previous transaction. Corporate Decision No. 2000-05 (March 28, 2000).

Corporate Governance

- **Capital reduction with voluntary liquidation.** A national bank that has discontinued banking operations may reduce its permanent capital provided that the disbursement of capital is made pursuant to a plan of voluntary liquidation. Conditional Approval No. 410 (August 20, 2000).
- **Election of corporate governance provisions of the Model Business Corporation Act.** A national bank may adopt corporate governance provisions of the Model Business Corporation Act (MBCA) and engage in a share exchange to ensure that its newly formed parent holding company will own 100 percent of the bank. MBCA provision allowing share exchanges are not inconsistent with applicable federal banking statutes or

regulations. A national bank conducting a share exchange under the MBCA must provide adequate dissenters' rights that are substantially similar, although not necessarily identical to those in section 215a. Interpretive Letter No. 891 (April 26, 2000).

- **Election of Virginia corporate governance provisions.** A national bank may elect the corporate governance provisions of Virginia law and complete a share exchange in accordance with those provisions. Virginia state law allowing share exchanges is not inconsistent with applicable federal banking statutes or regulations. A national bank conducting a share exchange must provide adequate dissenters' rights that are substantially similar, although not necessarily identical to those in section 215a. Interpretive Letter No. 879 (November 10, 1999).

Consulting and Financial Advice

- **Human resources services.** National bank's operating subsidiary may provide human resources and related services to small business clients, including: acting as co-employer of customers' employees (employee "leasing"); payroll processing; employee benefits consulting and human resources administrative services; compliance administration and safety and risk management; the sale of certain insurance products to employees through an insurance agency subsidiary; and insurance-related administrative services. Conditional Approval No. 384 (April 25, 2000).
- **"Welfare-to-work" counseling.** National bank's operating subsidiary may acquire a company engaged in providing government "welfare-to-work" counseling. The acquired company counsels welfare-to-work program beneficiaries on work skills and program benefits, connects them with potential employers, and handles payments from the sponsoring government agency to employers and employees participating in the program. Corporate Decision No. 2000-11 (June 24, 2000).

Finder Activities

- **Acting as a finder for government entities.** National banks may provide electronic finder, custodian, record keeping, and financial agent services primarily to government entities. Permissible activities include providing a financial and banking data match program to enable states to match data on delinquent, noncustodial parents; an Internet-based electronic service that provides a catalog of services of state or federal agencies available to the public; electronic service for state governments to process motor vehicle title applications and related payments via the Internet; and the operation of a backup call center for a federal

agency. Conditional Approval No. 361 (March 3, 2000).

Leasing

- **Noncontrolling investment in trust to purchase, own, and lease aircraft.** Noncontrolling investment in a trust established to purchase, own, and lease commercial aircraft is permissible; however, because of safety and soundness concerns, the bank must charge off the investment in its entirety. Interpretive Letter No. 887 (April 30, 2000).

Lending

- **Investment in a firm engaged in check cashing and payday lending.** National bank may make a noncontrolling investment in a firm engaged in check cashing and payday lending activities where the bank would use the firm to educate consumers about traditional banking services, alternatives to payday loans, and the limited proper use of such loans, would cause the firm to provide enhanced disclosures about payday loans, including information about the cost of multiple rollovers, would limit the use of payday loans, such as by imposing annual limits and limits on rollovers, and would assess lower fees for rollover transactions. The firm's check cashing operations also were intended to be used as a vehicle to transition customers into more traditional bank products such as savings accounts. Noncontrolling Investment Notification (March 14, 2000).
- **Lending limit exception for marketable staples.** The lending limit exception for marketable staples secured by warehouse receipts, 12 USC 84(c)(3) and 12 CFR 32.3(b)(1)(iv)(B), does not apply if the borrower registers the warehouse receipts with an independent third party but retains control of the staples. The borrower was the owner of the elevator in which the staples were stored. Interpretive Letter No. 895 (June 22, 2000).
- **Lending limit for loans guaranteed by the Illinois Farm Development Authority.** Loans guaranteed by the Illinois Farm Development Authority (IFDA) qualify for the lending limit exception contained in 12 CFR 32.3(c)(5) because of an Illinois attorney general opinion stating that IFDA loan guarantees are backed by the full faith and credit of the state of Illinois. Interpretive Letter No. 889 (May 15, 2000).
- **Overdraft fees not interest.** National bank's flat fee charges to deposit customers for checks written without sufficient funds on deposit do not constitute "interest" limited by 12 USC 85. The fee is a processing fee, not compensation for an extension of credit. *VideoTrax, Inc. v. NationsBank, N.A.*, 33 F.Supp.2d 1041 (S.D. Fla. 1998), aff'd. 205 F.3d 1358 (11th Cir. 2000), cert. den. 1212 S. Ct. 66 (October 2, 2000).

Other Activities

- **Donation of fundraising item.** National bank may donate an item for a community fundraising raffle without violating the lottery prohibition of 12 USC 25a if the bank was identified as the donor of the item in publicity issued by the raffle sponsors, if the publicity was not displayed on bank premises. Interpretive Letter No. 900 (June 19, 2000).
- **Internal bank financing operations offshore.** National bank may form an operating subsidiary in the Cayman Islands to engage in internal bank financial operations, provided the OCC would have access to all books and records, no activities we conducted offshore, and the subsidiary would be subject to OCC examination, supervision, and regulation. Conditional Approval No. 413 (September 22, 2000).

Fiduciary Activities

- **Investment of employees benefit account assets.** National bank may invest assets of tax-exempt employee benefit accounts held by the bank in any capacity (including agent), in part 9 collective investment funds, provided the fund itself is exempt from federal taxation. Interpretive Letter No. 884 (January 13, 2000).

Insurance and Annuities Activities

Insurance Underwriting and Reinsurance

- **Underwriting credit-related insurance post-GLBA.** National bank's operating subsidiary may continue underwriting credit-related insurance products in connection with loans made by the bank and affiliated and unaffiliated financial institution lenders under the "authorized product" exception of section 302 of the Gramm-Leach-Bliley Act (GLBA). Interpretive Letter No. 886 (March 27, 2000).

Reinsurance

- **Reinsurance of credit life and other insurance post-GLBA.** National bank may establish an operating subsidiary to reinsure credit life, accident, disability, and health insurance in connection with loans made by the bank and its affiliates, because the reinsurance of credit-related insurance products satisfies the "authorized product" exception of section 302 of the Gramm-Leach-Bliley Act. Corporate Decision No. 2000-16 (August 29, 2000).

Title Insurance

- **State parity for title insurance sales through an operating subsidiary.** National bank's operating subsidiary could

sell title insurance in Pennsylvania, without being subject to the place of 5000 requirement, because state law permits title insurance sales without geographic limitations. Conditional Approval No. 371 (March 20, 2000).

- **Title insurance sales through a financial subsidiary.** Financial subsidiary of a national bank may offer title insurance in the state of New Jersey, even though New Jersey law generally prohibits banks from selling title insurance. Corporate Decision No. 2000-14 (August 16, 2000).

Preemption

- **ATM fees.** Local laws in California purporting to bar national banks from "surcharging" ATM (automated teller machine) users who are not bank account holders are preempted by the National Bank Act, which authorizes national banks to provide ATM services and to charge for the services they provide. *Bank of America, N.A., et al. v. City and County of San Francisco, CA, et al.*, 215 F 3d 1132 (9th Cir., March 31, 2000), aff'g CC-99-4817-VRW (N.D. Ca. November 11, 1999).
- **Auction of certificates of deposit over the Internet.** Pennsylvania laws that purport to regulate the auction of certificates of deposit over the Internet, by requiring auctioneers to be licensed by the Pennsylvania Board of Auctioneer Examiners, pay a licensing fee, and keep records of sales of property at auction, are preempted because they conflict with federal law authorizing national banks to conduct the permissible activities of deposit-taking and marketing and OCC regulations authorizing national banks to use the Internet to do so. The state laws at issue also would violate the OCC's exclusive visitatorial powers over national banks. Preemption determination (March 7, 2000). *Federal Register*, 65 Fed. Reg. 15037 (March 20, 2000).

Securities Activities

- **Holding securities to hedge equity derivatives transactions.** Subject to supervisory clearance, national banks may take positions in equity securities solely to hedge bank permissible equity derivative transactions originated by customers for their independent business purposes, subject to certain qualifications and quantitative limits. The bank may not hold the securities for speculative purposes. Interpretive Letter No. 982 (September 8, 2000).
- **Investment advisory activities with limited interest in advised funds.** National bank may acquire a noncontrolling investment in a SEC-registered investment advisory company when the investment advisory company owns limited equity interests in investment funds to

which it provides investment advisory and related services, if the limited interests are necessary for the company to engage in bank-permissible investment advisory activities due to investor demands, industry practices, and competitive factors. Interpretive Letter No. 897 (October 23, 2000).

- **Investment vehicle for bank clients.** National bank's operating subsidiary, a limited liability company (LLC), may serve as a sole general partner of a limited partnership that is used as an investment vehicle for bank clients. Corporate Decision No. 2000-07 (May 10, 2000).
- **On-line securities trading.** National bank may acquire an indirect noncontrolling interest in an entity that will provide on-line securities trading and related services. In general, the bank should indicate that it does not provide, endorse, or guarantee any of the products or services available through the third party Web pages. For links to pages that provide nondeposit investment products, the disclosures also should alert customers to risks associated with these products, for example, by stating that the products are not insured by the FDIC, are not a deposit, and may lose value. Banks also have responsibility for the appropriate placement of disclosures via electronic means on their Web page(s). Interpretive Letter No. 889 (April 24, 2000).
- **Options on futures contracts.** National bank may purchase options on futures contracts on commodities to hedge the credit risk in its agricultural loan portfolio. Interpretive Letter No. 896 (August 21, 2000).
- **Private placement services.** National bank's operating subsidiary may assist customers in the issuance of debt and equity securities by providing private placement services as agent, and financial and transactional advice to customers in structuring, arranging, and executing various financial transactions, as agent, in connection with its private placement activities. While performance-linked compensation, including warrants, may be accepted as the compensation for such services, neither the bank nor the subsidiary may exercise any warrants. Corporate Decision No. 2000-02 (February 25, 2000).

Technology and Electronic Activities

- **Electronic bill payment.** National banks may invest in an Internet electronic payment system as a complement to existing Internet bill presentment services. The system would also permit customers to make payments not linked to a presented bill. Conditional Approval No. 389, (May 19, 2000).

Electronic Commerce

- **Facilitation of electronic commerce among "member" businesses.** National bank operating subsidiary may

support and facilitate electronic commerce by and among a group of "member" businesses by using the Internet to assist member businesses in transacting business with each other; to refer members to third party vendors that make products and services available at preferred rates; to enable members to exchange information with each other concerning possible joint activities; to host or support Web sites for members to facilitate their distribution of products and services; to develop and deploy a Web-based payment system for members; and to deploy systems to track and store financial and transactional information. Incidental to those functions, the Internet site may also provide access to a limited amount of non-financial information that is necessary to attract persons to a virtual small site. Conditional Approval No. 369 (February 25, 2000).

- **Electronic storage.** National bank may provide electronic storage and retrieval for external customers (i.e., nonbanking customers). Interpretive Letter No. 888 (March 14, 2000).
- **Services to Internet merchants.** National bank's operating subsidiary may provide services to merchants that facilitate the sales of goods and services over the Internet. The company will offer a package of Internet services that bundle payments processing with the support necessary for merchants to have their Web sites linked to a "virtual mall" Web site. The company will also offer these services to other financial institutions on a wholesale basis for their respective customers. Corporate Decision No. 2000-08 (June 1, 2000).

Internet Access Service

- **Provision of Internet access to bank customers.** National bank operating subsidiary may provide Internet access to customers in its service area, as an incidental activity to the bank's provision of Internet banking services. Conditional Approval No. 409 (August 10, 2000).

Software Development and Production

- **Provision of Internet-based services to government agencies.** National bank may acquire a noncontrolling interest in a limited liability company that enters into contracts with federal, state, and local government agencies to provide a package of Internet-based services, including development of Web sites, hosting of Web sites, and providing related merchant processing services. Interpretive Letter No. 883 (March 3, 2000).
- **Sale of Web site software and other Web site hosting services.** National bank operating subsidiary may engage in the sale of Web site editing software as part of a bundle of Internet-based Web site hosting services

for bank customers. The bank will also use the operating subsidiary to develop new software products to be used by the bank in conjunction with its transaction processing services and in developing its own Internet-based services. Corporate Decision No. 2000-01 (January 29, 2000).

Investments ²

- **Consolidation of public welfare investments into a community development corporation.** National bank may consolidate its public welfare investment activities in an existing community development corporation (CDC). The CDC would manage its portfolio so that the majority of its investments qualify as public welfare investment under 12 CFR part 24. Thus, the CDC would be primarily engaged in making public welfare investment, and the bank's investments in the CDC would be designed primarily to promote the public welfare, as required by 12 USC 24(Eleventh). Approval Letter (February 14, 2000).
- **Fund to acquire limited partnership interests in Native American affordable housing.** National bank may made an investment in a fund created to acquire limited partnership interests in affordable rental housing properties that are located on, or near, Native American reservations in Arizona, Wisconsin, Minnesota, Montana, North Dakota, South Dakota, and Wyoming. The fund's projects qualify for federal low-income housing tax credits and historic rehabilitation tax credits and primarily target low- and moderate-income persons and families. Each project is sponsored by an Indian Tribe, an affiliated Tribal Housing Association, Indian Housing Authority, Indian Tribally Designated Housing Entity, Indian nonprofit housing corporation, or similar tribal entity. Approval Letter (April 10, 2000).
- **Historic tax credit investment.** National bank may invest in a historic tax credit investment in the Central Vermont Arts Center Limited Partnership. The partnership will finance the renovation of a vacant historic property located in an economic revitalization area in Barre City, Vermont. The general partner and project sponsor is a nonprofit corporation that will also lease space for artists and operate an art gallery and teaching facility. The facility will support the establishment of small businesses by providing artists and artisans with studio space and an opportunity to market their work. The proposal was consistent with 12 CFR part 24 because the project was intended to serve as the cornerstone for renewed small business investment and area revitalization, and the property was located in an area that

² For investments in partnerships, note that subsidiaries of national banks may become general partners, but national banks may not.

the local government had targeted for revitalization. Approval Letter (October 19, 2000).

- **Investment in bank holding company as consideration for sale.** Where a group of financial institutions that jointly owned an electronic funds transfer network was selling the network to a bank holding company, several national bank members of the group may acquire small equity interests in the bank holding company as consideration for their interests in the network. Interpretive Letter No. 890 (May 15, 2000).
- **Stock in life insurance underwriter.** National bank may accept and retain stock in a life insurance underwriter that it received as a result of being a policyholder of the company, which was converting from mutual to stock form ("demutualization"). Interpretive Letter (June 29, 2000).

Enforcement Actions

- **Allegation of misleading accounting for asset sales and purchases.** OCC placed a temporary cease-and-desist order on a bank pursuant to 12 USC 1818(c), relying principally upon the incomplete or inaccurate books provision the statute, but also alleging that the bank had engaged in unsafe or unsound practices that, if continued, were likely to cause significant dissipation of assets or earnings. The OCC alleged that the bank had engaged in certain prohibited transactions by structuring and accounting for certain asset sales and purchases in a misleading fashion. OCC alleged that the bank incurred substantial loss in the process, and failed to maintain correspondence and other records that would allow the examiners to evaluate the transactions through the normal supervisory process. The temporary cease-and-desist order was not challenged by the bank, and the bank ultimately settled the action by signing a stipulated cease-and-desist order. In the matter of Hamilton Bank, N.A., Miami, Florida (OCC-AA-EC-00-03).
- **Use of bank funds for personal benefit of officer.** This bank, with total assets of \$110 million, was principally owned and operated by Chairman of the Board John Grady Melacon. An investigation conducted disclosed that Mr. Melacon had repeatedly caused bank funds to be used for his personal benefit. In March 2000, Mr. Melacon was removed as the bank's chairman and consented to the issuance of orders of prohibition, restitution, and civil money penalties. First National Bank of Gonzales, Gonzales, Louisiana (OCC-EC-00-22).
- **Deficiencies in subprime lending operations causing devaluation of securitized loan pools.** In February 1998, this bank changed the primary focus of its business

lines to subprime mortgage lending, and the securitization of these loans into pools, with the bank retaining a residual ownership interest. During an examination commenced in March 2000, it was determined that the bank had failed to establish performance standards that would permit its subprime lending to be conducted in a safe and sound manner. The asset quality of the subprime mortgage loan pools showed considerable deterioration, resulting in significant unrecognized devaluation of the bank's residual interests. In addition, it was discovered that the bank was using its funds to cover interest and principal shortages in the securitized mortgage loan pools on behalf of an affiliate. On May 31, 2000, the bank consented to a cease-and-desist order requiring recapitalization, limitations on growth, prohibition on the funding of advances for the benefit of affiliates, recognition of the true value of the bank's residual assets, and the adoption of new policies and procedures for subprime lending. Thereafter, the bank executed a formal agreement with the OCC requiring a reduction in residual asset valuation, an increase in the loan loss allowance, and the collection servicing fees due from its parent. In the Matter of Advanta National Bank, Wilmington, Delaware (OCC-EC-00-31).

- **Deficiencies in subprime credit card operations resulting in required self-liquidation and restitution.** In 1998, a CEBA credit card bank began offering credit cards to subprime borrowers in which substantial up-front fees were paid by customers for the privilege of obtaining only minimal credit availability. An examination that began in early 2000 disclosed serious deficiencies in the bank's books and records, suspected illegal transfers of funds to bank affiliates, and the likelihood that the bank would become insolvent. In February 2000, the bank consented to a cease-and-desist order requiring the termination of then-existing contractual relationships with the bank's affiliates, the cessation of further credit card activities, and monthly demands on the bank's parent companies for capital and liquidity support. Following an OCC formal investigation, in June 2000, the bank consented to a second cease-and-desist order requiring the bank's orderly liquidation by year-end 2000. At the same time, the OCC issued consent cease-and-desist orders against the bank's parent companies, requiring these companies to provide the funds necessary to liquidate the bank without any loss or cost to the Bank Insurance Fund. All deposit liabilities were paid off by the bank in October 2000. This is the first case in which the OCC utilized its enforcement authority to require a national bank to self-liquidate, and used its restitution authority to require corporate shareholders to fund a bank's liquidation without any loss or cost to the FDIC insurance fund. In the Matter of United Credit National Bank, Sioux Falls, SD (OCC-EC-00-33, 34, and 35).

- **Required restitution to credit card customers for practices identified by the OCC as unfair or deceptive.** In June 2000, the bank consented to the issuance of a cease-and-desist order that required restitution of at least \$300 million to its credit card customers and correction of numerous credit card practices that the OCC identified as unfair or deceptive in violation of the Federal Trade Commission Act. The OCC believes that the bank failed to adequately disclose to consumers the significant limitations in several credit card products and programs it marketed. The San Francisco district attorney's office and the California attorney general's office entered into a parallel action against the bank's parent company. In the Matter of Providian National Bank (OCC-EC-00-53).
- **Fraudulent and/or questionable charges by telemarketers in merchant processing activities, resulting in chargebacks and undercapitalization.** The bank engaged in the intermediary processing of credit card transactions between third-party vendors and credit card associations. During the bank's exit from these merchant processing activities, several telemarketer-merchants made fraudulent and/or questionable charges on credit card accounts processed by the bank. The bank failed to: (i) retain sufficient staff to properly monitor the bank's merchant processing activities; (ii) implement adequate controls to exclude contractually prohibited merchants (telemarketers) from being placed on the approved list of merchants; and (iii) timely identify fraudulent credit card charges. As a result, the bank became responsible for the chargebacks, resulting in millions of dollars of losses that rendered the bank critically undercapitalized. In December 2000, the OCC served an immediately effective prompt corrective action directive on the bank pursuant to 12 USC 1831o requiring the infusion of additional capital, prohibiting the bank from engaging in further merchant processing activities, and directing the immediate termination of the bank's contracts with credit card merchants. This case is of significance because it is one of the few times the OCC has used the authority under prompt corrective action to require the immediate termination of a bank's activities, including contractual obligations owed to third parties. In the Matter of National State Bank of Metropolis, Illinois (OCC-EC-00-54).

Regulations

- **Part 5: Financial Subsidiaries and Operating Subsidiaries.** This rule implements Section 121 of the Gramm-Leach-Bliley Act, which authorizes national banks to conduct expanded financial activities through financial subsidiaries. Under Section 121 and the final rule, a

financial subsidiary may engage in specified activities that are financial in nature and in activities that are incidental to financial activities if the bank and the subsidiary meeting certain requirements and comply with prescribed safeguards. National banks also may continue to engage through operating subsidiaries in activities that are part of, or incidental to, the business of banking. The final rule made conforming changes and streamlined procedures for banks that engage in activities through operating subsidiaries. Finally, the rule made corresponding changes to Part 5 to streamline procedures for banks making certain types of noncontrolling investments. The final rule was published in the *Federal Register* on March 10, 2000 and took effect on March 11, 2000. The rule appears at 65 *Fed. Reg.* 12905.

- **Part 40: Privacy of Consumer Financial Information.** This rulemaking added a new regulation that implements the consumer privacy provisions set out in Title V of the Gramm–Leach–Bliley Act. Under the regulation and statute, a financial institution may not share nonpublic personal information with nonaffiliated third parties unless the institution first informs its consumers that it intends to share this information and provides the consumer with an opportunity to opt out of the sharing. A financial institution also must provide its customers, no later than when the customer relations is established and annually thereafter, with a copy of its privacy notice. The OCC and other federal banking agencies jointly published this final rule in the *Federal Register* on June 1, 2000. The rule appears at 65 *Fed. Reg.* 35162.
- **Part 14: Consumer Protections for Depository Institution Sales of Insurance.** The final rule was issued by the OCC, together with the Federal Reserve Board, the FDIC, and the Office of Thrift Supervision, pursuant to Section 305 of the Gramm–Leach–Bliley Act. Section 305 requires the agencies to establish consumer protections that apply when depository institutions sell insurance. The rule applies to retail sales practices, solicitations, advertising, or offers of insurance products by a depository institution or by any person engaged in those activities at an office of, or on behalf of, the institution. The rule includes, for example: provisions prohibiting sales practices that would lead a consumer to believe that an extension of credit is conditioned upon tying arrangements prohibited by Section 106 of the Bank Holding Company Act Amendments of 1970; provisions requiring that appropriate disclosures be given; and provisions requiring, to the extent practicable, the physical separation of banking and insurance activities. The final rule was published in the *Federal Register* on December 4, 2000. It appears at 65 *Fed. Reg.* 75822.
- **Part 8: Assessment of Fees; National Banks; District of Columbia Banks.** This regulation amends the formula that the OCC uses to assess independent trust banks. A trust bank is considered independent for purposes of this regulation if it specializes in trust activities and is not affiliated with a full-service national bank. Under the revised rate structure, all independent trust banks will be assessed based on balance-sheet assets plus a minimum fee as provided the OCC in the annual Notice of Comptroller of the Currency Fees (Notice of Fees). Independent trust banks with assets under management in excess of \$1 billion would pay an additional amount based on a declining marginal rate, which also will be provided in the Notice of Fees. The OCC published this final rule in the *Federal Register* on December 5, 2000. The rule appears at 65 *Fed. Reg.* 75859.
- **Part 30: Interagency Guidelines Establishing Standards for Safeguarding Customer Information and Rescission of Year 2000 Standards for Safety and Soundness.** This rulemaking implements Section 501(b) of the Gramm–Leach–Bliley Act. Section 501(b) requires the federal banking agencies, among others, to establish appropriate standards for the financial institutions subject to their respective jurisdictions relating to administrative, technical, and physical safeguards for customer records. These standards are intended to ensure the security and confidentiality of customer records; protect against anticipated threats or hazards to the security or integrity of such records; and protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to a customer. The OCC and other federal banking agencies jointly published this final rule in the *Federal Register* on February 1, 2001. The rule appears at 66 *Fed. Reg.* 8816.
- **Part 35: CRA Sunshine.** This final rule implements Section 711 of the Gramm–Leach–Bliley Act, which requires parties to certain agreements related to the Community Reinvestment Act of 1977 (CRA) to disclose those agreements and report on them. The rule identifies the types of written agreements subject to the statutory requirements primarily by defining key statutory terms. For example, the rule indicates when an agreement is “in fulfillment of the CRA” and when a non-government party has engaged in a “CRA contact” with a banking organization—two key conditions for determining whether the agreement is covered by the statute. The rule also describes how the parties must make disclosure of a covered agreement to the public and to the appropriate regulators and explains how the parties must comply with the annual reporting requirement. The OCC and the other federal banking agencies jointly published this final rule in the *Federal Register* on January 10, 2001. It appears at 66 *Fed. Reg.* 2052.

Administration and Chief Financial Officer Department

Equal Employment Programs Division

The Equal Employment Programs (EEP) division is responsible for ensuring that every employee of the Office of the Comptroller of the Currency (OCC) works in an environment free of inappropriate exclusionary practices without regard to race, color, national origin, sex, religion, age, sexual orientation, or disability. The EEP division is committed to honoring these principles and assuring that the OCC complies with federal policy to provide equal opportunity for all persons, prohibit unlawful discrimination and retaliation, and maintain a continuing affirmative employment program.

EEP accomplished many of its program objectives and successfully carried out its responsibilities in each major EEO program area during a period of severe staff shortages. In calendar year 2000, EEP—

- Completed workforce analyses for the Comptroller and Bank Supervision Operations, e.g., analyses for BSOP's Examiner Development Initiative and Certification process, OCC Affirmative Employment Program accomplishments workforce analyses, Southwestern District Workforce analysis, and Opportunities Board analysis;
- Issued EEO and Diversity Award Guidelines and convened a panel to review nominations and recommend an award recipient;
- Complied with Treasury's directive to implement the President's executive order on limited English proficiency (LEP) requiring all federal agency's to develop an agency plan which provides LEP persons with access to services;
- Completed quarterly EEO complaint analyses and provided summaries to the senior deputy comptroller for BSOP, BSOP deputy comptrollers, and the chief of staff;
- Complied with EEOC's new management directive and provided training to OCC EEO counselors;
- Developed alternative dispute resolution procedures for OCC's mediation program and worked with Delany, Siegal and Zorn to develop mediation training for OCC managers and employees;
- Continued to provide guidance to the MYAEPP (Multi-Year Affirmative Employment Program Plan) project team and worked with the MYAEPP contractor;

- Issued guidance to OCC Washington offices and districts on the FY 2000 Affirmative Employment Program accomplishment report and FY 2001 plan update;
- Provided training to new special emphasis program managers (SEPM) and provided guidance OCC's collateral-duty SEPMs;
- Assisted the Office of Equal Opportunity Program (OEOP), Department of the Treasury, in planning, developing, and presenting the FY 2000 EEO and Diversity Training Conference and also assisted Treasury OEOP staff in moderating workshops developed for senior executive service members (Treasury was the federal agency sponsor for Hispanic Summit II);

In addition, EEP met its oversight responsibilities in the EEO complaint process by effectively and efficiently serving its customers.

Administration Department

Acquisitions Services Division

In 2000, the Acquisitions Services division took significant steps in restructuring its workforce and implementing corrective actions resulting from the 1999 Treasury audit. An assistant director for Procurement Operations with significant government procurement experience was hired. The buyout authority was used to create several vacancies that were filled with seasoned professionals. A weekly training program was instituted to supplement the formal training required under the Office of Federal Procurement Policy (OFPP) Act. As a result of these and other corrective actions taken by the division, the Treasury Office of Procurement relaxed its oversight of the division and significantly increased its review threshold.

The division also initiated the competitive acquisition of an acquisition management/procurement system in conjunction with a new financial management system. This acquisition management system will be integrated with the financial management system in the implementation of a 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.

Administrative Services Division

The Administrative Services division (ASD) is responsible for providing various administrative services essential to effective OCC operations, including real estate management (leasing/design and construction), facilities management, security, information and library services, supply

and warehousing, conference planning, mail and messenger services, and records and forms management. ASD also coordinates the OCC's program of partnerships with high school academies of finance across the country. OCC partners with high school finance academies, and school-district wide finance academy boards in 27 locations nationwide.

During 2000, ASD achieved all three of its performance goals in support of OCC's strategic objectives. Performance goals included: providing flexible, high quality and responsive customer service within available resources; promoting stewardship of OCC's resources; enhancing depth, quality and diversity of ASD leadership and staff.

Despite limited staff and resources, ASD continued to provide flexible, high quality, and responsive customer service. As a result, ASD met or exceeded all but two of 19 customer service standards (90 percent) and received above satisfactory ratings from its customers. Emphasis on responsive customer service continued, as the library answered over 6,300 reference requests; the copy center responded to over 4,600 copy requests; the Conference Office responded to over 1,900 conference room requests; and Records Management staff responded to over 3,850 requests for records including, complex searches of OCC records in response to lawsuits.

Providing quality customer service within available resources spurred ASD to initiate the following cost-cutting activities: reducing copies of the *Daily Digest*; eliminating unnecessary mail runs; reducing catering services; eliminating subscription services; reducing the number of copy machines; and replacing old, high maintenance analog copiers at headquarters with more efficient digital copier/printers.

ASD achieved all four of its performance measures to promote stewardship of OCC's resources by conducting vulnerability assessment of all ASD functions; documenting five critical processes with written policies and procedures; developing strategic space plan; and initiating electronic records-keeping project. As part of this effort, ASD established a team to assess potential risk inherent in its functions; strengthen management accountability; and ensure that ASD functions are protected from fraud, waste, abuse, and mismanagement of resources. The vulnerability assessment team found that with the exception of OCC's non-compliance with federal Occupational Safety and Health Act (OSHA) requirements and delegations of authority, that ASD was in compliance with regulatory policies and procedures. Other results of the study included documenting critical processes, establishing better internal control procedures, and promoting teamwork across organizational units.

The Real Estate Design Services (REDS) staff continued to resolve space problems and provide office space planning and design services for Washington and the districts. During 2000, REDS completed the planning and design for new office space for Large Banks staff in Charlotte; conducted space planning studies and requirements for district offices where leases expire in two years; provided relocation and renovation services to four field offices; upgraded computer rooms to accommodate additional IT systems and requirements in headquarters and the data center; and upgraded security systems in two field offices.

Another significant undertaking of ASD during 2000 was the Long-Term Real Estate Strategy Project. The initial goal of the project was to assess the existing real estate portfolio in order to develop a strategic real estate planning process and policy. The second goal was to define a five-year tactical real estate and facility plan that will quickly and effectively reposition the real estate portfolio to minimize costs, maximize flexibility, meet program goals, and support the work and work-life of employees. An Oversight Committee was established to ensure that the resulting strategy aligns with the OCC's mission statement and program goals.

The division continued to promote educational outreach in Washington and the districts. Over 65 volunteers from the Washington office took part in OCC's Partnership-in-Education Program with a Washington, D.C., elementary school, receiving the OCC's first diversity award for their efforts.

Other significant accomplishments for the division in 2000 include the following:

- Established the OCC vital records program;
- Initiated a project to re-engineer the National Filing System;
- Assisted in the development of policies and procedures for managing electronic bank examination working papers;
- Conducted over 437 personnel investigations;
- Processed over 17,650 items of express mail; and
- Implemented safeguards and security enhancements to operating procedures and automated systems used by the OCC to reimburse public transportation subsidy.

Financial Management Division

The mission of Financial Management (FM) is to provide leadership to promote the efficient management of OCC's resources and assets, quality financial services to custom-

ers based on their needs, and complete and useful financial information on OCC operations that fully supports financial and performance reporting.

During 2000 Financial Management accomplished the following:

- Implemented a new OCC strategic plan and planning process for the 2000–2005 cycle. OCC now has a strategic plan with specific objectives that are tied to the allocation of resources.
- Implemented generally accepted accounting procedures (GAAP) for federal agencies and gained approval of senior management to adopt a federal fiscal year effective October 1, 2001.
- Implemented effective administrative funds control throughout OCC, including regular monthly reconciliations by all OCC program area offices.
- Presented accurate, timely, and reliable regularly scheduled monthly financial briefings to the Executive Committee.
- Established the OCC Program Analysis Group and introduced a new program-view structure as part of OCC's 2001 budget formulation process. The Program Analysis Group is a cross-functional working group whose primary task is to analyze the cost-effectiveness of OCC operations and the accompanying allocation of resources.
- Supported the efforts of a cross-functional team to develop an integrated management accountability program throughout OCC. The team has developed and implemented an OCC-wide policy and procedures manual. The team is now developing accountability training for all OCC managers, and will host a rollout of the new program at an OCC-wide management meeting in January 2001.
- Fully participated in the procurement of a Joint Financial Management Improvement Program compliant federal financial management system. The procurement will be finalized by the end of December 2000. OCC will implement the new financial management system in time to begin live operations on October 1, 2001.

Human Resources Division

The mission of the Human Resources (HR) division is to deliver innovative, competitively based products and services to meet the changing needs of a diverse workforce. The division delivers services in the areas of employment, compensation and benefits, performance management, employee relations, and personnel systems and analysis. During 2000, HR focused attention on modernizing systems, improving work processes, and designing and

implementing new HR programs to support OCC's 2000 strategic objectives. In addition, the division reorganized in order to bring staff ratios more in line with industry benchmarks and improve customer service.

Significant undertakings and accomplishments include:

- Human Resources 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. HR staff participated in various aspects of designing, developing, testing, and implementing the new system. In 2001, HR plans to implement an internal recruitment feature that will significantly shorten the vacancy announcement process through Internet-based applications.
- HR staff members planned and managed the OCC's 2000 Buyout Program. This buyout/early retirement program, offered to staff assigned to non-direct bank supervision positions, was designed to help OCC meet staffing targets and otherwise adjust department staffing consistent with 2000 strategic objectives. Ninety-five employees received buyouts.
- HR implemented the OCC's 401k program. Staff were involved in formulating and communicating 401k program policies and procedures and in managing and overseeing the enrollment process. Over 80 percent of OCC's workforce has enrolled in the program.
- Extensive resources were devoted to working on OCC's new compensation and performance management programs. HR staff worked on drafting, refining, and communicating compensation and performance management policies. In addition, staff were heavily involved in planning implementation of the new programs, which are effective in early 2001.
- Work continued on rebuilding our infrastructure and strengthening quality assurance by building up our database of HR guidance and monitoring compliance with established procedures.
- As part of the plan to restructure OCC's administrative management functions, changes were made that will strengthen certain aspects of HR functions and improve both service and accountability. These changes, effective January 14, 2001, include:
 - Consolidation of the affirmative employment, special emphasis, and diversity programs into a single unit reporting to the new deputy comptroller for Workforce Effectiveness to ensure that affirmative employment and diversity have the resources and mandate needed to deliver on OCC's commitment to recruit and develop a high quality, diverse workforce.

- Establishment of a customer service unit responsible for developing and implementing customer service strategies, standards, measures, and improvements, and expeditiously resolving customer complaints.
- Resources devoted to quality assurance and workforce/program analysis to improve the integrity of data and programs.

Management Improvement Division

The Management Improvement division serves as the OCC's liaison with the U.S. General Accounting Office (GAO) and the Department of the Treasury's Office of the Inspector General (OIG). Management Improvement facilitates audits, evaluations, and investigations and assures that appropriate corrective action is taken by the OCC. In addition, the division coordinates OCC reporting for compliance with government-wide program initiatives such as the federal commercial activities inventory. Management Improvement also handles requests from the inspectors general of other agencies who are interested in comparative information or opinions from the OCC related to programs that they are auditing.

During 2000, the OIG and the GAO conducted reviews in conjunction with the issue areas they had identified. The areas of interest include money laundering, electronic banking, and implementation of the requirements of the Government Performance and Results Act and the Gramm-Leach-Bliley financial modernization legislation. Finally, as required by the Federal Deposit Insurance Act, the OIG conducted a material loss review of the failure of The Keystone National Bank. The OCC has made substantial progress in implementing the recommendations emanating from that review.

Organizational Effectiveness Division

The Organizational Effectiveness division works consistently with all levels of OCC management to create a positive work environment that fosters teamwork, collaboration, and diversity through a broad array of processes. The division provides training, consulting, and individual coaching in a variety of areas including, but not limited to, diversity management, business process im-

provement, team effectiveness, team building, executive coaching, change management, bench marking, and best-practice studies.

During 2000, Organizational Effectiveness (OE) refocused its energies on assisting OCC in the design and implementation of several major initiatives. This included management accountability, compensation and performance management, strategic planning, leadership training, performance excellence criteria, and BSOP employee attitude surveys and follow-up.

The Management Accountability Program (MAP) is a major initiative of the OCC undertaken to comply with Federal Managers' Financial Integrity Act. OE provided three of the four members of MAP and the program is on schedule to roll out at the January OCC's managers' conference.

In conjunction with the compensation study, OE was a prime mover in the group established to review OCC's current performance management practices. Several members participated in work teams and one OE consultant is responsible for leading the design and implementation of the new performance management process.

Building on the leadership competencies identified in 1998, OE worked with Continuing Education to develop and pilot a leadership training course. The pilot received very favorable ratings and has been included in 2001 training plans. The division also continued to expand OCC's leadership development efforts by providing executive coaching for OCC management.

OE took a leadership role in teaming with BSOP to incorporate the President Quality Award criteria into OCC culture. The initiative, called performance excellence criteria, was performed in five BSOP units. The process was well received by management and the results are expected to improve OCC planning and execution in the future.

To promote movement towards a balanced scorecard of measures, OE worked with bank supervision management on the creation of a semi-annual employee survey and an analysis of the results. The unit also partnered with Continuing Education in the establishment of action learning teams to address issues raised by the survey.

Bank Supervision Operations Department

The primary role of Bank Supervision Operations is direct supervision of national banks, federal branches and agencies, national trust companies, bank data processing servicers and bank data software vendors. During 2000 the OCC conducted 1,659 examination focused on the overall safety and soundness of national banks, federal branches and agencies. The OCC also conducted 762 compliance examinations, 144 Community Reinvestment Act examinations, 281 trust examinations and 839 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 issuance.

Community Bank Activities Division

The Community Bank Activities division was created in June 1999 in recognition of the fact that the vast majority of the banks the OCC regulates are community banks. The Community Bank Activities division has the following responsibilities: 1) coordinate efforts to relieve regulatory burden; 2) identify community bank issues and help propose courses of action for the agency; 3) assure that district and field offices are receiving the support they need in carrying out the OCC's community bank program; 4) identify additional services that nationally chartered community banks find useful and help to develop those services.

The Community Bank Activities division has been involved in several key initiatives targeted at community banks. In recent steps to reduce regulatory burden, the OCC codified a number of interpretive letters to make it easier for community banks to satisfy certain corporate requirements. In July 2000, the OCC published a Notice of Proposed Rulemaking soliciting comments on a pilot program that would create two new exceptions to the lending limit regulation for 1-4 family residential real estate loans and loans to small businesses. In addition, the proposal modifies the exemption for loans to or secured by state or local government obligations. This proposal is intended to provide some lending limit relief to community banks. Also, the OCC is joining the other federal banking agencies in issuing an interagency advance notice of proposed rulemaking addressing the potential creation of a bifurcated regulatory capital framework. Under a bifurcated framework, banks deemed non-complex would be subject to simplified capital requirements and reduced regulatory burden while banks not qualifying for this designation

would continue to be subject to risk-based capital standards based on the international Basel Accord.

The OCC conducted three major outreach meetings in Dallas, Atlanta, and Chicago during 2000. These meetings are typically designed for large groups of community bank CEOs to address community bank supervision issues and OCC initiatives. In addition, outreach activities conducted by OCC districts included not only forums and seminars for bankers and bank directors, but one-on-one meetings, as well. Discussion topics included credit underwriting and administration, interest rate risk management, liquidity planning, general economic conditions, compliance and fraud detection, current legal issues, internal controls, and capital markets.

The OCC has been very active in participating in conventions held by the national trade associations. During 2000 the OCC sponsored a booth at the annual conventions of the American Bankers Association and the Independent Community Bankers Association with technology as the theme.

The OCC is always looking for ways to improve the services we provide to the national banking community. Advances in information technology have enabled us to develop the National Banknet, a simple and user-friendly Internet-based system that gives bankers access to accurate and timely data on a secure platform. Comparative Analysis Reporting (CAR), the first National Banknet offering, allows community banks to compare their financial performance with up to six of their peers. A bank can also download data to a spreadsheet and create reports tailored to the interests of the bank's board. Significant enhancements have been made to the Web site since its debut, offering a variety of new products and services. Included are four major areas: banker resources, communications, applications and reports, and bank analysis tools.

The OCC conducted a telephone seminar on November 1, 2000. Titled "Issues in Community Bank Audit and Internal Controls," the seminar enabled community banks to gain insight into OCC policies on audit and internal controls; review the key principles of effective audit and internal control programs; learn how examiners assess audit and internal control programs; and understand the resources available to monitor and manage their programs.

Supervision Support Department

The primary role of the Supervision Support department is to support other Bank Supervision Operations divisions, including field examiners. The Supervision Support department includes four distinct divisions: Special Projects

and Programs, Quality Assurance, Special Supervision/Fraud, and Supervisory Data. The Supervision Support department coordinates the OCC's Shared National Credit Program, administers the Uniform Commission Examination, supervises troubled banks, oversees a quality assurance program within Bank Supervision Operations units and produces information about banks supervised by the OCC and information about the OCC's internal processes.

Special Projects and Programs Division

This division administers the Shared National Credit, International Examination, and Uniform Commission Examination programs. The Shared National Credit Program is an interagency program that reviews the largest syndicated loans in the banking system. During 2000, approximately 4,900 credit facilities totaling \$847 billion of credits extended by the national banking system were reviewed. The unit is responsible for the scheduling and coordination of the approximately 400 national bank examiners utilized in the process. The program has proven over time to be an efficient and effective approach to identifying credit risk within the syndicated loan market. The International Examination Program is an administrative program that provides support to examiners performing overseas examinations. The program provided support to approximately 100 examiners participating in 25 overseas examinations conducted during 2000. The Uniform Commission Examination program administers the testing process for determining examiners' readiness to receive the designation of "national bank examiner." Approximately 80 examiners were tested in 2000.

In addition to the programs mentioned above, the division conducts project activities requested by the senior deputy comptroller for Bank Supervision Operations. During 2000, the unit continued to provide support to the Comptroller's "Community Bank Activities" initiative and other initiatives focused primarily on improving OCC outreach efforts to community bankers. The unit also provided leadership and technical support to the development of a project developing a new Large Bank Information System. Finally, the unit assisted in the implementation of new reporting and tracking systems to improve Bank Supervision Operation's budget monitoring process.

Quality Assurance Division

The Quality Assurance (QA) division is responsible for helping all bank supervision units assure themselves that the objectives of the bank supervision process are being achieved. The division coordinates staffing of QA reviews and monitors these reviews to ensure that they follow national QA program guidelines.

The QA division administers comprehensive pre-delivery and post-delivery quality assurance programs for both the large bank and the mid-size/community bank lines of business. The QA programs cover safety and soundness as well as compliance, asset management, and BIS supervision activities. All QA program activities culminate in an annual certification by all district and large bank deputy comptrollers that banks in their district or large bank portfolios are being effectively supervised and that their bank supervision processes conform with OCC policy. These annual certifications also highlight innovative bank supervisory practices identified through QA activities as well as any systemic concerns observed within their units.

In addition, the QA division consolidates district and large bank findings into an annual report that highlights best practices and problematic quality assurance trends, which may be common to several of the certifying units. The QA division works with managers throughout the agency to develop mutually acceptable resolutions to the root causes of these issues. The division subsequently monitors corrective action commitments that were put in place to deal with issues identified in the annual certifications.

Special Supervision/Fraud Division

The Special Supervision/Fraud division consists of problem bank and fraud specialists. 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 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 moni-

tors 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.

Supervisory Data Division

The Supervisory Data 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 periodically producing and distributing various 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.

During 2000 Supervisory Data continued to play a major role in advancing the agency's Web-based products and capabilities. The division developed and deployed the Internet Banking Questionnaire and is responsible for all reporting of its results. The National MIS (Management Information System) application was fine-tuned and was delivered via a Web-based format on a quarterly basis. An equally useful tool, the National Bank Rank Ordering Report, also was refined and Web-enabled allowing users to filter and sort the report dynamically.

Through the division's financial analysts, located in each of OCC's six district offices, supervision and operational information for the district-supervised banks is provided on a regular basis. This year each district analyst was instrumental in developing and populating the division's Matters Requiring Board Attention database. This database provides useful supervisory early warning information.

Large Bank Supervision Department

The Large Bank Supervision department supervises all national bank subsidiaries of the following 24 companies:

ABN AMRO North America; Bank of America Corporation; Bank One Corporation; BankNorth Group, Inc.; Barclays Bank Limited; Chase Manhattan Corporation; Citigroup, Inc.; First Tennessee National Corporation; First Union Corporation; Firststar Corporation; FleetBoston Financial Corporation; Huntington Bancshares, Inc.; KeyCorp; MBNA Corporation; Mellon Financial Corporation; National City Corporation; National Commerce Bancorporation; 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, 2000, these 24 holding companies held assets of \$3.7 trillion. Under these companies are 132 national banks (including 26 national trust charters) with total assets of \$2.8 trillion. These banks represent 82 percent of the total assets of the national banking system, but only 7 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 2000 included supervisory initiatives in credit underwriting, transaction risk, large bank Community Reinvestment Act, anti-money laundering, and audit/internal controls.

Compliance Operations Department

The Compliance Operations department implements the OCC's compliance policies, providing expert examination support and advice to the districts and large banks as it relates to the continuous supervision of compliance risks at national banks. A deputy comptroller heads Compli-

ance Operations and all compliance specialists in the districts and in large banks report directly to the department. Front-line managers consist of six district assistant deputy comptrollers (ADCs) and four large bank ADCs.

Several important initiatives were completed during 2000. Compliance Operations continued its efforts to fully integrate compliance into the OCC's ongoing supervision activities at national banks. As part of this integration, risk-based compliance initiatives were implemented across the national bank population. Changes were made to the OCC's fair lending examination process so that the agency could continue to enhance fair access to the financial system. Changes to CRA examination cycles prompted by the Gramm–Leach–Bliley Act were also implemented. Compliance Operations also 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. During 2000 all OCC compliance specialists received updated formalized training on BSA/anti-money-laundering risks. Compliance Operations fully implemented the OCC's Large Bank CRA Examiner Guidance developed in an effort to gain efficiencies and ensure consistency when conducting large bank CRA examinations. Formal training on the Guidance was also developed and delivered to all OCC compliance specialists during 2000. In addition, an abbreviated version of the formal training was developed and is in the process of being delivered to non-compliance specialists at the OCC that are responsible for performing large bank CRA examinations. Compliance Operations is also in the initial stages of development of a process to better utilize consumer complaint data compiled by the OCC's Customer Assistance Group to identify national banks as well as specific laws and regulations that comprise the highest degree of compliance risk to the national bank system. Finally, Compliance Operations is working closely with other OCC divisions to ensure the timely and appropriate supervision of newly enacted privacy regulations.

Continuing Education and Resource Alternatives Department

The Continuing Education and Resource Alternatives 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 three teams: Design/Development, Customer Services, and Support and Delivery.

The Design/Development team is responsible for the development and maintenance of technical (examiner) and management courses. The team is comprised of technical, management, MIS designers, and course administrators. This group uses a variety of delivery methods, including computer-based training (CBT) on the Intranet, interactive compact disks, and traditional classroom training. Design/Development works closely with other OCC departments to develop internal courses. When practical, Design/Development also uses off-the-shelf, vendor-based products to meet specific training needs.

The Customer Services 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 Services 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.

The Support and Delivery team manages the administrative functions related to the delivery of OCC internal training, Federal Financial Institutions Examination Council courses, and registration through the external training program. This team works together with the other Continuing Education teams in assessing training needs and determining how to integrate technology in the design and delivery of training. Support and Delivery also maintains 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 Resource Alternatives unit manages three sources of temporary resources—the Resource Group, the National Bank Examinations Contracting Program, and the Opportunities Board. The Resource Group is a pool of experienced personnel who serve as full-time internal consultants. These individuals are available to staff special projects and meet other short-term staffing needs throughout the agency. The National Bank Examinations Contracting Program arranges for qualified contractors to fill short-term examination staffing needs. 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.

Accomplishments for 2000 include the introduction of a banker education program; increased use of technology

in the delivery of training to OCC employees, including acquisition of an extensive on-line technology training library, and expansion of the Career Development Initiative, a comprehensive career management program for support staff.

Bank Supervision Policy Department

As the head of the Bank Supervision Policy department, the senior deputy comptroller for Bank Supervision Policy 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 department worked closely with other OCC departments, supervisory authorities, and government agencies to coordinate supervisory and monitoring efforts associated with the "century date change." The senior deputy comptroller for Bank Supervision Policy is responsible for coordinating OCC participation in Federal Financial Institutions Examination Council (FFIEC) activities and its task forces.

Bank Technology Division

The mission of the Bank Technology division 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, and facilitating efforts to integrate information technology-related risks in OCC supervision.

As part of efforts to assess information technology-related risks to the national banking system, members of the Bank Technology division advise senior OCC management and field examiners on information technology-related risks. In addition, Bank Technology monitors industry developments by participating in industry-sponsored events.

Bank Technology develops supervision policy guidance on information technology-related risks. As part of this effort, Bank Technology focuses on bank technology risks, including Internet banking, technology outsourcing, information security, privacy, authentication, aggregation, Web-linking, and wireless access devices. The division also works closely with other federal banking agencies to update industry guidance.

Bank Technology facilitates efforts to integrate technology-related risk evaluation in OCC supervision by supporting efforts to integrate technology risks in OCC risk-based supervision through the Technology Integration Project. A major effort of Bank Technology over the next two years is a reinvention of the supervision of technology in the na-

tional banking system. The goals of this project are to ensure that examiners and bankers understand technology risks, that technology risks are fully integrated into the OCC supervision by risk process, and that examiners have the tools and knowledge to effectively assess the quantity of technology risk and quality of risk management in the institutions the OCC supervises. In addition, Bank Technology develops training programs on Internet banking and information technology-related risks for field examiners. This includes in-depth training on specific technologies employed in the national banking system.

The Bank Technology division coordinates efforts of several internal committees involved in issuing guidance and assessing risks of new technology-enabled products and services. These include chairing the Internet Banking Working Group and reviewing technology-related risks associated with corporate applications from national banks or organizers seeking a national bank charter. Members of the Bank Technology unit 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).

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 and the Treasury and Market Risk (T&MR) division.

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 (RE) 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 2000 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 risks, and liquidity risks. The NRC also made recommendations as to 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 assisted in the creation and circulation of 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. A major initiative of 2000 was the creation of a "market spillover" intranet site, which was designed to help examiners understand and identify the indirect impact of global economies on bank customers and bank portfolios.

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 risk levels. There are five sets of tools available to aid in this analysis:

1. Benchmarks have been established for 15 standard quantitative ratios calculated from call report data. The analysis captures relevant financial and economic risk factors in a concise manner by focusing on three critical risk areas with a limited number of

ratios. Evaluating bank financial positions relative to the benchmarks facilitates early warning analysis by highlighting banks that may need additional supervisory analysis or attention due to potentially high credit, interest rate, and/or liquidity risk positions. Two of the 15 measures currently measure a rate of change. We are creating rate of change measures for the other 13 measures, too, and plan to implement them early in 2001.

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. The 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.

External models include links to KMV Corporation 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.

3. 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 SIC (standard industrial classification) code as of its last examination, or alternatively, to produce a list of banks with concentrations in a selected SIC code. A recent addition is the commercial real estate intranet site, which contains analysis, data, and forecasts on national and local commercial real estate markets and analyses on real estate investment trusts. Another recently added tool is market spillover, which will enable 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.

4. 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.

Recognizing that a different Canary system was needed for large banks, we embarked on the process of creating "Large Bank Canary" in the second quarter of 2000 with the assistance of several large bank teams. Its components will be similar to "Community Bank Canary."

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 several studies conducted by the President's Working Group on Financial Markets.

Treasury and Market Risk Division

The Treasury and Market Risk (T&MR) division's primary responsibility is the determination of policy direction with respect to capital markets activities. This includes the OCC's supervisory efforts regarding asset/liability management, trading and dealing activities, securitization, mortgage banking, liquidity, derivatives, and emerging market products. The T&MR 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. T&MR staff participate in mission-critical examinations and represent the OCC at numerous internal and external conferences, speaking about timely regulatory issues such as interest rate risk management, liquidity and funding risk management, securitization, and trading risk management.

Each quarter, T&MR prepares and publicly distributes the Derivatives Fact Sheet, a comprehensive package of bank derivatives data and information. T&MR also maintains internal reporting systems designed to monitor liquidity risk management in large banks. In addition, staff regularly monitor financial markets, with particular focus on liquidity and interest rate risk considerations, and distribute periodic updates to OCC field examiners. Staff also provide meaningful support to the Canary development effort.

T&MR staff provide ongoing field support by participating in interest rate risk and liquidity examinations as well as

expert consultation on specific examination or supervision issues. Field assistance generally is provided for institutions with significant risk issues and at the request of the appropriate field office.

During 2000, T&MR staff designed and implemented a database to provide a repository for key risk management information for interest rate risk. The interest rate risk database will enable field examiners to gather and track risk management practices for interest rate risk across the national bank population of community and mid-size banks.

T&MR staff planned and coordinated a training session, which trained over 30 field examiners in the application of the economic value of equity. The course focused on both the theoretical basis and practical application of the economic value of equity in community banks. Staff also continued to support the Bank Supervision and Treasury Management courses on a regular basis during 2000.

T&MR staff also monitored national banks implementation of FASB's new accounting rule for derivatives, Financial Accounting Standard (FAS) 133. FAS 133 dramatically changes the current accounting requirements for derivatives, making hedge accounting more difficult to achieve and potentially resulting in greater volatility in earnings for banks that use derivatives. T&MR developed and published examiner guidance, held monthly conference calls with examiners to discuss specific bank implementation issues, and provided on-site exam support at banks with significant issues to resolve in adopting FAS 133.

T&MR coordinated an agency-wide initiative to monitor and evaluate the impact of asset securitization on bank safety soundness. This effort included development of a formal on-the-job examiner training program designed to develop and expand OCC staff's technical skills. In addition, a series of targeted exams were performed at institutions involved in asset securitization. The program was extremely successful, and will result in the development and issuance of additional examiner guidance. T&MR plans to expand and continue the program in the year 2001. T&MR also helped plan a joint conference with senior staff at the other federal bank regulatory agencies to help coordinate supervisory efforts on an ongoing basis. In addition, T&MR staff distributes information about the latest industry developments relating to asset securitization to appropriate staff on an ongoing basis.

T&MR was also involved in supporting the Basel Committee's efforts to develop a new capital accord and improve the quality of the information disclosed by publicly held companies. Specifically, T&MR staff represented the OCC on the Basel Committee's Transparency Group, which evaluated and developed guidance on public disclosure, consistent with the new capital accord's objective of rely-

ing on market discipline to help ensure bank safety and soundness. In addition, T&MR staff represented the Basel Committee on the Multidisciplinary Working Group, an international task force of central banks and regulators with supervisory authority over banks, securities firms, and insurance firms. The Multidisciplinary Working Group conducted a pilot study to improve the quality of public disclosure.

Community and Consumer Policy Department

Asset Management Division

The Asset Management division is the focal point for the development of OCC policy as it relates to 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 2000, the division worked on a number of projects. The division completed and issued the "Conflicts of Interest" booklet (June 2000) and the "Asset Management" booklet (December 2000) of the *Comptroller's Handbook*. In addition, the division issued a bulletin addressing capital and liquidity in national trust banks. Members of the division worked to revise the FFIEC Consolidated Reports of Income and Condition to include a schedule of trust information. Also, the division developed examiner guidance on a number of subjects including functional supervision, pre-need funeral trust arrangements, decimization, and trust account fees.

In conjunction with other OCC divisions, Asset Management participated in several rule-making projects. Staff participated in developing amendments to 12 CFR 9 that would create a national stand of fiduciary care. The Asset Management staff provided background information for the assessment project on independent trust banks.

The Asset Management staff participated in a number of 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 October the division sponsored a meeting of 60 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. In conjunction with

Continuing Education, Asset Management made trust publications available to OCC examiners that participate in Asset Management supervisory activities. All staff members participated in asset management examinations of national banks, resolved consumer complaints, and responded to many inquiries from bankers.

Community and Consumer Policy Division

The Community and Consumer Policy division (CCP) is responsible for establishing and maintaining supervision and examination policies and procedures governing community reinvestment, fair lending, Bank Secrecy Act (BSA) reporting and record-keeping, anti-money-laundering (AML), and consumer protection.

Community Reinvestment Act

In 2000, the OCC, along with the other federal financial institution regulators supplemented, amended, and republished its "Interagency Questions and Answers Regarding Community Reinvestment," as well as proposed for comment two questions and answers. Among other issues addressed in OCC Bulletin OCC 2000-15, the 2000 "Interagency Questions and Answers"—

- State that an institution may not receive investment test consideration for a mortgage-backed security that is primarily or exclusively backed by loans originated or purchased by the same institution;
- Revise the reporting requirements for renewed and refinanced small business and small farm loans, beginning with data collected in 2001 and reported in 2002. As revised, an institution will report both refinancings and renewals as originations, subject to a one-origination-per-year limitation; and
- Amend the instructions for the renewals of lines of credit for small business, small farm, and consumer purposes, if applicable, in the same manner as renewals of small business or farm loans as discussed above, beginning with data collected in 2001 and reported in 2002.

The OCC also developed standard tables, with the other financial regulators, to begin using in large bank Community Reinvestment Act (CRA) examinations. In addition, during 2000 the OCC also approved one CRA strategic plan, four limited purpose designations, and two wholesale designations.

Fair Lending

During 2000, CCP assisted in the development of the agency's screening process for conducting fair lending examinations. This approach will allow the agency to

choose institutions for fair lending examinations and schedule those examinations based on risk.

In July 2000, the agency issued OCC Advisory Letter AL 2000-7, "Abusive Lending Practices." The advisory letter provides guidance to examiners and banking personnel about certain lending practices that have raised concerns during ongoing discussions about predatory lending.

In November 2000, the OCC issued a revised "Fair Lending Examination Procedures" booklet (December 2000) in the *Comptroller's Handbook*. This booklet supercedes the October 1997 fair lending booklet. The booklet constitutes the OCC's adoption of the FFIEC fair lending examination procedures, while providing examiners with supplementary guidance that is germane to the agency's unique regulatory functions.

Bank Secrecy Act (BSA)/Anti-Money Laundering (AML)

During 2000, the OCC, along with other regulators, piloted an Advanced Anti-Money-Laundering course. The course is designed to train participants to recognize the potential money-laundering risks confronting financial institutions, assess the adequacy of an institution's policies, procedures, and practices in complying with the Bank Secrecy Act (BSA) and anti-money-laundering (AML) programs, and provide to students resources to maintain updated knowledge on AML issues.

The National Anti-Money Laundering Group continued its BSA/AML targeted examination program. During the 1999-2000 period, 14 national banks were identified as being at a higher risk for misuse by money launderers and subjected to targeted examinations using enhanced procedures and highly experienced staff. These examinations resulted in numerous findings, corrective actions and enforcement actions, and compliance by the banks examined was significantly improved. Findings from these targeted examinations resulted in the issuance of OCC Advisory Letter 2000-3. It provided information on common BSA compliance deficiencies and recommendations to bankers on how to improve their BSA compliance programs.

OCC issued a revised "Bank Secrecy Act/Anti-Money Laundering" examination procedures booklet (September 2000) in the *Comptroller's Handbook*. The revised booklet is risk-based and provides examination procedures for evaluating a bank's monitoring system to detect and report suspicious activity. Added to the booklet is a discussion of common money laundering schemes (including structuring, the black market peso exchange, Mexican bank drafts and factored third party checks), high-risk products and services (including international correspon-

dent banking relationships, pouch activity, special-use accounts, private banking, foreign branches and offices of national banks, and insider complicity), and examination procedures to address these subjects. The booklet also reflects recent regulatory and policy changes.

The Financial Action Task Force and FinCEN published a list of 15 non-cooperative countries and territories (NCCTs), and the OCC issued Advisory Letter 2000-8 providing banks with information and guidance on the NCCTs. Transactions and relationships with NCCTs may pose higher risks of money laundering to national banks. After identifying national banks with significant exposure to the NCCTs, the OCC has begun reviewing the nature and extent of the identified banks' exposure to these jurisdictions and the adequacy of controls in place to control money-laundering risks.

Consumer Protection

The OCC issued numerous bulletins in 2000 advising the public and the industry of changes in consumer protection regulations and providing guidance on OCC consumer compliance policy changes and revised examination procedures. The examination frequency policy was revised to facilitate a more risk-based approach to consumer compliance supervision and integration of consumer activities with OCC's overall methodology of ongoing bank supervision. Other issuances included Fair Credit Reporting Act examination procedures in OCC Bulletin OCC 2000-1 and a revised "Community Bank Consumer Compliance" examination procedures booklet (November 2000) in the *Comptroller's Handbook*.

The OCC has participated in privacy education initiatives for the banking industry and is currently working with the other financial regulatory agencies to develop privacy of consumer financial information examination procedures.

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.

Significant issues addressed by Core Policy Development in 2000 include the development and issuance of risk management guidance such as the National Bank Director's Toolkit (including the new publications *Red Flags in Board Reports—A Guide for Directors*, "A Pocket Guide to *Red Flags in Board Reports*," and "Internal Controls—A Guide for Directors," [September 2000]); the "Internal and External Audits" booklet (July 2000) of the *Comptroller's Handbook*; and the "Internal Control" booklet (January 2001) of the *Comptroller's Handbook*. Core Policy Development is also continuing development and enhancement of computerized models used by examiners in their daily examination.

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.

In 2000, the office continued to work with the American Institute of Certified Public Accountants (AICPA) Task Force and the other banking agencies in developing further guidance on accounting for loan loss reserves. Also, the office continued to coordinate and participate, with the Securities and Exchange Commission (SEC) and the other banking agencies, in developing documentation and disclosure guidance for loan loss allowances. Additionally, interested congressional staff was kept informed of developments affecting this important banking issue.

The office also worked closely with the Financial Accounting Standards Board, AICPA, and SEC on a number of accounting and audit issues. These included business combination accounting, asset securitizations, derivatives, and auditor independence.

In addition, on-site examiner assistance was provided in a number of banks. Formal and informal responses on numerous accounting, capital, and call report issues were provided to examiners, bankers, and OCC divisions. An intranet site was maintained to provide updates on emerging accounting issues and links to the accounting standard setters' Web sites.

In regards to bank reports, the staff coordinated significant streamlining revisions to the bank call report for implementation in 2001. The office continues to lead the interagency efforts to revise the call report in a manner consistent with a bank's public reporting to reduce reporting burden.

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.

During 2000 the department published 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 department also led interagency policy development initiatives (FFIEC) that resulted in the publication and implementation of the Uniform Retail Credit Classification and Account Management Policy, as well as guidance on certain high risk lending practices (subprime and leveraged financing) pending publication. The department also conducted and published the OCC's sixth annual *Survey of Credit Underwriting Practices* (September 2000).

The Portfolio Analysis and Management group, established in 1999, evaluated the use of credit risk models and modern portfolio management concepts, analyzed emerging issues, risks and products such as enterprise valuation and credit derivatives, and developed systemic credit risk management information and reporting systems. The unit's effort advanced the agency's knowledge of new credit products and supported policy development in the area of risk-based capital for credit risk.

The Credit Risk department identifies training needs for field staff and formulates the appropriate training. In 2000, the department developed and delivered the national problem loan school, structurally weak loan training, and initiated, in conjunction with the Large Bank Supervision department, the advanced portfolio management development initiative. The Credit Risk department also spon-

sored the delivery of specialized training in credit and behavioral scoring.

The Credit Risk department continued to be actively involved in advancing sound credit risk management principles both domestically and internationally. The department was actively involved with the Basel Committee's Models, and Commercial Real Estate Task Forces, and led both formal and informal interagency (FFIEC) working groups on subprime lending, consumer bureau reporting, retail delinquency policy, and leveraged financing. Additionally, a staff member of the department chairs the FFIEC Appraisal Subcommittee. The department's management and staff delivered numerous presentations about credit risk and credit risk management to varying industry constituencies. These include the Association of Bank Financial Analysts, Risk Management Associates, Independent Community Bankers Association of America, Consumer Bankers Association, the California and Kentucky Bankers Associations, the Chief Appraisers Roundtable, and numerous other events for bankers, examiners, and foreign bank supervisors.

The department also provided substantial staff assistance in support of district and Large Bank Supervision priorities by participating in onsite 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.

International and Economic Affairs Department

In 2000, the offices of the senior deputy comptroller for International Affairs and the senior deputy comptroller for Economic and Policy Analysis were merged under a new department—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 Global Banking and Financial Analysis, Capital Policy, and Economic and Policy Analysis departments.

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.

A significant amount of Capital Policy staff resources have been dedicated to coordinating the OCC's contribution to the ongoing efforts to revise the 1988 Basel Capital Accord, which provides the foundation for minimum capital requirements for banks in the United States and around the world.

In 2000, the division was instrumental in advancing several proposed interagency changes to the risk-based capital regulations. Two proposals that better align regulatory capital with the risks involved in securitization activities were published during the year. One, a proposed rule on recourse and direct credit substitutes, would permit external ratings and the limited use of internal ratings to determine the appropriate capital requirements for positions held by financial institutions in securitizations. The other, a proposed rule on residual interests, would require

capital commensurate with the leveraged credit risk inherent in certain positions that are retained by an institution after a securitization.

The division also worked on the development and publication of two other interagency proposals. One proposed rule would revise the capital requirements for claims on highly rated securities firms. The other proposal discusses the pros and cons of simplifying regulatory capital requirements and reducing regulatory burden for the vast majority of banks in the United States without compromising the principles of prudential supervision. The division also helped issue an interim final rule on securities borrowing transactions that aligns U.S. capital requirements more closely with those imposed internationally.

The Capital Policy division also issued a significant risk-based capital interpretation that permitted the inclusion of certain trust-preferred securities in Tier 1 capital. The division issued additional interpretations dealing with credit derivatives, including guidance on capital treatment for portfolio credit default swaps with significant maturity mismatches.

Global Banking and Financial Analysis Department

The Global Banking and Financial Analysis department consists of two divisions: the International Banking and Finance and the Economic 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.

IB&F coordinates the Federal Branch Program and, in that regard, provides supervisory policy and procedural support and guidance on the supervision of federal branches and agencies.

The department coordinates the OCC's participation on international working groups including the Basel Committee on Banking Supervision and the Joint Forum on Financial Conglomerates, and provides technical support to the Treasury Department on the G-7 summit process.

The IB&F department conducts research and analysis on international economic and bank supervision and regulatory matters. The department 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.

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.

Economic Analysis Division

The Economic Analysis division is responsible for analysis of bank condition and performance broadly defined. This includes assessments of trends and potential shocks that could affect bank activities, including financial market developments, international influences, trade-related spillovers, nonbank industry developments, and regional and macroeconomic concerns. The division provides direct analytical support to senior staff with formal bank condition presentations, the National Risk Committee, National Credit Committee, large bank senior staff and examiners-in-charge (EICs), and district staff.

Bank Performance Analysis

The Bank Performance Analysis unit provides applied financial and economic analysis of key issues that may significantly affect banking industry performance and, consequently, OCC supervisory policy and operations. The unit prepares the director's quarterly press conference on the condition of the banking industry; and the quarterly article on the condition of the banking industry that appears in the OCC *Quarterly Journal*.

Statistical Analysis

The Statistical Analysis unit is primarily responsible for the development and maintenance of information systems and tools necessary for the delivery of the division's analytical products. The primary systems include:

- *The complete bank 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*—information from Standard and Poor's and Moody's, Loan Pricing Corporation, and Robert Morris Associates; and
- *The ADC toolkit*—tools and techniques for bank risk assessments for examiners and key industry studies.

Financial Analysis

The Financial Analysis unit provides economic, financial, and banking analysis to the assistant deputy comptrollers for community banks and the large bank EICs. This group is comprised of Washington staff and field staff in each district, with many of the latter serving as key contributors to the district risk evaluation process. The group produces a macroeconomic report monthly, regional economic reports semiannually, and a commercial real estate report quarterly for use by examiners and members of the National Risk Committee and National Credit Committee. The staff provides extensive support to bank outreach meetings and related efforts, and to special needs of the district staff. This unit 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.

Economic and Policy Analysis Department

The Economic and Policy Analysis (E&PA) department is responsible for advising the Comptroller on issues of economic, financial, and regulatory policy that affect the national banking system. The department also provides technical support to examiners in the assessment of banks' risk measurement methods and the use of statistical tools to assess fair lending compliance. E&PA produces both short-term analyses and longer-term research on issues that affect the future structure and performance of banking.

Policy Analysis Division

The Policy Analysis division has responsibility for conducting analysis and research that contributes to the development of OCC policy positions and to the understanding of the impact of policies on the performance of the banking industry. The division represents E&PA on the Capital Steering Committee and the Functional Supervision Working Group. The Policy Analysis division comprises two units, Policy Development and Special Studies.

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 an extensive analysis of the federal funding of state bank supervision, providing support to a number of projects analyzing and potentially modifying the OCC's assessment structure, and reviewing and commenting on deposit insurance reform options.

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, efforts to revise supervisory capital regulations, evaluating proposals for mandatory subordinated debt, 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. 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, and the joint Federal Reserve-Treasury Task Force studying mandatory subordinated debt.

Risk Analysis Division

The Risk Analysis division provides applied, sophisticated knowledge of quantitative economic modeling to bank examiners and policymakers in the OCC. The economists in the division provide direct support to examiners and policymakers 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 policymakers, educational outreach and training of examiners, and written materials for use by examiners and policymakers. 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

This 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 does exams in which models that banks build to price their over-the-counter derivatives or to value assets are evaluated. The largest outlet for work in this area continues to be the evaluation of models that banks build to estimate their exposure to interest-rate risk. For large banks, this means reviewing banks' own models. For community banks, the unit offers examiners a simple interest-rate-risk benchmarking tool, in case the bank has no model.

Credit Risk Modeling

This is the newest standalone unit in the division. It was created to bring together traditional work on credit scoring with work in the newly emerging area of portfolio credit risk modeling. 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. In contrast, the unit is building a capability in portfolio credit modeling in anticipation of demand. The new Basel risk-based capital accord will place significant emphasis on internal credit risk models, which should stimulate further work in this area.

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 sup-

port 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.

Public Affairs Department

The Public Affairs department, headed by the senior deputy comptroller for Public Affairs, is composed of the special advisor for executive communications and the Banking Relations, Communications, Congressional Liaison, and Press Relations divisions.

The senior deputy comptroller for Public Affairs 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.

The special advisor for executive communications prepares speeches and other written and oral messages from the Comptroller and senior staff to various OCC constituencies. The advisor contributes to the formulation of broad OCC policy and public affairs strategies. The advisor also conducts research on the history of the OCC and serves as the point of contact for historical inquiries from OCC staff, other government officials, the national banks, and private citizens.

The divisions overseen by the senior deputy comptroller for Public Affairs explain the agency's policies and actions to the media, Congress, the public, and national banks. Department activities include identifying and developing communication strategies for major OCC initiatives and proposals and implementing those strategies.

Banking Relations Division

The Banking Relations division acts as liaison to bankers, state bankers' associations, banking trade groups, and state bank supervisors.

The division provides advice to the Comptroller and senior policymakers and is responsible for identifying proposed regulatory and industry actions that relate to OCC activities. It formulates specific approaches for ensuring that OCC's position is presented and that information is disseminated.

The division recommends new policies, concepts, and procedures to guide the OCC in its relationship with the banking industry. It prepares and directs the preparation of briefing materials for use in meetings among OCC officials and banking industry groups and assists with preparation of testimony or presentations for the Comptroller

and senior officials. The division maintains state-by-state in-depth analyses of banking legislation and major issues including existing, proposed, and potential legislation.

Banking Relations also helps district offices develop effective outreach programs with bankers and state banking trade associations. The division coordinates and hosts in-house meetings with state banking trade associations and is responsible for planning and organizing off-site "Meet the Comptroller" seminars attended by chief bank executives and OCC's Executive Committee to discuss changes in the banking industry.

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. Late in 2000 the Communications division was divided into the following four functional areas:

- Disclosure Services and Administrative Operations—responsible for the disclosure of information, records, and documents to internal and external audiences through the FOIA and Privacy acts. It operates and oversees the Public Information Room, certifies copies of bank documents, and provides quality assurance for the division's customer service.
- Internal Communications—responsible for ensuring that the agency's internal communication needs are met. It works with management and staff throughout OCC to develop and implement strategies for disseminating information to the agency's internal audiences through various print and electronic delivery mechanisms.
- Publishing Services—serves the agency's print and electronic publishing needs by providing editorial services, project management, and publishing and communications consulting support. It provides content management for OCC's electronic publishing platforms.
- Publications and Media Design Services—responsible for the design and production of published materials and other multimedia presentations for the agency. It oversees the printing of OCC materials and ensures their distribution to national banks and other internal and external audiences.

The Communications division's 2000 accomplishments reflect a continued commitment to making the OCC's information available to the public. In 2000, the OCC's Internet site, for which the Communications division has content

management responsibilities, continued to gain in popularity. The site (at <http://www.occ.treas.gov>) gives the public quick access to a wide range of OCC documents. These include access to CRA evaluations and a searchable database of CRA ratings; a database of community groups, with an opportunity for groups to register; issuances and press releases, including major speeches and congressional testimony; and a variety of publications, including consumer assistance materials, the "Weekly Bulletin" (a report of agency corporate applications and actions), and the monthly *Interpretations and Actions*. During 2000, about 11.3 million pages of information were made available through this medium.

The Public Information Room also offers the public quick access to agency documents, including press releases, issuances, CRA evaluations, comment letters on proposed regulations, securities filings, enforcement actions, and similar information. The room is located on the first floor and is open to walk-in visitors from 9:00 a.m. to 12:00 p.m. and 1:00 p.m. to 3:30 p.m. During 2000, the public information staff handled 1,950 requests for information within 24 hours to the general public and a variety of other public information assistance and services for OCC employees.

New publications for 2000 included three new booklets in the *Comptroller's Handbook*, two booklets in the *Comptroller's Handbook for Compliance*, and two booklets in the *Comptroller's Handbook for Asset Management*. In addition, the Communications division continued to produce many periodicals and series including the *Quarterly Journal* and *Interpretations and Actions*. Other special publications include the *2000 Survey of Credit Underwriting Practices*; the National Bank Director's Toolkit including the new publications *Red Flags in Board Reports—A Guide for Directors*, "A Pocket Guide to Red Flags in Board Reports," and "Internal Controls—A Guide for Directors"; *Effective Strategies for Community Development Finance*; *Community Development Resource Guide*; *Customer Assistance Group*; and *National Bank Community Development Investments—1999 Directory*.

Under the authority delegated by the Comptroller, the department is responsible for making initial determinations on requests for records of the OCC under the Freedom of Information Act and the Privacy Act of 1974. In 2000, the Public Disclosure unit received over 1,100 such requests.

The division is also responsible for providing certified copies of national bank corporate documents. By the end of 2000, the Public Disclosure unit issued over 1,600 certificates for the following seven types of certificates: corporate existence, charter, corporate title change, articles of association, merger, fiduciary powers, and declaration of insolvency.

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.

Press Relations Division

The Press Relations division works to increase public understanding and awareness of the OCC's mission by providing news media relations support to the agency and senior management. Specifically, the division:

- Prepares and issues press announcements on agency actions or policies, including new regulations, supervision guidance, new publications, statistical information (such as the quarterly report on bank derivatives activities), major conferences, and speeches by senior OCC officials.
- Develops briefing materials and support information, such as questions and answers, for agency initiatives in which there is press interest, such as the OCC's bank supervision activities to ensure that national banks will be prepared for the year-2000 date change.
- Supports agency staff in dealing with news media inquiries, by providing advice, counsel, and training.
- Responds to press inquiries on all the OCC's activities, policies, and initiatives.

Information Technology Services Department

In 2000, Information Technology Services (ITS) continued to partner with the OCC's other business units to offer new technology alternatives designed to improve business processes. Key technology initiatives for the year include a new integrated e-mail system and nationwide implementation of a state-of-the-art examination and supervisory process tool.

The chief information officer (CIO) is a member of the Executive Committee and leads ITS. As the senior information technology official, the CIO is the advisor to executive OCC staff regarding IT (information technology) 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. He and his staff have worked with other Treasury bureaus to provide technological and financial advantages on technology procurements for OCC. The CIO has also continued his partnerships with other federal financial regulators to ensure OCC's technology architecture continues 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 Policy, Planning and Quality Assurance team, an IT human resources liaison, and budget personnel.

The staff's key roles include supporting the IT capital planning process, IT personnel liaison, IT contract coordination, IT budget planning, strategic planning, IT workforce skills challenges, and enterprise test bed and configuration management. In addition, the staff acts as the IT Treasury liaison and 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. Security policies and manuals have been evaluated and updated in 2000 to reflect to continued support for the security of OCC staff and information. Significant resources have been devoted to addressing and mitigating computer virus issues and Treasury critical infrastructure programs for physical and information security.

ITS staff has also taken lead roles with other OCC business units in 2000 to begin developing a complementary business and technology architecture. These roles have supported OCC in the area of strategic planning, performance goals, and legislative compliance. The teams provided extensive support and took lead roles in Treasury-led initiatives in the areas of IT capital planning and workforce skills in project management and professional development.

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. The special project manager oversees the HQ and Data Center teams. 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 upgrades/replacements, office automation budget execution, and depot maintenance.

The Customer Services division developed a more extensive outreach program at the district level. The division expanded its practice of on-site office visits to field offices and large bank sites for OCC management meetings and microcomputer user group (MUG) meetings. They covered topics ranging from introductory training on new products to providing on-site troubleshooting and repair services.

2000 accomplishments include:

- Set up and supported ITS Technology Center during the American Bankers Association conferences.
- Created an ITS HQ Customer Service Call/Dispatch Center at Headquarters.

- Resolved over 40,080 PC issues for OCC staff.
- Assisted in the relocation and renovation of 20 OCC field offices.
- Created the ITS presentation for the Hispanic Heritage Project.
- Created the interactive OCC recruiting compact disc, "Are You Interested?"
- Supported the creation of bank examination working paper archives on mediums such as compact disk and the intranet.
- Developed and distributed the Community Bank Program for bank servicer reporting.
- Developed and implemented the Exam Site Hardware Support program to provide immediate access to hardware needed by the examination team.
- Installed and provided training support for the implementation of Examiner View.
- Repaired or replaced more than 2,800 pieces of equipment.
- Saved the OCC 60 percent of the cost of commercial hardware and software support.

Information Services Division

The Information Services division is responsible for systems development and maintenance support, desktop management, and technical research on an agency-wide basis. The organization is made up of teams that support various applications and technologies. Major responsibilities include introducing new technology, maintaining existing applications, developing new applications, researching and customizing software, and providing cost-effective and efficient ways to meet customer technology needs.

2000 projects and accomplishments include:

- Phase I implementation of the Treasury-wide Human Resources Management system including customization of the software and implementation of personnel action request (PAR) processing to improve management decisionmaking, reporting, and analyses.
- Development of a Canary intranet site to organize OCC's early warning tools into four components: benchmark, credit scope, market barometers, and predictive models for community and mid-sized banks.
- Agency-wide implementation of Examiner View (EV) for community bank supervision and examination, as well as Office View for management and administrative supervisory functions and EV reports 2000 for ad-hoc and standardized report generation.

- 8,000 new and updated pages were published on the OCCnet, the OCC's intranet, and over 40 new and enhanced business applications were added.
- National Banknet, OCC's extranet function, was completely redesigned with major security enhancements and the addition of messaging, new business applications, and banking information.
- Implemented data marts for Basic Organization Structure and Supervision, HR, and made significant milestones to implement a Trust Assets data mart, as well as developed and supported several operational front-ends for existing systems. The data warehouse environment was upgraded to include new Web-based query/reporting capabilities for customers and automate many previously manual data transformation processes.
- Configured and deployed Outlook 2000 and Internet Explorer 5.01 as well as implementation of Microsoft NT systems to the OCC desktop and produced the OCC setup utility, cutting PC configuration time to seconds.

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.

During 2000, Network Services began migration of long distance voice and data services to FTS2001. In addition, extensive research and piloting of a virtual private network was accomplished as well as the completion of the upgrade and rewiring of the Headquarters building in Washington, D.C. The division also implemented a new storage area network (SAN) and installed a new, state-of-the-art mainframe that will reduce maintenance costs and provide greater flexibility of use in the future.

Network Services also completed the conversion of the OCC's networking operating systems to Microsoft NT and supported the implementation of a new mail system—Outlook/Exchange. The division also continued to upgrade and standardize field office phone systems. Approximately seven systems have been replaced in 2000.

Additional programs support installation of data lines in community banks during examinations. 2000 shows a 34 percent increased use of this program with an average of 67 telephone lines being installed every month.

Ombudsman

In 2000, 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	Stearns, 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

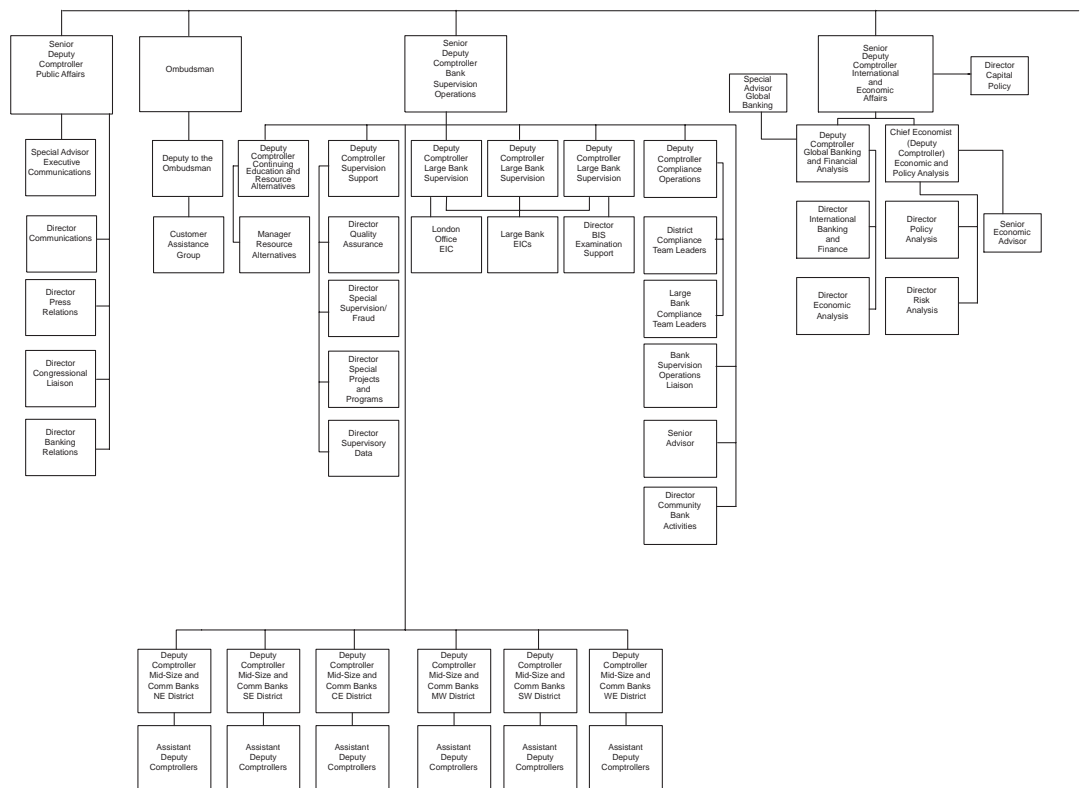
Table 2—Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present (continued)

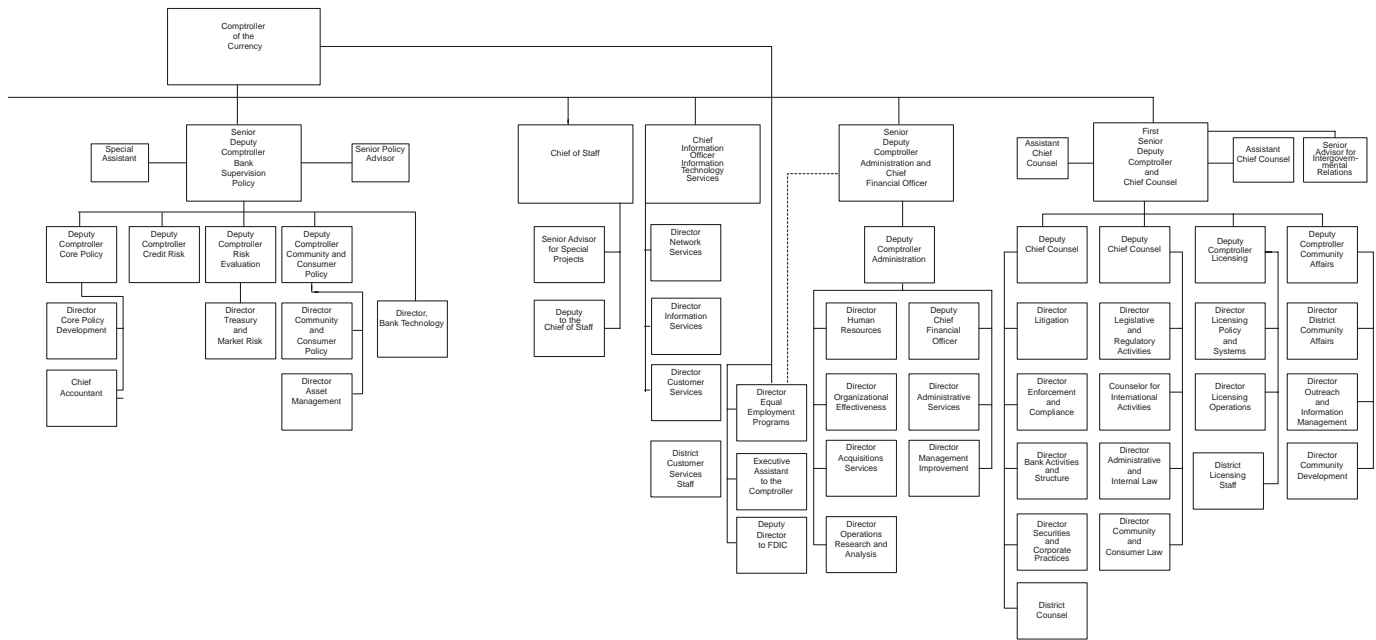
No.	Name	Dates of tenure		State
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas
54	Homan, Paul W.	Mar. 27, 1978	Jan. 21, 1983	Nebraska
55	Keefe, James T.	Mar. 27, 1978	Sept. 18, 1981	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	Indiana
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	—	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	—	New York
140	Kelly, Jennifer C.	November 22, 1999	—	New York
141	O'Dell, Mark L.	Jan. 2, 2000	—	Colorado
142	Alvarez Boyd, Anna	June 4, 2000	—	California
143	Stephens, Martha B.	July 30, 2000	—	Georgia
144	Wentzler, Nancy A.	Aug. 27, 2000	—	Pennsylvania

Figure 1—Office of the Comptroller of the Currency





December 2000

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 fourth quarter of 2000, 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, 2000, the OCC granted preliminary conditional approval to a proposal by The Vanguard Group, Inc., a wholly owned subsidiary of The Vanguard Group of Investment Companies, to charter a national trust bank with the title of Vanguard National Trust Company and located in Valley Forge, Pennsylvania. The bank will offer personal trust and investment advisory services. [Conditional Approval No. 438]

On December 28, 2000, the OCC granted preliminary conditional approval to a proposal by Neuberger Berman, Inc. (NBI), a New York-based diversified investment management company, to charter a national trust company charter with the title of Neuberger Berman National Trust Company and located in Seattle, Washington. The bank will provide fiduciary services to NBI clients. [Conditional Approval No. 439]

On various dates, the OCC granted preliminary conditional approval to three proposals to charter national banks that will offer their products and services through both the Internet and brick-and-mortar offices. The approvals were granted subject to certain pre-opening requirements and ongoing conditions, primarily addressing security requirements. The banks are: CalNet Bank, National Association, Sacramento, California; First Community Trust, National Association, Dubuque, Iowa; and, Bridge Bank of Silicon Valley, National Association, Santa Clara, California. [Conditional Approval Nos. 416, 426, and 427, respectively]

Change in Bank Control

On November 30, 2000, the OCC posed no objection to Citigroup Inc.'s Notice of Change in Bank Control to acquire Associates National Bank (Delaware), Newark, Delaware. The OCC based its decision on the statutory factors pursuant to the Change in Bank Control Act (CBCA). While the Community Reinvestment Act does not apply to CBCA notices, the OCC received over 150 comments opposing the transaction and calling for subprime lending reforms by Citigroup. In response to the comments, Citigroup Inc. indicated it would implement numerous initiatives within its consumer finance real estate secured loan business. [Corporate Decision No. 2000-21]

Merger

On November 8, 2000, the OCC granted conditional approval to a proposal to merge Institutional Trust Company, Denver, Colorado, into AMVESCAP National Trust Company, Atlanta, Georgia, an interim national bank. The resulting bank will not retain any offices in Colorado. The ultimate parent of Institutional Trust Company and the resulting bank is AMVESCAP PLC, a United Kingdom-based global investment management company. AMVESCAP is not a bank holding company (for purposes of the Bank Holding Company Act), is not covered by the International Banking Act, and is not subject to comprehensive consolidated supervision. Accordingly, the approval is subject to conditions that will enable the OCC to adequately supervise and regulate the operations of the resulting national trust bank. [Conditional Approval No. 425]

Operating Subsidiaries

On December 18, 2000, the OCC granted conditional approval for Enterprise National Bank, Memphis, Tennessee, to acquire an operating subsidiary to provide employee outsourcing and other human resources services. Approval is subject to the condition that operating subsidiary at all times will have in force employment practices liability insurance to cover potential liability for workplace safety, employment law, and other liability in connection with the co-employees. [Conditional Approval No. 435]

On December 19, 2000, the OCC granted conditional approval for Hemisphere National Bank, Miami, Florida, to acquire a noncontrolling investment in ImportCard.com. Through its Web site, ImportCard.com will facilitate trade financing between U.S. exporters and Latin American importers by arranging financing, obtaining credit insurance, and acting as escrow and paying agent. Approval was granted subject to OCC's standard conditions for noncontrolling investments. [Conditional Approval No. 436]

Branch

On November 6, 2000, the OCC granted approval for First National Bank of Lawrence County, Walnut Ridge, Arkansas, to establish a branch at 300 SW Texas Street, Hoxie, Arkansas. In establishing the branch, the bank will demolish a building that is eligible for listing in the National

Register of Historic Places. OCC's approval requires the bank to prepare a recordation of the building and have it accepted by the state historic preservation officer, prior to demolition of the building. [Corporate Decision No. 2000-22]

Reverse Stock Split

On December 15, 2000, the OCC granted conditional approval for Worth National Bank, Lake Worth, Texas, to elect the corporate governance provisions of Texas law through amendments to its articles of association and by-laws, and engage in a reverse stock split as provided by Texas law. The transaction will enable the bank to reduce corporate expenses and simplify corporate procedures, and also facilitate the bank's qualifying for Subchapter S tax status. Approval is subject to conditions relating to the conduct of the transaction. [Conditional Approval No. 434]

Special Supervision/Fraud and Enforcement Activities

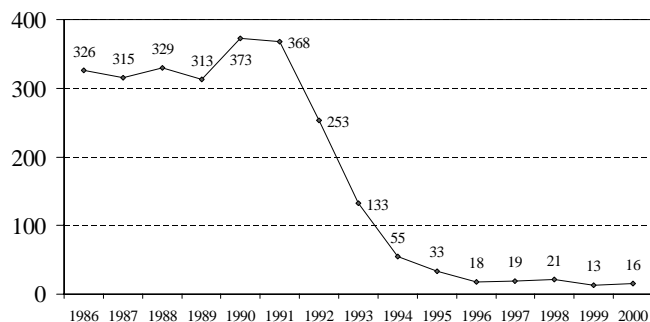
The Special Supervision/Fraud Division of the Bank Supervision Operations Department supervises the resolution of critical problem banks through rehabilitation or orderly failure management, monitors the supervision of delegated problem banks, coordinates fraud/white collar crime examinations, provides 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 in each district office, in the large bank division, and the OCC's Washington office.

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

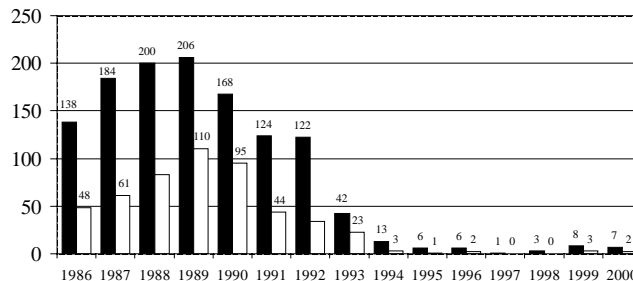
Problem banks represented less than 1 percent of the national bank population at December 31, 2000. The volume of problem banks, those with a CAMELS 4 or 5, has been stable for several years. The CAMELS rating is the

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.

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 increased to 16 at December 31, 2000. This low volume of problem banks reflects the stable economy in 2000 and generally favorable economic conditions. There were two national bank failures during 2000 out of seven commercial banks failures.

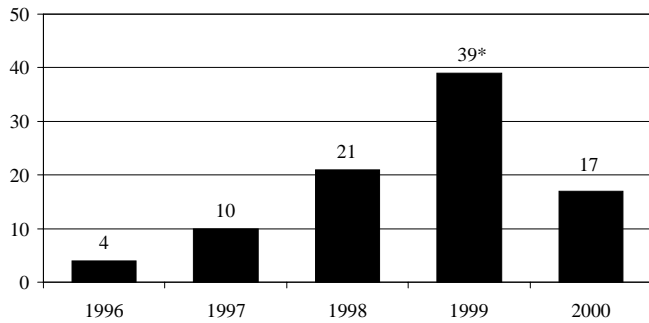
Enforcement Actions

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.)

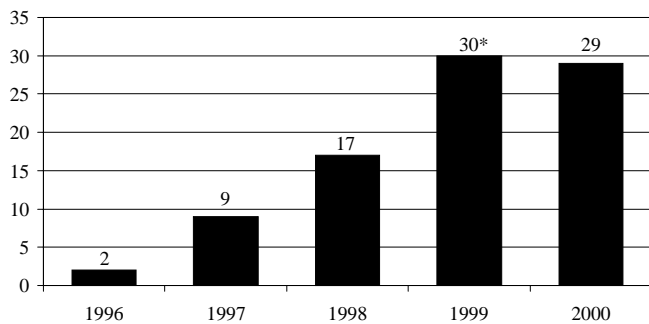
Figure 3— Commitment letters



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.

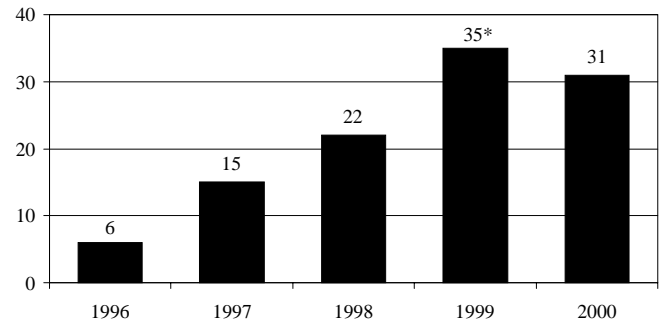
*6 of which are for year-2000 problems

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 also issued five CMPs against national banks in 2000. In 2000, the OCC also issued six notices of defi-

ciency, which notified the affected banks that they needed to submit a plan for bringing their operations into compliance with safety and soundness standards. During 2000, the OCC did not issue any safety and soundness orders.

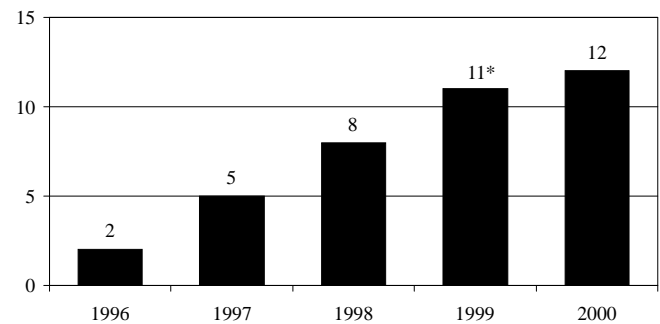
Figure 5— Formal agreements



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

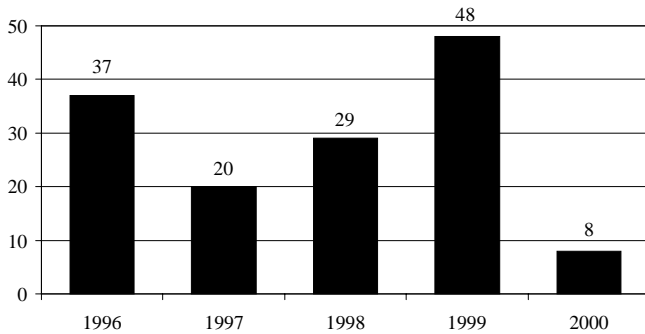


Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

*1 of which is for year-2000 problems

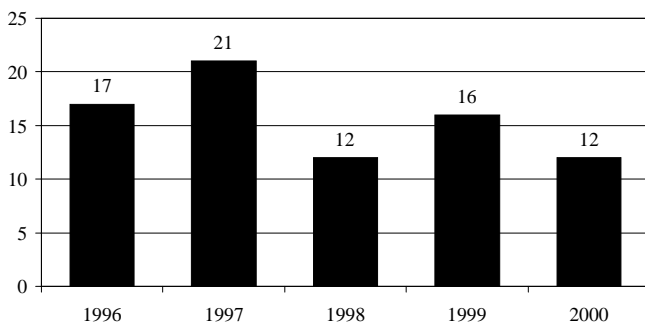
The most common enforcement actions against individuals are CMPs, personal C&Ds, and removal and prohibition orders. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and under certain circumstances, unsafe or unsound banking practices and breaches of fiduciary duty. In 2000, the OCC assessed 28 CMPs against individuals totaling \$379,500. Personal C&Ds may be used to restrict individuals' activities and to order payment of restitution. In 2000, the OCC issued nine restitution orders against individuals totaling over \$842,000. 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



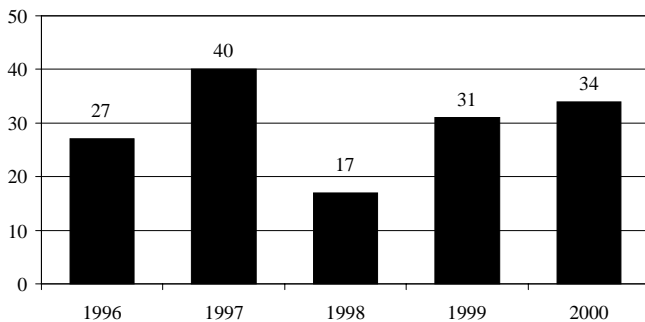
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

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.

Recent Enforcement Cases

Consent Orders and Formal Agreements

In July 2000, a former director of a community bank in Texas consented to the issuance of a cease-and-desist order against him. The former director knowingly acted as a nominee borrower and passed on the proceeds of sev-

eral bank loans to another bank borrower (also another former director), whose credit at the bank already exceeded the bank's legal lending limit. The cease-and-desist order requires the former director, whenever he is affiliated with an insured depository institution, to comply with all applicable lending limit laws and regulations, to stop acting as a nominee borrower, and to make reasonable efforts to ensure loan purposes are accurately recorded.

In July 2000, the president of a national bank in California consented to a civil money penalty of \$5,000 for causing the bank to file materially inaccurate reports of condition to the OCC (call reports).

In August 2000, two individuals, who were each an owner and director of two community banks in Minnesota and South Dakota, consented to civil money penalties of \$35,000 each. The directors knew that a third individual, who was the president of one of the banks and vice president at the other, was engaging in numerous transactions that benefited him personally, or benefited companies in which he held undisclosed interests. They, however, failed to call that matter to the attention of either bank's board of directors. The two banks also purchased troubled debt held by an affiliate in which all three individuals had ownership interests.

In September 2000, the OCC suspended the president of a community bank in Mississippi, who later consented to a permanent prohibition. The president breached his fiduciary duty to the bank by originating numerous nominee loans for his own personal benefit and incurring numerous personal expenses and charging them to the bank, causing considerable loss to the bank. In October, the chairman of the board also consented to a prohibition order. In both prohibition orders, the OCC retained the option to pursue restitution and civil money penalties at a later date.

In September 2000, the OCC issued a temporary cease-and-desist order on the bank pursuant to 12 USC 1818(c), relying principally upon the incomplete or inaccurate books provision in the statute. The order also alleged that the bank had engaged in unsafe or unsound practices that, if continued, was likely to cause significant dissipation of assets or earnings. The OCC alleged that the bank had engaged in certain prohibited transactions known as "adjusted price trades." Specifically, the OCC alleged that the bank had structured and accounted for certain asset sales and purchases in a misleading fashion, incurred substantial loss in the process, failed to maintain correspondence and other records that would allow the examiners to evaluate the transactions through the normal supervisory process, and, when bank management was questioned about the transactions by the examiners, bank management failed to be truthful, candid and forthright.

The temporary cease-and-desist order was not challenged by the bank, and the bank ultimately settled the action by signing a stipulated cease-and-desist order.

In October 2000, the majority owner and chairman of a community bank in Colorado consented to a civil money penalty of \$5,000 and signed a memorandum of understanding limiting his activities in the bank. The chairman used a bank credit card to pay for numerous personal expenses, in violation of several laws and regulations and constituting a breach of his fiduciary duty to the bank.

In October 2000, the former president of a community bank in Alabama consented to a prohibition and civil money penalty of \$60,000 for numerous violations of the Regulation O governing credit to insiders of banks. In addition, the president caused the bank to violate numerous consumer compliance regulations.

In December 2000, the OCC issued a prompt corrective action directive (PCAD), pursuant to 12 USC 1831o, against a community bank in Illinois previously engaged in the intermediary processing of credit card transactions between third-party vendors and credit card associations, such as Visa USA, Inc. During the bank's exit from this merchant processing activity, several telemarketer-merchants made fraudulent and/or questionable charges on credit card accounts processed by the bank. The bank failed to: (i) retain sufficient staff to properly monitor the bank's merchant processing activities; (ii) implement adequate controls to exclude contractually prohibited merchants (telemarketers) from being placed on the approved list of merchants; and (iii) timely identify fraudulent credit card charges. As a result, the bank became responsible for the chargebacks, resulting in millions of dollars of losses that rendered the bank critically undercapitalized. The PCAD required infusion of additional capital, prohibited the Bank from engaging in further merchant processing activities, and directed the immediate termination of the bank's contracts with credit card merchants.

In December 2000, a national bank in Georgia consented to a cease-and-desist order to correct deficiencies in its trust operations. The bank's trust department administered over 1,400 self-directed IRAs (SDIRAs), for which the bank acts as custodian. As custodian, the bank was effecting purchase of corporate notes for some 350 accounts (\$27 million), even after the bank was put on notice that these corporate notes may have been issued fraudulently as part of a ponzi or pyramid scheme. The bank customers with SDIRAs holding these corporate notes will likely face a substantial—in some cases total—loss of their investment. Significant control and administration weaknesses were also discovered with regard to the bank's administration of SDIRAs that did not include these

corporate notes. The consent cease-and-desist order requires the bank to cease solicitation or acceptance of such accounts, file any appropriate suspicious activity reports, and take various other remedial actions related to administration of the trust department.

In December 2000, seven directors of a community bank in Texas, including the chairman and CEO, consented to civil money penalties from \$5,000 to \$10,000 for violations of laws and regulations regarding insider transactions and reporting of the bank's financial condition (call reports).

During the second half of 2000, United Credit National Bank proceeded with its orderly liquidation, pursuant to the terms of comprehensive cease-and-desist orders issued to it and its parent companies. The order required the bank's parent companies to resolve the bank's liabilities to depositors and other creditors and to post collateral worth over \$100 million to ensure the liquidation would not result in any loss to the federal deposit insurance fund. By year-end, the liquidation was proceeding and the bank was officially dissolved without loss shortly after year-end. In total, the parent companies paid in over \$130 million, pursuant to the terms of the cease-and-desist orders. The bank had issued credit cards in connection with credit rehabilitation educational materials sold to the bank's sub-prime customers by an affiliated company that marketed the cards. The OCC believes the credit card operations reflected a systemic conflict of interest in that the owner of the marketing company also set the salary for and supervised the actions of the bank president. Many of the bank's payments to the credit card company also constituted impermissible affiliate transactions, in violation of section 23A and B of the Federal Reserve Act.

As of year-end 2000, Providian National Bank paid over \$303 million in restitution to over 4.4 million of its credit card customers. In June 2000, Providian consented to the issuance of a cease-and-desist order that requires it to make restitution of at least \$300 million and to correct numerous credit card practices that the OCC identified as unfair or deceptive. The OCC believes the bank failed to adequately disclose to consumers the significant limitations in several credit card products and program it marketed. For example, consumers who agreed to transfer credit card balances to a Providian-issued card were promised lower rates than they had been receiving. In fact, however, some customers actually ended up with higher rates than before—up to 21.99 percent—and then found out they could not move balances out of the account without paying a 3 percent "balance transfer fee." For those customers who did receive a lower rate, the savings amounted to no more than 0.3 percent in one promotion and 0.7 percent in another. The San Francisco district attorney's office and the California attorney gener-

al's office entered into a parallel action against the bank's parent company.

Fast Track Enforcement Cases

The OCC continued its Fast Track Enforcement Program, initiated in 1996, which ensures that bank insiders who have engaged in criminal acts in banks, but who are not being criminally prosecuted, are prohibited from working

in the banking industry. As part of the Fast Track Enforcement Program, E&C secured 28 consent prohibition orders against institution-affiliated parties in 2000. Some of these orders also incorporated restitution payments to the appropriate banks for losses incurred. In addition, E&C sent out 104 notifications to former bank employees who were convicted of crimes that federal law prohibits them from working again in a federally insured depository institution.

Appeals Process

Appeal 1–Appeal of 3 Composite CAMELS Rating of 3 and Various Component Ratings

Background

A bank formally appealed several conclusions in the report of examination (ROE), which included:

- The composite CAMELS rating;
- The capital, asset quality, management, and earnings component ratings;
- The request for a provision to the allowance for loan and lease losses (ALLL);
- The assessment of the bank's risk profile; and
- The evaluation of the bank's internal audit function.

In addition, the appeal submission expressed a serious concern that the supervisory office had engaged in a pattern of "vindictive treatment."

Asset Quality (3-rated)

Discussion and Conclusion

The bank's appellate submission stated:

The ROE completely abandoned objective factors for the subjective considerations in the area of asset quality. The ROE attempts to justify a 3 rating by subjective evaluations of the bank's credit risk and credit risk evaluations, while completely ignoring the actual levels of non-performing assets and minimal level of charge-offs. An assignment of a 3 rating in this area was unwarranted because underwriting criticisms were disproportionately based on OCC's identified "structurally weak" loans.

The ROE concluded that asset quality was less than satisfactory and that credit risk management practices were unsatisfactory. The ROE stated the basis for those conclusions were a deficient loan policy, pervasively weak underwriting practices, an unacceptable level of non-performing assets, aggressive loan growth, a rising level of classified and criticized assets, and the absence of risk limits for the numerous concentrations of credit.

The ombudsman conducted two meetings with bank management during the processing of this appeal. One meeting included members of the ombudsman's office and senior management in the bank. The other meeting included senior management of the bank, members of OCC's supervisory office, a member from the OCC's Credit Policy Division in Washington, D.C., and a member of the ombudsman's staff. The meetings were important to provide a better understanding of the organizational and credit cultures within this institution, and to ensure that OCC supervisory policies were being implemented as intended. The second meeting, facilitated by the ombudsman's office, provided an opportunity to gain a practical understanding of the bank's credit culture. The loan-by-loan review of the borrowers listed in the "Loans with Structural Weaknesses" section presented additional information and insight that would have led to the exclusion of many of these loans from that section of the ROE. Although the supervisory office personnel held discussions with senior management, in most cases, it was clear that they did not have full knowledge of the particular circumstances of the borrowers when preparing this section of the report.

Officers were able to discuss the mechanics of commercial real estate (CRE) lending and demonstrated an awareness of the related risks. The officers were successful in explaining why most of the loans on those pages were appropriately underwritten. OCC's supervisory office personnel acknowledged the ROE comments would have been more balanced had these types of discussions occurred during the examination. Members of the supervisory office agreed that the concern with underwriting, based on the discussions, resulted primarily from lack of documentation. The ombudsman reminded bank management of the importance of documented analysis becoming a part of the lending process to ensure that risks have been appropriately identified and addressed on a consistent basis.

While the discussion with management demonstrated an understanding of the risks involved with CRE transactions, the concerns expressed within the ROE, which focused on sound processes and procedures to manage the loan portfolio, were not eliminated. These were not new regulatory expectations or banking concepts. Effective loan portfolio management and recommendations detailed in the ROE included:

- A comprehensive awareness of the regulation governing appraisals, including the establishment of a formal process to review appraisals. This is especially important for banks specializing in CRE lending.
- An internal loan review function that accurately identifies and categorizes the risks associated with credit relationships. Additionally, the function must assess compliance with the board's established loan policy, compliance with regulatory guidelines, the adequacy of the ALLL, and the overall quality of the loan portfolio.
- The establishment of prudent limits on concentrations of credit in terms of capital, given the potential impact large exposures to any industry/segment can have on the bank's capital base, should problems occur in that area.
- A comprehensive understanding of the demands and other obligations of the individuals the bank is looking at to support the credit. While the borrowers' character is a vital component to consider when lending, experience has shown that during periods when the economic landscape is more difficult, a borrower's willingness to repay debt is significantly affected by the volume of contingent liabilities and unencumbered assets.

In the appellate submission and during meetings at the bank, management emphasized the initiatives taken since the examination. Many of which (independent loan review, internal appraisal review process, independent appraisal review, documentation of property inspections, and policy for construction site visits) related to identified concerns in the ROE. Credit risk management concerns had consistently been the focus of the last three examinations. While progress had been made, risk management activities had not kept pace with the bank's growth. As evidenced by management initiatives during the processing of the appeal, risk management weaknesses identified in the ROE did exist. Although the quantitative asset quality measures within the institution were not alarming, OCC Bulletin 97-1, "Uniform Financial Institution Rating System" (January 3, 1997) describes in its attachment (*Federal Register*, December 19, 1996, vol. 61, no. 245) a 3 rating as less than satisfactory asset quality or credit administration practices. In considering the issues described above, the ombudsman concluded that the 3 rating, assigned at the time of the examination, was appropriate based on the bank's deficient credit administration practices.

Allowance for Loan and Lease Losses

Discussion and Conclusion

The appeal stated an additional provision to the allowance for loan and lease losses (ALLL) is not warranted based

on the level of past due and non-performing loans, and the bank's history of minimal loan losses. The appeal further noted that:

The ROE completely disregarded the bank's historical record on the incorrect basis that the lending practices and loan portfolio of the bank had changed in recent periods. And on the basis of primarily subjective analyses of the bank's risk profile and lending management, the ROE requested an additional provision. And the bank was hard pressed to justify such a drastic addition to the bank's ALLL under GAAP [generally accepted accounting principles].

The ROE comments highlighted that management's analysis was questionable because it did not incorporate reasonable, logical adjustments to historical loss experience for qualitative factors. The ROE stated, "For example, loan growth has remained high, the composition of the loan portfolio has changed, and credit risk management practices are deficient. Yet, management adjustment for these factors and other qualitative factors remained nominal."

The OCC's position on making provisions to the ALLL states the ALLL must be maintained at a level that is adequate to absorb all estimated inherent losses in the loan portfolio. One of the objectives of the examination is to evaluate the soundness of management's allowance determination process. While the bank's historical loss experience was a reasonable starting point for the analysis, adjustments for various qualitative factors to reflect current conditions are also prudent. As defined in the *Comptroller's Handbook* booklet, "Allowance for Loan and Lease Losses" (June 1996), these factors include:

- Changes in lending policies and procedures, including underwriting standards and collection, chargeoff, and recovery practices.
- Changes in national and local economic and business conditions and developments . . . , including the condition of the various market segments. . . .
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability, and depth of lending management and staff.
- Changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications.
- Changes in the quality of the institution's loan review system and the degree of oversight by the institution's board of directors.

- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's current portfolio. [p. 40]

The examination found that management's analysis did not provide prudent adjustments for qualitative factors. The analysis the supervisory office provided to bank management included adjustments to the historical loss percentage for the various qualitative factors. However, in several of the qualitative areas, the supervisory office included duplicate adjustments for underwriting weaknesses. Additionally, the supervisory office analysis inappropriately included adjustments for types of loans when the historical loss percentage was adequate.

The ombudsman concluded that correcting these adjustments reflected a need for a provision of a lesser amount. The bank was directed to refile the bank's Call Report to reflect these changes.

Capital Adequacy (3-rated)

Discussion and Conclusion

The bank's submission noted that "In view of the bank's maintenance of strong capital levels, significantly in excess of all 'well-capitalized' benchmarks during all recent periods, the assignment of a 3 capital rating is unwarranted as well as unsupported by the ROE. The ROE bases the downgrade of the bank's capital rating solely on highly debatable and completely subjective assertions regarding the high risk."

The ROE stated that their assessment of capital was based on the high-risk profile of the bank and the generally inadequate risk management systems. The ROE further stated that the burden of providing a reasonable return on equity has ultimately led to subsequent increases in risk, which had not been preceded, or even accompanied, by commensurate improvements in risk management.

While the "well capitalized" definitions refer specifically to prompt corrective action, the OCC is authorized under 12 USC 3907 (a)(2) to establish higher minimum capital requirements, in light of the particular circumstances at a bank. Adequate capital levels should be maintained commensurate with the risk profile of the institution and management's ability to implement effective risk management systems.

The ombudsman determined that while there were risk management weakness in different areas of the bank, the primary risk in this institution was credit risk. As such, the risk to capital, posed by the banks lending activities, should also consider the risk of loss in the event of default. Comments in the ROE acknowledged that excessive credit losses were mitigated by the documented value of real estate collateral. Additionally, comments in the ROE acknowledged management's prior success in raising capital when warranted. The ombudsman concluded that when these factors are properly weighed, the banks capital position was more appropriately represented by the 2 rating.

Earnings (2-rated)

Discussion and Conclusion

The appeal stated that "An assignment of a 2 rating was unwarranted, as the bank had recorded strong earnings and increased earnings in each of the last five years. In the face of the bank's consistent earnings results and historically low chargeoffs, the ROE asserts that a combination of higher ALLL provisions mandated by the OCC, *less than satisfactory* asset quality, and purportedly high credit risk may impact the sustainability of earnings performance."

The ROE stated that earnings performance was satisfactory due, primarily, to high loan yields and fees and well-below-average operating cost. It also stated that while the quantity and trend of earnings appear satisfactory to strong, earnings were actually lower than reported and there were several factors that may affect the sustainability of earnings. Earnings were negatively affected by a reversal of a significant discount that was recognized as income in conjunction with the modification of a then problem loan and the need to increase the ALLL to an adequate level. The ROE also discussed issues involving the sustainability of earnings, which included credit risk concerns, and a significant repricing imbalance caused by funding commercial loans, which reprice in three to five years, with wholesale funding, which reprices over the next 12 months.

The earnings component is designed to reflect the quantity, trend, and quality of earnings generated by the institution. Management had been successful in generating a significant level of fee income and purchasing loans at a discount to elevate earnings performance. The level of earnings for the period was negatively affected by the reversal of income on the previously noted problem loan and a required provision to the ALLL. Additionally, there were risk management issues that will require financial resources to properly develop and implement. In considering all of these factors, earnings were sufficient to sup-

port operations and maintain adequate capital and allowance levels, even after considering the risk management issues that need to be addressed.

The ombudsman concluded that the assigned 2 rating for the earnings component was appropriate at the time of the examination.

Internal Audit

Discussion and Conclusion

The appeal stated that “Many of the ROE conclusions about the bank’s risk management are based on flawed findings about the internal audit function. The ROE incorrectly concludes management had dismantled the internal audit function, when in fact the bank had continued the engagement of a highly respected audit firm to conduct the internal audit for the third consecutive year.”

The ROE stated that the internal audit function—temporarily improved in response to a “Matter Requiring Board Attention” comment contained in the previous ROE—was again unacceptable, having been dismantled prior to completion of even one 18-month cycle. Additionally, it noted the external audit lacked the scope required to adequately compensate for the absence of an internal audit function in such a high-risk bank.

The ombudsman’s review found that the supervisory office’s supporting work papers on the bank’s internal audit function did not fully support the conclusion that the internal audit had been dismantled, as stated in the ROE. However, a review of the audit schedule, the completed audits, and discussion with the firm contracted to perform the internal audit function revealed that some audits were not performed in a timely fashion. The ombudsman concluded that at the time of the examination these symptoms were more indicative of a “partially acceptable” internal audit function.

Management (3-rated)

Discussion and Conclusion

The appeal stated that an assignment of a 3 rating was unwarranted because of the bank’s successful financial performance. The appeal also noted that the management team had continually improved processes and procedures but was most capable because of its “hands on” process. Management asserted that knowing the customer at the ownership level and personally having a senior officer visit every business site represented the most valuable component of their lending process.

The ROE stated, “Management is less than satisfactory, as the overall risk profile remains high and risk management remains deficient. Management remains overly focused on the upside potential of business strategies at the expense of prudent considerations and control of the downside risk.” The ROE further stated, “Management and the board have failed to ensure the bank has a long-term well-defined business plan. And while management had made changes in response to previous supervisory concerns, the changes lack durability and integrity to alleviate the concerns.”

The management rating reflects the board and management’s ability as it relates to all aspects of banking operations. The bank’s senior management team had been successful in growing the bank, raising capital to support growth, and exiting product lines that were deemed unprofitable. However, at the time of the examination, concerns included credit risk activities that did not provide comprehensive oversight of the loan portfolio, an internal audit function that was only partially acceptable, compliance management weaknesses, interest rate risk monitoring systems that needed improvement, and liquidity management activities that required enhancements.

Many of these risk management concerns were highlighted in the previous ROE. The board and management had initiated actions to strengthen risk management systems after the conclusion of the examination. However, senior management had not demonstrated a willingness to maintain risk management systems commensurate with the growth and activities of the bank. Therefore, the ombudsman concluded that at the time of the examination a “3” rating for management component was appropriate and justified.

Composite Rating (3-rated) and Assessment of the Bank’s Risk Profile

Discussion and Conclusion

The ROE stated the condition of the bank had deteriorated and is less than satisfactory. Comments in the ROE noted the deterioration resulted from elevated risk levels combined with risk management systems that remain ineffective in relation to the level of risk.

The appeal stated that “An assignment of a 3 composite rating and “high and increasing” risk profile is unwarranted based on objective facts and measurements. The common thread used by the supervisory office throughout the ROE to justify downgrading the bank component and overall rating was that the risk profile of the bank is high and increasing.” While acknowledging the risks inherent in their mix of lending, management stated in the appeal

that the primary test should be their experience in controlling losses, which they point out had been exemplary.

Given the general risk management weaknesses in the bank, which have been described throughout this summary, the risk profile of the bank would be appropriately categorized as high and increasing, particularly given the concerns in asset quality, liquidity, and sensitivity to market risk. The overriding regulatory concern in the bank was management's unwillingness to establish and, more importantly, maintain risk management systems appropriate for the activities of the bank. In considering the composite rating definitions contained in OCC Bulletin 97-1, financial institutions that exhibit some degree of supervisory concern in one or more of the components; and, management that lacks willingness to effectively address the weaknesses in appropriate time frames generally receive a 3 rating. Therefore, the ombudsman concluded that the 3 rating was appropriate, at the time of the examination.

Pattern of Vindictive Treatment

The ombudsman views a charge of a pattern of vindictive treatment as a serious matter that always warrants careful and comprehensive review and investigation. The ombudsman reviewed the previous ROEs and there was a common thread in that each report had essentially dealt with criticisms by the supervisory office on identified weaknesses in risk management activities. Management initiated corrective action following each ROE and the supervisory office had accepted their response as an indication of their intent to address the issues. The supervisory office had altered planned courses of action, and when warranted, upgraded composite and component ratings in subsequent examinations. However, corrective action was not always fully implemented or did not comprehensively address the concerns. Despite some comments in the current ROE that lacked balance and had an aggressive tone, there was no evidence that this represented a pattern of vindictive treatment. The ombudsman concluded that the lack of balance and aggressive tone resulted from poor communications during the examination process by both regulators and bankers coupled with the unwillingness of management to sustain progress in developing and implementing effective risk management systems.

During the processing of the appeal, which included the visits to the bank, the ombudsman had gained a healthy respect for management's business model and core abilities. However, based on the lack of follow-through on prior commitments, he expressed disappointment that management had not fully implemented a platform of effective and comprehensive risk management systems, processes, and controls. He further reminded management

and the board that risk management activities were an important component of operating any financial institution in a safe and sound manner and were within management's control to develop and implement.

In addition, the ombudsman discovered that the supervisory office had not completely fulfilled its obligation to adequately communicate findings to the board and management during the examination. Thus the ombudsman also shared with the supervisory office his view that the examination should have been conducted in a manner that promoted greater communication with senior management and the board of directors.

Appeal 2— Appeal of 3 Composite Rating

Background

The ombudsman received a formal appeal from a bank that disagreed with their assigned 3 composite rating. The composite rating was assigned as a result of a full scope onsite safety and soundness examination. As a result of the examination, the bank entered into a Part 30 Safety and Soundness Compliance Plan. Subsequent to the full-scope onsite examination, the supervisory office conducted a review of the bank to assess compliance with the plan. At that time the bank was not in full compliance with the plan and their composite rating remained unchanged.

The bank's correspondence outlined the following as the basis for the appeal:

- The bank has made significant progress in correcting and complying with the areas of regulatory concern as outlined in the report of examination and the plan.
- The bank is well capitalized with good asset quality, and has experienced management team with a long track record of performance.
- The bank has excellent earnings and sound liquidity.

The risk associated with the acquisition of a high level of a particular type of loan product from another financial institution was unprecedented in the history of the bank. The OCC's supervisory office had already provided the bank with appropriate feedback on areas where more selective due diligence was warranted as well as areas where more effective risk management practices for these assets should be implemented. The most important dimension of this situation was the aggressive approach taken by management to work through the various risk related challenges associated with this pool of assets. Although

management had not anticipated or prepared for assuming the multifaceted risks associated with booking these assets on the balance sheet, the supervisory office commended the bank for the strong efforts to improve the risk management infrastructure. Additionally, a comprehensive action plan was developed to strengthen and improve the credit risk management processes. This action plan was the primary basis from which the supervisory office developed the plan. Bank management had taken notable action for achieving compliance with the Plan in a relatively short period of time, but had not achieved full compliance. The articles not in full compliance were considered critical components of the overall risk management processes.

Discussion

In the attachment to OCC Bulletin 97-1, "Uniform Financial Institutions Rating System," the *Federal Register* notice (December 19, 1996, vol. 61, no. 245) states:

Composite 2—Financial institutions in this group [rated 2] are fundamentally sound. For a financial institution to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These financial institutions are stable and are capable of withstanding business fluctuations. These financial institutions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

Composite 3—Financial institutions in this group [rated 3] exhibit some degree of supervisory concern in one or more of the component areas. These financial institutions exhibit a combination of weaknesses that may range from moderate to severe. . . . Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial

institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. . . . Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile. These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions. (p. 67026)

Conclusion

The quality of management is a key element in the operation of a national bank and is usually the factor that is most indicative of how well risk is identified, measured, monitored, and controlled. The bank's actions to strengthen its risk management infrastructure and control the risk associated with the acquired loans were reflective of a management team that is able to respond to changing, and in this case unprecedented, circumstances and business conditions. Such an infrastructure, coupled with prudent banking practices, serves as the foundation that supports sound financial institutions during periods of market or economic stress, and was more appropriate given the bank's size, complexity, and risk profile.

While many of the bank's actions had been reviewed during the subsequent review, not all systems were in place at that time, and the effectiveness of the overall risk management process had not been fully tested during an onsite examination. Since an onsite examination was scheduled to commence within 30 days of the appeal, the ombudsman opted to have the risk management infrastructure fully tested during that examination. Therefore, the composite rating of 3 was upheld by the ombudsman.

Subsequent Event

The supervisory office assigned an overall 2 composite rating to the bank at the next examination.

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Earlier this year, the Federal Deposit Insurance Corporation (FDIC) launched a full-scale review of the nation's deposit insurance system. I can scarcely imagine a more opportune time for such a review to occur. The BIF [the FDIC's Bank Insurance Fund] and the SAIF [the FDIC's Savings Association Insurance Fund] are both at levels in excess of their statutorily determined reserve ratios. The banking system's earnings are robust; a ninth consecutive earnings record for the year is still a possibility. Assets and deposits continue to grow, if more slowly than in recent years. Capital is at historical highs. Bank failures are a rarity.

It's also clear, however, that the economy and the banking system are entering a period of uncertainty. Rising interest rates and a slowdown in economic growth have already had an impact on bank financial statements. In the third quarter of this year, we saw the consequences of increasing credit risk: declines in credit quality and rising loan loss provisions. Securities losses have increased and noninterest income growth has slowed. In addition to opportunities, 2001 will undoubtedly also bring stresses and challenges.

So it's particularly important that we act now to take a fresh look at our deposit insurance system while there's still time to do it methodically, inclusively, and comprehensively.

An "options paper" released by the FDIC back in August highlighted a number of fundamental issues and has stimulated an especially lively dialogue on the issues of premiums and fund size, which are among the most controversial aspects of the current deposit insurance system.

These areas are badly in need of reform. The law today sets a "designated" reserve ratio for the deposit insurance fund of 1.25 percent of deposits, regardless of the level of risk to which those deposits might be exposed, and severely constrains the FDIC's ability to charge risk-based premiums when the reserve ratio is above or below that level. That results in a system that charges little or nothing for this insurance today, when banks are earning big profits, and then charges a lot when banks are taking losses and their ability to pay is lessened. And our system does not adequately discriminate in its pricing between risky institutions and prudent, well-managed institutions. To be sure, low-rated banks pay somewhat higher premiums, but well-rated banks that choose to take higher risks do not. In fact, banks taking higher risks receive a twofold

deposit insurance subsidy: first, from their more conservative counterparts; and then, like every insured institution, from the U.S. taxpayer through the Treasury Department, which provides a multibillion dollar line of credit and back-up guarantees, all free of charge, to the FDIC. Finally, banks do not compensate the FDIC, or taxpayers, for the use of the deposit insurance system, even though the availability of federal deposit insurance is a government benefit that is essential for the conduct of the banking business.

Most analysts today agree that risk-based pricing of deposit insurance makes sense. But what exactly would a risk-based system look like? In a speech last week before the Women in Housing and Finance here in Washington, the OCC's chief economist, Jim Wilcox, discussed an approach that he has developed, an approach he calls MIMIC—short for Mutual Insurance Model with Incentive Compatibility. Jim was not speaking for the OCC in this speech, but his thoughtful and perceptive analysis will certainly have a bearing on any position the OCC may take in the future.

Under MIMIC, banks would pay a risk-based "user fee" to the FDIC; the FDIC, in turn, would make payments to the Treasury in return for the standing line of credit and "catastrophe insurance" that Treasury currently provides at no cost. The FDIC would set and periodically adjust a risk-based range for the reserve ratio, to ensure that the size of the fund reflects the amount of risk currently in the system. When the fund exceeded the specified range for the reserve ratio, the surplus would be rebated to banks; when it fell short, surcharges would be imposed. And, to ensure that banks adding deposits didn't reduce the reserve ratio, the MIMIC model would assess a "dilution fee" for each additional dollar of insured deposits. Conversely, banks with shrinking deposits would receive a dilution refund.

MIMIC is one of several risk-based models that have been proposed by various experts on deposit insurance issues. They differ on some key details. But it's important to recognize that all of these models share the same basic principles—principles that I believe should be embodied in all facets of the deposit insurance reform effort.

First, whatever changes we adopt in the current deposit insurance system should make that system more *efficient*, in the sense that the actual costs and benefits of coverage are measured and rationally allocated. Increasing re-

liance on risk-based pricing would take us at least some distance toward that goal.

This implies that the subsidies that distort our current system—bank to bank, taxpayer to bank, or otherwise—should be eliminated and, as nearly as possible, deposit insurance should be *priced in accordance with market principles*. Risk-based pricing could end or significantly reduce the subsidies provided by safer banks to riskier bank; the payment of fees to the Treasury, as provided in MIMIC, could reduce the public subsidy that all insured depositories receive today.

Finally, our deposit insurance system must be *transparent*. In order to be allocated equitably, the costs and benefits of deposit insurance must be priced accurately and openly. Reliable and consistent information about the level of risk in the financial system and the ability of the deposit insurance system to cope with that risk would help all the interested parties—financial institutions, investors, bank customers, and taxpayers—make informed economic decisions.

Pursuing efficiency leads to another issue that needs to be resolved. Since the inception of federal deposit insurance, the FDIC has funded its own operations from premiums and earnings from the deposit insurance fund. At present, with so few banks paying premiums, the FDIC relies on the income generated by the fund to pay for FDIC operations. In 1999, \$1.2 billion, out of \$1.8 billion in fund revenues, went to defray the FDIC's costs of operation.

Nearly half of the 1999 amount—about \$600 million—was spent on the FDIC's supervision of state nonmember banks. If that amount did not need to be diverted from the fund to defray FDIC's supervision expenses, the future *insurance* costs of the FDIC to *all* FDIC member institutions, including national banks, would obviously be lower.

If we're to allocate the costs and benefits of deposit insurance equitably and efficiently, we also need to measure and allocate the FDIC's *non-insurance* costs appropriately. In a regime of risk-related premiums, deposit insurance premiums should pay for deposit insurance. And non-insurance costs should be paid for on a similar, efficient basis.

Unfortunately, that's not the way it happens today. The longstanding practice of using insurance premiums paid by all insured institutions to defray the FDIC's costs of routine bank supervision of state nonmember banks is not only inequitable, but it deprives the FDIC of an important source of market discipline over its use of resources. And, very significantly, it has given rise to undesirable tensions in the dual banking system.

Of course, the dual banking system is hardly "dual," in the sense that the states and the federal government maintain and supervise completely separate banking systems. For many decades, the FDIC and the Federal Reserve have played the preponderant role in the examination and supervision of state-chartered banks. For more than 30 years, almost every time Congress has imposed new federal bank supervisory and regulatory responsibilities, it has parceled out authority and responsibility among the three federal banking agencies. The result is that today the supervisory functions that the FDIC and the Fed perform for state banks are virtually identical to those performed by the OCC for national banks. To put it another way, while both the FDIC and the Fed have some significant responsibilities beyond those of the OCC, there is virtually no function performed by the OCC for national banks that is not replicated by the FDIC and the Fed for state banks. In short, the most important division of bank supervisory authority today is not that between the states and the federal government, as may earlier have been the case, but a division among the three federal regulatory agencies.

I think fair-minded people would agree that there is an inherent inequity in a system that requires national banks to pay the OCC for their supervision and then to pay again to support the cost of supervising some of their competitors, the state nonmember banks. At present, national bank contributions account for almost 53 percent of the funds in the insurance fund. Thus, every dollar expended by the FDIC on state nonmember bank supervision represents, in effect, a charge of 53 cents to national banks. And the same can be said of the Fed's supervision of state member banks, the cost of which is partially offset by the reserve balances held by national banks. In other words, when one considers the extent to which the costs of supervision are borne by the banks themselves, it is clear that state-chartered banks are the recipients of substantial federal subsidies, delivered by their federal supervisory agencies.

In addition to this inequity, I think most objective observers would be concerned by the implications of this subsidy.

Competition between state and national charters has always been one of the hallmarks of the dual banking system—and one of its greatest strengths. It's encouraged efficiency, creativity, and responsiveness on the part of the regulators, and enabled banks to choose the charter that most closely matches their business needs and objectives. Typically, banks have made this decision after weighing a variety of factors—among other things, regulatory philosophy, access, the perceived quality of supervisory services, and how much they had to pay for those services.

Yet, because of the subsidy, the assessment differential between a state and a national charter can be substantial, and clearly can affect a bank's choice of charter. Some states charge less than half of what a comparably sized national bank would pay the OCC—enough to tip the balance for some banks. As earnings pressures grow in a slowing economy, such considerations may loom even larger for some banks. It is hard to see any compelling reason why federal banking policy should create such incentives to diminish the national banking system. A truly vigorous dual banking system should not be founded on the maintenance of a federal subsidy for state banks.

State supervisors sometimes argue that this fee differential between state and federal charters stems from the greater "efficiency" of state supervision. But efficiency has nothing to do with it. The fact is that the predominant regulation of state banks is *federal*, and the scope of responsibilities of state bank regulators is typically far narrower than that of the respective federal regulator. When you add up the numbers and compare apples to apples—comparing the *total* costs of supervising state and national banks, including the costs of federal supervision of state banks—it becomes quite clear that the costs are comparable. Indeed, if there are any inefficiencies in the structure, they are most likely to result from the maintenance of a two-tiered supervisory system—state and federal—for all state-chartered banks. Unquestionably, a single agency could perform these functions at a lower cost than two separate systems of supervision.

Let me be clear: I am not advocating a merger of the federal agencies or elimination of state supervision. I continue to believe in the dual banking system. But so long as state banks are subject to overlapping state and federal regulation, there is bound to be some inefficiency in that component of the regulatory structure.

Last year, the OCC spent less than \$400 million to supervise approximately 2,300 national banks, which controlled roughly 58 percent of the U.S. commercial bank assets. Neither we nor the banks we supervise receive subsidies, direct or indirect; national bank assessments cover almost 98 percent of our total expenditures.

Over the same period, the FDIC spent \$590 million on state nonmember bank supervision, and the Federal Reserve spent \$280 million supervising state member banks. When you add in the approximately \$160 million spent by the states, you come up with a grand total of more than \$1 *billion*—a number that represents the real cost of state bank supervision.

There, in the difference between the \$160 million spent by the states and the \$1 billion total cost of state bank supervision, is the inequity—a funding gap the major part of

which is paid by those national banks that have contributed to the FDIC insurance fund and that maintain reserves with the Fed. Of course, American taxpayers also pay for part of these costs, for every dollar that the Federal Reserve spends on the supervision of state member banks is a dollar that is not remitted to the Treasury, as would otherwise be the case.

Those of you who are longtime followers of regulatory issues are probably not hearing this discussion for the first time. The inequity in the funding of federal supervision of state and national banks is an issue that's engaged and vexed Comptrollers of the Currency going back to the days of Jim Saxon in the 1960s, and one that's been the subject of a fair number of academic studies and legislative reports since then. One approach to the problem that has frequently been proposed in the past would require the FDIC and the Fed to assess state banks directly for their cost of federal supervision. Every year since 1993, the Office of Management and Budget has proposed such a plan, and every year it has been effectively dead on arrival in Congress. While this approach is in many ways the most straightforward, since it would end the subsidization of federal supervision for state banks by national banks and restore a healthier competition to the dual banking system, one has to confront the political reality that Congress is not likely to impose such a new charge on state banks.

Others have suggested that the OCC could simply alternate national bank examinations with the FDIC, as the states now do. While that might reduce OCC's costs somewhat, it would clearly add to the FDIC's costs—and it would do so in a most inefficient way, since both of these federal agencies would have to maintain a capacity to examine the same set of national banks. The sum of the parts would inevitably be greater than the whole. As I mentioned earlier, it is precisely this inefficiency that characterizes the current two-tier supervision of state banks.

Moreover, such a plan would *increase* the supervisory burden on national banks by subjecting them to the jurisdiction of two agencies, instead of one. This would effectively destroy one of the key attributes of the national charter—the ability to deal with a single primary regulator.

Some have suggested that the fees charged by the FDIC should simply be unbundled into two components. The first, charged to all, would cover the risk-adjusted cost of deposit insurance; the second would cover the FDIC's cost of supervision, and would be paid by banks whose primary federal supervisor is the FDIC. Others have suggested that the FDIC should remedy the inequity of using national bank contributions to the FDIC to pay for the costs of state bank supervision by rebating to national

banks—or to the OCC, for pass-through to national banks—an amount equal to their contribution to the cost of federal supervision of state banks.

Which of these approaches is the most sensible? I don't have an answer to that question for you today. My pur-

pose in discussing the issue here is simply to raise awareness of its importance and to encourage public dialogue on an issue that we believe must be considered in the context of deposit insurance reform. I look forward to hearing from you and from other interested parties about this subject.

Remarks by Mark A. Nishan, Chief of Staff, Office of the Comptroller of the Currency, before the Community Bank Directors, on internal controls and the role of a bank director, Hershey, Pennsylvania, October 11, 2000

In the opening scenes of famed director Frank Capra's depression-era feature, "American Madness," a rebellion is brewing in the boardroom of the Union National Bank. The directors, watching the banking system collapsing around them, have lost confidence in the liberal lending policies of the bank's president, played by Walter Huston, and demand that he agree to a merger with another institution. Huston's character refuses, vowing to continue to make loans based on the borrower's good character. "Faith," he says in a defiant coda, "is the only thing that matters to me"—and the only thing, he insists, that would lift the country out of depression and return it to prosperity.

There's no question about who's cast as the hero in this encounter. It's Huston's character battling against the tide of ignorance, fear, and self-doubt that gave Capra his title: "American Madness." Yet, although not depicted nearly as sympathetically, the board also had a legitimate point and expressed it unambiguously.

So while the Union National of 1932 is hardly a model of what good management and board relations should be, Capra's film does dramatize a situation we could stand to see more of—directors taking an active and independent role in overseeing a bank's affairs—and, when appropriate, challenging management, instead of merely rubber-stamping its decisions.

That's one of the things I'd like to talk to you about today.

Corporate governance in this country has been the target of a fair amount of criticism in recent years—much of it justified. Too often, outside directorships have gone to people whose major qualification is a nice personality and a willingness not to rock the boat. During the early 1990s, at a U.S. company that was once synonymous with the personal computer, the board was one big happy family, blissfully unfamiliar with the personal computing business. In fact, only a few of the directors had ever *used* a personal computer. The results for this company were predictably disastrous.

Unfortunately, it's just as common—and just as wrongheaded—when companies appoint competent directors—people who actually *know* something about the business they're supposed to oversee—and then leave those people there to languish—unnoticed, unheeded, and unloved.

I wish I could say that the banking industry has been the shining exception to these practices. But I can't.

Maybe there was a time when banks could afford to forego the benefits of a strong, professional, and independent board of directors. But you'd have to go back to the days when even badly managed institutions raked in big deposits and big profits. I don't have to tell you that those days are long gone.

By comparison, today's banking environment can be summed up in two words: challenge and opportunity.

On the one hand, the market for financial services has never been bigger—or better. Americans are wealthier than ever before. But "you ain't seen nothin' yet." Economists estimate that the next 20 years will bring the greatest net transfer of collective wealth since time began. We're talking about real money here: some \$8 *trillion* in assets—assets that will be passed down from the parents of baby boomers to their children. That works out to roughly \$50,000 per boomer family. For providers of financial services, numbers like that can get your heart racing faster than a ride on the Sooper Dooper Loooper over at Hershey Park.

And yet the affluent and soon-to-become affluent may not even be the most lucrative market out there waiting to be tapped. Right now, at the other end of the spectrum, there are communities all across our country where banks are as uncommon as spinach soufflé inside the Hershey chocolate works. And then there are communities with plenty of banks—yours may be among them—but still substantial numbers of people who, by choice or necessity, rely on high-cost, nonbank providers for such basic services as bill payment, check cashing, and short-term loans. If these people can be introduced to the financial mainstream, the potential rewards—for them, for our economy, and for the financial institutions that reach out to the—can be enormous.

That's what I call opportunity—and challenge.

It's a challenge because banks can't just sit back and assume that a major share of this wealth will automatically drop into their laps, the way it once did. In fact, they can't even assume that they'll hang on to what they've already got: many banks have seen their late customers' sons and daughters withdraw their inheritance as soon as they were free to do so. Today's financial consumers—at both ends

of the spectrum—have many other options. Regrettably, Americans at all income levels no longer take for granted that banks are the best places to do the business that banks used to dominate.

The industry analyst who wrote that “banking is essential to the modern economy, but banks are not,” spoke a basic truth, although it’s one that none of us really want to hear. But admitting you have a problem is the first step toward solving it.

It’s not going to be easy for bankers to reclaim their old preeminence, and it won’t be easy to capitalize on the opportunities that lie ahead. Experience teaches us that market share lost is often lost forever. Recapturing the banker’s traditional market won’t be easy, because it involves reversing habits that have themselves been years in the making.

In case you doubt the magnitude of the challenge the industry faces, consider what I’ll call Exhibit A. Last I looked, the Dow Jones industrial average had fallen about 8 percent since the beginning of this year. For the NASDAQ [National Association of Securities Dealers Automated Quotation System], the decline has been roughly 10 percent. Yet the net assets of the nation’s mutual funds have *increased*—by over \$200 billion—over that same period. If the current correction on Wall Street hasn’t put a damper on Americans’ infatuation with the stock market and non-traditional approaches to wealth-building, then I’m afraid that nothing short of a seismic shift in our economy will.

Or consider Exhibit B. The past decade has seen noteworthy efforts by government and nonprofits and a fair number of financial institutions to publicize the advantages of bank accounts and to make them more accessible. Studies have shown that over the course of a lifetime, a person without a bank account could incur fees of more than \$15,000 for cashing checks and paying bills. The many long-term benefits of bank accounts for wealth-building are increasingly understood. Yet, over the last decade, the number of check-cashing outlets nationwide has more than tripled.

Check-cashers, payday lenders, and pawnshop keepers may not operate widely in your community. But the growth of what we sometimes refer to as fringe banking represents a big problem for the whole industry.

For banks generally—and for community banks particularly—this shift in the norms of financial behavior—in our traditional approaches to savings and investment and transactions—has involved a host of operational challenges. The loss of core deposits has forced banks to increase their reliance on higher-cost, more vola-

tile wholesale funding. It’s required banks to pour resources into advanced delivery systems—ATMs, on-line, and telephone banking—because today’s sophisticated consumers won’t settle for anything less. New products and services have had to be introduced on the fly to keep up with the fast-moving competition. And while all this has been going on, the bar of corporate performance has continued to rise. Banks today are expected to post returns on assets that, on first blush, seem wholly incompatible with the goals of safety and soundness.

How many of you worry about meeting expectations to consistently outperform the previous quarter or year—and, at the same time, make only sound loans?

Obviously, some banks will thrive and others will falter in the face of these challenges. Some will seize the opportunities presented by new markets and others will come up empty-handed. But how can we tell the potential winners from the losers? If you were one of those banking industry analysts whose livelihood depended on handicapping the competition, what would *you* be looking for in making your picks?

I’d suggest starting with the words of one of our most esteemed living philosophers—one Joseph Vincent Paterno, who, I’m told, is also loosely associated with a certain college football program. “The will to win is important,” Joe often says. “But the will to *prepare* is vital.” That’s as true for banks as it is for the Nittany Lions.

Preparation *is* the key these days, not only for anticipating and serving the needs of the burgeoning base of financial consumers, but also in getting ready for the challenges the financial environment is almost certain to throw our way in the months and years to come.

To paraphrase the sixteenth president of the United States—four years and three Comptrollers ago, the OCC started talking about the dangers of slipping underwriting standards and declining credit quality in bank portfolios. Actually, as some of you may know, the OCC has been monitoring risk in the banking system since the days of Lincoln himself. When we see negative trends, we have always taken it upon ourselves to bring those concerns to the attention of the people who are in the best position to do something about it—you.

In recent years, we’ve made a special effort to remind bankers—in a time of great general prosperity—not to lose sight of the fundamentals of good banking. We urged bankers to look at a potential borrower’s overall debt burden, to price loans fairly, to walk away from deals that made no business sense for the bank, and to stress-test early and often, recognizing that even in optimistic sce-

narios, the economic expansion was not likely to outlast most of the loans then being booked.

And we urged banks to maintain the rigor of internal controls—an area that too often gets the short end of the stick when banks are under earnings and cost-cutting pressures, as most have been in recent years. Board oversight is perhaps *the* crucial component of any internal controls regime.

We regulators are sometimes accused of being professional scolds whose greatest joy comes from pulling the punchbowl off the table just as the party is getting started. That's not true. We do, however, go to considerable lengths to hide the vodka bottle, so that the economy doesn't wake up with a giant hangover the next morning.

Incidentally, as Steven Phillips pointed out this morning, the economy *has* begun to slow, credit quality problems *are* increasing, loan loss provisions are rising, and bank earnings are starting to suffer as a result. But I won't say we told you so.

Of course, not all banks have been affected equally by these developments. Coach Paterno wouldn't be surprised to learn that those who have *prepared* for a softening economy are those most likely to be weathering it successfully so far. And what we see, with remarkable consistency, is that the banks that are continuing to thrive in these uncertain economic times—banks whose portfolios are holding up best—happen to be the banks that are blessed with strong, professional, and independent boards of directors.

Fortunately, it's not too late for banks that have fallen behind in their preparations to get back on track, so that, come what may, they, too, can find a place in the winners circle.

And we're doing all we can to help.

That's why the OCC has put together what we're calling the National Bank Director's toolkit—a set of publications that explain the responsibilities of bankers to their directors and the responsibility of directors to their institutions. Every national bank should have already received two of these kits, and additional sets can be ordered.

Here's what the toolkit looks like, and here's what it holds. The centerpiece of the toolkit is OCC's *The Director's Book—The Role of a National Bank Director* (March 1997)—a book that no one who serves on a bank board should be without.

It contains general concepts and standards for the safe and sound operation of a bank and summarizes various

laws and regulations of which directors should be aware. It explains the board's role in managing risk, in dealing with the OCC and other regulators, and addresses in broad terms the duties of the individual director.

These duties include:

- Keeping informed of the bank's operating environment
- Hiring and retaining competent management
- Maintaining an appropriate board structure
- Ensuring that the bank serves its community's credit needs
- Monitoring operations, and
- Overseeing business performance

Many directors have told us that these last two responsibilities—monitoring operations and overseeing business performance—are the most challenging of all. Maybe that wouldn't have been the case a couple of decades ago, when community banking was a pretty simple business. But it isn't any longer.

As Mike Brosnan discussed, risk has grown exponentially in magnitude and complexity, and it's the responsibility of directors who may lack specialized financial skills to understand its impact—prospectively—on a community bank's safety and soundness.

We understand that many directors need help in performing that portion of their fiduciary responsibilities, which is why we've included in the toolkit a booklet entitled *Red Flags in Board Reports—A Guide for Directors* (September 2000). It tells directors what to look for as they review the reports provided by management—and what ratios or trends ought to trigger further investigation. We believe it's so important that directors have these benchmarks at their fingertips that we've summarized the red flags in "A Pocket Guide to *Red Flags in Board Reports*" (September 2000)—another feature of the toolkit. A copy of the pocket guide has been packed into your conference materials.

But I don't want to leave you with the impression that you have to be a technical expert to fulfill your responsibilities as a director. We don't expect directors to be auditors, credit experts, or banking attorneys. Of course, if you are, so much the better! But that would just be icing on the cake.

No—what the job of director calls for fundamentally are bright generalists—people with good common sense, solid business instincts, and unflinching integrity. What it

calls for are people who know how to ask the right questions, who bring a healthy skepticism to the answers, and who set a tone of accountability up and down the organization. It's not so important that you have technical expertise yourself, as long as you know how to recruit and retain the people who do.

The first responsibility of a director, then, is to establish a control environment conducive to safe and sound business operations. What goes into a positive control environment is discussed in the fourth and final component of the Director's toolkit, a booklet entitled "Internal Controls—A Guide for Directors" (September 2000), which you also have in your conference packet. The booklet talks about many of the things I've mentioned already—a commitment to competence and ethical behavior, clear assignment of authority, effective oversight, and open communications—as parts of an effective control environment.

Time and again, we've found that this kind of broad, conscientious oversight is what makes the crucial difference between a well-run institution and a weak one. If a strong control environment exists, under a strong board, then much of the rest will fall into place.

That's why the OCC places so much supervisory emphasis on a bank's internal controls.

This afternoon, Bill Morris, from the OCC's core policy development unit, will discuss the subject in greater detail. And in three weeks, the OCC will hold a telephone seminar on audit and internal controls for community banks. Some of our leading experts will examine the components of an effective audit and internal control program, explain OCC policies and practices on the subject, and answer your questions. It should be an informative event, and I encourage you to sign up for it.

What I've tried to do today is to give you a broad overview of the challenges and opportunities that lie ahead for community banks—and what it's going to take for you, as national bank managers and directors, to succeed in today's dynamic financial environment.

If there's one message I'd like you to take back with you, it's that you're not in it alone. The OCC stands committed to continuing the dialogue with national banks and to providing supervisory guidance that helps you achieve your goals. With today's conference, I believe we've taken another step in that direction.

Remarks by James A. Wilcox, Chief Economist, Office of the Comptroller of the Currency, before the Task Force on Financial Institutions—Regulatory Issues, Women in Housing and Finance, on reforming deposit insurance, Washington, D.C., December 12, 2000

I would like to thank Laricke Blanchard for providing me with the opportunity to speak today before the Task Force on Financial Institutions—Regulatory Issues, Women in Housing and Finance. At the outset, I should note that the views I will present today are entirely my own and do not necessarily represent those of the Office of the Comptroller of the Currency.

A Proposal

The Federal Deposit Insurance Corporation (FDIC) has initiated discussion of reform of deposit insurance and asked for comments and suggestions. Here I propose the Mutual Insurance Model with Incentive Compatibility (MIMIC), a model for deposit insurance that mimics the incentives and practices of a private-sector mutual insurance organization. Although I discuss MIMIC and its benefits and costs to banks in more detail later, here is a preview of its main features:

- Annual, fully risk-based premiums
- Payments to Treasury for the line of credit and “catastrophe insurance” provided to the FDIC
- Rebates to banks when the reserve ratio exceeds a risk-based ceiling
- Surcharges on banks when the reserve ratio dips below a risk-based floor
- Dilution fees on deposit growth to maintain reserve ratio
- Refunds when deposits shrink to maintain reserve ratio

Opportune Time for Reform

Policy reform often proceeds in the cauldron of crisis. In that cauldron, demand for immediate action to alleviate the symptoms of a flawed financial system often boils up so rapidly and strongly that more fundamental flaws are not adequately addressed. In addressing FDIC reform, we need not, and should not, wait for the heat to be turned up. Rather, conditions now allow us to pursue reform deliberately and thoughtfully.

FDIC Chairperson Donna Tanoue has said that, because neither the banking industry nor the FDIC is facing any foreseeable crisis, now is an opportune time for reforming deposit insurance. Just as skilled banking management

requires that policies and operations be set with an eye toward the future, skilled banking policymaking should be at least as forward-looking. Recognizing that the financial seas will not always be tranquil, policymakers can ready their vessels now for the possibility of rougher seas in the future.

Since the early 1990s, the financial health of the banking system as a whole and that of the FDIC have rebounded. Earnings in the banking industry have been high and loan losses have been low. Bank capital as measured by the standard ratios has been replenished. As a consequence, losses to the FDIC’s deposit insurance funds have been low and the ratio of fund reserves to insured deposits has risen steadily.

Relatively recent experience, and some even more recent data, remind us that financial stability is not a given. One needs only look back a few years to find serious financial turmoil in important economies in disparate parts of the world. The financial crises of 1997 and 1998 may have originated abroad and may have been felt most keenly within the regions surrounding their country of origin. But, partly as a consequence of the operations of internationally active commercial banks, shocks that originate any place in today’s interconnected, sophisticated, financial markets can reverberate around the globe in financial markets and in banking. The reverberations of such financial shocks on real economic activity and on policy at home can also affect the domestic banking industry.

More recently, the credit quality of loans held by U.S. banks has slipped somewhat. The latest data from banking supervisors’ Shared National Credits program showed a doubling from 1998 to 2000 of the percentage of credits that were adversely rated. In recent years, nonperforming and charge-off rates for commercial loans, though still well below their levels in the early 1990s, have also risen. On the macroeconomic front, the consensus among economic forecasters is that economic growth over the next year or two will be considerably slower than we have enjoyed in the immediate past. Thus, while the banking industry and the FDIC are currently reporting strong results, there are no guarantees that recent results will continue indefinitely. These ongoing risks are the first reason that the opportune time to reform the FDIC is now, before there is any sizeable deterioration in financial or economic conditions.

The second reason that this is an opportune time to pursue deposit insurance reform is that, at least for the near term, much of the impetus for, and debate about, financial modernization was addressed in late 1999 by the enactment of the Gramm–Leach–Bliley Act (GLBA). As a result, banking and its regulators find themselves in a period of considerable stability, in the sense that the legislative backdrop is more settled than it has been in some years.

A third reason that this is an opportune time for deposit insurance reform is that the banking industry and its regulators are now in a better position to handle some of the proposed remedies for the current flaws in deposit insurance. The development of risk management techniques and the computational apparatus to carry them out enable both the industry and regulators to adopt a considerably more forward-looking approach to risk assessment. And, indeed, both the industry and its supervisors now appear to be appropriately taking into account more, not just current conditions, but also the conditions that might emerge in the future and the likelihood of such conditions.

Reform Issues

In its recently released “options” paper, the FDIC identified four problem areas in current deposit insurance policy. The first area is pricing policy, which the FDIC argued creates inappropriate incentives and raises fairness issues. The Federal Deposit Insurance Corporation Improvement Act of 1991 required the FDIC to charge risk-based deposit insurance premiums and established a designated reserve ratio for the insurance fund of 1.25 percent. The FDIC’s authority to charge risk-based premiums, however, was severely curtailed by the Deposit Insurance Funds Act of 1996 (DIFA). DIFA effectively restrained the FDIC from charging healthy banks anything at all for deposit insurance once the reserve ratio exceeded 1.25 percent. DIFA also required that the FDIC charge all banks at least 23 basis points if the reserve ratio is expected to be below 1.25 percent for more than a year. Thus, premiums can shift up abruptly—independently of a bank’s risk—when the reserve ratio falls below the designated reserve ratio.

In addition, current premium policy subsidizes banks’ risk-taking at the margin. Even the few banks that pay positive premiums probably do not compensate the FDIC fully for the risks they impose on the fund. And, among the vast majority of banks that pay zero premiums, safer banks subsidize riskier banks via the latter’s greater likelihood of drawing down the fund’s reserves and triggering increased premiums on all banks sooner.

Second, deposit insurance premiums are “procyclical” in that the weaker the condition of the banking industry and thus the lower the fund’s reserve ratio, the higher deposit

insurance premiums are likely to be. The third problem area is the legal requirement to operate separately the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) funds, which the FDIC strongly argued is inefficient. The final concern is whether the present \$100,000 insurance ceiling, which was set in 1980, should be raised.

I will comment only briefly on the two latter issues. Now that the BIF and the SAIF have similar, historically high ratios of reserves to insured deposits and serve industries that are in similarly strong condition, two of the major stumbling blocks to their merger are no longer present. Since merging the two funds conceivably would enable the FDIC to achieve some operating efficiencies, I support the FDIC’s recommendation to merge the funds.

The ceiling on deposit insurance coverage is as much a political as an economic or analytical issue. Advocates of increasing the ceiling note that the overall price level in the economy has approximately doubled since 1980, when the coverage ceiling was last raised. On the other side, the argument is made that raising the ceiling then from \$40,000 to \$100,000 reduced the market incentives to invest insured deposits appropriately and contributed to the savings and loan crisis. Secretary of the Treasury Summers, Federal Reserve Board Chairman Greenspan, and Senate Banking Committee Chairman Gramm have expressed opposition to raising the deposit insurance coverage ceiling to \$200,000 per account. To the extent that a ceiling makes sense, and I believe it does, inflation indexing would reduce the likelihood of large, arbitrary adjustments.

Primary Objective of Deposit Insurance Reform: Prices Right

The primary objective of deposit insurance reform should be to ensure that each of the financial services associated with deposit insurance is rigorously priced on the basis of risk. More thoroughgoing risk-based pricing will better align the incentives of banks and of the FDIC with the broader goal of efficiency.

The User Fee Model

In its options paper, the FDIC discussed a “user fee” model of deposit insurance, which might also be referred to as a pure government guarantee model. The thrust of this model is that banks would pay annual, risk-based, user fees, or premiums, for deposit insurance. Risk-based premiums would not be based solely on banks’ current conditions but, rather, would be forward-looking. Fully risk-based premiums would be sufficient over the long run to compensate the government for all the risks, large and

small, that it chose to bear. By moving toward risk-based premiums, subsidies from safer to riskier banks and the subsidies from Treasury through the FDIC to the banking industry would be reduced.

These premiums would not be affected by the size of the fund. Banks would incur no additional responsibilities when the fund balance was deemed to be "too low"; nor would they have any extra claim on the fund when it was deemed to be "too high." Thus, the size of the fund would be economically irrelevant to banks.

In principle, the user fee model might be very attractive if the United States were instituting a *de novo* deposit insurance program. But, we are not. I doubt that an agreement could be reached to abolish and disperse the fund. And, if the fund were to survive under the user fee model, it is hard to believe that premiums would solely reflect risk and be impervious to the size of the fund. Thus, given past experience and present realities, the user fee model seems unlikely to achieve the objective of fully risk-based premiums for the future.

MIMIC: Mutual Insurance Model with Incentive Compatibility

To improve the prospects for a deposit insurance system with rigorous, risk-based pricing, I propose MIMIC, a model for deposit insurance that mimics the incentives and practices of a private-sector, mutual, insurance organization. The main features of MIMIC are:

- Annual, fully risk-based premiums
- Payments to Treasury for the line of credit and "catastrophe insurance" provided to the FDIC
- Rebates to banks when the reserve ratio exceeds a risk-based ceiling
- Surcharges on banks when the reserve ratio dips below a risk-based floor
- Dilution fees on deposit growth to maintain reserve ratio
- Refunds when deposits shrink to maintain reserve ratio.

I will go through each of these in turn.

Risk-Based Premiums

Under MIMIC, banks would pay the same risk-based premiums that they would pay under the user fee model.

Moving to risk-based premiums, which reflect forward-looking assessments of banks' prospects, may reduce the procyclicality in current premium policy, which tends to

reflect recent past performance. First, when banks' earnings reflect expected additional rewards to risk-taking, risk-based premiums will tend to be higher when earnings are higher. And, second, banks' current earnings may be less correlated with forward-looking assessments of banks' prospects than they are with banks' recent past performance. If so, then risk-based premiums will be less procyclical than current premiums.

Risk-based premiums will fluctuate over time as the risks that banks pose to the fund fluctuate. Risk-based premiums are not likely, however, to shift as abruptly as can happen under current law.

While it is easy to talk about imposing risk-based deposit insurance premiums on banks, it is challenging to approximate those risks. One can sympathize with the temptation to use readily available, objective data for determining deposit insurance premiums. However, financial statements are often better indications of what has been than of the likelihood of future events. For larger banks in particular, data and other information obtained through the supervisory process may provide useful additional information. Regardless, while measuring risk at individual banks may be challenging, we can surely do better than charging nearly every bank the same zero premium.

Payments to Treasury

The government has come to recognize and to price some of the valuable financial services that it provides. Valuable financial guarantees provided by the government ranging from loan guarantees on FHA [Federal Housing Administration] home mortgages and on SBA [Small Business Administration] business loans to flood insurance are already priced, however imperfectly. Many remain unpriced. Earlier this year, for example, Federal Reserve Board Chairman Alan Greenspan called attention to the resource costs of the implicit but unpriced guarantees provided by Treasury to housing-related GSEs [government-sponsored enterprises].

The Treasury supplies two unpriced financial services to the FDIC. Currently, by law the Treasury extends a \$30 billion (repayable) line of credit to the FDIC. Treasury also backs the obligations of the FDIC with the full faith and credit of the U.S. government. The backstop that Treasury provides to the FDIC resembles the re-insurance that private insurance companies purchase. An example of a backstop being called upon took place as a result of the savings and loan crisis. The Treasury "contribution" in the range of \$150 billion covered the losses beyond those that the S&Ls and their insurer were called upon to pay. Because the re-insurance provided by the Treasury to the FDIC is presumed to be called upon only to cover large

losses beyond those that banks and the FDIC would be called upon to cover, this policy is referred to as “catastrophe insurance.”

Last week, the Shadow Financial Regulatory Committee suggested that deposit insurance no longer poses any risk to the Treasury, due to FDICIA [Federal Deposit Insurance Corporation Improvement Act] provisions such as prompt corrective action and the requirement that large losses would be funded, after the fact, by *ex-post* fees on the remaining, solvent banks. I respectfully disagree with the committee on this issue. Although the probability that Treasury will have to fund deposit insurance losses may be extremely low, Treasury remains at risk for low-probability, large-loss events. Thus, the line of credit and catastrophe insurance provided by Treasury remain valuable and necessary.

Why does Treasury remain at risk? First, the deposit insurance fund is not especially large relative to the size of the banking system or its potential losses imposed on the fund. Second, large enough losses can overwhelm not only the deposit insurance fund, but also overwhelm the ability of an industry to repay Treasury after the fact, as demonstrated by the thrift crisis. Such large losses are likely to be associated with a severely weakened industry. In that case, it is highly unlikely that it will be either economically sound or politically feasible to extract enough funds from the weakened banks to repay all the losses without further weakening them, putting them at a distinct competitive disadvantage relative to their nonbank competitors who will not be paying *ex-post* fees, and disrupting bank credit flows.

Despite the value of Treasury’s ongoing backstops to the deposit insurance fund, at all times, under all circumstances, the FDIC has paid a zero premium for the costs and risks that its line of credit and its catastrophe insurance policy impose on the Treasury. This situation bears the same hallmarks of inefficiency that the FDIC pointed out in current deposit insurance premiums. The failure of the FDIC to pay risk-based prices (and pass the costs along to insured banks) for these financial services from the Treasury constitutes a public subsidy to banks’ risk-taking. Absent a compelling economic argument to the contrary, these financial services should be priced according to the costs and risks associated with providing them. MIMIC calls for the FDIC to make two, separate, risk-based payments annually to the Treasury: one for the \$30 billion line of credit and one for catastrophe insurance.

In addition, I prefer charging banks *ex ante* for the risks that they impose on the fund rather than settling up *ex post*, which the Shadow Committee recommended. First, a bank’s cash outlays for premiums based on the risks it

imposes on the fund *ex ante* is likely to deter risk-taking more than a less-certain, *ex-post* arrangement to charge for the fund’s losses. Second, although on average the riskiest banks would be expected to be the banks that disappeared into insolvency and that imposed actual losses on the fund, they would not be around to pay any of the *ex-post* settling up charges.

It will also be challenging to measure the risk imposed on the Treasury by the FDIC so that risk-based fees for the line of credit and catastrophe insurance can be levied. However, again, it should not be difficult to improve on the zero price currently charged by the Treasury.

Risk-Based Reserve Ratio, Rebates, and Surcharges

Further mimicking private sector insurance arrangements, MIMIC calls for the FDIC to specify annually a risk-based target range for its reserve ratio. The range would be re-calibrated from time to time as the FDIC’s estimate of the risks facing the fund changed.

Choosing a range implies choosing a floor and a ceiling for the reserve ratio. To maintain the reserve ratio within its chosen range, under MIMIC the FDIC would impose surcharges on banks if the ratio dipped below the floor and analogously would provide rebates from the fund to banks when the reserve ratio rose above the ceiling. These surcharges and rebates should and can be designed to preserve the annual premiums’ risk-based incentives. Under MIMIC, banks will recognize that higher current premiums raise not only the reserve ratio but also the likelihood of future rebates. Thus, a risk-based range for the reserve ratio reduces the current incentive for banks to pressure the FDIC to set premiums and reserve ratios “too low.”

The fund’s reserves serve as a “deductible” in the catastrophe insurance policy. Thus, other things equal, the premiums paid by the FDIC to the Treasury would vary inversely with the range established by the FDIC for its reserve ratio. Explicitly paying for these Treasury services raises the incentive for banks and the FDIC to maintain a larger average reserve ratio than otherwise.

Some of the same practical difficulties will arise in setting the appropriate risk-based range for the reserve ratio as in setting risk-based premiums. At the same time, it seems very likely that we can do better than, in effect, aim at a historical artifact like the current designated reserve ratio of 1.25 percent.

Dilution Fees and Refunds

One notable feature of MIMIC is that it confers upon banks some of the rights and responsibilities that attend

the members (or owners or residual claimants) of mutual organizations. While banks would have some of the prerogatives of "ownership" of the federal deposit insurance system, they would not have them all. For example, it seems very unlikely that there would be voting shares in any meaningful sense. Rather, the FDIC would remain as the arm of the federal government charged with administering the deposit insurance system, including setting premiums and the target range for the reserve ratio.

At the same time, under MIMIC, banks would have a financial stake in the size of the fund relative to insured deposits. Since growing banks dilute the fund by lowering the reserve ratio and raising the probability of surcharges to replenish the ratio, it is appropriate to charge them a dilution fee. This fee could be as simple as a one-time charge equal to the current reserve ratio times the additional dollars of insured deposits. Even-handed policy would then also refund to banks whose insured deposits shrank an amount equal to the current reserve ratio times the decline in their insured deposits.

Markets on the March

Market-based and market-like pricing have been spreading around the globe for at least a decade. Entire countries have moved to market-based systems. Closer at hand, U.S. financial markets have increasingly priced and traded separately the distinct constituent parts of previously composite financial products (and services). Banks have been in the forefront of this "unbundling" of composites into their more homogeneous components. As financial assets are unbundled, the resulting products more closely match individuals' market demands and the resulting prices are likely to better reflect the costs and benefits of those products.

For many years, the Federal Reserve System bundled into the package of rights and responsibilities associated with being a member bank financial services, such as check clearing and payments transfers, at no explicit, separate cost. Eventually—and ironically, given the economic orientation of the Federal Reserve System—Congress filled the pricing vacuum by mandating a pricing scheme for some of the financial services that the Fed supplies.

Some government-provided financial services remain bundled. In addition to deposit insurance, the FDIC provides valuable supervision and regulation at no explicit, separate cost. Moreover, some, but not all, insured banks receive these unpriced services. Just as it can address the pricing of deposit insurance *per se*, deposit insurance reform should eliminate the inefficient pricing of these services. One way to achieve efficient prices for the FDIC's supervision and regulation is to unbundle them from deposit insurance; that is, to separate the pricing of deposit insurance from that of FDIC supervision and regulation.

Rather than letting Congress or an administration take the initiative, banks and the FDIC should consider how to move toward a more rational pricing scheme for each of the financial services associated with the FDIC. Explicitly paying for each of these services may forestall other costs being imposed on banks by those who perceive banks as receiving government subsidies.

Conclusion

MIMIC calls for risk-adjusted deposit insurance premiums, as well as risk-adjusted prices for the individual services that the Treasury provides to the FDIC. As a result, MIMIC would reduce the current subsidies from safer to riskier banks and from the Treasury to the FDIC.

In order to strengthen the incentives of banks and the FDIC to get the prices right, MIMIC confers on banks some, but not all, of the rights and responsibilities of ownership of the deposit insurance system. Thus, MIMIC calls for the FDIC to maintain its reserve ratio within a risk-based range through the use of rebates and surcharges. It also advocates a dilution fee for deposit growth and, symmetrically, a refund when deposits decline. Taken together, these features of MIMIC move the deposit insurance system toward the policies and practices of private-sector mutual insurance organizations.

The FDIC has stimulated a timely and valuable discussion of deposit insurance reform. Because of the size of their stake in the efficient operation of the deposit insurance system, banks should recognize their significant interest in achieving the right reforms.

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Interpretive Letters

893–November 23, 1999

12 CFR 3

Dear [] and []:

This is in response to your letter to James W. McPherson dated July 23, 1999, requesting an opinion on the appropriate specific risk capital treatment for a particular total return swap structure. In your letter, you assert that a total return swap transaction hedged by a long, trading book position in the reference asset is “matched” during the term of the swap, and therefore, the bank has no specific risk exposure to the reference asset during that time period. Since the risk of the reference asset is fully hedged in your view, you believe that the bank should not be required to hold specific risk capital against the transaction during the life of the swap. Subject to the conditions described below, a specific risk charge under appendix B of 12 CFR 3 is not required for this transaction type. Transactions of this type continue to be subject to the other requirements of appendix B including the general market risk capital charge.

Background

Among its activities, the [] (the “desk”) enters into transactions where it pays the total return on a reference asset through a total return swap with a counterparty and hedges the swap with a long position in the reference asset. The counterparty initiates the transaction by expressing interest to the desk in receiving the total return on the reference asset. The desk purchases the asset and enters into the swap with the counterparty at an initial price equal to the purchase price of the asset. All interest and fees actually received on the reference asset by the desk are paid to the counterparty. The counterparty pays to the desk a floating rate based on the initial price of the asset. Often the term of the swap is shorter than the term of the reference asset. At the maturity or termination of the swap, the desk determines the current market value of the reference asset based on the weighted average sale price of the asset or the highest of firm bids on the asset. If no firm bids are received, the market value is deemed to be zero. If the market value is above the initial price, the desk pays the appreciation to the counterparty. If the market value is below the initial price, the counterparty pays the depreciation to the desk.

In subsequent conversations with the OCC, you indicated that the desk intends to sell the reference asset at maturity

of the swap. We also understand from those conversations that most of these transactions require upfront collateral with weekly margin requirements if the asset incurs depreciation. The amount of collateral varies with the quality of both the counterparty and the reference asset.

Risks to the Bank

The transaction described above poses two risks to [] (the bank) for which the OCC believes adequate risk-based capital is required. The first risk results from the exposure to the counterparty. The counterparty has an obligation to make the floating rate payments to the desk and must make payments to cover any depreciation on the reference asset. If the counterparty is unable to make the payments to the desk, the desk is then exposed to the general market and specific risk of the reference asset. The second source of risk to the bank from this transaction is market risk upon the termination date of the swap. Although the desk intends to sell the reference asset upon the maturity of the swap, there is no certainty that the sales proceeds will match the value used in settling the swap.

Risk-Based Capital Treatment

Since the reference asset is held in the trading book, the market risk-based capital rules in appendix B of 12 CFR 3 apply. Under these rules, the market risk capital charge has two components—general market risk and specific risk. Appendix B requires that the general market risk component be based on the bank’s value-at-risk model (VAR). There are two options for the calculation of the specific risk component: the standardized approach or a models approach. We understand that as of the date of this letter, the bank has not implemented a qualifying specific risk model for calculating the capital charge, therefore the specific risk component is calculated using the standardized approach. Additionally, over-the-counter transactions are subject to the counterparty credit risk requirements of appendix A of 12 CFR 3.

In your letter you assert that during the life of the swap, the desk’s exposure to the reference asset is fully hedged under the terms of the swap. Since the position is fully hedged, there is no specific risk exposure to the reference asset and specific risk capital is not needed. The OCC agrees that during the term of the swap the desk’s exposure to the reference asset is fully hedged or matched and that a specific risk capital requirement is not necessary. However, because of the risks to the bank described earlier in this letter, this capital treatment is conditional upon effective mitigation of those risks.

Specifically, to mitigate the credit risk exposure to the counterparty, the desk should take steps to ensure that

exposure is the equivalent of investment grade. To meet this condition, the counterparty should be rated investment grade, or if the counterparty is not publicly rated, it should be deemed to be the equivalent of investment grade within the bank's own internal credit risk rating system. Alternatively, the desk could require sufficient investment grade collateral so that the secured exposure to the counterparty would achieve an investment grade or equivalent rating. The collateral should be sufficient to cover current depreciation of the underlying asset as well as price depreciation that might reasonably be anticipated prior to the next payment date. When determining the appropriate amount and type of collateral, the desk should adequately consider the volatility of market value of the reference asset and the correlation between the value of the collateral and reference asset. The desk should also take into account its pre-settlement risk exposure that could result from any delays or gaps between the time the swap is terminated or the counterparty defaults and the collateral is liquidated.

Additionally, the desk should have a reasonable expectation that the reference asset will be marketable at the termination of the swap. That is, the desk should be fairly confident that it could sell the reference asset at or close to the swap termination date at a price that corresponds reasonably to the market value used in settling the swap contract. Indications of market liquidity include the ability to obtain at least two firm bids for the reference asset and reasonable bid-ask spreads.

This risk-based capital treatment applies only to transactions that meet the description and satisfy the conditions outlined in this letter. If you have further questions, please do not hesitate to contact the resident OCC examiners, the Capital Policy Division on (202) 874-5070, or the Treasury and Market Risk Division on (202) 874-5670.

Tommy Snow
Director, Capital Policy

894— March 10, 2000

12 CFR 3

This is in response to your letter dated [], concerning a tax-deductible capital instrument developed by Lehman Brothers. The OCC has determined that the capital instrument described in this letter would qualify as bank-level Tier 1 capital up to a maximum of 15 percent of total Tier 1 capital.

Background

[] (the "bank") intends to organize a limited liability company under Delaware law (the "subsidiary") and hold

all of the common stock of the subsidiary. The common stock will represent at least 7 percent of the total capitalization of the subsidiary. The bank will control the subsidiary through its ownership of 100 percent of the common stock of the subsidiary and therefore consolidate the subsidiary's operations with its own under generally accepted accounting principles.

The subsidiary will also issue noncumulative, perpetual, fixed-rate preferred securities to third-party investors. The beneficial interest in the subsidiary held by the preferred securities investors will be shown as a minority interest on the bank's consolidated financial statements. Dividends on the preferred securities will be paid only if the subsidiary receives timely payments from its underlying assets. The preferred securities will be redeemable by the subsidiary only with the prior approval of the OCC.

The subsidiary will invest 95 percent of the proceeds of the preferred securities in a subordinated debenture issued by the bank and 5 percent of the proceeds in other assets that meet prescribed credit and maturity criteria ("eligible assets"). The subordinated debenture will have a thirty-year maturity and pay interest at a similar rate and at the same frequency as dividends payable on the preferred securities. The bank may defer the interest payments up to five years. After exercising this deferral option, the bank may not make any payment on the subordinated debenture without the prior approval of the OCC. Nonpayment on the subordinated debenture will not constitute an event of default unless the OCC has approved a payment. When interest payments resume after a deferral period, the subsidiary will pay only the current period preferred dividends; the preferred security holders are not entitled to missed dividends. Accrued deferred interest payments on the subordinated debenture will ultimately be repaid to the bank through dividends on the common stock of the subsidiary. Any accrued deferred interest payments will be invested in eligible assets until the common dividend payment date.¹ The subsidiary and the bank can pay regular common dividends only if dividends have been declared and paid on the preferred securities.

The subordinated debenture will rank junior to the bank's depositors, senior and subordinated debt holders, and general trade creditors. The bank may not redeem the subordinated debenture at the end of its 30-year term without prior approval of the OCC, and no event of default

¹ While the subordinated debenture is outstanding, the value of the eligible assets is limited to 8 percent of the total value of the subsidiary's assets (15 percent if the bank has deferred interest payments on the subordinated debenture). If the value of the eligible assets exceeds those limits, the excess will be distributed to the bank.

will occur if the OCC does not grant such approval. The subordinated debenture will not appear on the bank's consolidated financial statements.

Upon maturity and repayment of the subordinated debenture, the subsidiary will invest the resulting proceeds in qualifying eligible assets. These assets are anticipated to include mortgages and mortgage-backed securities and may be purchased from the bank on an arms-length basis. The preferred securities investors may elect to exchange their shares for perpetual, noncumulative preferred stock of the bank ("bank preferred") if the yield on the eligible assets is insufficient to cover the dividends on the preferred securities.

The preferred securities will be mandatorily exchanged for bank preferred following the maturity of the subordinated debenture if any of the following events occurs: (1) the bank becomes undercapitalized under the prompt corrective action regulations, 12 CFR 6.4(b), (2) the OCC anticipates that the bank will become undercapitalized in the near term, or (3) the bank undergoes a receivership, conservatorship, winding up, or dissolution.

Eligibility for Tier 1

Section 2(a)(2) of appendix A of 12 CFR 3 establishes the components of Tier 1 capital: (1) common stockholder's equity, (2) noncumulative perpetual preferred stock and related surplus, and (3) minority interests in the equity account of consolidated subsidiaries. It is OCC policy to look to the terms underlying the minority interest to determine if the requirements for Tier 1 capital are met.

The OCC analyzed the preferred securities to determine if they meet the noncumulative and perpetual requirements of appendix A. The terms of the preferred securities specify that missed dividend payments will not be paid to investors, preserving cash at the bank in the event of financial stress. The subsidiary will receive cumulative interest payments from the subordinated debenture, if the bank has exercised its deferral option and subsequently received OCC approval to resume interest payments. However, any payments received by the subsidiary in excess of the preferred dividend for one period will not be paid to the preferred investors. The subsidiary will either return any excess cash to the bank via a common dividend or invest in eligible assets.

The bank preferred must also meet the noncumulative requirement because of the exchange provision. The bank-preferred terms specify that the dividends are noncumulative and payable in a similar manner to dividends on the preferred securities.

To qualify as a Tier 1 capital instrument under section 2(a)(2) of appendix A of 12 CFR 3, a security must be

perpetual. This requirement is intended to ensure that a bank is not forced to redeem the capital instrument by a specific maturity date or by the investors through the exercise of an option, particularly during times of financial stress. The preferred securities proposed by the bank do not have a maturity date. The terms of the preferred securities permit the bank to call the securities after five years; however, the bank may only do so with prior OCC approval. The preferred investors do not have the right to put the preferred securities to the bank. There are no scheduled increases in the dividend rate or other provisions that might effectively date the life of the preferred securities. Although the initial asset of the subsidiary, the subordinated debenture, is a dated instrument, the terms of the preferred securities provide for the reinvestment of the proceeds so that the preferred securities remain outstanding beyond the life of the subordinated debenture.

In addition to the criteria of section 2(a)(2) of appendix A of 12 CFR 3, the OCC looks at a capital instrument's ability to contribute to a bank's ability to absorb losses as established in 12 CFR 3.4. The proceeds of the preferred securities are loaned to the bank and are available to absorb losses during the life of the subordinated debenture. Two features of the preferred securities ensure that they continue to be available to the bank to absorb losses after the maturity of the subordinated debenture. First, the mandatory exchange feature of the preferred securities requires the exchange of the subsidiary preferred for bank preferred under conditions that indicate financial difficulties at the bank. Second, the investors have the ability to exchange the preferred securities for bank preferred if the income generated by the eligible assets is insufficient to pay the preferred dividends. After such an exchange the investors would have access to bank earnings as a source for their dividends and no longer be restricted to the earnings of the eligible assets. This feature provides a way to address potential investor concerns and may forestall pressure from the investors for a redemption of the preferred securities, providing another avenue to ensure that the proceeds continue to be invested in the bank and are available to absorb any losses incurred by the bank.

Conclusion

The OCC believes that the terms of the preferred securities described above satisfy both the noncumulative and perpetual requirements for Tier 1 capital as defined in section 2(a)(2) of appendix A of 12 CFR 3. The preferred securities are therefore eligible to be included in Tier 1 capital; however, they should not exceed 15 percent of Tier 1 capital. This limit is consistent with the Basel Committee on Banking Supervision's statement of October 21, 1998, on innovative Tier 1 capital instruments.

This eligibility applies only to preferred securities that meet the description in this letter. If you have further ques-

tions, please do not hesitate to contact the resident OCC examiners, or the Capital Policy Division on (202) 874-5070.

Tommy Snow
Director, Capital Policy

895— June 22, 2000

12 USC 84c3 12 CFR 32.3(b)(1)(iv)(B)

Subject: Lending Limits/Warehouse Receipts/12 CFR 32.3(b)(1)(iv)(B)

Dear []:

This is in reference to our several recent telephone conversations regarding an issue raised in a letter originally submitted to Kit G. Sugiyama, assistant deputy comptroller of the OCC's Denver field office, by your predecessor, [], former president of the [], [City, State] ("bank"). [] noted in his letter that he planned to retire shortly and that all correspondence should be directed to you.

[]'s letter requested that the OCC clarify a provision in its lending limit regulation issued pursuant to 12 USC 84. His inquiry focused on the lending limitations applicable to grain warehouse receipt transactions under 12 CFR 32.3(b)(1)(iv)(B). He asked what conditions must be satisfied in order for the bank to take advantage of the special lending limits available under that provision.

Statute

All loans and extensions of credit made by national banks are subject to statutory legal lending limits. Generally, the total loans and extensions of credit to any one borrower may not exceed 15 percent of the bank's total unimpaired capital and unimpaired surplus. 12 USC 84(a). The statute "is intended to prevent one individual, or a relatively small group, from borrowing an unduly large amount of the bank's deposits for the use of the particular enterprises in which they are engaged." OCC Interpretive Letter No. 15 (January 10, 1978) *reprinted in* [Transfer Binder 1978-79] Fed. Banking L. Rep. (CCH)¶ 85,090. OCC regulations promulgated pursuant to section 84 describe the purposes of the lending limits as "protect[ing] the safety and soundness of national banks by preventing excessive loans to one person, or to related persons that are financially dependent, and [promoting] diversification of loans and equitable access to banking services." 12 CFR 32.1(b).

The statute provides that these general lending limits are subject to certain exceptions. Under 12 USC 84(c)(3), loans and extensions of credit "secured by bills of lading, warehouse receipts, or similar documents transferring or securing title to readily marketable staples" are subject to a lending limit of 35 percent of capital and surplus in addition to the general limits if the market value of the staples securing each loan or extension of credit at all times equals or exceeds 115 percent of the outstanding loan or credit balance. In addition, the staples must be fully covered by insurance "whenever it is customary to insure such staples." In instances where this additional lending limit is available, a bank might therefore have up to 50 percent of its capital and surplus outstanding to one borrower.

OCC Regulation

The OCC's regulation implementing the statutory lending limits is found at 12 CFR Part 32. In 12 CFR 32.3(b)(1), the OCC provides guidance and specifies certain requirements, pursuant to 12 USC 84(c)(3), for those circumstances where a national bank qualifies for increased lending limits for loans secured by shipping documents and warehouse receipts covering readily marketable staples. Subsection (iv) of that section, 12 CFR 32.3(b)(1)(iv), provides, in pertinent part:

The holder of the warehouse receipts, order bills of lading, documents qualifying as documents of title under the Uniform Commercial Code, or other similar documents, must have control and be able to obtain immediate possession of the staple so that the bank is able to sell the underlying staples and promptly transfer title and possession to a purchaser if default should occur on a loan secured by such documents. . . .

The bank's inquiry focuses on 12 CFR 32.3(b)(1)(iv)(B), which provides that:

Warehouse receipts issued by the borrower-owner that is a grain elevator or warehouse company, duly-bonded and licensed and regularly inspected by state or Federal authorities, may be considered eligible collateral under this provision only when the receipts are registered with an independent registrar whose consent is required before the staples may be withdrawn from the warehouse.

Discussion

The bank has a loan customer who is in the business of operating a grain elevator and warehouse ("customer"). The customer is bonded and inspected by appropriate federal authorities. At present, the bank maintains the stricter lending limits of 12 USC 84(a) with respect to this

credit, participating out to another lender any loan portion that would exceed those limits. The bank would derive increased income if it could take advantage of the higher lending limits allowed in 12 USC 84(c)(3) and 12 CFR 32.3(b)(1). The bank has therefore asked whether the requirements of 12 CFR 32.3(b)(1)(iv)(B) would be satisfied if the customer registered the relevant warehouse receipts with a trustworthy and independent third party, who would in no way be affiliated with or under the control or influence of the customer, and whose consent would be required before the staples could be withdrawn from the customer's warehouse.

Such an arrangement would not be sufficient to satisfy the requirements of the OCC's regulation as long as the staples themselves remained in storage in the customer's warehouse or elevator. The special lending limits of 12 CFR 32.3(b)(1) are only available when all requirements of the regulation are satisfied. Your proposal for registration of warehouse receipts with a trustworthy and independent third party, intended to comply with the requirements of subsection (b)(1)(iv)(B), does not address and would not be sufficient to comply with section (b)(1)(iv), which requires that the holder of the receipts "must have *control* and be able to obtain immediate possession of the staple . . ." (emphasis added). The third party custodian you describe would hold the warehouse receipts but would not have control of the underlying staples, which would remain in the possession and under the control of the borrower-customer.

The important characteristic of warehouse receipts and order bills of lading is that the holder of such a document has control of the commodity pledged to secure the loan and can obtain immediate possession. In the event of default on a loan secured by such documents, the bank would be in a position to sell the underlying commodity and promptly transfer title and possession to the purchaser, thus being able to protect itself without extended litigation. This exception to the legal lending limits is therefore based on the assumption that the warehouse receipt is issued by a person who has no interest in the commodity he or she is holding and would have no reason to deny delivery of those goods upon presentation of the receipts. This is not the case where the issuer of the receipts is also the owner and possessor of the goods. In such an instance, the borrower would be put in the position of acting as the bailee of the collateral for his own loan. Should his own interests later prompt him to deny delivery of the goods upon presentment, it would be inadequate protection to the bank to have the receipts themselves held by a third party, no matter how independent and trustworthy the latter.

The primary situation contemplated by 12 CFR 32.3(b)(1)(iv) is that where the borrower is the farmer/

grower of the crop. In that instance, the borrower consigns the staples to the control and custody of a grain elevator or warehouse, who issues receipts which are held by the lending bank or its agent. The regulatory requirements for the increased lending limits of 12 USC 84(c)(3) are satisfied because the bank may obtain delivery of the goods from the warehouse by presenting the receipts if circumstances make it necessary.

However, where the borrower is the grain elevator or warehouse company itself, a conflict of interest arises. Accordingly, the regulation imposes additional, rather than alternate, requirements to ensure the protection of the collateral. In order to take advantage of the special lending limits of 12 USC 84(c)(3), it is still necessary to comply with the requirement of 12 CFR 32.3(b)(1)(iv) that the holder of the warehouse receipts be in a position to control the staples and able to deliver them to the lending bank on presentation of those receipts. While subsection (b)(1)(iv)(B) provides that the receipts in such a situation must be held by an independent third party, it does not obviate the control requirement.

The OCC has considered this issue before. In 1975, the OCC stated that the special lending limits under the predecessor regulation to 12 CFR 32.3(b)(1)¹ were available in a situation where a third-party company, acting as agent/trustee for the lending bank, held the warehouse receipts issued by the borrower/grain elevator AND kept a bonded agent at the grain elevator at all times to ensure control of the collateral.² By contrast, the OCC in 1973 explicitly rejected as adequate compliance with the same regulation an arrangement whereby the borrower/grain elevator would register the receipts with a third party but retain control of the underlying staples. In that letter, the OCC stated its concern

about the legal status of warehouse receipts issued by a warehouseman to himself as owner of grain stored in his own warehouse, which are used as collateral for a loan to the warehouseman by a national bank. In the

¹ The regulatory provision applicable to the special lending limits of 12 USC 84 for readily marketable staples was formerly codified at 12 CFR 7.1560(a)(5) (1960). In response to the passage of the Garn-St Germain Depository Institutions Act of 1982, P.L. 97-320 (which also raised the general lending limit from 10 percent to 15 percent), the OCC amended its lending limit regulation in 1983 by creating a new Part 32 in Title 12 of the *Code of Federal Regulations* which replaced and restructured existing interpretive rulings previously found at 12 CFR Part 7. 48 FR 15844 (April 12, 1983). The OCC further amended its lending limit regulation in 1995. 60 FR 8526 (March 17, 1995.) The superceded regulatory provision at 12 CFR 1560(a)(5) was substantially similar to current 12 CFR 32.3(b)(1).

² Unpublished letter from Thomas G. DeShazo, Deputy Comptroller of the Currency (January 28, 1975).

event of default on such a loan, the bank would be placed in the position of foreclosing on the collateral which has remained in the hands of the borrower. The relationship is therefore the same as that existing in any usual borrowing transaction for which the law makes no special exception.³

Where the borrower is the grain elevator or warehouse, the requirement that the staples be in the control of an independent party who is able to deliver them to the lending bank on presentation of the receipts may be satisfied in various ways. In the 1975 letter cited above (n. 2, *supra*), the grain remained in the elevator owned by the borrower, but the third-party company holding the receipts also maintained an agent on the premises. Another possibility would be for the borrower/warehouse owner to consign the staples to the custody and control of a second, unaffiliated warehouse. The OCC will consider other alternatives that are designed to fulfill the goal of protecting the collateral in order to safeguard the lending bank's exposure.

[]'s letter focused primarily on what documentation would be necessary to satisfy the requirement for an "independent registrar" in 12 CFR 32.3(b)(1)(iv)(B), and included a draft contract that he suggested the OCC might review. He did not address the issue of control of the staples themselves. Since the special lending limit for loans secured by warehouse receipts transferring title to readily marketable staples is available only where the control requirement of 12 CFR 32.3(b)(1)(iv) is satisfied, the question of the qualifications of an independent registrar need not be resolved at this time.

Conclusion

Under 12 USC 84(c)(3) and 12 CFR 32.3(b)(1), special lending limits apply to loans secured by warehouse receipts or other documents transferring title to readily marketable staples. Under section (b)(1)(iv) of that regulation, the holder of the receipts must have control of the staples and be in a position to transfer them to the lending bank. Where the borrower is someone other than the owner of the elevator or warehouse, this requirement is satisfied if the warehouse owner holds the staples and issues receipts to the bank, since the bank may obtain delivery of the staples by presenting the receipts. However, where the borrower is the owner of the elevator or warehouse, as contemplated in 12 CFR 32.3(b)(1)(iv)(B), then there is a conflict of interest that precludes the borrower from acting as the repository—the bailee—of the collateral for his own loan.

³ Unpublished letter from Thomas G. DeShazo, Deputy Comptroller of the Currency (July 19, 1973).

Accordingly, the bank may not qualify its loan to the customer for the increased lending limits of 12 USC 84(c)(3) and 12 CFR 32.3(b)(1) merely by entrusting the warehouse receipts to an independent third party.

Please do not hesitate to contact me at (202) 874-5300 if I may be of further assistance.

Sue E. Auerbach
Senior Attorney
Bank Activities and Structure Division

896— August 21, 2000

12 USC 24(7)

Dear []:

This is in response to your letter of July 29, 1999, requesting confirmation that the [], [City, State] (the "bank") may buy cash-settled options on certain commodity futures contracts where the underlying commodity is the primary collateral on an agricultural loan. The bank would purchase the options to hedge its risk with respect to the value of the collateral.¹

For the reasons discussed below and subject to the limitations described herein, we believe that the proposed hedges may be legally permissible as part of the business of banking; however, given the potentially large financial and reputation risks associated with the proposed hedging activity, it would not be safe and sound for a national bank to engage in the proposed activities unless it has an appropriate risk management process in place. Prior to any bank purchasing options on futures contracts on bank-impermissible commodities to hedge the credit risk in its loan portfolio, the assistant deputy comptroller responsible for supervision of the bank and the director of Treasury and Market Risk would need to affirm that the bank has an effective risk management process in place. As detailed further in the "Risk Management of Financial Derivatives" booklet (January 1997) in the *Comptroller's Handbook* and OCC Banking Circular 277,² an effective risk management process would include board supervision, managerial and staff expertise, comprehensive policies and operating procedures, risk identification, measurement and management information systems, as

¹ The options are cash-settled, used only to protect against credit risk on the bank's loan portfolio, and not purchased for speculative purposes. The bank will never exercise the options and enter into futures contracts to sell the underlying commodities or take physical possession of the underlying commodities.

² OCC Banking Circular 277 (October 27, 1993) (BC 277).

well as effective risk control functions that oversee and ensure the continuing appropriateness of the risk management process.

Since the bank has not provided sufficient information regarding the operation of the proposed hedges, we are unable to conclude that it would conduct the activity in a safe and sound manner. Accordingly, we cannot advise that this activity is permissible for the bank, at this time.

I. Background

The bank indicates that the purpose of buying cash-settled options based on the collateral securing the bank's agricultural loan portfolio is to hedge against price fluctuations in the commodities market. More particularly, the bank intends to buy put options on futures contracts for commodities that serve as the primary collateral for agricultural loans made by the bank.

An option generally gives the buyer of the option the right, but not the obligation, to acquire an asset at a specified price by or on a specified date. In the case of options on futures contracts, the immediately underlying asset is a futures contract on the specified commodity. The optionholder has the right to enter into a futures contract to buy or sell the commodity at a certain price by a certain date.³ A "put" option on a futures contract represents the right to enter into a short futures position at a certain price.⁴ A short futures position is the right to sell the underlying commodity at a certain price for delivery on a certain date.⁵

The use of options is a common method to hedge against adverse price movements affecting the value of assets.⁶ More particularly, put options can protect against a decrease in the price of an asset. For example, if an investor owns 100 shares of stock in XYZ Corporation and seeks protection against a decline in the value of the stock, the investor may purchase a put option that gives the investor the option to sell 100 shares at a particular price, commonly referred to as the strike price of the option. If the market drops below the strike price, any loss to the investor on the 100 shares of stock will be offset by the increased value of the put option.

³ John C. Hull, *Introduction to Futures and Options Markets* 289 (3d ed. 1998).

⁴ *Id.*

⁵ *Id.* at 1.

⁶ Michael C. Thomsett, *Getting Started in Options* 166, 191 (2d ed. 1993); The Options Institute, *Options: Essential Concepts and Trading Strategies* 160 *et seq.* (1990).

For hedging purposes, options on futures contracts function similarly and have certain advantages over options on the actual commodity. Each instrument derives its value from the future price of the underlying commodity and represents the right to purchase that commodity. A futures price is easily determined from the futures exchange; however, the cash or spot price for the underlying asset may not be as readily available.

The bank indicates that it encourages its borrowers to hedge the value of their collateral with options in the futures markets but that about one-third of its borrowers do not hedge for a variety of reasons, including lack of familiarity with the futures and options markets. As a result, the bank proposes to enter into put options on commodity futures to hedge its risk on this portion of its loan portfolio. The bank indicates that it would like to manage the hedging activity on a portfolio basis, rather than on an individual loan basis. Managing the activity in this manner would be both less costly and more efficient. Purchasing cash-settled options to hedge on an aggregate basis would diminish the number of transactions, thereby saving on transaction costs and minimizing the number of individual transactions that the bank will need to monitor.

II. Discussion

A. Hedging Risks Arising from Bank-Permissible Banking Lending Activities is Integral to Those Permissible Activities

Making loans is an express power listed in the National Bank Act and is recognized as a core part of the business of banking.⁷ It is also well established that banks may accept as collateral interests in assets that the bank is not authorized to purchase directly.⁸ Making loans secured by agricultural commodities is a permissible banking activity, even though banks are not authorized to invest directly in the agricultural commodities.⁹ Loans, deposits, and other contracts involve risks that banks must manage as part of

⁷ The National Bank Act provides, in pertinent part, that national banks shall have the power "[t]o exercise . . . all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; . . . by loaning money on personal security." 12 USC 24 (Seventh).

⁸ *Knowlton v. Fourth Atlantic National Bank*, 264 Mass. 181, 162 N.E. 356 (1928) (citing *First National Bank v. Anderson*, 172 U.S. 573(1899); *Lucas v. Federal Reserve Bank*, 59 F. 2d 617 (4th Cir. 1932); *Michie on Banks and Banking*, Chapter 15, § 185 (1999).

⁹ The general lending limit set forth in 12 USC 84 specifically provides exceptions from applicability of the limit for a variety of secured loans, including certain loans secured by livestock and marketable staples.

the business of banking.¹⁰ Banks hedge loans, deposits, and other contracts as a means of managing those risks.¹¹ Banks must manage or “hedge” the risk in their loan transactions to operate profitably. Hedging risks arising from those permissible banking activities is an essential and integral part of those banking activities.

The OCC has long recognized that hedging against the risks associated with bank permissible lending activities is an integral part of those permissible banking activities. National banks hedge against the risk of loss due to the interest rate fluctuations inherent in their own loan operations.¹² National banks also hedge bank loans to minimize the credit risk in those transactions.¹³ Hedging loans se-

¹⁰ OCC “Bank Supervision Process” booklet in the *Comptroller’s Handbook* (April 1996). In fact, a 1992 decision by an Indiana court and a class action filed in 1991 in the U.S. District Court of the Southern District of Texas suggest that a duty exists for corporations to hedge their exposures to changing commodity prices and currency values. *Brane v. Roth*, 590 N.E. 2d 587 (Ind. Cir. App. 1992); *In re Compaq Securities Litigation*, 848 F. Supp. 1307 (S.D. Tex. 1993).

¹¹ OCC letter from Ellen Broadman, director, Securities and Corporate Practices Division, OCC, to Barbara Moheit, regional counsel, FDIC (October 29, 1998) (unpublished) (“Broadman letter”); OCC Interpretive Letter No. 725 (May 10, 1996), reprinted in [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,040; OCC No. Objection Letter 9–1 (February 16, 1990), reprinted in [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,095 (the “unmatched swaps letter”); *Decision of the Office of the Comptroller of the Currency on the Request by Chase Manhattan Bank, N.A., to Offer the Chase Market Index Investment Deposit Account* (“*Mill Deposit*”); OCC No-Objection Letter No. 87–5 (July 20, 1987), reprinted in [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,034 (the “matched swaps letter”).

¹² “Mortgage Banking” booklet (March 1996) in *Comptroller’s Handbook*; OCC Letter to Gregory Crane (October 26, 1976); OCC letter to Alan E. Rothenberg, vice president, Bank of America, from Robert Bloom, first deputy comptroller (Policy) (October 11, 1976). Similarly, the Department of the Treasury recognizes that the interest rate risk of fixed-rate loans can be neutralized by hedging with appropriate interest rate swap, forward, futures, or option contracts. Department of the Treasury, Banking Industry—Trends and Current Issues: Report titled “Modernizing the Financial System” (November 6, 1995).

¹³ OCC Banking Bulletin 96–43: Credit Derivatives, Guidelines for National Banks (August 12, 1996); OCC Interpretive Letter No. 356 (January 7, 1986), reprinted in [1985–1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,526. In addition, national banks may assist customers in hedging their own loans against cash market risks, by obtaining, or by assisting customers in obtaining, hedging instruments. OCC letter to Jeffrey S. Lillien, The First National Bank of Chicago (June 19, 1986); OCC letter to Randall R. Kaplan, Caplin & Drysdale from Judith A. Walter, senior deputy comptroller (June 13, 1986); OCC Interpretive Letter No. 356 (January 7, 1986), reprinted in [1985–1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,526; OCC letter to Thomas N. Rose, Eldredge & Clark, from Michael A. Mancusi, senior deputy comptroller for National Operations (November 5, 1985).

cured by agricultural commodities is similarly an integral part of permissible lending activities.

B. Banks May Purchase Options on Futures on Agricultural Commodities to Hedge Loans as an Activity That is Part of the Business of Banking

The OCC has long permitted national banks to use futures, options, and options on futures to manage or “hedge” risks in its loan and other contracts as a permissible banking activity. Despite their difference in form, options, futures, and options on futures serve a similar function: enabling banks and investors to hedge against risk of interest rate and price changes relating to the underlying instruments.¹⁴ The use of options on futures contracts on agricultural commodities to hedge bank-permissible lending activities, is not materially different from hedging loans with futures and options and therefore, is permissible for national banks.¹⁵

Banks may use futures, options, and options on futures to hedge risks arising from lending activities. In 1976, the OCC issued BC 79, which advised all national banks that the use of T-bill futures and GNMA mortgage futures to hedge interest rate risk could be a permissible banking activity.¹⁶ Subsequently, BC 79 was revised to cover more generally financial futures contracts, as well as certain other types of contracts, that could be used effectively to reduce interest rate risk in permissible commercial banking activities.¹⁷ The guidelines in the circular indicated that a bank’s board of directors should endorse specific written policies and procedures authorizing the use of such contracts and that the policies’ objectives should be specific enough to outline permissible contract strategies and their relationships to other banking activities. The 1983 revision of BC 79 recognized that the use of financial futures contracts to hedge interest rate risks was a permissible banking activity.¹⁸

¹⁴ See OCC Letter to Lee Pickard, Esq., Pickard & Djinis, from Michael Patriarca, deputy comptroller for Multinational Banking (February 26, 1986).

¹⁵ “Interest Rate Risk” booklet (June 1997) in *Comptroller’s Handbook*; “Risk Management of Financial Derivatives” booklet (January 1997) in *Comptroller’s Handbook*.

¹⁶ See OCC Banking Circular 79 (November 2, 1976) (BC 79). See also OCC Interpretive Letter (September 21, 1977, reprinted in [1978–1979 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,037.

¹⁷ BC 79 was amended by BC 79 (Supplement 1) (August 1, 1977), then revised by BC 79 (2nd Rev.) (March 18, 1980), then amended by OCC Banking Circular 79 (3rd Rev.) (April 19, 1983). On October 27, 1993, the OCC issued OCC Banking Circular 277, *supra*, which provided comprehensive guidance on all forms of derivatives and simultaneously rescinded BC 79 (3rd rev.).

¹⁸ OCC Banking Circular 79 (3rd Rev.), *supra*. OCC documents that address derivative hedges and predate *NationsBank of North*

Since the third revision of BC 79, the OCC issued a number of letters concluding that national banks may purchase futures and options for hedging purposes as an activity permissible for national banks. The OCC has recognized the permissibility of such activities both for the purpose of providing bank customers with the ability to hedge their own risks and as a means for banks to hedge directly the risks that arise from permissible banking activities.¹⁹ Furthermore, although many decisions involve the use of futures and options where the bank is authorized to purchase and sell for its own account the underlying asset, the OCC has also recognized the permissibility of a bank's use of derivatives for hedging risk where the derivatives are based upon commodities that the bank is not permitted to trade or invest in directly.²⁰

In OCC Interpretive Letter No. 356, the OCC allowed a bank's operating subsidiary, already established as a registered FCM under the Commodity Exchange Act, to execute customer orders for agricultural and metals futures in connection with its loan business with those bank customers.²¹ The OCC found that performing FCM business in agricultural and metals futures for loan customers' hedging transactions was a permissible banking activity, noting that "futures are often used as a risk management tool to hedge against price and other risks incurred in the cash markets for commodities." In reaching that conclu-

Carolina v. Variable Annuity Life Insurance Co., 513 U.S. 251 (1995) often characterized the activity as "incidental" to the business of banking. Upon reexamination, the OCC has concluded that hedging with cash-settled derivatives is an activity that is part of the business of banking. See, e.g., Broadman letter, *supra*.

¹⁹ See OCC Interpretive Letter No. 356 (January 7, 1986), *supra*, (bank registered as a futures commission merchant ("FCM") could execute customer orders for agricultural and metals futures in connection with its loans to the customers); *MII Deposit*, *supra* (bank could offer a deposit with a rate of return based in part on the return on a stock index and could hedge the bank's interest rate risk by purchasing futures on that stock index); matched swaps letter, *supra*, (bank could act as principal in commodity price index swaps with its customers); unmatched swaps letter, *supra*, (bank could act as principal in unmatched commodity price index swaps with its customers and hedge its price risk exposure using exchange-traded commodity futures); OCC letter from Horace G. Sneed, senior attorney, Legal Advisory Services Division (March 2, 1992) (unpublished) (the "swaps warehousing letter") (bank could manage its commodity index swaps on a portfolio basis and hedge the swaps with swaps, exchange-traded futures or OTC options); OCC Interpretive Letter No. 652 (September 13, 1994), *reprinted in* [1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,600 (bank could engage in equity and equity derivative swaps and hedge risk using futures contracts, options and similar over-the-counter (OTC) instruments).

²⁰ See unmatched swaps letter, *supra*; swaps warehousing letter, *supra*; OCC Interpretive Letter No. 652, *supra*.

²¹ OCC Interpretive Letter No. 356, *supra*; see also OCC letter from Judith A. Walter, senior deputy comptroller (June 13, 1986) (unpublished).

sion, the OCC further noted that banks often advise, or in some cases require, their loan customers to hedge against risks underlying their loans by engaging in futures transactions.²²

Although OCC Interpretive Letter No. 356 focused on the use of futures contracts as a risk management tool for bank customers, the OCC subsequently applied the same rationale where a bank was permitted to purchase futures to hedge its own bank permissible transactions. In *MII Deposit*, the OCC considered the permissibility of the bank's use of futures contracts on the Standard & Poor's 500 Composite Stock Index ("S&P 500 Index") to hedge its interest rate exposure on deposits that paid interest at a rate based in part on the S&P 500 Index.²³ The threshold issue the OCC confronted was whether the bank had the authority to offer a deposit product with interest based in part on a stock index. The OCC concluded that the offering of the deposit was permissible under the express authority of 12 USC 24(Seventh) for national banks to receive deposits. The OCC then went on to conclude that the use of futures contracts on the S&P 500 Index to hedge the bank's interest rate exposure on the deposits was also a permissible banking activity.

In the *MII Deposit* analysis, the OCC noted that national banks are permitted, and indeed encouraged, to manage prudently the exposure arising out of bank activities, and they must be allowed the flexibility to use the most suitable risk management tool. What was important in *MII Deposit* was the fact that the futures hedging activities were conducted in connection with expressly authorized banking activities. Whether the futures hedge was for the benefit of bank customers, as in OCC Interpretive Letter No. 356, or for the bank's own account, the OCC has concluded that futures hedges are permissible for national banks if conducted in accordance with safety and soundness considerations. The OCC also specifically rejected the argument that purchasing S&P 500 Index futures contracts was impermissible because the bank was not generally permitted to purchase the underlying securities.

Other OCC precedents have reached similar conclusions permitting bank use of futures and options on futures where the underlying asset is not one the bank is gener-

²² In OCC Interpretive Letter No. 356, *supra*, the bank specifically represented that it would not purchase and sell the futures contracts for its own account, and the OCC's opinion addressed only a bank's ability to execute customer orders for hedging transactions in connection with bank loans to the customers.

²³ *MII Deposit*, *supra*; see also *Investment Company Institute v. Ludwig*, 884 F. Supp. 4 (D.D.C. 1995) (controlling effect given to *MII Deposit* in denying plaintiff's motion for summary judgment in suit claiming that the MII program violated the Glass-Steagall Act).

ally authorized to trade or invest in directly, although the OCC was cautious in extending its conclusions to bank activities involving derivatives based on agricultural commodities outside of the limited context described above. Soon after the issuance of Interpretive Letter No. 356, a question of the permissibility of bank activity involving agricultural futures contracts and options on futures arose in the context of a proposed bank acquisition of a firm that was both a registered broker-dealer and a registered futures commission merchant.²⁴ At the time of the acquisition, the firm provided a variety of services for its customers, who were primarily traders, including execution, clearance, and, in some cases, margin financing. In this context, the OCC declined to opine on the permissibility of executing transactions for customers involving agricultural commodities other than for hedging purposes. The OCC noted that the purchase and sale of agricultural futures and options on futures for customers to hedge risks associated with customers' loans from the bank was permissible, but that outside of this limited context, the OCC had not decided whether national banks are authorized to execute transactions for their customers in agricultural futures and options on those futures. In response to another inquiry just three years later, the OCC concluded that such activity could be permissible.

In OCC Interpretive Letter No. 494,²⁵ the OCC considered a proposal under which a bank operating subsidiary would provide execution, clearing, and advisory services for customers in agricultural, petroleum and metals futures contracts and options on those futures contracts. The OCC noted that, in the earlier OCC Interpretive Letter No. 380, this issue had been reserved for further analysis. In OCC Interpretive Letter No. 494, after a detailed legal analysis, the OCC concluded that any power with regard to futures and options on futures is not limited to transactions where the bank has the same power with respect to the underlying item. The letter found that agricultural futures contracts and options thereon are financial instruments in their own right. Because banks have the power to broker financial instruments for customers, the letter concluded that the proposed activity was permissible. The letter further noted that the power of banks to purchase and sell agricultural futures and options on those futures for its own account would require further analysis that would take into account additional considerations. The letter specifically suggested that a bank's use of agricultural futures or options thereon might be permissible

²⁴ OCC Interpretive Letter No. 380 (December 29, 1986), *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,604.

²⁵ OCC Interpretive Letter No. 494 (December 20, 1989), *reprinted in* [1989-1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,083.

where, for example, the bank is using the instruments to hedge its own exposure on the underlying commodity.

The ability of a bank to use cash-settled commodity futures and options on commodities not permissible for purchase by national banks to hedge its own risk was expressly analyzed in two subsequent OCC precedents. In the unmatched swaps letter, the OCC concluded that a national bank could act as principal in unmatched commodity price index swaps with its customers and hedge any unmatched commodity price risk exposure using exchange-traded commodity futures.²⁶ The futures would always be cash-settled, and the bank would not be required to receive or deliver any of the underlying commodities. Citing *BC 79* and *MII Deposit*, the OCC stated that the purchase and sale of futures contracts to hedge unmatched swaps is equivalent to using futures to hedge exposure on deposits or loans with interest rates linked to movements in the price of a commodity.

In a subsequent letter, the OCC considered a proposal for a swaps program that involved warehousing commodity index swaps and managing them on a portfolio basis.²⁷ In this case, each swap would be hedged with another swap transaction, an exchange-traded futures contract, or an OTC option. As before, the hedging transactions would all be cash-settled and at no time would the bank accept delivery of the underlying commodity. The OCC concluded that these activities were essentially the same as those covered in the unmatched swaps letter and approved the proposal. The OCC specifically noted that banks may use cash-settled commodity futures or options to hedge the risk from a permissible activity, in this case, the swaps transactions, but in no case may purchase those derivatives for their own account. The OCC specifically acknowledged that cash-settled OTC commodity options can serve as hedges and that other cash-settled derivatives involving closely related commodities would also be permitted as hedges.

Finally, in OCC Interpretive Letter No. 652,²⁸ the OCC concluded that a national bank may enter into equity swaps and equity derivative swaps and related hedging

²⁶ Unmatched swaps letter, *supra*. In the matched swaps letter, *supra*, the OCC had already concluded that engaging in matched commodity price index swaps was incidental both to the business of banking in general and the express power of "loaning of money on personal security." The OCC concluded that such swaps, even though based upon commodities that the bank could not buy and sell directly, were financial arrangements only, because the swaps did not involve delivery of the underlying commodity.

²⁷ Swaps warehousing letter, *supra*.

²⁸ OCC Interpretive Letter No. 652 (September 13, 1994), *reprinted in* [1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,600.

activities.²⁹ Citing the unmatched swaps letter and the swaps warehousing letter, both of which considered commodity price index swaps, the OCC concluded that similar activity involving equity-based swaps would be permitted and that the bank could hedge the risk arising from the swaps using cash-settled futures contracts, options and similar OTC instruments.

As described above, there is significant OCC precedent permitting bank use of futures and options thereon for hedging risks arising from permissible banking activities. In prior OCC letters, the banks were seeking to hedge against the direct effect of a change in market values on obligations to make payments tied to a particular asset. In all cases, the risk to be hedged was one that naturally arises from a permissible banking activity. OCC precedent permits the use of futures and options for hedging banking risks where the derivatives are based upon assets that ordinarily are not permissible national bank investments and are cash-settled. Although the OCC has not opined on the permissibility of a bank's purchase of options on commodity futures for hedging the specific lending risks presented here, the rationale in these OCC precedents supports the permissibility of the proposed hedging activity as long as it is conducted in a safe and sound manner. Just as in the OCC precedents described above, the activity is a permissible banking activity, the potential risk that naturally arises from that activity has been identified, and a derivative instrument may be used as an effective method to hedge against that risk.

The OCC has clearly acknowledged the utility and permissibility of a variety of derivatives for hedging purposes, including both exchange-traded and OTC options. The OCC has also clearly acknowledged the permissibility of the use of cash-settled futures and options even where the bank typically would not be authorized to trade or invest in the underlying commodity. Most relevant for the present request, the OCC has acknowledged the permissibility of hedging risk on commodity-based swaps with cash-settled commodity futures and options.³⁰

²⁹ The OCC has also concluded that national banks may use cash-settled options to hedge interest rate risk on deposits that pay interest at a rate based on the gain in designated equity indices. Broadman letter, *supra*.

³⁰ In OCC Interpretive Letter No. 632, *supra*, the bank indicated that it was engaged in a variety of commodity-linked transactions including making loans, taking deposits, and issuing debt instruments, and that it ordinarily used exchange-traded futures and options as well as over-the-counter spot, forward, and options contracts to hedge the risk on its commodity-linked transactions. In response to the bank's request in that case, the OCC ultimately concluded that the bank could also hedge in certain circumstances using the physical commodities because, in those circumstances, the physical commodities offered a more nearly perfect hedge.

Here, the bank would, when necessary, sell the options on commodity futures to realize value to offset loan losses in its agricultural portfolio. At no time would the bank exercise the options and take on the obligation under a futures contract to sell the underlying agricultural commodity.³¹ Because the proposed hedging transactions would be cash-settled and the bank would not make or take delivery of the underlying commodity, the use of options on futures on agricultural commodities for hedging purposes, if effectively managed, would present no greater or different risks to the bank than the use of other cash-settled derivatives on tangible commodities that the bank is not authorized to deal in directly.

C. Supervisory Concerns

As with any activity conducted by the bank, the hedging activity proposed by the bank must be carried out in accordance with safe and sound banking principles. The bank should review carefully the "Risk Management of Financial Derivatives" booklet (January 1997) in the *Comptroller's Handbook* and BC 277 on risk management practices for banks engaging in derivatives activities, to obtain guidance in developing the information necessary to demonstrate to the OCC that the proposed activity could be structured to achieve the bank's risk management objectives. The bank would not be expected to have fully developed all of the risk management systems called for in the handbook and BC 277 prior to requesting formal OCC concurrence that the proposed hedging activity is permissible. However, the information must be sufficiently detailed to demonstrate that the proposed risk management systems would effectively manage the activities to achieve the bank's risk management objectives in a safe and sound manner.

As already noted, the bank should provide detailed information regarding management expertise and the bank's internal controls and policies and procedures as they apply to the cash-settled hedges. Given the nature of the hedging activity proposed, the bank's policies and procedures governing the activity should establish both entry and exit strategies. The bank would need to develop a clear methodology for determining the amount of credit risk in its loan portfolio that the bank needs to hedge and the price at which the options should be purchased to provide adequate protection against that credit risk. The policies and procedures must also address questions of timing: when to purchase the options and when and un-

³¹ The bank may, when appropriate, foreclose on the loan collateral. Disposition of foreclosed collateral would be a separate transaction and would not be used in connection with the proposed hedging transactions. We do not address if and when it could be appropriate for a bank to make or take delivery of commodities underlying hedge transactions.

der what circumstances to sell the options. Although sale of the options in a declining market but in anticipation of actual loan losses may be appropriate, the bank's policies and procedures must establish objective criteria for sale of the options sufficient to demonstrate that the options would be used solely to hedge against losses and not for speculation or to provide an independent source of profit for the bank. Finally, given the size of the bank and its limited experience with the use of derivatives, your request proposing a new context for the use of derivatives for hedging purposes may raise unique supervisory concerns that need to be addressed. Before commencing the proposed cash-settled hedging activities, the bank would need to obtain the affirmation of the assistant deputy comptroller responsible for supervision of the bank, and the director of Treasury and Market Risk.

We hope that this information is helpful. If the bank wishes to obtain OCC approval of the proposed hedging activity, we recommend that you contact Assistant Deputy Comptroller Leigh R. Hoge at (918) 492-2082, or Kathryn E. Dick, the director of Treasury and Market Risk at (202) 874-5670, to discuss how to proceed with developing the necessary information.

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

897— October 23, 2000

12 USC 24(7)

Dear []:

This is in response to your letter of September 18, 2000, requesting confirmation that [] ("the bank") may acquire a 24.9 percent noncontrolling interest in [] (the "advisor"), a Delaware limited liability company that provides investment advisory and related services. For the reasons set forth below, the bank may acquire and hold the interest in the advisor, in the manner and as described herein.

A. Background

The bank proposes to make a minority, noncontrolling investment in the advisor, an investment advisor registered as such with the U.S. Securities and Exchange Commission ("SEC"). The advisor provides investment advisory and related services to its clients, which include private investment funds, high-net-worth individuals and their related interests, and institutional customers.

As part of its business, the advisor owns limited equity interests in private investment funds for which it serves as

investment manager, and may in the future own limited equity interests in public investment funds for which it serves as investment manager. The bank has represented that the advisor is compelled to make these investments in order to compete effectively in the investment advisory business due to (1) the demands of investors and the practices of competing investment advisors, (2) the structures required to provide tax treatment for investors comparable to that of investors in similar funds, and (3) the compensation arrangements required to attract and retain qualified staff. The investment funds may be organized as limited liability companies, corporations, or business trusts.¹ Certain of the investment funds for which the advisor serves as investment advisor may invest in securities and other financial assets in which a national bank ordinarily is not permitted directly to invest.²

The advisor proposes to own interests in funds it advises or subadvises only if the investment is necessary to attract investors into the investment fund and to structure tax-efficient performance compensation arrangements. Investments made for these purposes may also be used to provide performance-based compensation to investment management staff of the advisor. The advisor will invest only in funds that hold securities and financial instruments, and will not invest in any fund that includes real estate or tangible personal property. The advisor further proposes that it will hold an interest in funds containing bank-ineligible investments only while the advisor serves as an investment manager or subadvisor to the fund, and only if the terms of the instruments governing the fund allow the advisor to sell, redeem, or otherwise dispose of its investment if it no longer services the fund.

The advisor will limit the amount of its equity contributions to the funds in a variety of ways. The maximum investment by the advisor in any one new fund that contains bank-ineligible assets will not exceed 5 percent of a class of voting securities of the fund or 24.99 percent of the total equity of the fund, and will not exceed one percent of the equity capital of the fund at the time the advisor initially makes an investment.³ The aggregate investment by

¹ As described below, the advisor has indicated that it intends to continue to serve as general partner to eight existing private investment funds established in limited partnership form. The advisor will not, however, serve as general partner to any newly created funds. The existing private funds organized as limited partnerships do not employ leverage or derivatives, do not own controlling interests in any businesses, and do not own real property or other assets that are likely to generate liabilities.

² The advisor plans to invest only in funds that invest primarily in securities. Any non-securities investments will be limited to financial investments, will not include real estate or tangible personal property, and will not make significant use of leverage or derivatives.

³ As a result of unrealized gains allocated to the advisor's equity account for performance, the percentage of the equity of a fund

the advisor, measured at the time of the investment, in all such funds generally would be no greater than an amount equal to 10 percent of the bank's capital. In addition, the advisor will not invest more than an amount equal to the advisor's net equity capital minus the aggregate amount of the advisor's investment in plant, property, and equipment and working capital. The bank has represented that it will not guarantee the advisor's obligations or extend credit to the advisor.

1. Industry practice and competitive need

The bank represents that in order to perform the approved investment management and administrative activities described with respect to certain types of funds, investment advisors, as a practical matter, are compelled to take small stakes in the funds they manage. Many institutional and sophisticated individual investors expect and require the manager to invest to assure that the investment manager's interests are aligned with those of investors in the fund. These investors believe that such investment by the fund manager improves the quality of the service received by the fund from the investment manager. Thus, the bank states that it is now a standard industry practice for investment managers to invest in certain funds that they manage.⁴

As a result of amendments to the Federal Reserve's Regulation Y, investment management firms that are nonbank subsidiaries of bank holding companies are now permitted to own up to 5 percent of the voting shares of investment funds that the firm manages. These amendments, adopted by the Board of Governors of the Federal Reserve System in 1997, removed a prior restriction on

attributable to the advisor's capital account may in some unusual cases, for a brief period, exceed the percentages set forth above. The advisor's interest in the fund will be brought within the percentages within no more than six months.

⁴ See letter from [] (September 18, 2000) (citing bank's experience as investment manager and administrator of private "funds of funds," *i.e.*, funds that invest in multiple private funds that in turn invest in venture capital investments and private equity investments); Federal Reserve Interpretive Letter dated June 24, 1999 (First Union investment as principal in registered investment companies managed by subsidiary). See also, Robert Dunn, "Negotiations on Terms Become More Balanced," *Buyouts* (December 7, 1998) (investment managers of large buyout funds "consistently have been contributing larger sums to recent funds—largely based upon limited partner demands that the interests of the funds' management and its investors be aligned"); Debra Lau and Josh Kosman, "PSERS Plays Hardball, But Tries to Stay in Game," *Buyouts* (April 20, 1998) (Pennsylvania Public Schools Employee Retirement System invests only in private funds in which the investment manager invests in at least 5 percent of the total because "there is a higher probability that they will pay attention to the fund"); James Robinson, "JLW Bows to Client Pressure to Coinvest," *Estates Gazette* (July 25, 1998) (investment management principal quoted as saying "we are not seeking to co-invest, but we listen to the requirements of our clients").

such investments by a bank holding company or its nonbank subsidiaries that was originally adopted in 1972.⁵ Due to the 1997 amendments, the bank's competitors that are subsidiaries of bank holding companies are permitted to make the types of investments for which the bank is seeking authorization.

In a recent interpretive letter (issued before the Gramm-Leach-Bliley Act⁶ expanded the powers of holding companies), the Federal Reserve permitted a bank holding company to invest as principal in shares of investment funds serviced by the bank holding company in analogous circumstances.⁷ The Federal Reserve permitted the investment (which was as much as 100 percent of the initial capitalization of a series mutual fund, provided that amount was decreased to 24.9 percent within six months) on the theory that the purpose of the investment is "to facilitate [the bank holding company's] primary activity of providing investment advice and other services to the mutual funds, which is a permissible activity for bank affiliates under the Glass-Steagall Act."⁸

Other investment managers—including managers that are not bank affiliates, as well as investment managers that are subsidiaries of bank holding companies or of foreign banks—are permitted to make these investments, and do so. Many of the investment managers that directly compete with the advisor invest as principal in funds that those competitors manage and administer. The bank and the advisor believe that in order to offer the intended investment advisory and administrative activity and to compete effectively in its investment management business, the advisor must, as an incident to that activity, continue to invest as principal to a limited extent in the investment funds it advises. Bank represents that the advisor will be at a severe competitive disadvantage—both in terms of attracting and retaining investment management staff, and in attracting investors to its private investment funds—if it is not permitted to continue making these investments. Thus, to assure the other investors that the advisor's interests are aligned with their own, the advisor as a competitive matter needs to make small investments in funds it advises.

⁵ 62 *Fed. Reg.* 9290, 9303, 9343 (Feb. 28, 1997); 37 *Fed. Reg.* 1464 (Jan. 29, 1972), codified as amended at 12 CFR 225.125.

⁶ Public L. No. 106-102 (1999) ("GLBA").

⁷ Letter dated June 24, 1999, from Jennifer J. Johnson, secretary of the Board of Governors of the Federal Reserve System, to H. Rodgin Cohen.

⁸ *Id.*

2. Tax-efficient means to receive performance-based allocations

The bank also represents that in order to compete effectively in the investment management business, advisor must be able to offer the investors in its funds the maximum after-tax total returns possible. As described below, one means for the advisor to maximize these returns is for the advisor to structure the way it receives compensation for its services in a manner that is tax-efficient for its investors. The advisor believes that in order to receive its compensation in a tax-efficient manner, it is necessary for it to own at least a small initial investment in the funds it advises.⁹

The advisor receives performance-based compensation calculated as a percentage of a fund's total return. Performance-based compensation of investment advisers is a long-standing and common industry practice, particularly for institutional and high-net-worth clients, private investment funds, and specialized investment companies. In 1996, Congress amended the Investment Advisers Act to simplify the regulation of these arrangements and liberalize former restrictions, particularly in the context of non-U.S. clients, "qualifying client" funds, and "qualified purchaser" funds.¹⁰ The SEC has expanded upon the statutory liberalization through amendments to Advisers Act Rule 205-3 (17 CFR 275.205-3).¹¹ In proposing the revised rule, the SEC noted that the former restrictions "inhibit flexibility of advisers and their clients in establishing performance fee arrangements beneficial to both parties."¹² The SEC noted that:

[P]roponents of performance fees have argued that these arrangements may benefit both parties to the advisory contract because linking advisory compensation to performance may result in a closer alignment of the goals of the adviser and the client. If the goals of both parties coincide, then the benefits of performance arrangements would include fewer conflicts of interest

⁹ The U.S. Department of the Treasury and the Tax Court have not yet addressed whether, under the Internal Revenue Code (the "code"), a manager of a private investment fund is required to make a cash investment in the fund in order for the manager to receive its compensation in a manner that is tax-efficient for the other investors in the fund. In the absence of dispositive guidance from the tax authorities, the bank's counsel has advised the bank that it would be prudent from a tax point of view for the advisor to make investments in the funds it manages. The bank represents that many tax practitioners have given their investment manager clients similar advice.

¹⁰ National Securities Markets Improvement Act of 1996 § 210, 1041, Cong., 2d Sess. (1996).

¹¹ SEC Rel. No. IA - 1731 (July 15, 1998).

¹² SEC Rel. No. IA - 1682 (Nov. 13, 1997).

in advisory relationships. Better alignment of the goals of the adviser and the client might also result in more efficient investment and allocation of capital. Proponents also claim that performance fees may encourage better performance by rewarding good performance rather than linking compensation and assets under management as in more traditional arrangements. Thus, such arrangements may produce more cost-effective results than arrangements with more traditional fee structures.¹³

Performance compensation of a private investment fund's investment managers typically can be structured in either of two forms: (1) a fee based upon performance or (2) a performance-based allocation of income and gains to the equity account of the investment manager or its affiliate.

Most institutional investors in a private investment fund are indifferent as to whether performance-based compensation is structured as a performance fee or as an allocation to an equity account. In contrast, higher-income individual investors, trusts, and investors taxed as partnerships that in turn have individual or trust investors, prefer that performance compensation be structured as an allocation to the investment manager's equity account. Individual investors must report as income their proportionate share of the gross amount of a fund's income and gains before deducting investment-related fees and expenses paid by a private investment fund. However, there are limits on the deductibility by individuals and trusts of investment-related fees and expenses that may preclude higher-income individuals from deducting their full proportionate share of the fund's fees and expenses. Thus, the investor's *taxable* income attributable to the fund may be greater than the investor's proportionate share of the *net* income of the fund. By contrast, performance compensation in the form of a profit allocation by a fund is not required to be reported as income by investors who are not the recipients of the allocation, and thus investors' reportable income and gains exclude the share of the fund's profits allocated to the fund's advisor or manager.

Because performance compensation frequently is a substantial percent of the fund's returns, the limitation on deductibility can have a significantly adverse effect on individual investors in a private investment fund that uses a performance fee rather than a performance-based equity allocation to the investment manager. As a result, private investment funds traditionally have structured performance compensation as an equity allocation in order to be tax-efficient for individual investors. The advisor competes with nonbank investment managers that structure their performance compensation in this way. In order to compete effectively for investors for its private invest-

¹³ *Id.* (citations omitted).

ment funds, the advisor wishes to be able to continue to structure performance compensation for investment funds as an allocation to the advisor's equity interest in each fund.

3. Performance-based compensation of employees

Like many investment managers and securities firms, the advisor currently pays out a substantial part of its gross revenues to key staff members as performance-based compensation. Such compensation arrangements allow investment management firms to attract and retain staff members with compensation tied to performance. This also aligns the staff member's interests with those of the advisor and its clients. The advisor plans to pay its principal and investment management team annual bonuses that are a substantial percentage of the gross performance fees and allocations received by the advisor. If the advisor were not able to pay substantial performance-based compensation to its key investment management staff members, the bank represents that the advisor would have difficulty attracting and retaining qualified staff. Investment management employees with experience and an established track record in managing high-tech and small cap equity portfolios are very much in demand. To compete in this sector, the advisor must be able to pay staff members meaningful bonuses based upon successful investment performance.

To pay performance-based bonuses to its own staff, the advisor as a practical matter must receive performance-based compensation from its clients. To receive performance-based compensation in a manner that is tax-efficient to its taxable noncorporate clients, the advisor as a practical matter must own an equity investment in an investment fund in which such investors invest and receive a performance-based income allocation from the fund. Thus, ownership of equity interests in the investment funds managed by staff members can serve as an effective way for an investment management firm to fund obligations to employees under annual bonus arrangements, or under nonqualified employee benefit plans under which the amount of an employee's deferred compensation is indexed to the increase or decrease in the value of interests in the fund.

B. Analysis

In a variety of circumstances, the OCC has permitted national banks to own, either directly or indirectly through an operating subsidiary, a noncontrolling interest in an enterprise.¹⁴ The OCC has concluded that national banks are legally permitted to make such a noncontrolling invest-

ment provided four criteria or standards are met.¹⁵ These standards, which have been distilled from our previous decisions in the area of permissible noncontrolling investments for national banks and their subsidiaries, are:

- (1) The activities of the enterprise in which the investment is made must be limited to activities that are part of, or incidental to, the business of banking (or otherwise authorized for a national bank).
- (2) The bank must be able to prevent the enterprise from engaging in activities that do not meet the foregoing standard, or be able to withdraw its investment.
- (3) The bank's loss exposure must be limited, as a legal and accounting matter, and the bank must not have open-ended liability for the obligations of the enterprise.
- (4) The investment must be convenient or useful to the bank in carrying out its business and not a mere passive investment unrelated to that bank's banking business.

We conclude, as discussed below, that the bank's investment in the advisor will satisfy these four criteria.

1. The activities of the enterprise in which the investment is made must be limited to activities that are part of, or incidental to, the business of banking (or otherwise authorized for a national bank).

In the present case, the bank proposes to make a noncontrolling investment in a firm engaged in investment advisory activities. Thus, the advisor's activities must be analyzed to determine if they are part of, or incidental to, the business of banking. It is well recognized that national banks may engage in investment advisory activities as part of the business of banking. The advisor's basic activities clearly satisfy the first criterion. The advisor's limited investments in the funds it advises also meet the first criterion because they are useful and convenient in conducting its bank-permissible investment advisory activities. The proposed investments assure the fund's other investors that the investment advisor's interests are aligned with their own, provide tax treatment for investors that is comparable to that of investors in other similar funds, and provide the investment advisor with a mechanism for funding the performance-based compensation required by the investment advisor's key employees and staff. Investing in the funds is thus incidental to the business of banking. Moreover, as described below, the proposed investments are not prohibited by 12 USC 24(Seventh).

¹⁴ See, e.g., Conditional Approval Letter No. 219 (July 15, 1996).

¹⁵ See Interpretive Letter No. 692 (November 1, 1995); Interpretive Letter No. 694 (December 13, 1995).

a. *The advisor's activities are part of and incidental to the business of banking.*

As noted above, we analyze the advisor's activities to determine if they would be permissible for a national bank as part of, or incidental to, the business of banking. The OCC has long held that a national bank may provide investment advice as part of the business of banking authorized under 12 USC 24(Seventh) and pursuant to their fiduciary powers under 12 USC 92a, including acting as an investment adviser to an investment company.¹⁶ These activities also are expressly permitted for an operating subsidiary of a national bank under 12 CFR 5.34(e)(5)(v)(I), and for noncontrolling by a national bank under 12 CFR 5.36(e).

Section 24(Seventh) also gives national banks incidental powers to engage in activities that are incidental to enumerated bank powers as well as the broader "business of banking."¹⁷ Prior to VALIC, the standard that was often considered in determining whether an activity was incidental to banking was the one advanced by the First Circuit Court of Appeals in *Arnold Tours*.¹⁸ The *Arnold Tours* standard defined an incidental power as one that is "convenient or useful" in connection with the performance of one of the bank's established activities pursuant to its express powers under the National Bank Act.¹⁹ Even prior to VALIC, the *Arnold Tours* formula represented the narrow interpretation of the "incidental powers" provision of the National Bank Act. The VALIC decision, however, has established that the *Arnold Tours* formula should be read to provide that an incidental power includes one that is "convenient" or "useful" to the "business of banking," as well as a power incidental to the express powers specifically enumerated in 12 USC 24(Seventh). Thus, it would be considered incidental to a permissible bank activity for a national bank to invest in a fund to which it provides investment advice if, under the circumstances presented, that activity is confined to investments that are convenient

or useful to the clearly bank-permissible investment advisory activities conducted by the advisor.²⁰

In the context of the instant proposal, the ownership by the advisor of small interests in investment funds it manages is directly related to, and an essential part of, the advisor's activity of providing bank-permissible investment management and administrative services to the investment fund. The purpose of the proposed investments is to enable the advisor to act as an investment manager to the types of investment funds in which an ownership stake by the investment manager is necessary. The level of such investments by the advisor in any single fund and in the aggregate will be limited, and any income from these small investments would be overshadowed by revenues generated by the advisor's investment advisory and management activities. The proposed investments are not passive or speculative investments on the advisor's part; they are made solely to enable the advisor to provide investment management services as conducted by the advisor's competitors in the investment management industry, and will be held only when, and for so long as advisor is providing those services.

The bank has stated that institutional and sophisticated individual investors in private investment funds require that the manager invest in the fund as a means of assuring outside investors that the manager's interests are aligned with those of the outside investors. These investors believe that such investment by the fund manager improves the quality of the investment management services received by the fund from the investment manager. The bank has stated that, as a practical matter, in order to offer the funds it advises, the advisor must make these investments.

Investing in the funds it advises enables the advisor to receive its compensation in a manner that provides tax treatment to investors in a fund comparable to that of investors in similar funds. As described above, because performance-based compensation frequently is a substantial percentage of a fund's returns, the use of a performance-based allocation can have a significant effect on individual investors in a private investment fund. As a result, private investment funds traditionally have

¹⁶ See, e.g., Interpretive Letter No. 851 (December 8, 1999) reprinted in [1998–1999 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,308; Interpretive Letter No. 871 (October 14, 1999) reprinted in [1999–2000 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,365; Conditional Approval Letter No. 164 (December 9, 1994); Interpretive Letter No. 648 (May 4, 1994) reprinted in [1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,557; Interpretive Letter No. 647 (April 15, 1994), reprinted in [1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,558; Interpretive Letter No. 622 (April 9, 1993) reprinted in [1993–1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,557; Interpretive Letter No. 403 (December 9, 1987), reprinted in [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,627.

¹⁷ VALIC, *supra*, at 258 n. 2.

¹⁸ *Arnold Tours v. Camp*, 472 F.2d 427 (1st Cir. 1972) ("Arnold Tours").

¹⁹ *Id.* at 432.

²⁰ See letter from Julie L. Williams, first senior deputy comptroller and chief counsel, to [] (Oct. 1, 1999, unpublished) (expressing no objection to an investment advisor making small investments in funds it advises where such investments were necessary to conduct permissible advisory activities). See also Interpretive Letter No. 742 (August 19, 1996), reprinted in [1997–1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–106; Interpretive Letter No. 737 (August 19, 1996), reprinted in [1997–1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–101; Interpretive Letter No. 494 (December 20, 1989), reprinted in [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,083.

structured performance compensation as an equity allocation in order to prevent individuals from being disadvantaged by limits on the deductibility of performance-based compensation in the form of fees. Permitting the advisor to invest in the funds enables the bank to compete more effectively with entities that can offer this tax result to their individual investors.

Further, the advisor's investment in funds also enables it to offer competitive compensation to key staff members. A private investment fund manager typically must pay a substantial part of its gross revenues to the manager's key staff members as performance-based compensation. Such compensation arrangements are required for the investment managers to attract and retain high-quality staff. The bank has indicated that the advisor plans to pay its investment management staff annual bonuses that are a substantial percentage of the gross performance-based compensation received by the advisor. The bank has indicated that, as a practical matter, in order to fund the payment of performance-based bonuses to its staff, the advisor must charge its customers performance-based compensation. As described above, to charge performance based-compensation in a manner that is tax-efficient, the advisor must receive a performance-based allocation from the funds it manages.

In this regard, the OCC has approved various plans for funding employee compensation and benefit obligations through the acquisition of bank-eligible and -ineligible assets. For example, a national bank may hold investment funds, including funds that hold investment that otherwise would be impermissible, in order to hedge its obligations under a deferred employee compensation program.²¹ Under the deferred compensation program, employees were allowed to defer receiving a portion of their bonuses to a future date and use the change in value of certain indices or investments to benchmark the distribution value. The bank would purchase investments in funds that would match the benchmarks, and some of the funds would make investments that would not be permissible for a national bank.²² In addition, a national bank may establish a "rabbi trust" to provide reasonable deferred compensation for its officers and employees consistent with safety

²¹ See Interpretive Letter No. 878 (December 22, 1999), *reprinted in* [1999-2000 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,375. *Cf.* Federal Reserve Board Staff Letter to Anthony J. Horn, Chemical Banking Corporation, 1994 WL 904318 (Federal Reserve Bulletin) (July 22, 1994) (permitting such investments by a bank holding company at time Regulation Y prohibited investment by bank holding company in proprietary investment companies), Interpretive Letter No. 848 (November 23, 1998), *reprinted in* [1998-1999 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,303 (same result in context of national bank investment in insurance products to hedge obligations under deferred compensation plans).

²² See Interpretive Letter No. 878, *supra*.

and soundness considerations.²³ The rabbi trust may hold investments beyond those allowed for national banks without violating Section 24(Seventh).²⁴

Accordingly, in the instant case, because the advisor's ownership of limited equity interests in the funds it advises is restricted to a context where the holding is integral to facilitating a recognized bank-permissible activity, such holdings are permissible as an incident to the bank-permissible investment management activities of the advisor.

b. Holding an interest in funds in order to engage in the investment advisory business is not prohibited by 12 USC 24(Seventh).

Section 24(Seventh) addresses the ability of a national bank to underwrite and deal in securities. Specifically, Section 24(Seventh) provides that "[t]he business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe."

Here, the advisor would not be "dealing" in or "underwriting" securities prohibited for national banks by Section 24(Seventh). Although "dealing" and "underwriting" are not defined in Section 24(Seventh)²⁵ "dealing" in securities is generally understood to encompass the purchase of securities as principal for resale to others.²⁶ Dealing is

²³ See letter from Ellen Broadman, Director, Securities and Corporate Practices Division (January 19, 1995) (Unpublished).

²⁴ *Id.*

²⁵ Although the securities laws definitions are not dispositive in determining whether a particular type of securities activity is permitted for banks, these definitions provide a useful starting point for characterizing a bank's securities activities. Under Section 3 of the Securities Exchange Act of 1934, a "dealer" is defined as "any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not part of a regular business." 15 USC 78c(a)(5). Under the Securities Act of 1933, an "underwriter" includes "any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security." 15 USC 77(b)(a)(11).

²⁶ Interpretive Letter No. 393 (July 5, 1987), *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,617 (national bank with limited market presence not considered a dealer). See also Louis Loss, *Securities Regulation* 2983-84 (3d ed. 1990).

buying and selling as part of a regular business. A dealer typically maintains an inventory of securities and holds itself out to the public as willing to purchase and sell and continuously quote prices.²⁷ "Underwriting" is generally understood as encompassing the purchase of securities from an issuer for distribution and sale to investors.²⁸ Case law confirms that one cannot be an underwriter in the absence of a public offering.²⁹

Under the above definitions, the purchase by the advisor of interests in the funds it advises would not constitute "dealing" or "underwriting." The bank has represented that the advisor will invest in the funds solely for purposes of engaging in the investment advisory business. The advisor will not hold the interest in the funds in order to engage in a regular business of buying and selling them in the secondary market³⁰ and will not participate in a public offering of the securities to investors.

The ownership by the advisor of a small interest in the funds it advises would be a type of equity investment, and therefore is not the type of security subject to the limitations placed upon national banks' purchase of investment securities in 12 USC 24(Seventh) or in 12 CFR Part 1. The statutory definition of investment securities includes "marketable obligations evidencing the indebtedness of any person, copartnership, association or corporation in the form of bonds, notes, and/or debentures, commonly known as 'investment securities' " and gives the Comptroller the authority to define further that term. Accordingly, the OCC issued implementing regulations defining "investment securities" at 12 CFR Part 1. Under Part 1, an investment security is defined as "a 'marketable' debt obligation that is not predominantly speculative in nature."³¹ Equity securities do not represent debt obligations.

The language in the fifth sentence of Section 24(Seventh) "nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation" is not a blanket bar on national bank acquisitions of stock. Rather, as discussed below, that language was intended to make clear that the express

²⁷ *Citicorp, J.P. Morgan & Co. Inc., Banker Trust New York Corporation*, 73 Fed. Res. Bull. 473 n.4 (1987); OCC Interpretive Letter No. 684, *supra*.

²⁸ Interpretive Letter No. 388 (June 16, 1987), *reprinted in* [1998-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,612; Interpretive Letter No. 329 (March 4, 1985), *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,499.

²⁹ *SIA v. Board of Governors*, 807 F.2d 1052 (D.C. Cir. 1986), *cert. denied*, 483 U.S. 1005 (1987).

³⁰ The bank will not act as market maker in the securities by quoting prices continuously on both sides of the market.

³¹ 12 CFR 1.2(e).

authorization contained in the statute permitting banks to invest in "investment securities" does not include investments in stock. This proviso does not affect national banks' authority to hold equities, *if* the holding can qualify as permissible because it is part of or incidental to permissible banking activities.³²

In the present situation, the advisor's proposed noncontrolling investment enables it to engage in permissible banking activities and act as investment manager for investment funds that, in practice, require the manager to take an equity stake. The bank has stated that institutional and sophisticated individual investors in these funds require that the manager make the investments. In this connection, these investments enable the advisor to assure investors in its funds that the advisor's interests are aligned with their own, permit the advisor to offer funds that provide investors with a tax treatment comparable to that of investors in other, similar funds, and provide a means for the advisor to compensate its key staff on a competitive basis. The bank has stated that the advisor would be unable to offer these funds on a competitive basis unless the advisor makes these investments. Based on these circumstances, the proposed investments are an essential component of investment management services provided by the advisor to the investment funds. Therefore, the first standard is satisfied.

2. *The bank must be able to prevent the enterprise from engaging in activities that do not meet the foregoing standard, or be able to withdraw its investment.*

This is an obvious corollary to the first standard. It is not sufficient that the entity's activities are permissible at the time a bank initially acquires its interest; they must also remain permissible for as long as the bank retains an ownership interest.

The bank has represented that, under the terms of the advisor's operating agreement (the "operating agreement"), the bank has the ability to prevent the advisor from engaging in impermissible activities. The operating agreement will limit the advisor's activities to those that are part of, or incidental to, the business of banking and that are permissible activities for a national bank. In addition, the operating agreement will provide that the advisor will not engage in any new business activity disapproved by the bank. Thus, the bank, while holding a noncontrolling interest in the advisor, will nonetheless be able to prevent the advisor from engaging in any activity that is

³² The legislative history of the language in the fifth sentence of Section 24(Seventh) is discussed in detail in Interpretive Letter 892 (September 13, 2000).

not permissible for a national bank.³³ Accordingly, the second standard is satisfied.

3. *The bank's loss exposure must be limited as a legal and accounting matter, and the bank must not have open-ended liability for the obligations of the enterprise.*

a. Loss exposure from a legal standpoint

A primary concern of the OCC is that national banks should not be subject to undue risk. Where an investing bank will not control the operations of the entity in which the bank holds an interest, it is important that the national bank's investment not expose the bank to unlimited liability. As a legal matter, an investor in a Delaware limited liability company will not incur liability with respect to the liabilities or obligations of a limited liability company solely by reason of being a member or manager of the company.³⁴ The bank's loss exposure for the liabilities of the advisor will be limited to the amount of its investment.

b. Loss exposure from an accounting standpoint

In assessing a bank's loss exposure as an accounting matter, the OCC has previously noted that the appropriate accounting treatment for a bank's 20–50 percent ownership share in a limited liability company is to report it on an unconsolidated basis. Under the equity method of accounting, unless the bank has extended a loan to the entity, guaranteed any of its liabilities or has other financial obligations to the entity, losses are generally limited to the amount of the investment shown on the investor's books.³⁵ The bank has represented that it will not guarantee any obligation of, or extend credit to, the advisor. The bank will account for its noncontrolling investment in the advisor under the equity method of accounting.³⁶ The bank's loss exposure from an accounting perspective will be limited to the amount of its investment.

³³ The bank has also represented that the advisor will invest as principal in an investment fund that invests in bank-ineligible assets only if the terms of the instruments governing the fund permit the advisor to withdraw, transfer, or sell its investment within a reasonable period after such time that advisor resigns or is removed as an investment manager to the fund. Thus, the manner in which the advisor uses its investments in the funds will remain consistent with activities that are part of the business of banking.

³⁴ See Del. Code Ann. Title 6, § 18–303 (1999).

³⁵ See generally Interpretive Letter No. 692 (November 1, 1995), reprinted in [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,007.

³⁶ Under the equity method of accounting, the bank's financial statements will reflect its investment in the advisor. Investments made by the advisor are not consolidated with assets held by the bank on the bank's financial statements.

Therefore, for both legal and accounting purposes, the bank's potential loss exposure arising from its investment in the advisor should be limited to the amount of the investment.³⁷ Since that exposure will be quantifiable and controllable, the third standard is satisfied.

4. *The investment must be convenient or useful to the bank in carrying out its business and not a mere passive investment unrelated to that bank's business.*

The bank represents that its investment in the advisor is convenient and useful to the bank as an extension of the investment management business that is conducted in the bank. The investment is convenient and useful to the bank in providing the bank with access to the advisor's expertise in the management of growth-equity, technology and small cap investments, private investment fund management, and in providing the bank with access to high-net-worth individuals and families. In this connection, the bank is establishing a representative office at the advisor's location and will seek introductions to clients of the advisor. The advisor will serve as a subadvisor for a family of new private investment funds for which the bank acts as manager and advisor, and for which an affiliate of the

³⁷ The bank also has represented that the advisor's loss exposure would be limited by the legal structure of the funds in which it would invest. The new funds in which the advisor proposes to invest will be limited liability companies, corporations, business trusts, or other similar limited liability entities in which the risk of loss will be limited to the amount of the advisor's equity investment. The advisor will not invest in any new fund as to which investors have unlimited liability. The advisor will not invest in a fund that will be consolidated with the advisor for accounting purposes. Accordingly, the advisor's loss exposure also will be limited as a legal and accounting matter. As described above, the advisor plans to continue to serve as general partner in a small number of existing private investment funds established in limited partnership form. The advisor has represented that it will not, however, serve as general partner to any newly created funds. National banks are not permitted to be partners in general partnerships due to the potential unlimited liability for the acts of other partners within the scope of the partnership. *Merchants National Bank v. Wehrmann*, 202 U.S. 295 (1906). In the case of the existing private investment funds, the advisor would be the sole general partner. Thus, there would be no other partners for whom the advisor would be liable. Moreover, national banks may enter into general partnerships that engage in bank-permissible activities because the corporate veil of the subsidiary corporation protects the bank from the potentially open-ended exposure associated with a direct partnership investment. Corporate Decision No. 2000–07 (May 10, 2000); Interpretive Letter No. 697 reprinted in [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,012 (Nov. 15, 1995); Interpretive Letter No. 289 reprinted in [1983–1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,453 (May 15, 1984). In this case, the bank would not be the general partner in the existing private investment funds organized as limited partnerships, but would merely own an interest in the advisor, which would be the entity acting as general partner. Because the partnership interest is not held by the bank, but rather by the advisor which would be a separate limited liability company, the bank should be shielded from unlimited liability.

bank acts custodian. The principal of the advisor will become a senior advisor to the bank and will seek to introduce clients to the bank for trust and investment management services. For these reasons, the investment in the advisor is convenient and useful to the bank in carrying out its business and not a mere passive investment. The proposed investments are thus directly related to the bank's investment management business. Accordingly, the fourth standard is satisfied.

C. Conclusion

Based upon a thorough review of the information you provided, including the representations and commitments made in your letter, and for the reasons discussed above, we conclude that the bank may make a non-controlling equity investment in the advisor, subject to the following conditions:

- (1) If the bank's capital falls below the level required for it to be "well-capitalized" as determined by the OCC, the advisor may maintain its investments in existing funds it advises or subadvises but shall not invest in any new funds.
- (2) The bank, the advisor and the bank's subsidiaries shall be deemed "affiliates" of any investment company advised or subadvised by the bank or the advisor for purposes of Sections 23A and 23B of the Federal Reserve Act.
- (3) The bank shall not extend credit to the advisor. The bank shall not make loans to any persons to fund investments in the investment funds advised or subadvised by the advisor. The bank's aggregate advances to the funds advised by the bank or the advisor shall not exceed an amount equal to the bank's legal lending limit.
- (4) Prior to making the proposed investment in the advisor, the bank shall adopt and implement an appropriate risk management process to monitor principal investments made by the advisor in funds advised or subadvised by the advisor. The bank's risk management process shall be comprehensive and shall include:
 - (i) Adoption and implementation of a conflict of interest policy addressing all inherent conflicts associated with purchases and sales by the advisor in funds it advises or subadvises;
 - (ii) Adoption and implementation of risk management policies and procedures for monitoring the investments made by the advisor in the funds it advises or subadvises and the risks associated with those investments, taking into account relevant factors noted in OCC guidance (*e.g.*, OCC

Banking Circular 277 (BC 277, October 1993), Supplemental Guidance 1 to BC 277 (January 1999), and "Risk Management of Financial Derivatives" booklet (January 1997) in the *Comptroller's Handbook*; and

- (iii) Obtaining periodic reports from the advisor on the investments in funds it advises or subadvises, including information on the advisor's risk management policies and procedures.

The bank shall provide the OCC with copies of the policies and procedures described in (i) and (ii) prior to making the proposed investment in the advisor.

- (5) The bank shall ensure that the advisor adopts and adheres to the following limits for the advisor's investments in new funds it advises or subadvises that contain bank-ineligible assets:
 - (i) *Individual fund basis*- the advisor's maximum investment in a fund it advises or subadvises shall not exceed 5 percent of a class of voting securities or 24.99 percent of total equity of the fund, and shall not exceed 1 percent of the equity capital of the fund measured at the time the advisor makes the investment;³⁸
 - (ii) *Aggregate funds basis*- the advisor's maximum aggregate investment, measured at the time of the investment, in all such funds shall not exceed an amount equal to 10 percent of the bank's capital;
 - (iii) *Types of funds*- the advisor shall not invest in funds it advises or subadvises other than those that invest in securities and financial instruments, and the advisor shall not invest in any fund that holds real estate or tangible personal property; and
 - (iv) *Funds organized as partnerships*- the advisor shall not invest as principal in any funds it advises or subadvises that are established in limited partnership form other than the existing funds described in the letter from David F. Freeman, Jr., dated September 18, 2000 (the "existing funds").
- (6) The bank shall ensure that the advisor shall not invest additional amounts in the existing funds.

³⁸ As a result of unrealized gains allocated to the advisor's equity account for performance, the percentage of the equity of a fund attributable to the advisor's capital account may in some unusual cases, for a brief period, exceed the percentages set forth above. The advisor's interest in the fund will be brought within the percentages within no more than six months.

- (7) The bank shall obtain reports from the advisor as necessary for the bank to determine compliance with these imposed conditions and to evaluate the risks and effectiveness of risk management associated with the bank's arrangement with the advisor. The bank shall make such reports and other information in the bank's possession readily available to OCC supervisory staff as necessary for the OCC to determine compliance with these imposed conditions and to evaluate the risks and the effectiveness of risk management associated with the bank's arrangement with the advisor. The advisor shall be subject to OCC supervision and examination, subject to the limitations contained in 12 USC 1831v.
- (8) The advisor shall engage only in activities that are part of, or incidental to, the business of banking.
- (9) The bank shall have, in some fashion, and exercise veto power over any activities and major decisions of the advisor that are inconsistent with condition (8) above, or, in the alternative, shall withdraw from the advisor in the event that the advisor engages in an activity that is inconsistent with condition (8).
- (10) The bank will account for its investment in the advisor under the equity method of accounting.
- (11) The bank shall not acquire a majority interest in the advisor without submitting an application to the OCC and obtaining prior approval.

These conditions are conditions imposed in writing by the OCC in connection with its action on the bank's request for a legal opinion confirming that its investment is permissible under 12 USC 24(Seventh) and, as such, may be enforced in proceedings under applicable law.

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

898— July 14, 1998

12 USC 24(7)
12 USC 24(10)

Dear []:

This is in response to your letter dated May 7, 1998, requesting confirmation that [] ("bank"), may lawfully acquire and hold a 10 percent to 20 percent noncontrolling equity interest in [], a holding company engaged in the origination, purchase, and securitization of prime auto leases. For the reasons set forth below, it is our opinion that this transaction is legally permissible in the manner and as described herein.

I. Background

The bank proposes to acquire a noncontrolling equity interest [] in exchange for providing warehouse financing for [] and thereby reducing the cost of funds for []'s wholly owned operating leasing subsidiary, [] ("op sub"). [] conducts its origination, purchase, and securitization of prime auto leases as authorized for national banks under 12 CFR 5.34(e)(2)(ii)(M). Bank will acquire an equity interest in [] in connection with a financing strategy designed to reduce [op sub]'s cost of funds. On the closing date of the proposed warehouse financing with bank, and as additional consideration for such financing, [] will issue to bank a warrant to purchase preferred or common stock entitling bank to 10 percent of []'s common stock.¹ As long as the warehouse financing remains in place, bank will receive additional warrants to purchase preferred or common stock entitling bank to a maximum of an additional 10 percent of []'s common stock, thereby raising bank's equity interest in [] to as much as 20 percent of []'s common stock.

Bank will lend funds on a revolving basis to a subsidiary of [op sub] that will hold the beneficial interest in the lease assets. As payments are collected on the automobile leases, they will either be passed on to bank to reduce outstanding balances under the revolving loans or invested in the acquisition of new leases. In addition, [] and [op sub] will establish a titling trust in order to facilitate the securitization of automobile lease assets. The leases in the titling trust will be securitized by identifying a discrete pool of leases and subsequently transferred to a securitization trust as collateral for a securitization. The proceeds from the issuance of trust certificates by the securitization trust will be used to repay the funds advanced by bank.²

II. Discussion

National Bank Express and Incidental Powers (12 USC 24(Seventh))

The bank's plan to purchase and hold up to a 20 percent interest in [] raises the issue of the authority of a national bank to make a noncontrolling investment in an en-

¹ The [] preferred stock is immediately convertible into common stock.

² Bank anticipates that [], Inc. (formerly [] Corp.), a securities subsidiary affiliate of bank, will serve as placement agent or underwriter in the issuance of the trust certificates to institutional investors.

ity.³ A number of recent OCC interpretive letters have analyzed the authority of national banks, either directly or through their subsidiaries, to own a noncontrolling interest in an enterprise. These letters each concluded that the ownership of such an interest is permissible provided four standards, drawn from OCC precedents, are satisfied.⁴ They are:

1. The activities of the entity or enterprise in which the investment is made must be limited to activities that are part of, or incidental to, the business of banking;
2. The bank must be able to prevent the enterprise from engaging in activities that do not meet the foregoing standard, or be able to withdraw its investment;
3. The bank's loss exposure must be limited, as a legal and accounting matter, and the bank must not have open-ended liability for the obligations of the enterprise; and
4. The investment must be convenient and useful to the bank in carrying out its business and not a mere passive investment unrelated to that bank's banking business.

Based upon the facts presented, the bank's proposal satisfies these four standards.

1. The activities of the entity or enterprise in which the investment is made must be limited to activities that are part of, or incidental to, the business of banking.

Our precedents on noncontrolling ownership have recognized that the enterprise in which the bank holds an interest must confine its activities to those that are part of, or incidental to, the conduct of the banking business.⁵

³ The OCC recently amended its operating subsidiary rule, 12 CFR 5.34, as part of a general revision of Part 5 under the OCC's Regulation Review Program. Operating subsidiaries in which a national bank may invest include corporations, limited liability companies, or similar entities if the parent owns (1) more than 50 percent of the voting (or similar type of controlling) interest, or (2) less than 50 percent so long as the bank "controls" the subsidiary and no other party controls more than 50 percent. 12 CFR 5.34(d)(2). Here, [] will not be considered an operating subsidiary since the bank will not "control" [].

⁴ See, e.g., Interpretive Letter No. 697, *reprinted in* [1995-1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81-013 (November 15, 1995); Interpretive Letter No. 732, *reprinted in* [1995-1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81-049 (May 10, 1996). See also 12 CFR 5.36(b). National banks are permitted to make various types of equity investments pursuant to 12 USC 24(Seventh) and other statutes.

⁵ See, e.g., Interpretive Letter No. 380, *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,604 n.8 (December 29, 1986) (since a national bank can provide options-clearing services to customers it can purchase stock in a corporation providing options-clearing services); letter from Robert B. Serino,

As discussed above, bank has represented that [] and its subsidiaries will engage in the organization, purchase, and securitization of prime auto leases as authorized for national banks by 12 CFR 5.34(e)(2)(ii)(M). See also, 12 USC 24(Seventh) (lending and leasing activities) and 24(Tenth) (leasing activities); and 12 CFR Part 23 (personal property leasing). The sale of such assets to a third party for the purposes of securitization is permissible for national banks under a long line of OCC precedents recognizing the authority of national banks to sell loan assets and further recognizing that the Glass-Steagall Act does not restrict the means by which national banks may sell such assets.⁶ Thus, we conclude that the activities to be conducted by [] are activities that are part of, or incidental to, the business of banking.

2. The bank must be able to prevent the enterprise from engaging in activities that do not meet the foregoing standard, or be able to withdraw its investment.

The activities of the enterprise in which a national bank may invest must be part of, or incidental to, the business of banking not only at the time the bank first acquires its ownership, but for as long as the bank has an ownership interest. This standard may be met if the bank is able to exercise a veto power over the activities of the enterprise, or is able to dispose of its interest. This ensures that the bank will not become involved in impermissible activities.⁷

Bank will have the ability to prevent [] and its subsidiaries from engaging in impermissible activities consistent with prior OCC interpretive letters. The bylaws of [] will be amended to provide that [] and its subsidiaries shall only engage in activities that are permissible for national banks and that bank shall have the right to veto any proposed activities that are not permissible for national banks. In addition, the bylaws of [] also will be amended to provide that the business and operations of [] and its subsidiaries will be subject to the regulation, supervision, and examination of the OCC.

Therefore, the second standard is satisfied.

deputy chief counsel (November 9, 1992) (since the operation of an ATM network is "a fundamental part of the basic business of banking," an equity investment in a corporation operating such a network is permissible).

⁶ See, e.g., OCC Interpretive Letter No. 585, *reprinted in* [1992-1993 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83-406 (June 8, 1992) (automobile loan receivables); Interpretive Letter No. 416, *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85-640 (February 16, 1988) (leases and motor vehicle installment sales contracts).

⁷ See, e.g., Interpretive Letter No. 711, *reprinted in* [1995-1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81-026 (February 3, 1996); Interpretive Letter No. 625, *reprinted in* [1993-1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,507 (July 1, 1993).

3. *The bank's loss exposure must be limited, as a legal and accounting matter, and the bank must not have open-ended liability for the obligations of the enterprise.*

a. Loss exposure from a legal standpoint

A primary concern of the OCC is that national banks should not be subjected to undue risk. Where an investing bank will not control the operations of the entity in which the bank holds an interest, it is important that the national bank's investment not expose it to unlimited liability. As a legal matter, bank's losses will be limited by statute. Under Delaware law, the corporate structure of [] will protect bank from potentially unlimited exposure. Del. Code Ann. tit. 8, § 101 to 398. Thus, the bank's loss exposure for the liabilities of [] and its subsidiaries will be limited by statute.

b. Loss exposure from an accounting standpoint

In assessing a bank's loss exposure as an accounting matter, the OCC has previously noted that the appropriate accounting treatment for a bank's minority investment in a company is to report it as an unconsolidated entity under the equity method of accounting. Under this method, unless the bank has guaranteed any of the liabilities of the entity or has other financial obligations to the entity, losses are generally limited to the amount of the investment, including loans and other advances shown on the investor's books.⁸

As proposed, bank will have an ownership interest in [] from between 10 percent and 20 percent. Bank will account for its investment in [] under the equity method of accounting. Thus, bank's loss from an accounting perspective would be limited to the amount invested in [] and bank will not have any open-ended liability for the obligations of [] or its subsidiaries.

Therefore, for both legal and accounting purposes, bank's potential loss exposure relative to [] and its subsidiaries should be limited to the amount of its investment in those entities. Since that exposure will be quantifiable and controllable, the third standard is satisfied.

4. *The investment must be convenient and useful to the bank in carrying out its business and not a mere passive investment unrelated to that bank's banking business.*

Twelve USC 24(Seventh) gives national banks incidental powers that are "necessary" to carry on the business of

⁸ See generally, Accounting Principles Board, Op. 18 § 19 (1971) (equity method of accounting for investments in common stock). Interpretive Letter No. 692 (November 1, 1995), reprinted in [1995-1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81-007.

banking. "Necessary" has been judicially construed to mean "convenient or useful." See *Arnold Tours, Inc. v. Camp*, 472 F.2d 427, 432 (1st Cir. 1972). Our precedents on bank noncontrolling investments have indicated that the investment must be convenient or useful to the bank in conducting *that bank's* business. The investment must benefit or facilitate that business and cannot be a mere passive or speculative investment.⁹

[] is an established automobile lending and leasing company. By expanding its role in the automobile lending and leasing industry bank will be able to gain valuable experience and expertise through [], and leverage that experience and expertise for bank's own benefit and that of its customers. For these reasons, bank's investment in the LLC is convenient and useful to bank in carrying out its business and is not a mere passive investment. Thus, the fourth standard is satisfied.

III. Conclusion

Based upon the information and representations you have provided, and for the reasons discussed above, it is our opinion that bank is legally permitted to acquire and hold a non-controlling interest in [] in the manner and as described herein, subject to the following conditions:

1. [] will engage only in activities that are part of, or incidental to, the business of banking;
2. Bank will have veto power over any activities and major decisions of [] that are inconsistent with condition number one, or will withdraw from [] in the event they engage in an activity that is inconsistent with condition number one;
3. Bank will account for its investment in [] under the equity method of accounting; and
4. [] will be subject to OCC supervision, regulation, and examination.

These conditions are conditions imposed in writing by the OCC in connection with its action on the request for a legal opinion confirming that bank's investment is permissible under 12 USC 24 (Seventh) and, as such, may be enforced in proceedings under applicable law.

⁹ See, e.g., Interpretive Letter No. 697, *supra*; Interpretive Letter No. 543, reprinted in [1990-1991 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,255 (February 13, 1991); Interpretive Letter No. 427, reprinted in [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,651 (May 9, 1988); Interpretive Letter No. 421, reprinted in [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,645 (March 14, 1988); Interpretive Letter No. 380, *supra*.

If you have any questions, please contact John Soboeiro, senior attorney, at (202) 874-5300.

Raymond Natter
Acting Chief Counsel

899— May 15, 2000

12 USC 84 12 CFR 32.3(c)(5)

David L. Wirth
Executive Director
Illinois Farm Development Authority
427 East Monroe
Suite 210
Springfield, Illinois 62701

Dear Mr. Wirth:

This is in response to your recent letter concerning national bank lending limit exemptions and Illinois Farm Development Authority (IFDA) loan guarantees. The facts set out in your letter are as follows.

Illinois state-chartered banks have been receiving lending limit exemptions on IFDA loan guarantees since 1986. National banks have been unable to receive a similar lending limit exemption due to the regulation in 12 CFR 32.3(c)(5). Until now, there was no clear legal authority to consider the IFDA loan guarantees as backed by the full faith and credit of the state of Illinois. You recently received a letter from Illinois Attorney General Jim Ryan dated March 7, 2000 (AG letter), wherein he renders his opinion that the state of Illinois has pledged its full faith and credit to back the guarantees issued by the IFDA. In light of the AG letter you seek our determination that loans guaranteed by the IFDA are exempt from the national bank legal lending limit.

The AG letter determined that Public Act 91-386 (effective January 1, 2000) amended the Illinois Farm Development Act to delete the limits that were placed on the amounts that could be transferred into the guarantee funds that backed the IFDA guarantees. Those limits were replaced by language that permits the IFDA to transfer to the funds "such amounts as are necessary to satisfy claims" made

under the IFDA guarantees. The AG letter further determined that the amended Illinois Farm Development Act "constitutes and irrevocable and continuing appropriation of the amounts necessary to secure the guarantees as defaults occur."

In general, a national bank's loans to one borrower are limited to 15 percent of the bank's capital. 12 USC 84; 12 CFR 32.3(a). OCC rules provide that certain types of loans and extensions of credit are not subject to the lending limits. Among those exemptions are:

... loans or extensions of credit, including portions thereof, to the extent guaranteed or secured by a general obligation of a State or political subdivision and for which the lending bank has obtained the opinion of counsel that the guarantee or collateral is a valid and enforceable general obligation of that public body.

12 CFR 32.3(c)(5)

Under OCC rules a general obligation of a state or political subdivision means: "An obligation supported by the full faith and credit of an obligor possessing general powers of taxation, including property taxation . . ." 12 CFR 1.2(b). It is clear under the AG letter that IFDA guarantees are general obligations of the state of Illinois because they are supported by the full faith and credit of the state of Illinois. Therefore, loans guaranteed by the IFDA qualify for the lending limit exemption to the extent of the guarantee.

The general obligation exemption requires the lending bank to obtain an opinion of counsel that the guarantee is a valid and enforceable obligation of the state. The national banks that will need to rely on this exemption typically will be smaller national banks. Because the expense of obtaining an opinion of counsel may be prohibitive for many of these banks, the OCC will not require national banks to obtain an opinion of counsel to take advantage of the IFDA guarantees but will allow national banks to rely on the AG letter.

We trust this is responsive to your inquiry. If you have any further questions feel free to contact me or Senior Attorney Daniel C. Jordan at (312) 360-8805.

Coreen S. Arnold
District Counsel
Central District

Mergers—October 1 to December 31, 2000

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**Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks),
from October 1 to December 31, 2000**

Title and location (charter number)	Total assets
Minnesota	
Community National Bank, North Branch (016929)	36,517,000
and Lakeland National Bank, Lino Lakes (023602)	24,665,000
merged on December 1, 2000 under the title of Community National Bank, North Branch (016929)	61,922,000
Mississippi	
Britton & Koontz First National Bank, Natchez (013722)	237,009,000
and Louisiana Bank & Trust Company, Baton Rouge	42,394,000
merged on December 1, 2000 under the title of Britton & Koontz First National Bank, Natchez (013722)	279,403,000
Nebraska	
First National Bank of Omaha, Omaha (000209)	4,415,584,000
and First State Bank, Frisco	19,400,000
merged on December 15, 2000 under the title of First National Bank of Omaha, Omaha (000209)	4,434,984,000
Texas	
Security Bank National Association, Garland (018660)	107,325,000
and The State National Bank of Caddo Mills, Caddo Mills (012936)	37,378,000
merged on December 4, 2000 under the title of Security Bank National Association, Garland (018660)	142,493,000
Virginia	
First Community Bank, National Association, Bluefield (023892)	1,114,263,000
and Citizens Southern Bank, Inc., Beckley	64,955,000
merged on October 31, 2000 under the title of First Community Bank, National Association, Bluefield (023892)	1,174,191,000

**Nonaffiliated mergers-thrift (mergers consummated involving nonaffiliated national banks
and savings and loan associations), from October 1 to December 31, 2000**

Title and location (charter number)	Total assets
Minnesota	
ING National Trust, Minneapolis (024033)	1,986,000
and Aethna Trust Company, F.S.B., Hartford	3,300,000
merged on December 13, 2000 under the title of ING National Trust, Minneapolis (024033).....	5,286,000

**Affiliated mergers (mergers consummated involving affiliated operating banks),
from October 1 to December 31, 2000**

Title and location (charter number)	Total assets
Arkansas	
The First National Bank in Blytheville, Blytheville (014389)	149,501,000
and The Merchants & Planters Bank, Manila	27,242,000
merged on October 10, 2000 under the title of The First National Bank in Blytheville, Blytheville (014389)	176,708,000
California	
Wells Fargo Bank, National Association, San Francisco (001741)	101,188,000,000
and First Security Bank of California, National Association, West Covina (017052)	1,233,122,000
merged on December 16, 2000 under the title of Wells Fargo Bank, National Association, San Francisco (001741)	102,421,122,000
Colorado	
Wells Fargo Bank West, National Association, Denver (003269)	13,164,891,000
and First Commerce Bank of Colorado, National Association, Monument (023825)	2,836,000
merged on December 21, 2000 under the title of Wells Fargo Bank West, National Association, Denver (003269)	13,167,727,000
Indiana	
Integra Bank National Association, Evansville (012132)	903,766,000
and Bank of Illinois, National Association, Mt. Vernon (010460) on July 14, 2000	188,720,000
and Community First Bank, National Association, Maysville (003291) on September 15, 2000	161,284,000
and The First National Bank of Bridgeport, Bridgeport (008347) on July 14, 2000	37,932,000
and The Progressive Bank, National Association, Lexington (008604) on September 15, 2000	151,619,000
and Trigg County Farmers Bank, Cadiz on July 14, 2000	91,978,000
and Illinois One Bank, National Association, Shawneetown (014265) on July 14, 2000	131,061,000
and The Ripley County Bank, Osgood on September 15, 2000	105,093,000
and First Bank of Huntingburg, Huntingburg on May 19, 2000	105,004,000
and First Kentucky Bank, Sturgis on May 19, 2000	224,974,000
and White County Bank, Carmi on May 19, 2000	58,670,000
merged on those respective dates under the title of Integra Bank National Association, Evansville (012132)	2,222,299,000
Kentucky	
Whitaker Bank, National Association, Lexington (022246)	178,151,000
and Powell County Bank, National Association, Campton (024059)	107,817,000
merged on September 30, 2000 under the title of Whitaker Bank, National Association, Lexington (022246)	285,968,000
Louisiana	
Whitney National Bank, New Orleans (014977)	5,000,000
and Bank of Houston, Houston	175,643,000
merged on October 6, 2000 under the title of Whitney National Bank, New Orleans (014977)	5,175,643,000
Minnesota	
U.S. Bank National Association, Minneapolis (013405)	75,957,000
and Scripps Bank, La Jolla	643,000
merged on October 13, 2000 under the title of U.S. Bank National Association, Minneapolis (013405)	76,717,000
Bank Midwest, Minnesota Iowa, National Association, Fairmont (013095)	245,804,000
and Bank Midwest of Cottonwood County, Windom	82,424,000
merged on October 9, 2000 under the title of Bank Midwest, Minnesota Iowa, National Association, Fairmont (013095)	328,228,000
Bremer Bank, National Association, Moorhead (023204)	210,096,000
and Bremer Bank, National Association, Detroit Lakes (023288)	148,584,000
merged on November 1, 2000 under the title of Bremer Bank, National Association, Moorhead (023204)	358,680,000
BNC National Bank of Minnesota, Minneapolis (022973)	175,186,000
and BNC National Bank, Bismarck (022352)	412,099,000
merged on November 20, 2000 under the title of BNC National Bank, Minneapolis (022973)	579,352,000
Missouri	
The First National Bank of Gallatin, Gallatin (005827)	64,553,000
and Farmers Bank of Northern Missouri, National Association, Centerville (023007)	167,860,000
merged on December 4, 2000 under the title of Farmers Bank of Northern Missouri, National Association, Unionville (005827)	232,413,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Nebraska	
First National Bank, Beemer (006818)	45,760,000
and Citizens Bank, Bancroft	11,873,000
merged on October 1, 2000 under the title of First National Bank, Beemer (006818)	57,633,000
Charter West National Bank, West Point (018601)	53,500,000
and Charter West National Bank, Pender (008685)	24,513,000
merged on September 30, 2000 under the title of Charter West National Bank, West Point (018601)	78,013,000
North Carolina	
Wachovia Bank, National Association, Winston-Salem (001559)	66,610,436,000
and National Bank of Commerce, Winter Park (020460)	216,318,000
merged on October 19, 2000 under the title of Wachovia Bank, National Association, Winston-Salem (001559)	66,826,754,000
Ohio	
Firststar Bank, National Association, Cincinnati (000024)	36,506,629,000
and Mercantile Trust Company National Association, St. Louis (022666)	70,363,000
and Firststar Bank Missouri, National Association, St. Louis (023973)	1,000
merged on August 11, 2000 under the title of Firststar Bank, National Association, Cincinnati (000024)	36,576,993,000
KeyBank National Association, Cleveland (014761)	75,907,839,000
and Key Trust Company of Indiana, National Association, Indianapolis (022802)	17,039,000
and KeyTrust Company National Association, Portland (023310)	29,370,000
and Keytrust Company National Association, Albany (023313)	39,312,000
and Key Trust Company of Ohio, National Association, Cleveland (022803)	173,074,000
and Keytrust Company National Association, Seattle (023309)	15,399,000
merged on December 29, 2000 under the title of KeyBank National Association, Cleveland (014761)	75,911,204,000
Pennsylvania	
Adams County National Bank, Gettysburg (000311)	518,968,000
and The Farmers National Bank of Newville, Newville (009588)	43,152,000
merged on October 1, 2000 under the title of Adams County National Bank, Gettysburg (000311)	562,120,000
Pennstar Bank, National Association, Lake Ariel (009886)	603,578,000
and Pioneer American Bank, National Association, Carbondale (000664)	417,263,000
merged on December 9, 2000 under the title of Pennstar Bank, National Association, Scranton (009886)	1,020,841,000
PNC Bank, National Association, Pittsburgh (001316)	68,110,000
and PNC Converted Bank, National Association, Pittsburgh (024181)	1,540,000
merged on November 30, 2000 under the title of PNC Bank, National Association, Pittsburgh (001316)	70,250,000
Texas	
NBC Bank, National Association, Eagle Pass (004490)	302,600,000
and NBC Bank Central, National Association, Luling (013919)	32,400,000
merged on October 1, 2000 under the title of NBC Bank, National Association, Eagle Pass (004490)	335,032,000
First National Bank in Alpine, Alpine (014643)	77,423,000
and Seminole National Bank, Seminole (018149)	67,722,000
and The First National Bank of Pecos, Pecos (008771)	88,790,000
merged on October 2, 2000 under the title of West Texas National Bank, Alpine (014643)	233,935,000
First State Bank, National Association, Abilene (017614)	358,081,000
and United Bank and Trust, Abilene	128,246,000
merged on November 10, 2000 under the title of First State Bank, National Association, Abilene (017614)	486,327,000
Wisconsin	
First National Bank, Waupaca (021610)	228,844,000
and National Bank of Commerce, Pampa (017829)	95,945,000
merged on October 7, 2000 under the title of First National Bank, Waupaca (021610)	324,789,000

Affiliated mergers— thrift (mergers consummated involving affiliated national banks and savings and loan associations), from October 1 to December 31, 2000

Title and location (charter number)	Total assets
North Dakota	
The Ramsey National Bank and Trust Co. of Devils Lake, Devils Lake (005886)	106,616,000
and Ramsey Bank, FSB, Cando	45,554,000
merged on October 23, 2000 under the title of The Ramsey National Bank and Trust Co. of Devils Lake, Devils Lake (005886)	152,170,000
Rhode Island	
Fleet National Bank, Providence (000200)	145,845,443,000
and Fleet Bank, National Association, Jersey City (000374) on September 1, 2000	28,172,000,000
and Fleet Bank of Maine, Portland on October 2, 2000	1,919,721,000
merged on those respective dates under the title of Fleet National Bank, Providence (000200)	158,577,745,000
Wisconsin	
Bank of Northern Illinois, National Association, Waukegan (000945)	225,480,000
and State Financial Bank, Hales Corners	306,994,000
and State Financial Bank—Waterford, Waterford	70,017,000
and State Financial Bank, Richmond	75,367,000
and Home Federal Savings & Loan Association of Elgin, Elgin	421,881,000
merged on October 9, 2000 under the title of State Financial Bank, National Association, Hales Corners (000945)	1,059,741,000

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**Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks),
from January 1 to December 31, 2000**

Title and location (charter number)	Total assets
Alabama	
SouthTrust Bank, National Association, Birmingham (014569)	43,203,109,000
and Security National Bank of San Antonio, San Antonio (015136)	174,544,000
merged on April 14, 2000 under the title of SouthTrust Bank, National Association, Birmingham (014569)	43,406,969,000
Arizona	
National Bank of Arizona, Tucson (021383)	1,596,195,000
and County Bank, Prescott	242,310,000
merged on July 28, 2000 under the title of National Bank of Arizona, Tucson (021383)	1,838,505,000
California	
San Jose National Bank, San Jose (017315)	402,158,000
and Saratoga National Bank, Saratoga (017520)	148,533,000
merged on January 5, 2000 under the title of San Jose National Bank, San Jose (017315)	550,691,000
City National Bank, Beverly Hills (014695)	6,924,060,000
and The Pacific Bank, National Association, San Francisco (017917)	732,454,000
merged on February 29, 2000 under the title of City National Bank, Beverly Hills (014695)	7,655,431,000
First National Bank, Goodland (014163)	251,194,000
and The Kirk State Bank, Kirk	20,288,000,000
merged on April 3, 2000 under the title of First National Bank, Goodland (014163)	20,539,194,000
First National Bank of Central California, Salinas (018182)	946,946,000
and San Benito Bank, Hollister	200,743,000
merged on August 1, 2000 under the title of First National Bank of Central California, Salinas (018182)	1,147,689,000
Maryland	
Farmers & Mechanics National Bank, Frederick (001267)	1,246,166,000
and Commercial and Farmers Bank, Ellicott City	172,957,000
merged on December 30, 1999 under the title of Farmers & Mechanics National Bank, Frederick (001267)	1,419,123,000
Minnesota	
Community National Bank, North Branch (016929)	36,517,000
and Lakeland National Bank, Lino Lakes (023602)	24,665,000
merged on December 1, 2000 under the title of Community National Bank, North Branch (016929)	61,922,000
Mississippi	
Britton & Koontz First National Bank, Natchez (013722)	237,009,000
and Louisiana Bank & Trust Company, Baton Rouge	42,394,000
merged on December 1, 2000 under the title of Britton & Koontz First National Bank, Natchez (013722)	279,403,000
Nebraska	
Cornerstone Bank, National Association, York (002683)	268,276,000
and Bank of Monroe, Monroe	18,940,000
merged on February 15, 2000 under the title of Cornerstone Bank, National Association, York (002683)	284,950,000
AmFirst Bank, National Association, McCook (008031)	58,283,000
and Park National Bank, Estes Park (020921)	28,270,000
merged on June 23, 2000 under the title of AmFirst Bank, National Association, McCook (008031)	86,553,000
First National Bank of Omaha, Omaha (000209)	4,415,584,000
and First State Bank, Frisco	19,400,000
merged on December 15, 2000 under the title of First National Bank of Omaha, Omaha (000209)	4,434,984,000
New York	
Safra National Bank of New York, New York (020948)	3,406,000,000
and Skylake National Bank, North Miami Beach (023499)	5,000,000
merged on January 1, 2000 under the title of Safra National Bank of New York, New York (020948)	3,408,000,000

Nonaffiliated mergers (continued)

Title and location (charter number)	Total assets
North Carolina	
First Charter National Bank, Concord (003903)	1,676,978,000
and Cabarrus Bank of North Carolina, Concord	171,922,000
and Community Bank & Trust Co., Rutherfordton	111,488,000
merged on May 18, 2000 under the title of First Charter National Bank, Concord (003903)	2,159,703,000
Ohio	
The Huntington National Bank, Columbus (007745)	28,760,019,000
and The Empire National Bank of Traverse City, Traverse City (014934)	503,795,000
merged on June 23, 2000 under the title of The Huntington National Bank, Columbus (007745)	29,496,436,000
The First National Bank of McConnellsville, McConnellsville (000046)	57,355,000
and The Junction City Banking Company, Junction City	10,623,000
merged on July 31, 2000 under the title of The First National Bank of McConnellsville, McConnellsville (000046)	68,153,000
Oklahoma	
The First National Bank and Trust Company of Ada, Ada (012591)	188,557,000
and The Prague National Bank, Prague (008159)	75,813,000
merged on January 1, 2000 under the title of The First National Bank and Trust Company of Ada, Ada (012591)	264,370,000
First National Bank at Antlers, Antlers (014131)	70,552,000
and Farmers Exchange Bank, Antlers	16,849,000
merged on September 11, 2000 under the title of First National Bank at Antlers, Antlers (014131)	88,628,000
Pennsylvania	
The Citizens National Bank, Lansford (007051)	266,069,000
and Citizens Bank and Trust Company, Palmerton	131,988,000
merged on April 28, 2000 under the title of The Citizens National Bank, Lansford (007051)	397,057,000
Texas	
American National Bank, Wichita Falls (016617)	185,960,000
and Bank of America of Texas, National Association, Dallas (023978)	200,000
merged on March 17, 2000 under the title of American National Bank, Wichita Falls (016617)	185,960,000
Bank of Texas, National Association, Dallas (018307)	586,755,000
and Canyon Creek National Bank, Richardson (016555)	126,681,000
merged on March 17, 2000 under the title of Bank of Texas, National Association, Dallas (018307)	713,436,000
Security Bank National Association, Garland (018660)	107,325,000
and The State National Bank of Caddo Mills, Caddo Mills (012936)	37,378,000
merged on December 4, 2000 under the title of Security Bank National Association, Garland (018660)	142,493,000
Virginia	
First Community Bank, National Association, Bluefield (023892)	1,114,263,000
and Citizens Southern Bank, Inc., Beckley	64,955,000
merged on October 31, 2000 under the title of First Community Bank, National Association, Bluefield (023892)	1,174,191,000

**Nonaffiliated mergers-thrift (mergers consummated involving nonaffiliated national banks
and savings and loan associations), from January 1 to December 31, 2000**

Title and location (charter number)	Total assets
California	
Western Sierra National Bank, Cameron Park (018029)	148,265,000
and Sentinel Community Bank, Sonora	92,000,000
merged on May 31, 2000 under the title of Western Sierra National Bank, Cameron Park (018029)	240,265,000
Illinois	
Old National Bank, Lawrenceville (008846)	6,573,318,000
and Permanent Federal Savings Bank, Evansville	496,932,000
merged on July 27, 2000 under the title of Old National Bank, Lawrenceville (008846)	7,121,759,000
Minnesota	
ING National Trust, Minneapolis (024033)	1,986,000
and Aethna Trust Company, F.S.B., Hartford	3,300,000
merged on December 13, 2000 under the title of ING National Trust, Minneapolis (024033)	5,286,000
Missouri	
The Exchange National Bank of Jefferson City, Jefferson City (013142)	336,551,000
and City National Savings Bank, FSB, Jefferson City	92,895,000
merged on June 16, 2000 under the title of The Exchange National Bank of Jefferson City, Jefferson City (013142)	425,722,000
Ohio	
The First National Bank of Zanesville, Zanesville (000164)	1,272,005,000
and Milton Federal Savings Bank, West Milton	259,743,000
merged on June 20, 2000 under the title of The First National Bank of Zanesville, Zanesville (000164)	1,525,346,000

**Affiliated mergers (mergers consummated involving affiliated operating banks),
from January 1 to December 31, 2000**

Title and location (charter number)	Total assets
Alabama	
SouthTrust Bank, National Association, Birmingham (014569)	39,964,148,000
and Heritage Bank, Waxahachie	170,902,000
merged on January 14, 2000 under the title of SouthTrust Bank, National Association, Birmingham (014569)	40,146,920,000
Arkansas	
The First National Bank in Blytheville, Blytheville (014389)	149,501,000
and The Merchants & Planters Bank, Manila	27,242,000
merged on October 10, 2000 under the title of The First National Bank in Blytheville, Blytheville (014389)	176,708,000
California	
Wells Fargo Bank, National Association, San Francisco (001741)	89,993,576,000
and Wells Fargo Bank (Arizona), National Association, Phoenix (022863)	27,237,000
merged on February 18, 2000 under the title of Wells Fargo Bank, National Association, San Francisco (001741)	90,020,903,000
Nara Bank, National Association, Los Angeles (021669)	334,693,000
and Korea First Bank of New York, New York City (324918)	117,280,000
and NB Interim Bank, National Association, Los Angeles (024030)	200,000
merged on February 25, 2000 under the title of Nara Bank, National Association, Los Angeles (021669)	451,973,000
Sierra National Bank, Tehachapi (017510)	87,293,000
and Sierra State Bank (State Interim Bank), Porterville	240,000
merged on May 19, 2000 under the title of Sierra National Bank, Tehachapi (017510)	87,293,000
Western Sierra National Bank, Cameron Park (018029)	143,482,000
and Roseville 1st National Bank, Roseville (022518)	64,943,000
merged on May 5, 2000 under the title of Western Sierra National Bank, Cameron Park (018029)	208,425,000
Wells Fargo Bank, National Association, San Francisco (001741)	98,505,937,000
and Norwest Bank Minnesota Red Wing, National Association, Red Wing (001487)	58,208,000
merged on July 8, 2000 under the title of Wells Fargo Bank, National Association, San Francisco (001741)	98,567,478,000
Wells Fargo Bank, National Association, San Francisco (001741)	99,046,661,000
and Napa National Bank, Napa (017374) on August 25, 2000	189,403,000
and North County Bank, Escondido on August 18, 2000	415,839,000
merged on those respective dates under the title of Wells Fargo Bank, National Association, San Francisco (001741)	99,651,903,000
Wells Fargo Bank, National Association, San Francisco (001741)	101,188,000,000
and First Security Bank of California, National Association, West Covina (017052)	1,233,122,000
merged on December 16, 2000 under the title of Wells Fargo Bank, National Association, San Francisco (001741)	102,421,122,000
Colorado	
Wells Fargo Bank West, National Association, Denver (003269)	11,353,258,000
and 1st Choice Bank, Greeley	481,955,000
merged on September 23, 2000 under the title of Wells Fargo Bank West, National Association, Denver (003269)	12,237,085,000
Wells Fargo Bank West, National Association, Denver (003269)	13,164,891,000
and First Commerce Bank of Colorado, National Association, Monument (023825)	2,836,000
merged on December 21, 2000 under the title of Wells Fargo Bank West, National Association, Denver (003269)	13,167,727,000
Delaware	
First Union Home Equity Bank National Association, Charlotte (022559)	1,016,764,000
and First Union Bank of Delaware, Wilmington	1,202,001,000
merged on June 27, 2000 under the title of First Union National Bank of Delaware, Wilmington (022559)	2,219,533,000
Chase Manhattan Bank USA, National Association, Wilmington (023160)	35,397,783,000
and Chase Manhattan Bank Delaware, Wilmington	1,386,272,000
merged on June 1, 2000 under the title of Chase Manhattan Bank USA, National Association, Wilmington (023160)	36,784,055,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Florida	
First National Bank Northwest Florida, Panama City (018214)	95,600,000
and First Northwest Florida Bank, Fort Walton Beach	34,500,000
merged on February 29, 2000 under the title of First National Bank Northwest Florida, Panama City (018214)	130,100,000
Georgia	
Georgia First Bank, National Association, Gainesville (023837)	211,304,000
and Lanier National Bank, Gainesville (021901)	121,219,000
merged on May 8, 2000 under the title of Century South Bank of Northeast Georgia, National Association, Gainesville (023837)	332,523,000
Illinois	
First Midwest Bank, National Association, Buffalo Grove (013660)	5,059,230,000
and Heritage Bank, National Association, Monee (008933)	483,000
merged on December 31, 1999 under the title of First Midwest Bank, National Association, Buffalo Grove (013660)	5,060,196,000
The Old Second National Bank of Aurora, Aurora (004596)	646,218,000
and Bank of Sugar Grove, Sugar Grove	44,150,000
merged on February 25, 2000 under the title of The Old Second National Bank of Aurora, Aurora (004596)	691,858,000
First National Bank in DeKalb, DeKalb (014008)	273,680,000
and Castle Bank Harvard, National Association, Harvard (023261)	65,401,000
and Castle Bank National Association, Sandwich (023817)	193,311,000
merged on June 24, 2000 under the title of Castle Bank, National Association, DeKalb (014008)	523,263,000
First National Bank of Nokomis, Nokomis (014436)	51,149,000
and Ayars State Bank, Moweaqua	24,545,000
merged on June 30, 2000 under the title of First National Bank of Nokomis, Nokomis (014436)	75,694,000
Uptown National Bank of Chicago, Chicago (014430)	253,942,000
and Heritage Bank, Phoenix	76,005,000
merged on September 1, 2000 under the title of Uptown National Bank of Chicago, Chicago (014430)	329,948,000
Indiana	
Integra Bank National Association, Evansville (012132)	903,766,000
and Bank of Illinois, National Association, Mt. Vernon (010460) on July 14, 2000	188,720,000
and Community First Bank, National Association, Maysville (003291) on September 15, 2000	161,284,000
and The First National Bank of Bridgeport, Bridgeport (008347) on July 14, 2000	37,932,000
and The Progressive Bank, National Association, Lexington (008604) on September 15, 2000	151,619,000
and Trigg County Farmers Bank, Cadiz on July 14, 2000	91,978,000
and Illinois One Bank, National Association, Shawneetown (014265) on July 14, 2000	131,061,000
and The Ripley County Bank, Osgood on September 15, 2000	105,093,000
and First Bank of Huntingburg, Huntingburg on May 19, 2000	105,004,000
and First Kentucky Bank, Sturgis on May 19, 2000	224,974,000
and White County Bank, Carmi on May 19, 2000	58,670,000
merged on those respective dates under the title of Integra Bank National Association, Evansville (012132)	2,222,299,000
Kansas	
Central National Bank, Junction City (004284)	370,861,000
and Farmers State Bank, Mankato	59,114,000
and Farmers State Bank and Trust Company of Superior, Superior	64,651,000
merged on February 7, 2000 under the title of Central National Bank, Junction City (004284)	494,626,000
TeamBank, National Association, Freeman (003350)	318,938,000
and The First National Bank and Trust Company, Parsons (001951)	58,001,000
merged on June 26, 2000 under the title of TeamBank, National Association, Paola (003350)	378,629,000
Kentucky	
Whitaker Bank, National Association, Lexington (022246)	178,151,000
and Powell County Bank, National Association, Campton (024059)	107,817,000
merged on September 30, 2000 under the title of Whitaker Bank, National Association, Lexington (022246)	285,968,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Louisiana	
Whitney National Bank, New Orleans (014977)	5,000,000
and Bank of Houston, Houston	175,643,000
merged on October 6, 2000 under the title of Whitney National Bank, New Orleans (014977)	5,175,643,000
Massachusetts	
First Massachusetts Bank, National Association, Worcester (023043)	1,086,764,000
and Family Bank, National Association, Haverhill (024040)	4,375,570,000
merged on May 12, 2000 under the title of First Massachusetts Bank, National Association, Worcester (023043)	5,462,434,000
First Massachusetts Bank, National Association, Worcester (023043)	5,529,014,000
and The Glastonbury Bank and Trust Company, Glastonbury	338,337,000
merged on May 12, 2000 under the title of First Massachusetts Bank, National Association, Worcester (023043)	5,867,351,000
Michigan	
MFC First National Bank, Marquette (000390)	397,782,000
and MFC First National Bank, Menominee (003256)	116,232,000
and MFC First National Bank, Ironwood (014456)	99,555,000
and MFC First National Bank, Iron River (014102)	73,715,000
and MFC First National Bank, Iron Mountain (011954)	65,527,000
and MFC First National Bank, Houghton (007676)	68,952,000
and MFC First National Bank, Escanaba (003761)	150,611,000
merged on July 22, 2000 under the title of Wells Fargo Bank Michigan, National Association, Marquette (000390)	972,374,000
Minnesota	
U.S. Bank National Association, Minneapolis (013405)	70,841,000,000
and Peninsula Bank of San Diego, San Diego	456,000,000
merged on January 14, 2000 under the title of U.S. Bank National Association, Minneapolis (013405)	71,382,000,000
The First National Bank of Bertha-Verndale, Bertha (007373)	36,152,000
and West Central Bank, Barrett	39,214,000
merged on March 1, 2000 under the title of Star Bank, National Association, Bertha (007373)	74,366,000
TCF National Bank Minnesota, Minneapolis (023253)	3,775,155,000
and TCF National Bank Illinois, Burr Ridge (023254)	3,426,983,000
and Great Lakes National Bank Michigan, Ann Arbor (023255)	2,425,418,000
and TCF National Bank Wisconsin, Milwaukee (023256)	694,531,000
merged on April 1, 2000 under the title of TCF National Bank, Minneapolis (023253)	10,267,404,000
Community First National Bank, Fergus Falls (002030)	805,721,000
and Northland Security Bank, Ramsey	26,199,000
merged on May 5, 2000 under the title of Community First National Bank, Fergus Falls (002030)	831,920,000
U.S. Bank National Association, Minneapolis (013405)	70,449,952,000
and Wyoming Trust and Management Company, Gillette	967,000
merged on April 26, 2000 under the title of U.S. Bank National Association, Minneapolis (013405)	70,450,919,000
Marquette Bank, National Association, Golden Valley (022831)	1,405,528,000
and Marquette Bank South Dakota, National Association, Sioux Falls (015537)	541,885,000
merged on April 14, 2000 under the title of Marquette Bank, National Association, Golden Valley (022831)	1,927,413,000
Bremer Bank, National Association, Alexandria (023285)	288,104,000
and Bremer Bank, National Association, Breckenridge (023287)	76,338,000
merged on June 1, 2000 under the title of Bremer Bank, National Association, Alexandria (023285)	364,302,000
Signal Bank National Association, Eagan (023582)	311,817,000
and Park National Bank, St. Louis Park (015110)	251,130,000
merged on July 10, 2000 under the title of Signal Bank National Association, Eagan (023582)	562,947,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Wells Fargo Bank Minnesota, National Association, Minneapolis (002006)	39,959,089,000
and Norwest Bank Minnesota North, National Association, Duluth (003626) on July 8, 2000	1,019,270,000
and Norwest Bank Minnesota South, National Association, Rochester (002088) on July 8, 2000	2,362,103,000
and Norwest Bank Minnesota West, National Association, Moorhead (013075) on August 26, 2000	562,750,000
and Norwest Bank Minnesota Southwest, National Association, Marshall (004614) on August 26, 2000	261,952,000
merged on those respective dates under the title of Wells Fargo Bank Minnesota, National Association, Minneapolis (002006)	44,165,165,000
Marquette Bank, National Association, Golden Valley (022831)	2,009,765,000
and Marquette Bank Cedar Rapids, Cedar Rapids	177,088,000
merged on August 17, 2000 under the title of Marquette Bank, National Association, Golden Valley (022831)	2,180,853,000
U.S. Bank National Association, Minneapolis (013405)	75,957,000
and Scripps Bank, La Jolla	643,000
merged on October 13, 2000 under the title of U.S. Bank National Association, Minneapolis (013405)	76,717,000
Bank Midwest, Minnesota Iowa, National Association, Fairmont (013095)	245,804,000
and Bank Midwest of Cottonwood County, Windom	82,424,000
merged on October 9, 2000 under the title of Bank Midwest, Minnesota Iowa, National Association, Fairmont (013095)	328,228,000
Bremer Bank, National Association, Moorhead (023204)	210,096,000
and Bremer Bank, National Association, Detroit Lakes (023288)	148,584,000
merged on November 1, 2000 under the title of Bremer Bank, National Association, Moorhead (023204)	358,680,000
BNC National Bank of Minnesota, Minneapolis (022973)	175,186,000
and BNC National Bank, Bismarck (022352)	412,099,000
merged on November 20, 2000 under the title of BNC National Bank, Minneapolis (022973)	579,352,000
Missouri	
Mercantile Bank of Trenton National Association, Trenton (023973)	74,262,000
and Mercantile Bank National Association (023783)	22,459,744,000
merged on October 22, 1999 under the title of St. Louis Mercantile Bank National Association, St. Louis (023973)	22,534,006,000
UMB Bank, National Association, Kansas City (023920)	6,719,500,000
and Charter National Bank, Oklahoma City (017745)	59,930,000
and UMB Oklahoma Bank, Oklahoma City	146,234,000
merged on March 4, 2000 under the title of UMB Bank, National Association, Kansas City (023920)	6,912,721,000
The First National Bank of Gallatin, Gallatin (005827)	64,553,000
and Farmers Bank of Northern Missouri, National Association, Centerville (023007)	167,860,000
merged on December 4, 2000 under the title of Farmers Bank of Northern Missouri, National Association, Unionville (005827)	232,413,000
Nebraska	
Western Nebraska National Bank, North Platte (020195)	235,541,000
and Western Nebraska National Bank, Valentine (023639)	18,062,000
merged on January 18, 2000 under the title of Western Nebraska National Bank, North Platte (020195)	253,603,000
Wells Fargo Bank Nebraska, National Association, Omaha (002978)	2,283,555,000
and National Bank of Commerce Trust and Savings Association, Lincoln (007239)	1,506,531,000
and The Overland National Bank of Grand Island, Grand Island (014018)	160,705,000
and First National Bank and Trust Co. of Kearney, Kearney (014480)	207,150,000
and Western Nebraska National Bank, North Platte (020195)	280,287,000
and The First National Bank of McCook, McCook (003379)	94,137,000
and The First National Bank of West Point, West Point (003370)	84,370,000
merged on August 12, 2000 under the title of Wells Fargo Bank Nebraska, National Association, Omaha (002978)	4,753,307,000
First National Bank, Beemer (006818)	45,760,000
and Citizens Bank, Bancroft	11,873,000
merged on October 1, 2000 under the title of First National Bank, Beemer (006818)	57,633,000
Charter West National Bank, West Point (018601)	53,500,000
and Charter West National Bank, Pender (008685)	24,513,000
merged on September 30, 2000 under the title of Charter West National Bank, West Point (018601)	78,013,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
New Hampshire	
Farmington National Bank, Farmington (013764)	282,783,000
and Bank of New Hampshire, Manchester	4,668,422,000
merged on May 12, 2000 under the title of Bank of New Hampshire, National Association, Farmington (013764)	4,951,205,000
New Jersey	
The Phillipsburg National Bank and Trust Company, Phillipsburg (001239)	472,701,000
and Twin Rivers Community Bank, Easton	199,109,000
merged on August 21, 2000 under the title of Vista Bank, National Association, Phillipsburg (001239)	671,810,000
New Mexico	
Wells Fargo Bank New Mexico, National Association, Albuquerque (006187)	3,454,130,000
and The First National Bank of Farmington, Farmington (006183)	631,960,000
and Capital Bank, Albuquerque	24,849,000
merged on March 18, 2000 under the title of Wells Fargo Bank New Mexico, National Association, Albuquerque (006187)	4,191,909,000
New York	
Delta National Bank and Trust Company of New York, New York (020547)	323,727,000
and Delta National Bank and Trust Company of Florida, Miami (020612)	154,787,000
merged on January 3, 2000 under the title of Delta National Bank and Trust Company, New York (020547)	478,514,000
North Carolina	
Wachovia Bank, National Association, Winston-Salem (001559)	63,557,835,000
and Bank of Canton, Canton	412,094,000
merged on May 11, 2000 under the title of Wachovia Bank, National Association, Winston-Salem (001559)	64,067,044,000
First Charter National Bank, Concord (003903)	2,159,703,000
and Lincoln Bank of North Carolina, Lincolnton	499,441,000
merged on June 15, 2000 under the title of First Charter National Bank, Concord (003903)	2,659,218,000
Wachovia Bank, National Association, Winston-Salem (001559)	66,610,436,000
and National Bank of Commerce, Winter Park (020460)	216,318,000
merged on October 19, 2000 under the title of Wachovia Bank, National Association, Winston-Salem (001559)	66,826,754,000
North Dakota	
Bremer Bank, National Association, Grand Forks (023295)	335,601,000
and Bremer Bank, National Association, Crookston (002567)	219,567,000
merged on August 1, 2000 under the title of Bremer Bank, National Association, Grand Forks (023295)	555,168,000
Community First National Bank, Fargo (005087)	596,643,000
and Community First National Bank, Phoenix (020258)	651,767,000
and Community First National Bank, Spring Valley (017676)	254,302,000
and Community First National Bank, Fort Morgan (007004)	1,662,973,000
and Community First National Bank, Decorah (023417)	175,670,000
and Community First National Bank, Fergus Falls (002030)	909,527,000
and Community First National Bank, Alliance (023415)	288,871,000
and Community First National Bank, Las Cruces (023691)	152,716,000
and Community First National Bank, Salt Lake City (023725)	108,877,000
and Community First National Bank, Spooner (023433)	117,259,000
and Community First National Bank, Cheyenne (023283)	1,054,894,000
merged on August 29, 2000 under the title of Community First National Bank, Fargo (005087)	5,971,499,000
Ohio	
Firstar Bank, National Association, Cincinnati (000024)	16,750,000,000
and Firstar Bank Milwaukee, National Association, Milwaukee (000064)	8,375,000,000
and Firstar Bank Wausau, National Association, Wausau (001998)	2,940,000
merged on October 15, 1999 under the title of Firstar Bank, National Association, Cincinnati (000024)	36,683,000,000
Bank One Trust Company, National Association, Columbus (016235)	914,275,000
and Boaz Interim Bank, Phoenix	504,000
merged on February 14, 2000 under the title of Bank One Trust Company, National Association, Columbus (016235)	914,779,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
The First National Bank of Southeastern Ohio, Caldwell (005552)	86,101,000
and The Peoples Banking and Trust Company, Marietta	874,358,000
and Peoples Bank, National Association, Ashland (024037)	91,736,000
merged on March 10, 2000 under the title of Peoples Bank, National Association, Marietta (005552)	1,050,595,000
Firststar Bank, National Association, Cincinnati (000024)	36,506,629,000
and Firststar Bank Arkansas, NA, North Little Rock (023540) on March 7, 2000	1,781,070,000
and Mercantile Bank Midwest, Des Moines on May 12, 2000	3,598,239,000
and Mercantile Bank of Kentucky, Paducah on April 14, 2000	909,899,000
and Mercantile Bank of Illinois, Springfield on April 14, 2000	2,238,232,000
merged on those respective dates under the title of Firststar Bank, National Association, Cincinnati (000024)	45,034,069,000
National City Bank, Cleveland (000786)	34,003,107,000
and National City Illinois Interim Trust Company, Chicago (024073)	6,245,000
merged on June 30, 2000 under the title of National City Bank, Cleveland (000786)	34,009,352,000
Metropolitan National Bank, Youngstown (023595)	252,764,000
and First County Bank, National Association, Chardon (023599)	67,652,000
merged on April 26, 2000 under the title of Metropolitan National Bank, Youngstown (023595)	320,416,000
Firststar Bank, National Association, Cincinnati (000024)	36,506,629,000
and Mercantile Trust Company National Association, St. Louis (022666)	70,363,000
and Firststar Bank Missouri, National Association, St. Louis (023973)	1,000
merged on August 11, 2000 under the title of Firststar Bank, National Association, Cincinnati (000024)	36,576,993,000
KeyBank National Association, Cleveland (014761)	75,907,839,000
and Key Trust Company of Indiana, National Association, Indianapolis (022802)	17,039,000
and KeyTrust Company National Association, Portland (023310)	29,370,000
and Keytrust Company National Association, Albany (023313)	39,312,000
and Key Trust Company of Ohio, National Association, Cleveland (022803)	173,074,000
and Keytrust Company National Association, Seattle (023309)	15,399,000
merged on December 29, 2000 under the title of KeyBank National Association, Cleveland (014761)	75,911,204,000
Oklahoma	
First National Bank, Sallisaw (015429)	76,447,000
and First National Bank of Roland, Roland (017596)	54,273,000
merged on March 13, 2000 under the title of First National Bank, Sallisaw (015429)	130,720,000
Landmark Bank, National Association, Ada (023055)	134,976,000
and Landmark Bank Company, National Association, Ardmore (018487)	122,825,000
merged on August 25, 2000 under the title of Landmark Bank, National Association, Ada (023055)	256,101,000
Pennsylvania	
Mellon Bank, N. A., Pittsburgh (006301)	39,422,432,000
and Mellon Bank (MD) National Association, Rockville (023240)	330,153,000
merged on April 1, 2000 under the title of Mellon Bank, N. A., Pittsburgh (006301)	39,752,585,000
Adams County National Bank, Gettysburg (000311)	518,968,000
and The Farmers National Bank of Newville, Newville (009588)	43,152,000
merged on October 1, 2000 under the title of Adams County National Bank, Gettysburg (000311)	562,120,000
Pennstar Bank, National Association, Lake Ariel (009886)	603,578,000
and Pioneer American Bank, National Association, Carbondale (000664)	417,263,000
merged on December 9, 2000 under the title of Pennstar Bank, National Association, Scranton (009886)	1,020,841,000
PNC Bank, National Association, Pittsburgh (001316)	68,110,000
and PNC Converted Bank, National Association, Pittsburgh (024181)	1,540,000
merged on November 30, 2000 under the title of PNC Bank, National Association, Pittsburgh (001316)	70,250,000
Rhode Island	
BankBoston, National Association, Boston (000200)	71,541,323,000
and Fleet National Bank, Providence (001338)	80,475,000,000
merged on March 1, 2000 under the title of Fleet National Bank, Providence (000200)	158,577,745,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Fleet National Bank, Providence (000200)	49,329,272,000
and Fleet Trust and Investment Services Company, National Association, Stuart (020451) on April 3, 2000	6,587,000
and Bank of Boston—Florida, National Association, Boca Raton (017277)	37,718,000
and Fleet Bank, F.S.B., Boca Raton (033924)	131,326,000
and Fleet Bank—NH, Manchester (019821) on May 1, 2000	2,035,595,000
merged on those respective dates under the title of Fleet National Bank, Providence (000200)	51,540,498,000
South Dakota	
CorTrust Bank National Association, Mitchell (023771)	231,692,000
and The First National Bank of Freeman, Freeman (006181)	49,884,000
merged on September 22, 2000 under the title of CorTrust Bank National Association, Mitchell (023771)	279,076,000
CorTrust Bank National Association, Mitchell (023771)	238,591,000
and Day County Bank, Webster	31,102,000
merged on July 14, 2000 under the title of CorTrust Bank National Association, Mitchell (023771)	269,693,000
Tennessee	
Union Planters Bank, National Association, Memphis (013349)	32,513,550,000
and First State Bank of Covington, Tennessee, Covington	122,522,000
merged on February 12, 2000 under the title of Union Planters Bank, National Association, Memphis (013349)	32,636,072,000
National Bank of Commerce, Memphis (013681)	4,838,658,000
and NBC National Bank, Knoxville (024052)	1,077,329,000
merged on May 8, 2000 under the title of National Bank of Commerce, Memphis (013681)	5,915,987,000
Texas	
Norwest Bank Texas, National Association, San Antonio (014208)	11,443,404,000
and First National Bank of South Texas, San Antonio (016618)	265,904,000
and The Bank of South Texas, Floresville	122,644,000
merged on February 12, 2000 under the title of Norwest Bank Texas, National Association, San Antonio (014208)	11,869,268,000
Inwood National Bank, Dallas (015292)	350,180,000
and Provident Bank—Dallas, Dallas	220,608,000
merged on May 12, 2000 under the title of Inwood National Bank, Dallas (015292)	553,589,000
Norwest Bank Texas, National Association, San Antonio (014208)	10,453,665,000
and Wells Fargo Bank (Texas), National Association, Houston (017612)	7,321,874,000
and Norwest Bank El Paso, National Association, El Paso (002521)	1,122,842,000
merged on April 14, 2000 under the title of Wells Fargo Bank Texas, National Association, San Antonio (014208)	18,536,621,000
Wells Fargo Bank Texas, National Association, San Antonio (014208)	18,898,381,000
and Prime Bank, Houston	1,207,423,000
merged on June 24, 2000 under the title of Wells Fargo Bank Texas, National Association, San Antonio (014208)	20,263,656,000
Extraco Banks, National Association, Temple (013778)	543,352,000
and Guaranty Bank & Trust Company, Gatesville	113,781,000
merged on March 31, 2000 under the title of Extraco Banks, National Association, Temple (013778)	647,720,000
First Victoria National Bank, Victoria (010360)	1,000
and New Mid-Coast National Bank, Edna (024071)	1,000
Mid-Coast Savings Bank, SSB, Edna	1,000
merged on April 14, 2000 under the title of First Victoria National Bank, Victoria (010360)	1,000
The Frost National Bank, San Antonio (005179)	6,885,699,000
and The United States National Bank of Galveston, Galveston (012475)	133,552,000
merged on May 26, 2000 under the title of The Frost National Bank, San Antonio (005179)	6,997,961,000
Swiss Avenue National Bank, Dallas (024082)	244,878,000
and Bank of Texas, National Association, Dallas (018307)	586,755,000
merged on May 12, 2000 under the title of Bank of Texas, National Association, Dallas (024082)	831,633,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
The First National Bank of San Augustine, San Augustine (006214)	51,619,000
and Community Interim Bank & Trust, SSB, San Augustine	5,000
merged on May 19, 2000 under the title of The First National Bank of San Augustine, San Augustine (006214)	51,619,000
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
NBC Bank, National Association, Eagle Pass (004490)	302,600,000
and NBC Bank Central, National Association, Luling (013919)	32,400,000
merged on October 1, 2000 under the title of NBC Bank, National Association, Eagle Pass (004490)	335,032,000
First National Bank in Alpine, Alpine (014643)	77,423,000
and Seminole National Bank, Seminole (018149)	67,722,000
and The First National Bank of Pecos, Pecos (008771)	88,790,000
merged on October 2, 2000 under the title of West Texas National Bank, Alpine (014643)	233,935,000
First State Bank, National Association, Abilene (017614)	358,081,000
and United Bank and Trust, Abilene	128,246,000
merged on November 10, 2000 under the title of First State Bank, National Association, Abilene (017614)	486,327,000
Vermont	
The Stratevest Group, National Association, Burlington (023042)	37,635,000
and Evergreen Bank, National Association, Glens Falls (000980)	1,000
merged on March 31, 2000 under the title of The Stratevest Group, National Association, Burlington (023042)	37,635,000
The Howard Bank, National Association, Burlington (018049)	834,618,000
and Granite Savings Bank and Trust Company, Barre	140,184,000
merged on June 23, 2000 under the title of The Howard Bank, National Association, Burlington (018049)	974,802,000
Connecticut River Bank, National Association, Springfield (023137)	107,778,000
and Peoples Bank of Littleton, Littleton	54,514,000
merged on June 30, 2000 under the title of Connecticut River Bank, National Association, Springfield (023137)	162,292,000
Washington	
Baker Boyer National Bank, Walla Walla (003956)	310,657,000
and Bank of Commerce, Milton-Freewater	63,167,000
merged on April 1, 2000 under the title of Baker Boyer National Bank, Walla Walla (003956)	373,824,000
Wisconsin	
First National Bank in Manitowoc, Manitowoc (004975)	364,427,000
and Dairy State Bank, Plymouth	66,722,000
merged on January 1, 2000 under the title of First National Bank in Manitowoc, Manitowoc (004975)	421,390,000
Norwest Bank Wisconsin, National Association, Milwaukee (015057)	1,895,949,000
and Norwest Bank La Crosse, National Association, La Crosse (005047)	305,132,000
and Norwest Bank Hudson, National Association, Hudson (023750)	38,215,000
merged on June 24, 2000 under the title of Wells Fargo Bank Wisconsin National Association, Milwaukee (015057)	2,239,296,000
First National Bank, Waupaca (021610)	228,844,000
and National Bank of Commerce, Pampa (017829)	95,945,000
merged on October 7, 2000 under the title of First National Bank, Waupaca (021610)	324,789,000

Affiliated mergers— thrift (mergers consummated involving affiliated national banks and savings and loan associations), from January 1 to December 31, 2000

Title and location (charter number)	Total assets
Illinois	
LaSalle Bank National Association, Chicago (014362)	28,873,999,000
and LaSalle Bank, F.S.B., Chicago	14,138,843,000
merged on March 31, 2000 under the title of LaSalle Bank National Association, Chicago (014362)	42,975,532,000
North Carolina	
First National Bank and Trust Company, Asheboro (008953)	407,354,000
and Richmond Savings Bank, SSB, Rockingham	124,715,000
merged on June 26, 2000 under the title of First National Bank and Trust Company, Asheboro (008953)	531,326,000
North Dakota	
The Ramsey National Bank and Trust Co. of Devils Lake, Devils Lake (005886)	106,616,000
and Ramsey Bank, FSB, Cando	45,554,000
merged on October 23, 2000 under the title of The Ramsey National Bank and Trust Co. of Devils Lake, Devils Lake (005886)	152,170,000
Ohio	
First National Bank of Southwestern Ohio, Hamilton (000056)	1,173,925,000
and Home Federal Bank, a Federal Savings Bank, Hamilton	268,079,000
merged on July 21, 2000 under the title of First National Bank of Southwestern Ohio, Hamilton (000056)	1,442,004,000
Rhode Island	
Fleet National Bank, Providence (000200)	145,845,443,000
and Fleet Bank, National Association, Jersey City (000374) on September 1, 2000	28,172,000,000
and Fleet Bank of Maine, Portland on October 2, 2000	1,919,721,000
merged on those respective dates under the title of Fleet National Bank, Providence (000200)	158,577,745,000
Tennessee	
National Bank of Commerce, Memphis (013681)	6,310,404,000
and Hillsborough Savings Bank, SSB, Hillsborough	152,211,000
merged on June 30, 2000 under the title of National Bank of Commerce, Memphis (013681)	7,545,051,000
Wisconsin	
Bremer Bank, National Association, Menomonie (023300)	392,776,000
and Northwest Savings Bank, Amery	93,617,000
merged on May 1, 2000 under the title of Bremer Bank, National Association, Menomonie (023300)	493,409,000
Bank of Northern Illinois, National Association, Waukegan (000945)	225,480,000
and State Financial Bank, Hales Corners	306,994,000
and State Financial Bank—Waterford, Waterford	70,017,000
and State Financial Bank, Richmond	75,367,000
and Home Federal Savings & Loan Association of Elgin, Elgin	421,881,000
merged on October 9, 2000 under the title of State Financial Bank, National Association, Hales Corners (000945)	1,059,741,000

Changes in the corporate structure of the national banking system, by state, July 1 to December 31, 2000

	In operation July 1, 2000	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation December 31, 2000
						Converted to non-national institutions	Merged with non-national institutions	
Alabama.....	24	0	0	0	0	0	0	24
Alaska.....	4	0	0	0	0	0	0	4
Arizona.....	19	1	1	0	0	0	0	19
Arkansas.....	49	0	0	0	0	0	6	43
California.....	90	3	3	0	0	0	2	88
Colorado.....	59	1	2	0	0	1	0	57
Connecticut.....	9	1	0	0	0	0	0	10
Delaware.....	22	1	0	1	0	0	0	22
District of Columbia ..	7	0	0	0	0	0	0	7
Florida.....	86	1	1	0	0	0	0	86
Georgia.....	66	2	0	0	0	0	1	67
Hawaii.....	1	0	0	0	0	0	0	1
Idaho.....	2	0	0	0	0	0	0	2
Illinois.....	206	5	6	0	0	1	2	202
Indiana.....	37	0	1	0	0	0	0	36
Iowa.....	49	0	2	0	0	0	1	46
Kansas.....	108	0	0	0	0	1	0	107
Kentucky.....	61	1	3	0	0	1	3	55
Louisiana.....	19	1	0	0	0	0	1	19
Maine.....	8	0	1	0	0	0	0	7
Maryland.....	17	0	0	0	0	1	1	15
Massachusetts.....	23	0	0	0	0	0	0	23
Michigan.....	35	0	6	0	0	0	0	29
Minnesota.....	140	1	10	0	0	0	0	132
Mississippi.....	20	0	0	0	0	0	1	19
Missouri.....	50	1	2	0	0	0	0	49
Montana.....	19	0	0	0	0	0	0	19
Nebraska.....	87	0	8	0	0	0	2	77
Nevada.....	8	0	0	0	0	0	0	8
New Hampshire.....	7	0	0	0	0	0	0	7
New Jersey.....	26	2	1	0	0	0	0	27
New Mexico.....	17	0	1	0	0	0	0	16
New York.....	66	0	1	0	0	0	0	65
North Carolina.....	9	0	0	0	0	0	0	9
North Dakota.....	17	0	1	0	0	0	0	16
Ohio.....	98	1	1	0	0	1	0	97
Oklahoma.....	111	0	1	0	0	4	1	105
Oregon.....	5	0	0	0	0	0	0	5
Pennsylvania.....	98	1	3	0	0	0	2	94
Rhode Island.....	2	1	0	0	0	0	0	3
South Carolina.....	24	1	0	0	0	0	0	25
South Dakota.....	23	0	1	0	0	0	0	21
Tennessee.....	28	1	0	0	0	0	0	29
Texas.....	371	3	6	1	0	0	6	361
Utah.....	9	0	1	0	0	0	0	8
Vermont.....	13	0	0	0	0	0	0	13
Virginia.....	37	1	0	0	0	0	1	37
Washington.....	18	0	1	0	0	0	1	16
West Virginia.....	25	1	0	0	0	0	2	24
Wisconsin.....	54	1	1	0	0	0	1	54
Wyoming.....	21	0	1	0	0	0	0	20
United States	2,404	32	66	2	0	10	33	2,325

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, 2000**

Title and location	Approved	Denied
California		
Bridge Bank of Silicon Valley, National Association, Santa Clara.....	November 17	
CalNet Bank, National Association, Sacramento	October 20	
eComm National Bank, Irvine.....	November 13	
Pacific Commerce Bank, National Association, Los Angeles.....	October 25	
Illinois		
Advantage National Bank, Elk Grove Village.....	October 24	
Cornerstone National Bank & Trust Company, Palatine.....	August 10	
Indiana		
Bank of Evansville, National Association, Evansville	December 11	
Iowa		
The National Bank, Bettendorf.....	December 14	
Kansas		
Community First National Bank, Manhattan.....	July 6	
Kentucky		
Boone National Bank, Burlington.....	September 29	
Massachusetts		
Commonwealth National Bank, Worcester.....	November 20	
Nebraska		
American National Bank, Lincoln.....	December 21	
Heritage Bank, National Association, Doniphan.....	November 3	
Tennessee		
Pinnacle National Bank, Nashville.....	July 26	
Texas		
Bank of Brenham, National Association, Brenham.....	December 29	
Texas Community Bank, National Association, Grand Prairie.....	November 30	
Wisconsin		
Nicolet National Bank, Green Bay.....	August 11	

**Applications for new, limited-purpose national bank charters, approved and denied, by state,
July 1 to December 31, 2000**

Title and location	Type of bank	Approved	Denied
Georgia			
AMVESCAP National Trust Company, Atlanta	Trust (non-deposit)	November 8	
Bank of America Georgia, National Association, Atlanta.	Banker's bank	November 1	
Iowa			
First Community Trust, National Association, Dubuque	Trust (non-deposit)	November 9	
Mississippi			
Mississippi National Bankers Bank, Ridgeland	Banker's bank	October 23	
Nebraska			
World's Foremost Bank, National Association, Sidney	Credit card	November 7	
Pennsylvania			
Vanguard National Trust Company, National Association, Valley Forge . .	Trust (non-deposit)	December 26	
Texas			
Midland Interim Trust Company, National Association, Midland.	Trust (non-deposit)	September 25	
Washington			
Neuberger Berman National Trust Company, Seattle.	Trust (non-deposit)	December 28	

**New, full-service national bank charters issued,
July 1 to December 31, 2000**

Title and location	Charter number	Date opened
Arizona		
Canyon Community Bank, National Association, Tucson	024049	October 10
California		
Mission Oaks National Bank, Temecula	024034	November 17
Interbusiness Bank, National Association, Los Angeles	023999	September 29
Chino Commercial Bank, National Association, Chino	023950	September 1
Florida		
Banco Popular, National Association, Orlando	023877	July 1
Georgia		
First National Bank of Gwinnett, Duluth	023970	November 14
Illinois		
Cornerstone National Bank & Trust Company, Palatine	024114	October 16
Baytree National Bank & Trust Company, Chicago	023983	October 10
Minnesota		
F & M Community Bank, National Association, Chatfield	024089	October 2
New Jersey		
BPABank, National Association, Newark	023913	October 10
Ohio		
Ohio Legacy Bank, National Association, Wooster	023957	October 3
South Carolina		
SunBank, National Association, Murrells Inlet	024003	November 15
Tennessee		
Pinnacle National Bank, Nashville	024083	October 27
Texas		
Kilgore National Bank, Kilgore	024051	November 20
Virginia		
Smith River Community Bank, National Association, Martinsville	023903	July 24
Wisconsin		
Nicolet National Bank, Green Bay	024107	October 31

**New, limited-purpose national bank charters issued,
July 1 to December 31, 2000**

Title and location	Charter number	Date opened
Georgia		
First Retail Bank, National Association, Flowery Branch	023998	July 10
Illinois		
Great Lakes Trust Company, National Association, Blue Island	024072	July 1
Wheaton College Trust Company, National Association, Wheaton	023918	November 15
Rhode Island		
Talbots Classics National Bank, Lincoln	024015	July 5
West Virginia		
Security National Trust Co., Wheeling	024010	May 15

**State-chartered banks converted to full-service national banks,
July 1 to December 31, 2000**

Title and location	Effective date	Total assets
Colorado		
First National Bank of Colorado (024133) conversion of The Bank in Boulder, Boulder	October 16	459,668,000
Connecticut		
Superior Savings of New England, National Association (024099) conversion of Superior Savings of New England, Branford	July 19	172,220,000
Delaware		
MBNA America (Delaware), National Association (024095) conversion of MBNA America Bank (Delaware), Wilmington	October 1	39,101,000
Illinois		
Bank of Homewood, National Association (024145) conversion of Bank of Homewood, Homewood	September 18	332,513,000
Kentucky		
Powell County Bank, National Association (024059) conversion of Powell County Bank, Stanton	September 30	107,817,000
Missouri		
The Tipton Latham Bank, National Association (024092) conversion of The Tipton Latham Bank, Tipton	July 1	47,148,000
New Jersey		
Panasia Bank, National Association (024170) conversion of Panasia Bank, Fort Lee	November 3	123,970,000
Texas		
First Security Bank, National Association (024159) conversion of First Security Bank, Flower Mound	October 16	35,163,000
American Bank, National Association (024116) conversion of American Bank, Keller	October 26	16,335,000
Louisiana		
National Independent Trust Company (024134) conversion of The Trust Company of Louisiana, Ruston	November 16	2,498,000

**Nonbanking institutions converted to full-service national banks,
July 1 to December 31, 2000**

Title and location	Effective date	Total assets
Pennsylvania PNC Converted Bank, National Association (024181) conversion of PNC Bank, FSB, Pittsburgh	November 30	1,540,000

**Applications for national bank charters, by state and charter type,
July 1 to December 31, 2000**

	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	0	0	0	0	0	0
Alaska.....	0	0	0	0	0	0	0	0	0
Arizona.....	2	0	0	1	0	0	0	0	0
Arkansas.....	1	0	0	0	0	0	0	0	0
California.....	4	4	0	3	0	0	0	0	0
Colorado.....	2	0	0	0	0	1	0	0	0
Connecticut.....	0	0	0	0	0	1	0	0	0
Delaware.....	1	0	0	0	0	1	0	0	0
District of Columbia..	1	0	0	0	0	0	0	0	0
Florida.....	2	0	0	1	0	0	0	0	0
Georgia.....	3	2	0	1	1	0	0	0	0
Hawaii.....	0	0	0	0	0	0	0	0	0
Idaho.....	0	0	0	0	0	0	0	0	0
Illinois.....	2	2	0	2	2	1	0	0	0
Indiana.....	2	1	0	0	0	0	0	0	0
Iowa.....	3	2	0	0	0	0	0	0	0
Kansas.....	1	1	0	0	0	0	0	0	0
Kentucky.....	1	1	0	0	0	1	0	0	0
Louisiana.....	2	1	0	1	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.....	3	1	0	0	0	0	0	0	0
Michigan.....	0	0	0	0	0	0	0	0	0
Minnesota.....	0	0	0	1	0	0	0	0	0
Mississippi.....	1	1	0	0	0	0	0	0	0
Missouri.....	1	0	0	0	0	1	0	0	0
Montana.....	0	0	0	0	0	0	0	0	0
Nebraska.....	3	3	0	0	0	0	0	0	0
Nevada.....	0	0	0	0	0	0	0	0	0
New Hampshire.....	0	0	0	0	0	0	0	0	0
New Jersey.....	1	0	0	1	0	1	0	0	0
New Mexico.....	0	0	0	0	0	0	0	0	0
New York.....	2	0	0	0	0	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.....	1	0	0	1	0	0	0	0	0
Oklahoma.....	1	0	0	0	0	0	0	0	0
Oregon.....	0	0	0	0	0	0	0	0	0
Pennsylvania.....	2	1	0	0	0	0	0	1	0
Rhode Island.....	0	0	0	0	1	0	0	0	0
South Carolina.....	1	0	0	1	0	0	0	0	0
South Dakota.....	0	0	0	0	0	0	0	0	0
Tennessee.....	0	1	0	1	0	0	0	0	0
Texas.....	6	3	0	1	0	2	0	0	0
Utah.....	0	0	0	0	0	0	0	0	0
Vermont.....	0	0	0	0	0	0	0	0	0
Virginia.....	0	0	0	1	0	0	0	0	0
Washington.....	2	1	0	0	0	0	0	0	0
West Virginia.....	0	0	0	0	1	0	0	0	0
Wisconsin.....	0	1	0	1	0	0	0	0	0
Wyoming.....	0	0	0	0	0	0	0	0	0
Total.....	51	26	0	16	5	9	0	1	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, 2000**

Title and location (charter number)	Effective date	Total assets
Delaware JCPenney Card Bank, National Association, Harrington (022465)	September 30	3,032,000
Texas Houston Independent Bank National Association, Houston (018656)	June 1	0

**National banks merged out of the national banking system,
July 1 to December 31, 2000**

Title and location	Charter number	Effective date
Arkansas		
Merchants and Planters Bank, National Association, Camden	018413	August 31
First United Trust Company, National Association, El Dorado	022990	August 31
The First National Bank of El Dorado, El Dorado	007046	August 31
The City National Bank of Fort Smith, Fort Smith	010609	August 31
The Citizens National Bank of Hope, Hope	010579	August 31
First National Bank of Magnolia, Magnolia	014461	August 31
California		
Republic Bank California National Association, Beverly Hills	022663	October 27
Valley Merchants Bank, National Association, Hemet	022078	August 31
Georgia		
Milton National Bank, Roswell	022124	July 14
Illinois		
Aurora National Bank, Aurora	014161	September 23
Old Kent, National Association, Freeport	023392	July 14
Iowas		
United National Bank of Iowa, Sidney	018059	August 7
Kentucky		
Bowling Green Bank & Trust Company, National Association, Bowling Green	021671	October 1
The New Farmers National Bank of Glasgow, Glasgow	013651	October 1
HNB Bank, National Association, Harlan	012295	October 1
Louisiana		
Security First National Bank, Alexandria	014484	September 7
Maryland		
The Union National Bank of Westminster, Westminster	001596	July 14
Nebraska		
Pinnacle Bank, National Association, Osceola	006493	May 26
Pinnacle Bank, National Association, Wisner	004029	November 10
Oklahoma		
First American Bank, National Association, Woodward	016807	November 1
Pennsylvania		
The First National Bank of Leesport, Leesport	009495	September 25
Texas		
Texas National Bank, Brenham	018046	September 21
Chase Bank of Texas, National Association, Houston	010225	August 1
First Bank Texas National Association, Houston	014236	October 31
The First National Bank of Rosenberg, Rosenberg	012756	July 13
The First National Bank of Sudan, Sudan	012725	July 14
The First National Bank of Whitewright, Whitewright	004692	September 14
Virginia		
One Valley Bank—Central Virginia, National Association, Lynchburg	023467	November 10
Washington		
Bank of Tukwila, National Association, Tukwila	018711	July 1
West Virginia		
One Valley Bank, National Association, Charleston	016433	November 10
One Valley Bank—East, National Association, Martinsburg	004811	November 10
Wisconsin		
M&I First National Bank, West Bend	011060	November 1

**National banks converted out of the national banking system,
July 1 to December 31, 2000**

Title and location (charter number)	Effective date	Total assets
Colorado		
The Rocky Ford National Bank, Rocky Ford (009117)	September 27	32,932,000
Illinois		
The Casey National Bank, Casey (008043)	August 2	64,059,000
Kansas		
Southwest Bank, National Association, Ulysses (018323)	December 1	49,542,000
Kentucky		
The Owensboro National Bank, Owensboro (014138)	August 18	430,135,000
Maryland		
Annapolis National Bank, Annapolis (021961)	October 31	130,160,000
Ohio		
FDS National Bank, Deerfield Township (022579)	July 3	44,274,000
Oklahoma		
The Oklahoma National Bank of Duncan, Duncan (012051)	June 1	76,612,000
Peoples National Bank, Oklahoma City (017931)	August 16	19,809,000
SecurityBank, National Association, Pawnee (007611)	September 1	77,016,000
SpiritBank, National Association, Tulsa (010849)	June 1	305,000,000

**Federal branches and agencies of foreign banks in operation,
July 1 to December 31, 2000**

	In operation July 1, 2000	Opened July 1–December 31	Closed July 1–December 31	In operation December 31, 2000
Federal branches				
California	1	0	0	1
Connecticut	1	0	0	1
District of Columbia	1	0	0	1
New York	40	0	2	38
Washington	1	0	0	1
Limited federal branches				
California	8	0	1	7
District of Columbia	1	0	0	1
New York	3	0	0	3
Federal agency				
Illinois	1	0	0	1
Total United States	57	0	3	54

Tables on the Financial Performance of National Banks

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Assets, liabilities, and capital accounts of national banks
December 31, 1999 and December 31, 2000
(Dollar figures in millions)

	December 31, 1999	December 31, 2000	Change December 31, 1999– December 31, 2000 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
Number of institutions	2,364	2,230	(134)	(5.67)
Total assets	\$3,271,262	\$3,414,489	\$143,227	4.38
Cash and balances due from depositories	199,357	211,097	11,740	5.89
Noninterest-bearing balances, currency and coin	148,883	162,812	13,929	9.36
Interest bearing balances	50,474	48,285	(2,189)	(4.34)
Securities	537,185	502,295	(34,890)	(6.50)
Held-to-maturity securities, amortized cost	46,687	37,591	(9,097)	(19.48)
Available-for-sale securities, fair value	490,498	464,705	(25,794)	(5.26)
Federal funds sold and securities purchased	93,713	117,315	23,602	25.19
Net loans and leases	2,090,194	2,187,103	96,909	4.64
Total loans and leases	2,127,881	2,227,104	99,223	4.66
Loans and leases, gross	2,129,771	2,228,685	98,914	4.64
Less: Unearned income	1,890	1,581	(309)	(16.35)
Less: Reserve for losses	37,687	40,001	2,315	6.14
Assets held in trading account	89,874	109,835	19,961	22.21
Other real estate owned	1,572	1,554	(18)	(1.16)
Intangible assets	76,929	76,907	(22)	(0.03)
All other assets	182,438	208,383	25,946	14.22
Total liabilities and equity capital	3,271,262	3,414,489	143,227	4.38
Deposits in domestic offices	1,776,129	1,827,126	50,997	2.87
Deposits in foreign offices	378,147	423,338	45,191	11.95
Total deposits	2,154,276	2,250,464	96,189	4.47
Noninterest-bearing deposits	418,918	452,558	33,640	8.03
Interest-bearing deposits	1,735,358	1,797,907	62,548	3.60
Federal funds purchased and securities sold	252,460	249,243	(3,217)	(1.27)
Demand notes issued to U.S. Treasury	34,379	8,145	(26,234)	(76.31)
Other borrowed money	328,885	350,000	21,116	6.42
With remaining maturity of one year or less	218,831	227,696	8,865	4.05
With remaining maturity of more than one year	110,054	122,304	12,251	11.13
Trading liabilities less revaluation losses	16,487	22,954	6,466	39.22
Subordinated notes and debentures	55,025	62,463	7,438	13.52
All other liabilities	151,737	177,321	25,584	16.86
Trading liabilities revaluation losses	55,041	62,039	6,998	12.71
Other	96,696	115,282	18,586	19.22
Total equity capital	278,014	293,899	15,886	5.71
Perpetual preferred stock	922	581	(341)	(36.95)
Common stock	14,922	13,604	(1,318)	(8.83)
Surplus	148,631	156,984	8,354	5.62
Net undivided profits and capital reserves	114,480	123,887	9,406	8.22
Cumulative foreign currency translation adjustment	(942)	(1,157)	(216)	NM

NM indicates calculated percent change is not meaningful.

Quarterly income and expenses of national banks
Fourth quarter 1999 and fourth quarter 2000
(Dollar figures in millions)

	Fourth quarter 1999	Fourth quarter 2000	Change Fourth quarter, 1999- fourth quarter, 2000 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
Number of institutions	2,364	2,230	(134)	(5.67)
Net income	\$10,165	\$10,016	(\$148)	(1.46)
Net interest income	29,097	29,238	141	0.48
Total interest income	57,529	62,485	4,956	8.61
On loans	44,309	49,062	4,753	10.73
From lease financing receivables	1,753	1,967	215	12.25
On balances due from depositories	818	963	145	17.68
On securities	8,691	8,104	(588)	(6.76)
From assets held in trading account	648	880	232	35.76
On federal funds sold and securities repurchased ..	1,309	1,508	199	15.21
Less: Interest expense	28,432	33,247	4,815	16.93
On deposits	17,558	22,052	4,494	25.59
Of federal funds purchased and securities sold	3,435	3,767	333	9.68
On demand notes and other borrowed money*	6,474	6,293	(181)	(2.80)
On subordinated notes and debentures	965	1,135	169	17.53
Less: Provision for losses	4,049	6,301	2,252	55.62
Noninterest income	24,953	23,933	(1,019)	(4.09)
From fiduciary activities	2,011	2,351	341	16.94
Service charges on deposits	3,845	4,016	171	4.46
Trading revenue	1,012	1,419	407	40.17
From interest rate exposures	274	384	110	40.33
From foreign exchange exposures	556	790	234	42.10
From equity security and index exposures	140	214	73	NM
From commodity and other exposures	42	31	(11)	NM
Total other noninterest income	18,085	16,147	(1,938)	(10.72)
Gains/losses on securities	(231)	237	468	NM
Less: Noninterest expense	34,373	31,843	(2,529)	(7.36)
Salaries and employee benefits	13,057	12,274	(783)	(6.00)
Of premises and fixed assets	4,350	4,013	(337)	(7.75)
Other noninterest expense	16,966	15,557	(1,409)	(8.31)
Less: Taxes on income before extraordinary items	5,369	5,202	(167)	(3.11)
Income/loss from extraordinary items, net of income taxes	136	(46)	(182)	(134.19)
Memoranda:				
Net operating income	10,192	9,531	(661)	(6.49)
Income before taxes and extraordinary items	15,397	15,265	(133)	(0.86)
Income net of taxes before extraordinary items	10,029	10,063	34	0.34
Cash dividends declared	8,635	11,790	3,155	36.54
Net charge-offs to loan and lease reserve	3,942	5,099	1,156	29.32
Charge-offs to loan and lease reserve	4,991	6,039	1,047	20.98
Less: Recoveries credited to loan and lease reserve	1,049	940	(109)	(10.38)

* Includes mortgage indebtedness

NM indicates calculated percent change is not meaningful.

**Year-to-date income and expenses of national banks
Through December 31, 1999 and through December 31, 2000**

(Dollar figures in millions)

	December 31, 1999	December 31, 2000	Change December 31, 1999– December 31, 2000 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
Number of institutions	2,364	2,230	(134)	(5.67)
Net income	\$42,591	\$39,036	(\$3,555)	(8.35)
Net interest income	114,535	115,901	1,366	1.19
Total interest income	216,603	240,394	23,791	10.98
On loans	165,656	186,894	21,238	12.82
From lease financing receivables	6,915	7,456	541	7.82
On balances due from depositories	2,998	3,319	321	10.71
On securities	33,491	33,763	273	0.81
From assets held in trading account	2,529	3,284	755	29.86
On federal funds sold and securities repurchased ..	5,016	5,679	663	13.22
Less: Interest expense	102,068	124,493	22,425	21.97
On deposits	66,449	81,073	14,624	22.01
Of federal funds purchased and securities sold	12,407	14,649	2,242	18.07
On demand notes and other borrowed money*	19,707	24,620	4,913	24.93
On subordinated notes and debentures	3,506	4,152	646	18.42
Less: Provision for losses	15,548	19,866	4,318	27.77
Noninterest income	92,671	95,534	2,862	3.09
From fiduciary activities	9,246	9,576	329	3.56
Service charges on deposits	14,739	15,411	671	4.55
Trading revenue	4,692	5,836	1,144	24.38
From interest rate exposures	1,810	1,870	61	3.34
From foreign exchange exposures	2,456	2,916	460	18.71
From equity security and index exposures	368	979	610	165.64
From commodity and other exposures	57	71	13	23.27
Total other noninterest income	63,994	64,712	718	1.12
Gains/losses on securities	135	(1,823)	(1,958)	(1,452.03)
Less: Noninterest expense	125,812	128,454	2,642	2.10
Salaries and employee benefits	49,057	48,394	(663)	(1.35)
Of premises and fixed assets	15,739	15,514	(225)	(1.43)
Other noninterest expense	61,015	64,546	3,530	5.79
Less: Taxes on income before extraordinary items	23,494	22,225	(1,269)	(5.40)
Income/loss from extraordinary items, net of income taxes	104	(31)	(134)	NM
Memoranda:				
Net operating income	42,415	40,285	(2,131)	(5.02)
Income before taxes and extraordinary items	65,980	61,291	(4,690)	(7.11)
Income net of taxes before extraordinary items	42,487	39,066	(3,421)	(8.05)
Cash dividends declared	29,870	32,325	2,455	8.22
Net charge-offs to loan and lease reserve	14,175	16,101	1,925	13.58
Charge-offs to loan and lease reserve	18,003	19,780	1,777	9.87
Less: Recoveries credited to loan and lease reserve	3,827	3,679	(148)	(3.87)

* Includes mortgage indebtedness

NM indicates calculated percent change is not meaningful.

Assets of national banks by asset size
December 31, 2000
(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Total assets	\$3,414,48	\$55,924	\$251,420	\$400,689	\$2,706,45	\$6,238,713
Cash and balances due from	211,097	3,013	11,950	26,441	169,693	369,811
Securities	502,295	14,555	62,067	87,304	338,369	1,077,668
Federal funds sold and securities purchased	117,315	2,877	8,320	15,094	91,024	280,116
Net loans and leases	2,187,103	32,973	157,193	244,675	1,752,261	3,752,138
Total loans and leases	2,227,104	33,414	159,376	249,166	1,785,149	3,816,191
Loans and leases, gross	2,228,685	33,483	159,627	249,267	1,786,308	3,819,107
Less: Unearned income	1,581	69	252	101	1,159	2,915
Less: Reserve for losses	40,001	440	2,183	4,491	32,888	64,054
Assets held in trading account	109,835	0	32	823	108,980	304,249
Other real estate owned	1,554	67	198	154	1,135	2,905
Intangible assets	76,907	182	1,441	6,039	69,245	102,703
All other assets	208,383	2,257	10,219	20,159	175,749	349,123
Gross loans and leases by type:						
Loans secured by real estate	892,153	19,312	98,292	133,035	641,514	1,670,278
1-4 family residential mortgages	443,089	9,029	42,365	62,080	329,615	788,891
Home equity loans	82,672	460	4,149	9,199	68,864	127,493
Multifamily residential mortgages	28,022	424	3,435	4,886	19,278	60,178
Commercial RE loans	221,214	5,578	35,085	40,894	139,658	465,512
Construction RE loans	76,884	1,640	9,143	13,944	52,158	162,131
Farmland loans	12,347	2,181	4,110	1,872	4,184	34,040
RE loans from foreign offices	27,923	0	5	161	27,757	32,033
Commercial and industrial loans	644,574	5,737	28,604	50,533	559,700	1,048,248
Loans to individuals	370,359	4,617	22,677	50,689	292,376	609,713
Credit cards	176,380	180	4,514	21,616	150,070	249,370
Installment loans	193,980	4,437	18,163	29,073	142,307	360,343
All other loans and leases	208,383	2,257	10,219	20,159	175,749	349,123
Securities by type:						
U.S. Treasury securities	36,176	1,131	3,820	5,144	26,081	75,740
Mortgage-backed securities	226,164	2,856	17,251	42,407	163,650	470,469
Pass-through securities	155,522	1,980	10,500	27,863	115,179	296,151
Collateralized mortgage obligations	70,642	876	6,750	14,545	48,471	174,318
Other securities	239,955	10,568	40,996	39,753	148,638	531,460
Other U.S. government securities	77,700	7,541	25,203	17,405	27,550	229,407
State and local government securities	41,763	2,245	10,717	8,355	20,446	92,625
Other debt securities	96,672	397	3,147	10,437	82,691	168,283
Equity securities	23,821	385	1,930	3,555	17,951	41,145
Memoranda:						
Agricultural production loans	21,996	3,295	4,944	3,281	10,476	48,078
Pledged securities	230,603	5,755	30,298	44,216	150,334	513,672
Book value of securities	502,486	14,554	62,015	87,199	338,717	1,075,935
Available-for-sale securities	464,895	11,779	50,429	73,814	328,873	942,962
Held-to-maturity securities	37,591	2,775	11,587	13,385	9,844	132,973
Market value of securities	502,416	14,562	62,098	87,264	338,492	1,078,130
Available-for-sale securities	464,705	11,780	50,480	73,919	328,526	944,696
Held-to-maturity securities	37,711	2,782	11,618	13,345	9,967	133,435

Past-due and nonaccrual loans and leases of national banks by asset size

December 31, 2000

(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Loans and leases past due 30–89 days	\$27,975	\$487	\$1,905	\$3,284	\$22,298	\$47,936
Loans secured by real estate	12,684	243	965	1,352	10,124	21,035
1–4 family residential mortgages	8,652	145	588	722	7,198	13,541
Home equity loans	887	3	29	106	748	1,249
Multifamily residential mortgages	166	3	13	24	126	334
Commercial RE loans	1,588	51	218	304	1,015	3,425
Construction RE loans	861	19	92	165	585	1,723
Farmland loans	121	21	26	30	44	318
RE loans from foreign offices	409	0	0	0	409	443
Commercial and industrial loans	4,575	137	390	573	3,475	8,692
Loans to individuals	8,878	105	512	1,218	7,043	15,007
Credit cards	4,403	3	128	525	3,746	6,643
Installment loans	4,475	102	384	693	3,297	8,364
All other loans and leases	1,838	2	39	141	1,656	3,202
Loans and leases past due 90+ days	6,458	89	367	980	5,022	10,890
Loans secured by real estate	1,668	40	158	212	1,257	3,004
1–4 family residential mortgages	1,157	21	85	132	920	1,965
Home equity loans	113	1	5	12	96	160
Multifamily residential mortgages	20	0	2	5	13	50
Commercial RE loans	231	11	48	48	124	527
Construction RE loans	94	2	11	14	68	198
Farmland loans	28	5	7	3	13	76
RE loans from foreign offices	24	0	0	(0)	24	28
Commercial and industrial loans	654	33	87	120	415	1,383
Loans to individuals	3,890	15	113	638	3,124	6,110
Credit cards	2,906	2	64	483	2,357	4,096
Installment loans	985	14	50	155	767	2,014
All other loans and leases	246	0	9	11	226	393
Nonaccrual loans and leases	20,699	216	922	1,353	18,208	32,021
Loans secured by real estate	6,605	103	488	645	5,369	10,495
1–4 family residential mortgages	3,527	35	162	243	3,087	5,165
Home equity loans	226	1	9	24	192	315
Multifamily residential mortgages	133	1	7	18	106	216
Commercial RE loans	1,463	38	219	228	977	2,841
Construction RE loans	539	9	51	104	374	1,030
Farmland loans	149	19	39	28	63	334
RE loans from foreign offices	569	0	0	0	569	594
Commercial and industrial loans	10,108	94	327	585	9,102	16,101
Loans to individuals	1,509	19	86	62	1,343	2,418
Credit cards	437	0	42	2	393	912
Installment loans	1,073	18	44	60	950	1,506
All other loans and leases	2,476	1	21	61	2,394	3,006

Liabilities of national banks by asset size

December 31, 2000

(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Total liabilities and equity capital	\$3,414,48	\$55,924	\$251,420	\$400,689	\$2,706,45	\$6,238,713
Deposits in domestic offices	\$1,827,12	\$46,976	\$203,110	\$262,118	\$1,314,92	\$3,469,908
Deposits in foreign offices	423,338	10	266	2,668	420,394	706,666
Total deposits	2,250,464	46,986	203,375	264,786	1,735,317	4,176,575
Noninterest to earnings	452,558	7,632	32,119	47,446	365,360	765,893
Interest bearing	1,797,907	39,354	171,256	217,340	1,369,957	3,410,682
Other borrowed funds	630,342	2,069	19,644	88,550	520,079	1,107,232
Subordinated notes and debentures	62,463	8	137	2,480	59,838	87,043
All other liabilities	177,321	585	3,416	8,395	164,924	338,280
Equity capital	293,899	6,275	24,848	36,478	226,298	529,583
Total deposits by depositor:						
Individuals and corporations	1,993,893	42,407	185,294	243,737	1,522,455	3,729,012
U.S., state, and local governments	83,374	3,846	14,637	14,414	50,476	170,659
Depositories in the U.S.	78,226	387	1,918	4,345	71,577	112,524
Foreign banks and governments	83,049	0	262	906	81,880	138,588
Certified and official checks	9,639	346	1,264	1,371	6,658	19,005
All other foreign office deposits	2,283	1	0	12	2,270	6,786
Domestic deposits by depositor:						
Individuals and corporations	1,698,216	42,398	185,230	241,892	1,228,696	3,220,581
U.S., state, and local governments	83,374	3,846	14,637	14,414	50,476	170,659
Depositories in the U.S.	29,711	387	1,918	4,100	23,307	48,044
Foreign banks and governments	7,328	0	61	340	6,926	12,846
Certified and official checks	8,498	346	1,264	1,371	5,517	17,778
Foreign deposits by depositor:						
Individuals and corporations	295,677	9	65	1,844	293,759	508,431
Depositories in the U.S.	48,515	0	0	246	48,270	64,480
Foreign banks and governments	75,721	0	201	566	74,954	125,742
Certified and official checks	1,141	0	0	0	1,141	1,228
All other deposits	2,283	1	0	12	2,270	6,786
Deposits in domestic offices by type:						
Transaction deposits	374,295	14,295	50,337	43,843	265,820	679,299
Demand deposits	312,584	7,607	29,667	36,142	239,168	531,400
NOW accounts	61,003	6,567	20,289	7,502	26,646	145,836
Savings deposits	793,708	9,297	57,590	115,772	611,050	1,419,093
Money market deposit accounts	559,300	5,191	35,421	78,397	440,291	991,096
Other savings deposits	234,408	4,106	22,169	37,374	170,759	427,997
Time deposits	659,123	23,384	95,183	102,503	438,053	1,371,516
Small time deposits	389,328	16,122	62,696	62,385	248,126	796,344
Large time deposits	269,795	7,262	32,487	40,118	189,928	575,173

Off-balance-sheet items of national banks by asset size

December 31, 2000

(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Unused commitments	\$3,115,22	\$83,857	\$306,361	\$257,135	\$2,467,87	\$4,468,535
Home equity lines	124,688	339	3,963	9,525	110,860	172,435
Credit card lines	1,867,667	79,741	278,315	198,508	1,311,102	2,524,882
Commercial RE, construction and land	81,497	994	7,009	11,977	61,517	154,405
All other unused commitments	1,041,374	2,783	17,073	37,125	984,394	1,616,813
Letters of credit:						
Standby letters of credit	146,408	140	1,443	5,410	139,414	249,427
Financial letters of credit	116,564	87	867	3,887	111,723	204,804
Performance letters of credit	29,844	54	576	1,523	27,691	44,623
Commercial letters of credit	17,848	25	456	616	16,752	26,080
Securities borrowed and lent:						
Securities borrowed	16,142	27	287	4,049	11,779	22,829
Securities lent	75,961	15	183	5,749	70,015	484,743
Financial assets transferred with recourse:						
Mortgages—outstanding principal balance	39,615	54	103	5,777	33,680	63,528
Mortgages—amount of recourse exposure	7,688	35	84	888	6,681	14,057
All other—outstanding principal balance	280,868	1	6,604	23,241	251,022	338,437
All other—amount of recourse exposure	16,361	0	495	1,193	14,673	22,545
Spot foreign exchange contracts	158,264	0	10	65	158,189	189,298
Credit derivatives (notional value)						
Reporting bank is the guarantor	41,936	0	20	7	41,909	172,563
Reporting bank is the beneficiary	81,737	0	0	76	81,661	253,285
Derivative contracts (notional value)	15,502,91	28	1,330	29,208	15,472,345	40,569,391
Futures and forward contracts	4,546,392	13	115	1,240	4,545,024	9,876,830
Interest rate contracts	2,187,850	13	64	819	2,186,954	5,301,723
Foreign exchange contracts	2,285,960	0	51	421	2,285,488	4,424,678
All other futures and forwards	72,581	0	0	0	72,581	150,429
Option contracts	3,495,552	10	472	9,622	3,485,448	8,300,946
Interest rate contracts	2,914,492	10	472	9,548	2,904,462	6,744,373
Foreign exchange contracts	355,595	0	0	2	355,593	774,822
All other options	225,465	0	1	72	225,392	781,750
Swaps	7,337,295	5	722	18,263	7,318,304	21,965,767
Interest rate contracts	6,980,779	5	722	13,729	6,966,323	20,918,530
Foreign exchange contracts	302,906	0	0	4,430	298,476	899,197
All other swaps	53,609	0	0	105	53,504	148,041
Memoranda: Derivatives by purpose						
Contracts held for trading	14,513,72	0	6	5,388	14,508,329	38,933,340
Contracts not held for trading	865,516	28	1,303	23,738	840,447	1,210,204
Memoranda: Derivatives by position						
Held for trading—positive fair value	189,399	0	0	109	189,290	506,912
Held for trading—negative fair value	188,835	0	0	48	188,787	504,674
Not for trading—positive fair value	6,937	0	3	102	6,831	10,157
Not for trading—negative fair value	5,198	0	9	235	4,953	7,953

Quarterly income and expenses of national banks by asset size
Fourth quarter 2000
(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Net income	\$10,016	\$139	\$777	\$1,215	\$7,886	\$17,821
Net interest income	29,238	576	2,474	3,597	22,591	51,830
Total interest income	62,485	1,080	4,847	7,465	49,092	112,401
On loans	49,062	793	3,688	5,732	38,850	84,402
From lease financing receivables	1,967	3	32	77	1,856	2,878
On balances due from depositories	963	11	29	44	878	1,833
On securities	8,104	224	966	1,383	5,530	17,106
From assets held in trading account	880	0	1	15	865	2,584
On fed. funds sold & securities repurchased	1,508	48	131	214	1,115	3,599
Less: Interest expense	33,247	504	2,373	3,868	26,501	60,571
On deposits	22,052	472	2,062	2,472	17,045	41,731
Of federal funds purchased & securities sold	3,767	11	120	627	3,010	7,218
On demand notes & other borrowed money*	6,293	21	188	728	5,356	10,007
On subordinated notes and debentures	1,135	0	3	42	1,090	1,617
Less: Provision for losses	6,301	44	237	562	5,458	9,491
Noninterest income	23,933	309	1,404	2,732	19,489	39,429
From fiduciary activities	2,351	(8)	151	417	1,790	5,039
Service charges on deposits	4,016	80	272	380	3,284	6,494
Trading revenue	1,419	0	23	21	1,375	2,745
From interest rate exposures	384	0	23	13	349	1,047
From foreign exchange exposures	790	0	0	2	788	1,294
From equity security and index exposures	214	0	0	6	207	321
From commodity and other exposures	31	0	0	0	31	84
Total other noninterest income	16,147	236	958	1,913	13,040	25,150
Gains/losses on securities	237	1	(2)	8	229	196
Less: Noninterest expense	31,843	643	2,533	3,945	24,722	55,263
Salaries and employee benefits	12,274	292	1,052	1,325	9,605	22,595
Of premises and fixed assets	4,013	74	302	412	3,225	6,951
Other noninterest expense	15,557	277	1,179	2,208	11,892	25,717
Less: Taxes on income before extraord. items	5,202	59	330	615	4,198	8,835
Income/loss from extraord. items, net of taxes	(31)	22	(0)	(6)	(46)	(30)
Memoranda:						
Net operating income	9,531	139	778	1,209	7,405	17,366
Income before taxes and extraordinary items	15,265	199	1,107	1,830	12,130	26,701
Income net of taxes before extraordinary items	10,063	140	777	1,215	7,932	17,867
Cash dividends declared	11,790	163	710	1,831	9,085	18,622
Net loan and lease losses	5,099	32	180	406	4,481	7,658
Charge-offs to loan and lease reserve	6,039	41	221	507	5,270	9,096
Less: Recoveries credited to loan & lease resv.	940	9	41	101	789	1,438

* Includes mortgage indebtedness

Year-to-date income and expenses of national banks by asset size
Through December 31, 2000
(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Net income	\$39,036	\$568	\$3,152	\$5,410	\$29,907	\$71,176
Net interest income	115,901	2,309	9,728	14,421	89,443	203,790
Total interest income	240,394	4,135	18,386	28,769	189,104	427,985
On loans	186,894	3,037	13,919	21,631	148,306	319,370
From lease financing receivables	7,456	11	124	279	7,042	10,781
On balances due from depositories	3,319	38	105	162	3,013	6,441
On securities	33,763	885	3,820	5,809	23,250	68,456
From assets held in trading account	3,284	0	4	67	3,212	9,424
On fed. funds sold & securities repurchased	5,679	163	415	820	4,281	13,513
Less: Interest expense	124,493	1,826	8,659	14,348	99,661	224,195
On deposits	81,073	1,710	7,462	9,040	62,860	151,667
Of federal funds purchased & securities sold	14,649	39	439	2,364	11,807	27,436
On demand notes & other borrowed money*	24,620	76	746	2,791	21,007	39,171
On subordinated notes and debenture	4,152	0	11	153	3,987	5,922
Less: Provision for losses	19,866	294	755	2,001	16,816	29,254
Noninterest income	95,534	1,137	5,154	11,214	78,029	152,751
From fiduciary activities	9,576	14	594	1,653	7,315	21,370
Service charges on deposits	15,411	263	1,022	1,472	12,653	23,778
Trading revenue	5,836	3	66	90	5,676	12,444
From interest rate exposures	1,870	3	66	57	1,745	4,903
From foreign exchange exposures	2,916	0	1	7	2,908	5,089
From equity security and index exposures	979	0	0	27	952	1,939
From commodity and other exposures	71	0	0	0	70	513
Total other noninterest income	64,712	857	3,471	7,998	52,385	95,159
Gains/losses on securities	(1,823)	(9)	(25)	(196)	(1,594)	(2,285)
Less: Noninterest expense	128,454	2,362	9,566	15,021	101,505	215,753
Salaries and employee benefits	48,394	1,055	4,003	5,348	37,988	88,507
Of premises and fixed assets	15,514	270	1,146	1,612	12,485	26,765
Other noninterest expense	64,546	1,037	4,418	8,060	51,032	100,481
Less: Taxes on income before extraord. items	22,225	236	1,383	3,002	17,604	38,043
Income/loss from extraord. items, net of taxes	(31)	22	(0)	(6)	(46)	(30)
Memoranda:						
Net operating income	40,285	554	3,171	5,550	31,010	72,762
Income before taxes and extraordinary items	61,291	781	4,535	8,417	47,557	109,249
Income net of taxes before extraordinary items	39,066	546	3,152	5,415	29,953	71,206
Cash dividends declared	32,325	461	1,963	4,984	24,918	53,798
Net loan and lease losses	16,101	242	556	1,609	13,693	23,613
Charge-offs to loan and lease reserve	19,780	280	749	1,965	16,786	29,254
Less: Recoveries credited to loan & lease resv.	3,679	37	193	356	3,092	5,641

* Includes mortgage indebtedness

Quarterly net loan and lease losses of national banks by asset size

Fourth quarter 2000

(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Net charge-offs to loan and lease reserve	\$5,099	\$32	\$180	\$406	\$4,481	\$7,658
Loans secured by real estate	297	3	18	43	233	487
1-4 family residential mortgages	150	1	9	28	113	239
Home equity loans	59	0	0	3	55	75
Multifamily residential mortgages	2	0	0	0	1	6
Commercial RE loans	42	1	7	9	25	89
Construction RE loans	17	0	1	2	14	41
Farmland loans	5	(0)	1	0	3	14
RE loans from foreign offices	22	0	0	(0)	22	23
Commercial and industrial loans	1,954	16	59	87	1,792	3,001
Loans to individuals	2,560	12	93	266	2,188	3,763
Credit cards	1,768	(0)	54	202	1,512	2,598
Installment loans	792	13	39	64	676	1,165
All other loans and leases	287	0	8	10	269	407
Charge-offs to loan and lease reserve	6,039	41	221	507	5,270	9,096
Loans secured by real estate	402	4	22	51	325	637
1-4 family residential mortgages	198	2	11	30	156	305
Home equity loans	67	0	1	4	62	88
Multifamily residential mortgages	4	0	0	1	3	10
Commercial RE loans	72	1	7	13	50	136
Construction RE loans	22	0	2	3	17	48
Farmland loans	6	0	1	1	4	17
RE loans from foreign offices	33	0	0	(0)	33	34
Commercial and industrial loans	2,208	20	71	112	2,005	3,397
Loans to individuals	3,083	17	118	330	2,619	4,567
Credit cards	2,025	1	67	236	1,721	3,011
Installment loans	1,057	15	51	93	897	1,556
All other loans and leases	346	0	10	14	322	496
Recoveries credited to loan and lease	940	9	41	101	789	1,438
Loans secured by real estate	105	1	4	8	92	150
1-4 family residential mortgages	48	0	2	3	43	66
Home equity loans	8	0	0	1	7	13
Multifamily residential mortgages	2	0	0	0	1	4
Commercial RE loans	30	0	1	4	26	47
Construction RE loans	5	0	0	0	4	7
Farmland loans	1	0	0	0	0	2
RE loans from foreign offices	11	0	0	0	11	10
Commercial and industrial loans	254	4	11	26	213	396
Loans to individuals	523	4	25	63	431	804
Credit cards	257	1	13	34	210	413
Installment loans	266	3	12	29	221	390
All other loans and leases	59	0	2	4	53	88

Year-to-date net loan and lease losses of national banks by asset size

Through December 31, 2000

(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
Number of institutions reporting	2,230	1,100	955	131	44	8,315
Net charge-offs to loan and lease reserve	16,101	242	556	1,609	13,693	23,613
Loans secured by real estate	1,003	7	40	145	811	1,443
1-4 family residential mortgages	567	3	22	93	449	807
Home equity loans	175	0	1	15	159	212
Multifamily residential mortgages	8	0	1	1	6	14
Commercial RE loans	139	2	12	28	97	231
Construction RE loans	36	1	3	7	25	81
Farmland loans	(4)	0	1	1	(7)	12
RE loans from foreign offices	82	0	0	(0)	82	85
Commercial and industrial loans	5,117	45	155	249	4,670	7,835
Loans to individuals	9,234	191	340	1,186	7,517	13,240
Credit cards	6,757	158	229	973	5,397	9,602
Installment loans	2,477	33	111	213	2,121	3,638
All other loans and leases	746	0	22	30	695	1,095
Charge-offs to loan and lease reserve	19,780	280	749	1,965	16,786	29,254
Loans secured by real estate	1,397	11	57	180	1,148	2,007
1-4 family residential mortgages	737	5	30	108	594	1,040
Home equity loans	208	0	2	19	186	260
Multifamily residential mortgages	19	0	2	2	15	30
Commercial RE loans	257	4	18	41	196	421
Construction RE loans	55	1	4	9	41	110
Farmland loans	12	1	2	2	8	35
RE loans from foreign offices	108	0	0	(0)	108	111
Commercial and industrial loans	5,917	59	207	319	5,331	9,205
Loans to individuals	11,482	209	457	1,419	9,398	16,584
Credit cards	7,852	164	293	1,090	6,304	11,283
Installment loans	3,631	45	164	329	3,093	5,300
All other loans and leases	983	0	27	47	908	1,459
Recoveries credited to loan and lease reserve	3,679	37	193	356	3,092	5,641
Loans secured by real estate	394	4	18	35	337	564
1-4 family residential mortgages	170	2	8	15	145	233
Home equity loans	33	0	1	4	27	48
Multifamily residential mortgages	11	0	1	1	9	16
Commercial RE loans	119	1	6	13	99	189
Construction RE loans	19	0	1	2	16	29
Farmland loans	17	1	1	1	15	23
RE loans from foreign offices	26	0	0	0	26	27
Commercial and industrial loans	800	15	53	71	662	1,370
Loans to individuals	2,248	18	117	233	1,880	3,343
Credit cards	1,095	7	64	117	908	1,681
Installment loans	1,153	11	53	116	973	1,662
All other loans and leases	237	0	6	17	213	364

**Number of national banks by state and asset size
December 31, 2000**

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
All institutions.....	2,230	1,100	955	131	44	8,315
Alabama.....	24	12	12	0	0	158
Alaska.....	3	1	0	2	0	6
Arizona.....	18	7	6	2	3	45
Arkansas.....	41	13	28	0	0	185
California.....	80	32	38	8	2	304
Colorado.....	56	35	19	1	1	181
Connecticut.....	8	3	5	0	0	23
Delaware.....	16	2	8	3	3	32
District of Columbia.....	5	2	3	0	0	6
Florida.....	82	30	45	7	0	265
Georgia.....	67	36	29	1	1	337
Hawaii.....	1	0	1	0	0	8
Idaho.....	1	0	1	0	0	18
Illinois.....	193	80	102	7	4	711
Indiana.....	31	7	17	5	2	153
Iowa.....	45	25	18	2	0	431
Kansas.....	106	75	28	3	0	376
Kentucky.....	52	26	23	3	0	233
Louisiana.....	18	8	7	1	2	149
Maine.....	6	1	4	1	0	15
Maryland.....	15	6	7	2	0	74
Massachusetts.....	13	5	6	2	0	44
Michigan.....	28	11	15	1	1	168
Minnesota.....	128	78	46	1	3	492
Mississippi.....	20	8	10	2	0	101
Missouri.....	48	26	19	3	0	362
Montana.....	18	14	2	2	0	84
Nebraska.....	76	54	20	2	0	276
Nevada.....	8	2	2	3	1	32
New Hampshire.....	6	2	2	1	1	16
New Jersey.....	26	4	14	8	0	81
New Mexico.....	16	6	7	3	0	54
New York.....	63	13	41	8	1	148
North Carolina.....	9	2	3	1	3	75
North Dakota.....	16	7	6	3	0	110
Ohio.....	92	42	35	9	6	211
Oklahoma.....	102	65	33	4	0	286
Oregon.....	4	1	2	1	0	43
Pennsylvania.....	90	23	57	7	3	187
Rhode Island.....	3	1	0	1	1	7
South Carolina.....	25	17	7	1	0	79
South Dakota.....	20	11	7	1	1	97
Tennessee.....	29	8	18	1	2	197
Texas.....	358	224	126	6	2	710
Utah.....	8	2	3	2	1	56
Vermont.....	11	3	7	1	0	18
Virginia.....	35	14	19	2	0	143
Washington.....	15	11	4	0	0	79
West Virginia.....	23	10	10	3	0	70
Wisconsin.....	52	24	25	3	0	315
Wyoming.....	20	11	8	1	0	46
U.S. territories.....	0	0	0	0	0	18

Total assets of national banks by state and asset size
December 31, 2000
(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than \$100 million	\$100 million to \$1 billion	\$1 billion to \$10 billion	Greater than \$10 billion	
All institutions	\$3,414,48	\$55,924	\$251,420	\$400,689	\$2,706,456	\$6,238,713
Alabama	3,796	730	3,067	0	0	181,459
Alaska	5,195	64	0	5,131	0	6,174
Arizona	58,562	184	2,572	4,381	51,424	61,831
Arkansas	7,466	674	6,793	0	0	25,682
California	185,038	1,688	11,151	21,841	150,358	320,026
Colorado	26,877	1,791	5,254	4,055	15,777	46,552
Connecticut	1,213	223	990	0	0	3,422
Delaware	103,810	133	2,466	5,471	95,740	151,616
District of Columbia	667	70	596	0	0	756
Florida	26,150	1,757	11,339	13,054	0	58,897
Georgia	27,230	1,916	6,667	6,397	12,249	168,086
Hawaii	315	0	315	0	0	24,393
Idaho	229	0	229	0	0	2,507
Illinois	230,264	3,921	25,491	21,559	179,294	355,521
Indiana	59,511	354	6,084	16,581	36,492	84,622
Iowa	13,521	1,354	4,472	7,695	0	44,588
Kansas	19,124	3,545	7,570	8,008	0	37,883
Kentucky	23,404	1,683	4,224	17,497	0	52,523
Louisiana	36,020	451	1,253	6,137	28,179	51,651
Maine	5,872	23	1,464	4,385	0	7,734
Maryland	5,690	358	2,024	3,308	0	46,910
Massachusetts	9,184	274	1,344	7,566	0	111,408
Michigan	17,216	478	3,592	1,228	11,918	138,534
Minnesota	164,114	3,565	11,859	2,354	146,336	187,094
Mississippi	10,240	348	2,001	7,891	0	34,024
Missouri	25,614	1,331	5,962	18,321	0	64,511
Montana	3,753	605	416	2,732	0	10,940
Nebraska	16,438	2,491	4,672	9,274	0	30,105
Nevada	25,894	62	340	14,414	11,078	37,862
New Hampshire	20,156	56	375	4,641	15,084	22,352
New Jersey	29,378	260	4,442	24,676	0	100,823
New Mexico	11,213	319	2,695	8,200	0	15,364
New York	411,642	843	12,427	16,266	382,106	1,304,307
North Carolina	889,555	107	1,228	2,912	885,308	980,733
North Dakota	11,795	300	1,810	9,685	0	17,604
Ohio	292,136	1,996	10,161	16,876	263,103	361,912
Oklahoma	24,970	3,343	6,505	15,122	0	43,217
Oregon	9,928	4	540	9,383	0	17,260
Pennsylvania	145,417	1,366	16,444	9,810	117,796	189,582
Rhode Island	172,598	8	0	6,309	166,281	182,090
South Carolina	4,998	826	2,121	2,051	0	23,621
South Dakota	28,792	408	2,453	7,838	18,093	37,238
Tennessee	65,165	543	5,422	7,315	51,884	86,863
Texas	112,794	11,370	31,110	17,446	52,868	166,406
Utah	25,243	51	817	9,288	15,088	102,925
Vermont	3,296	186	2,099	1,010	0	7,592
Virginia	12,137	780	4,954	6,403	0	59,617
Washington	1,738	538	1,200	0	0	14,856
West Virginia	10,481	563	1,982	7,937	0	17,455
Wisconsin	14,465	1,505	7,087	5,873	0	78,817
Wyoming	4,188	479	1,342	2,367	0	7,490
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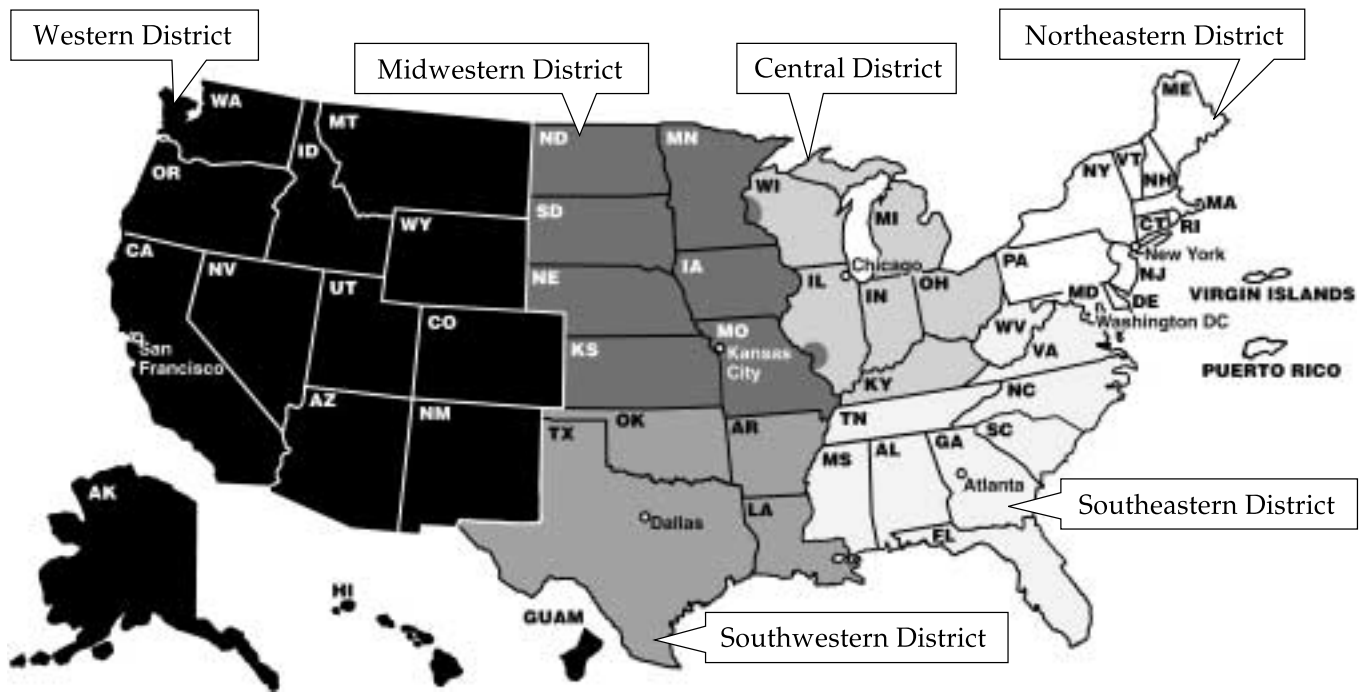
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