



Office of the Comptroller of the Currency  
Department of the Treasury

OFFICE OF COMPTROLLER OF THE CURRENCY

# Quarterly Journal

No. 3

VOLUME TWENTY

# Office of the Comptroller of the Currency

## September 2001

Comptroller ..... John D. Hawke Jr.

### Executive Committee

First Senior Deputy Comptroller and Chief Counsel ..... Julie L. Williams  
Chief of Staff ..... Mark A. Nishan  
Senior Deputy Comptroller for Management and Chief Financial Officer ..... Edward J. Hanley  
Senior Deputy Comptroller for Bank Supervision Operations ..... Leann G. Britton  
Senior Deputy Comptroller for Bank Supervision Policy ..... Emory Wayne Rushton  
Senior Deputy Comptroller for International and Economic Affairs ..... Jonathan L. Fiechter  
Senior Deputy Comptroller for Public Affairs (Acting) ..... Mark A. Nishan  
Chief Information Officer ..... Steven M. Yohai  
Ombudsman ..... Samuel P. Golden

### 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

Volume 20, Number 3  
September 2001



---

# Contents

---

	<i>Page</i>
Condition and Performance of Commercial Banks.....	1
Recent Corporate Decisions.....	21
Appeals Process .....	23
Special Supervision/Fraud and Enforcement Activities .....	27
Speeches and Congressional Testimony .....	31
Interpretations—April 1 to June 30, 2001.....	59
Mergers—April 1 to June 30, 2001 .....	69
Tables on the Corporate Structure of the National Banking System .....	75
Tables on the Financial Performance of National Banks .....	91
Index.....	107



# Condition and Performance of Commercial Banks

## Summary of Condition and Performance

Banks are entering the current period of uncertainty and economic stress in a relatively strong position. Both capital levels and earnings are considerably higher than they were before the recession of 1990–91. Moreover, banks maintained an average return on equity above 14 for the first half of 2001. Declining interest rates have been favorable to the industry, producing gains on the sales of bonds and contributing to a slight widening in net interest margins. Reductions in non-interest expense have also boosted earnings. In the short run, these factors will continue to support bank earnings.

On the negative side, banks are showing weakness in some key areas that are likely to intensify as the economy turns down. Asset quality has continued to deteriorate, particularly for commercial and industrial loans, and especially at the larger banks. In the second quarter, consumer credit quality deteriorated as well. Given the weakening economic environment, further erosion of asset quality is expected. Increased provisioning for loan losses has been largely offset by higher loan charge-offs. As a result, reserves have not grown as quickly as noncurrent loans. It is likely that many banks will find it necessary to increase their provisions for loan losses, thereby reducing earnings. At the same time, the slowing economy is likely to put pressure on earnings in other areas including non-interest income, such as fees from underwriting securities issues.

The consumer sector has remained the bright spot in the American economy. But consumer confidence has been falling for several quarters, and fell dramatically in the aftermath of the September 11 terrorist attacks. For comparison, consumer confidence fell 40 points in the six months after Iraq's invasion of Kuwait in 1990. During this period, major sectors, including homes, automobiles and other durable good producers saw sales volume and prices fall. These sectors are expected to be affected again. Moreover, delays in airlines and elsewhere in the transportation system will increase the costs of a wide range of products, such as auto parts, and may cause further stress to some sectors.

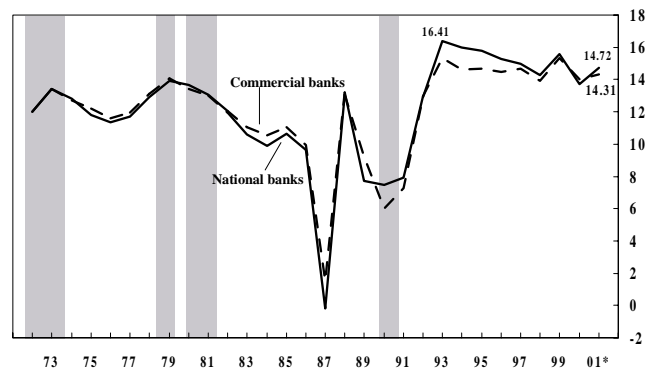
Although we do not yet have reliable estimates of the economic effect of the September 11 attacks, many analysts now project a deeper downturn than had earlier been anticipated, and a later recovery—perhaps not until the second half of 2002. Bank earnings are likely to suffer for at least the next four quarters, as the slowing economy reduces loan growth and fee income, and intensifies asset quality problems. Industries directly affected by the attacks include insurance, airlines, autos, and hotels and leisure. Drawdowns of existing credit lines by those affected by last week's events will increase credit risk in specific banks. As these affected industries scale back operations and lay off employees, the impact is likely to spillover into consumption and housing, affecting the banking industry more broadly.

## Key Trends

During the second quarter, bank capital and earnings remained strong. By either measure, banks are in better shape now than on the eve of the last recession in 1990–91. Commercial banks earned about 7 percent on equity in 1990, versus 14.5 percent for the first half of 2001.

**Figure 1—ROE high through second quarter**

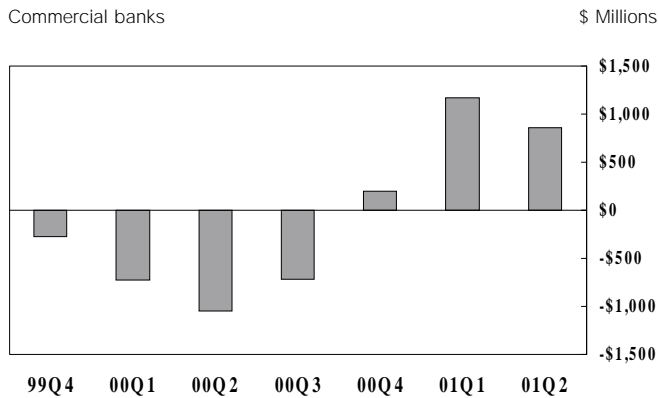
Commercial and national bank ROE Percent



\*2001 data as of June 30, 2001. All other data as of year-end. Shaded areas represent periods of recession.  
Source: Integrated Banking Information System

Both net interest income and noninterest income as a percent of assets have remained roughly flat over the last year. Expenses for provisioning have increased slightly, reflecting a deterioration in asset quality, but this is more than offset by a decrease in noninterest expense, which fell to its lowest level relative to assets in 10 years. Gains in this area apparently result from a variety of efficiency improvements including data processing. In part this may reflect the same type of productivity boost that other U.S. industries have enjoyed over the last decade. Banks have also boosted earnings by selling some of their bond holdings, as falling interest rates have raised bond prices.

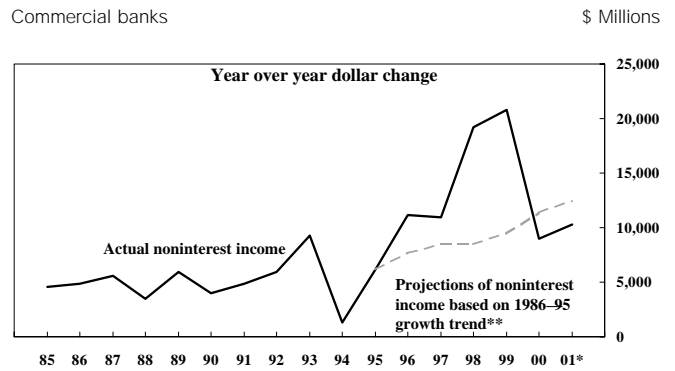
**Figure 2— Decline in interest rates allowed gains from bond sales**



Source: Integrated Banking Information System.

The jump in noninterest income particularly evident in 1998 and 1999 appears to be an anomaly, the result in part of the peaking of financial markets in those years, and the consequent surge in mergers and acquisition, underwriting of securities, and other sources of fee income. Return on equity remained as high as it did largely because of this spike in noninterest income. If non-interest income had continued to grow at the 1986–1995 pace, however, ROE would have declined to about 10 percent by the late 1990s, compared with the actual level of 14.31 percent.

**Figure 3— Sharp rises in non-interest income in 1998 and 1999 appear to be aberrations from trend**



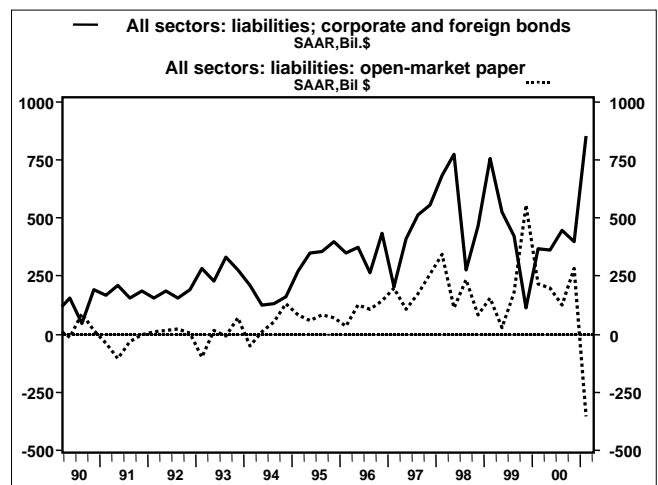
\*2001 data are annualized year-to-date as of June 30, 2001. All other data as of year end.

\*\*Non-interest income growth rate from 1996–2001 based on average growth rate from 1986–1995, adjusted for inflation.

Source: Integrated Banking Information System

Growth in loan volume slowed during the first half. Commercial and industrial lending declined, as falling interest rates allowed corporate borrowers to refinance short-term debt (commercial paper and bank loans) with longer-term obligations, especially bonds. It remains to be seen whether corporate borrowers will continue to find a favorable borrowing environment in a slowing economy. If they find they are unable to issue new bonds, this would add to demand for commercial and industrial (C&I) loans from banks.

**Figure 4— C&I loan growth slows as corporates shift to bond market**

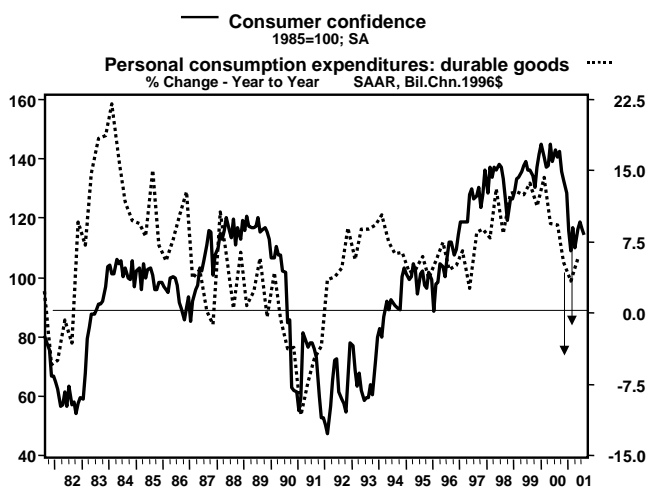


Source: Federal Reserve Board/Haver Analytics; data through Q1-01.



Consumer lending continued to grow during the second quarter, as did real estate lending, led by continued strength in loans for 1- to 4-family houses and in home equity loans. The burden of consumer debt (debt service payments as a percent of disposable income) continues to rise and now stands near record levels. This may limit the potential for further growth in consumer lending and real estate lending to individuals. An erosion of consumer confidence may also dampen further growth in consumer lending. Even before the September 11 attacks, consumer confidence had fallen sharply from the historically high levels reached in 2000. Previous shocks have often been followed by sharp drops in consumer confidence. For example, during the Persian Gulf crisis of 1990–91, the same index fell by 40 points, which suggests considerable room for a further decline in the months ahead.

**Figure 5— Consumer confidence or change in may be critical factor**

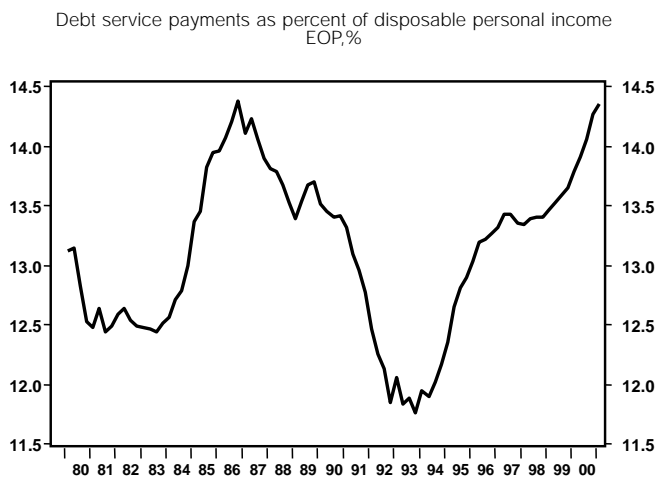


Sources: The Conference Board (data through August 2001), Bureau of Economic Analysis (data through Q2-01)/Haver Analytics.

Continued strength in housing prices helped to prop up consumer spending and demand for credit during the second quarter. With home prices continuing to rise and interest rates falling, consumers have been able to refinance their home mortgages, or to take out home equity loans. This had allowed growth in consumer spending even in the face of sharp contractions in equity markets and a slowing economy. *There is concern that recent rates of appreciation in housing values will not be maintained, and that this would cut into growth in consumer spending.*

Consumer debt, for example, has now matched its previous peak, set in the mid 1980s. High levels of debt service payments are likely to mean higher levels of noncurrent consumer loans, and charge-offs on consumer loans. Analysis done at the OCC shows that the recent rise in consumer debt levels should lead to a substantial increase in credit card charge-offs. Thus we should expect an increase in provisions, with an associated reduction in earnings, to cover these charge-offs.

**Figure 6— Household debt obligations near record**

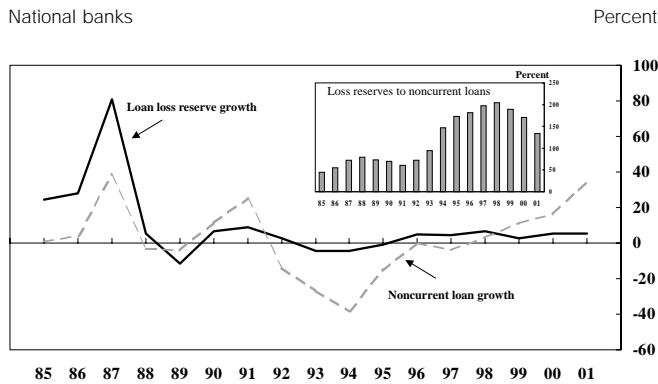


Source: Federal Reserve Board/Haver Analytics; data through Q1-01.

Credit quality problems increased during the second quarter, with a noticeable rise in noncurrent loans. As in recent quarters, the most significant deterioration occurred in commercial and industrial loans at large banks. Even so, the noncurrent ratio for C&I loans (2.1 percent for national banks) remained well below the 4.4 percent levels seen in 1990 at the beginning of the last recession. During the second quarter, credit quality problems spilled over into consumer loans, pushing the noncurrent ratio to 1.5 percent.

In response, banks have stepped up provisions for loan losses; charge-offs have increased apace. This has resulted in a continuing slide in the coverage ratio for noncurrent loans, which dropped from around 2 in 1999 to 1.3 in the second quarter. In the face of a deepening economic downturn, provisions would have to rise significantly to keep the coverage ratio above 1.

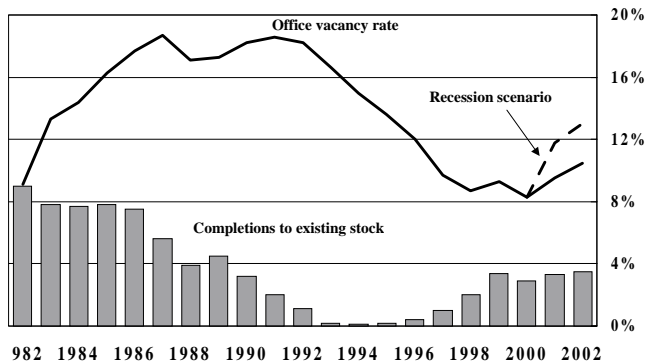
**Figure 7— Nonrecurrent loans grow more rapidly than reserves producing decline in reserve coverage**



Annual growth for the second quarter of each year.  
Source: Integrated Banking Information System

The market for commercial real estate is being hit by both weakening demand and expanding supply. The economic slowdown is depressing demand, especially in the office and hotel sectors. Hardest hit so far have been the high-tech centers: San Francisco, San Jose, Oakland, Austin, and Seattle. Any weakening of the retail sector would also affect demand for commercial space. As demand has been falling, new space has continued to come on-line. The result has been a rise in vacancy rates. A recession would make this worse.

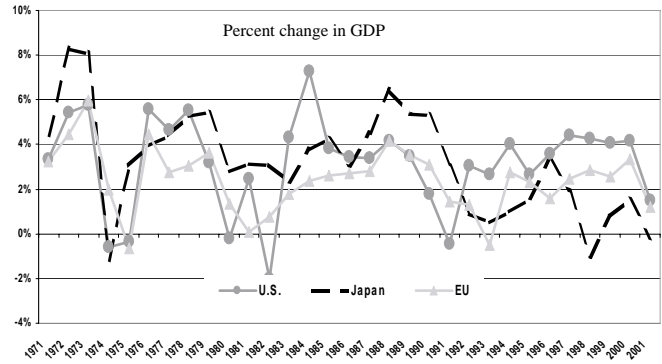
**Figure 8— Office construction in the pipeline expected to push up vacancy rate**



Source: Torto Wheaton Research, projections as of June 2001.

Banks face risks from a synchronized global slowdown. For the first time since the first oil crisis in 1974, gross domestic product (GDP) for the year is likely to drop below 2 percent for all three major world economies, the United States, the European Union, and Japan. In the wake of the September 11 attacks, many analysts expect slower business activity to push GDP results below even this level. In contrast, all the downturns of the intervening years spared at least one of the three major economies.

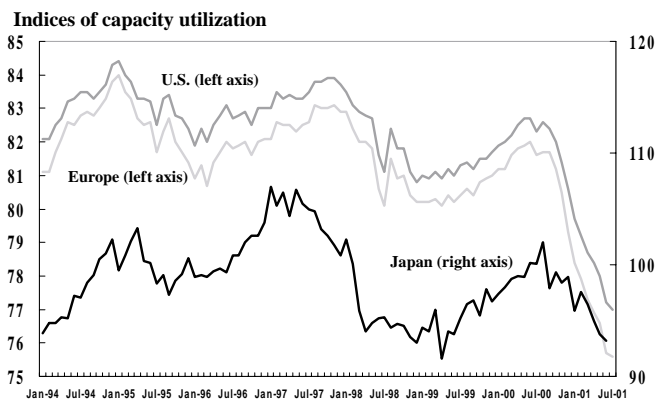
**Figure 9— Major industrial countries have simultaneous sub-par growth for first time in almost 30 years**



Source: Haver Analytics; 2001 projections from IMF.

For all three economies, the industrial sector has borne the brunt of the slowdown. Industrial capacity use has fallen particularly sharply in the United States and Japan; for the United States, this index has already fallen further than it did during the recession of 1990–91.

**Figure 10— Corporate/industrial weakening a global event**



Source: Haver Analytics

In summary, banks on the whole are well capitalized and have maintained earnings at historically high levels. By both measures, banks are far stronger than they were entering the recession of 1990–91. But banks face a near-term deterioration in asset quality; this will require additional provisions, reducing earnings. *Even before the attacks of September 11, banks faced increases in their non-performing loan ratios, the result of worldwide slowdown in economic activity. For the first time in 30 years, all three major world economies are simultaneously facing sub-par growth. This is likely to mean a longer and deeper global slump than would otherwise be the case,*

*as none of the major economies will be able to serve as the locomotive of world growth. All these effects will mean more pressure on bank earnings in the medium term.*

*The direct effects of the September 11 terrorist attacks will likely include an increase in noncurrent loans to the most vulnerable industries, including airlines, autos, and insurance. Indirect effects will come as a result of a further slowdown in the economy, and will touch many industries and sectors.*

**Key indicators, FDIC-insured national banks**  
**Annual 1997-2000, year-to-date through June 30, 2001, second quarter 2000, and second quarter 2001**  
(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q2	Preliminary 2001Q2
Number of institutions reporting.....	2,597	2,456	2,364	2,230	2,176	2,302	2,176
Total employees (FTEs).....	912,463	974,871	983,186	948,648	962,387	963,761	962,387
<b>Selected income data (\$)</b>							
Net income.....	\$35,782	\$37,607	\$42,590	\$38,971	\$22,383	\$6,605	\$10,998
Net interest income.....	106,639	110,985	114,556	115,905	60,175	29,424	30,609
Provision for loan losses.....	13,065	15,242	15,549	20,539	11,559	5,061	6,244
Noninterest income.....	65,429	81,344	92,650	96,187	49,606	21,636	24,600
Noninterest expense.....	104,682	122,606	125,811	128,539	64,225	33,992	32,220
Net operating income.....	34,993	35,548	42,415	40,220	22,118	7,421	10,773
Cash dividends declared.....	28,587	25,414	29,870	32,325	14,051	6,852	7,105
Net charge-offs to loan and lease reserve....	12,661	14,492	14,176	17,231	10,331	3,636	5,545
<b>Selected condition data (\$)</b>							
Total assets.....	2,893,910	3,183,384	3,271,264	3,414,467	3,448,292	3,363,683	3,448,292
Total loans and leases.....	1,840,485	2,015,585	2,127,933	2,227,081	2,255,759	2,200,230	2,255,759
Reserve for losses.....	34,865	36,810	37,687	40,010	41,365	39,266	41,365
Securities.....	452,118	516,117	537,311	502,296	486,500	516,153	486,500
Other real estate owned.....	2,112	1,833	1,572	1,553	1,682	1,507	1,682
Noncurrent loans and leases.....	17,878	19,513	20,815	27,163	30,959	22,976	30,959
Total deposits.....	2,004,867	2,137,946	2,154,272	2,250,464	2,285,651	2,197,032	2,285,651
Domestic deposits.....	1,685,316	1,785,856	1,776,126	1,827,126	1,890,053	1,788,806	1,890,053
Equity capital.....	244,794	274,192	278,013	293,857	309,400	285,504	309,400
Off-balance-sheet derivatives.....	8,704,481	10,953,514	12,077,568	15,502,911	17,323,017	13,917,931	17,323,017
<b>Performance ratios (annualized %)</b>							
Return on equity.....	15.00	14.29	15.57	13.71	14.72	9.33	14.30
Return on assets.....	1.29	1.24	1.35	1.18	1.30	0.79	1.28
Net interest income to assets.....	3.83	3.67	3.63	3.50	3.50	3.54	3.56
Loss provision to assets.....	0.47	0.50	0.49	0.62	0.67	0.61	0.73
Net operating income to assets.....	1.26	1.18	1.35	1.22	1.29	0.89	1.25
Noninterest income to assets.....	2.35	2.69	2.94	2.91	2.88	2.60	2.86
Noninterest expense to assets.....	3.76	4.05	3.99	3.88	3.73	4.09	3.75
Loss provision to loans and leases.....	0.73	0.79	0.76	0.95	1.03	0.94	1.11
Net charge-offs to loans and leases.....	0.71	0.75	0.70	0.80	0.92	0.67	0.99
Loss provision to net charge-offs.....	103.19	105.12	109.69	119.19	111.89	139.20	112.60
<b>Performance ratios (%)</b>							
Percent of institutions unprofitable.....	4.89	5.94	7.06	6.86	6.39	6.52	7.31
Percent of institutions with earnings gains....	67.96	61.60	62.18	66.82	51.75	65.73	50.23
Nonint. income to net operating revenue.....	38.02	42.29	44.71	45.35	45.19	42.37	44.56
Nonint. expense to net operating revenue.....	60.84	63.75	60.72	60.61	58.50	66.57	58.36
<b>Condition ratios (%)</b>							
Nonperforming assets to assets.....	0.70	0.68	0.70	0.86	0.96	0.74	0.96
Noncurrent loans to loans.....	0.97	0.97	0.98	1.22	1.37	1.04	1.37
Loss reserve to noncurrent loans.....	195.01	188.65	181.05	147.29	133.61	170.90	133.61
Loss reserve to loans.....	1.89	1.83	1.77	1.80	1.83	1.78	1.83
Equity capital to assets.....	8.46	8.61	8.50	8.61	8.97	8.49	8.97
Leverage ratio.....	7.42	7.43	7.49	7.49	7.67	7.49	7.67
Risk-based capital ratio.....	11.84	11.79	11.71	11.85	12.32	11.87	12.32
Net loans and leases to assets.....	62.39	62.16	63.90	64.05	64.22	64.24	64.22
Securities to assets.....	15.62	16.21	16.43	14.71	14.11	15.34	14.11
Appreciation in securities (% of par).....	1.11	0.82	-2.45	-0.01	0.42	-2.49	0.42
Residential mortgage assets to assets.....	20.10	20.41	20.60	19.60	21.24	20.46	21.24
Total deposits to assets.....	69.28	67.16	65.85	65.91	66.28	65.32	66.28
Core deposits to assets.....	51.59	49.72	47.01	45.61	47.08	45.48	47.08
Volatile liabilities to assets.....	31.42	31.77	34.81	35.18	33.03	35.89	33.03

**Loan performance, FDIC-insured national banks**  
**Annual 1997-2000, year-to-date through June 30, 2001, second quarter 2000, and second quarter 2001**  
(Dollar figures in millions)

	1997	1998	1999	2000	2001YTD Preliminary	2000Q2	2001Q2 Preliminary
<b>Percent of loans past due 30–89 days</b>							
Total loans and leases . . . . .	1.32	1.27	1.16	1.26	1.22	1.06	1.22
Loans secured by real estate (RE) . . . . .	1.39	1.33	1.22	1.42	1.35	1.08	1.35
1–4 family residential mortgages . . . . .	1.65	1.50	1.61	1.95	1.78	1.41	1.78
Home equity loans . . . . .	0.93	0.97	0.77	1.07	0.86	0.75	0.86
Multifamily residential mortgages . . . . .	1.33	0.94	0.69	0.59	0.53	0.43	0.53
Commercial RE loans . . . . .	0.95	1.02	0.70	0.72	0.72	0.60	0.72
Construction RE loans . . . . .	1.63	1.82	1.07	1.12	1.26	1.01	1.26
Commercial and industrial loans* . . . . .	0.76	0.81	0.71	0.71	0.79	0.72	0.79
Loans to individuals . . . . .	2.52	2.44	2.36	2.40	2.15	2.10	2.15
Credit cards . . . . .	2.75	2.52	2.53	2.50	2.54	2.32	2.54
Installment loans and other plans . . . . .	2.34	2.37	2.24	2.31	2.07	1.92	2.07
All other loans and leases . . . . .	0.46	0.46	0.50	0.58	0.60	0.57	0.60
<b>Percent of loans noncurrent</b>							
Total loans and leases . . . . .	0.97	0.97	0.98	1.22	1.37	1.04	1.37
Loans secured by real estate (RE) . . . . .	1.07	0.98	0.87	0.93	1.03	0.86	1.03
1–4 family residential mortgages . . . . .	1.01	0.95	0.91	1.06	1.12	0.89	1.12
Home equity loans . . . . .	0.43	0.41	0.32	0.41	0.41	0.34	0.41
Multifamily residential mortgages . . . . .	1.01	0.88	0.43	0.55	0.47	0.37	0.47
Commercial RE loans . . . . .	1.27	1.01	0.84	0.77	0.95	0.84	0.95
Construction RE loans . . . . .	1.00	0.80	0.63	0.82	0.94	0.80	0.94
Commercial and industrial loans . . . . .	0.78	0.86	1.11	1.66	2.13	1.37	2.13
Loans to individuals . . . . .	1.49	1.59	1.52	1.46	1.45	1.40	1.45
Credit cards . . . . .	2.03	2.06	2.00	1.89	2.06	1.80	2.06
Installment loans and other plans . . . . .	1.04	1.19	1.16	1.06	1.10	1.08	1.10
All other loans and leases . . . . .	0.27	0.31	0.40	0.85	0.76	0.50	0.76
<b>Percent of loans charged-off, net</b>							
Total loans and leases . . . . .	0.71	0.75	0.70	0.80	0.92	0.67	0.99
Loans secured by real estate (RE) . . . . .	0.06	0.05	0.10	0.12	0.16	0.10	0.17
1–4 family residential mortgages . . . . .	0.08	0.07	0.14	0.14	0.17	0.12	0.19
Home equity loans . . . . .	0.18	0.16	0.19	0.23	0.30	0.16	0.27
Multifamily residential mortgages . . . . .	0.01	0.07	0.02	0.03	–0.01	0.11	–0.07
Commercial RE loans . . . . .	–0.01	–0.02	0.03	0.07	0.11	0.06	0.11
Construction RE loans . . . . .	–0.10	–0.01	0.03	0.05	0.10	0.02	0.08
Commercial and industrial loans* . . . . .	0.27	0.38	0.54	0.87	1.17	0.72	1.33
Loans to individuals . . . . .	2.86	2.92	2.65	2.84	2.82	2.44	2.97
Credit cards . . . . .	4.95	5.03	4.51	4.43	4.60	4.26	5.13
Installment loans and other plans . . . . .	1.20	1.23	1.27	1.54	1.42	1.05	1.37
All other loans and leases . . . . .	0.15	0.79	0.46	0.48	0.38	0.20	0.36
<b>Loans outstanding (\$)</b>							
Total loans and leases . . . . .	\$1,840,485	\$2,015,585	\$2,127,933	\$2,227,081	\$2,255,759	\$2,200,230	\$2,255,759
Loans secured by real estate (RE) . . . . .	725,305	764,944	853,141	892,152	935,701	889,795	935,701
1–4 family residential mortgages . . . . .	363,329	381,597	433,807	443,088	467,576	453,608	467,576
Home equity loans . . . . .	67,669	66,091	67,267	82,672	88,447	75,457	88,447
Multifamily residential mortgages . . . . .	23,346	23,201	26,561	28,021	27,720	28,792	27,720
Commercial RE loans . . . . .	190,067	200,469	214,145	221,218	225,389	218,139	225,389
Construction RE loans . . . . .	47,410	56,261	71,578	76,884	86,720	73,360	86,720
Farmland loans . . . . .	10,178	10,930	11,957	12,346	12,670	12,497	12,670
RE loans from foreign offices . . . . .	23,306	26,396	27,825	27,923	27,179	27,941	27,179
Commercial and industrial loans . . . . .	508,589	583,903	622,006	647,001	631,895	648,466	631,895
Loans to individuals . . . . .	371,477	386,410	348,634	370,363	375,796	348,543	375,796
Credit cards* . . . . .	168,236	176,408	147,179	176,372	162,307	156,173	162,307
Other revolving credit plans . . . . .	.	.	.	.	21,208	.	21,208
Installment loans . . . . .	203,241	210,003	201,455	193,991	192,280	192,370	192,280
All other loans and leases . . . . .	237,326	282,367	306,042	319,145	313,851	315,037	313,851
Less: Unearned income . . . . .	2,212	2,039	1,890	1,581	1,483	1,611	1,483

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

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

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2
Number of institutions reporting .....	1,162	1,049	963	956	131	130	46	41
Total employees (FTEs) .....	29,412	25,411	98,837	95,853	116,316	116,243	719,196	724,880
<b>Selected income data (\$)</b>								
Net income .....	\$202	\$129	\$832	\$795	\$1,020	\$1,209	\$4,551	\$8,864
Net interest income .....	622	540	2,606	2,445	3,749	4,142	22,447	23,482
Provision for loan losses .....	38	43	222	209	478	867	4,323	5,125
Noninterest income .....	358	254	1,275	1,317	2,328	2,884	17,675	20,145
Noninterest expense .....	667	564	2,435	2,478	3,852	4,253	27,037	24,925
Net operating income .....	203	135	839	758	1,102	1,231	5,278	8,649
Cash dividends declared .....	112	103	463	421	841	1,096	5,437	5,484
Net charge-offs to loan and lease reserve .....	25	26	175	155	369	785	3,067	4,580
<b>Selected condition data (\$)</b>								
Total assets .....	58,720	54,364	253,061	250,973	395,819	413,198	2,656,082	2,729,757
Total loans and leases .....	35,091	32,742	161,407	158,372	243,736	263,825	1,759,996	1,800,820
Reserve for losses 466 439 .....	2,287	2,217	4,409	5,380	32,104	33,328		
Securities .....	16,057	12,746	64,492	59,012	91,822	85,502	343,782	329,240
Other real estate owned .....	64	67	187	230	155	170	1,102	1,214
Noncurrent loans and leases .....	328	342	1,293	1,499	2,019	2,593	19,336	26,525
Total deposits .....	49,253	45,815	202,747	202,478	263,417	271,760	1,681,615	1,765,599
Domestic deposits .....	49,253	45,815	202,288	202,226	260,703	269,173	1,276,562	1,372,839
Equity capital .....	6,525	6,146	24,265	25,841	34,867	39,467	219,847	237,945
Off-balance-sheet derivatives .....	16	44	1,750	3,005	28,375	38,469	14,135,159	17,502,318
<b>Performance ratios (annualized %)</b>								
Return on equity .....	12.49	8.46	13.93	12.44	11.85	12.33	8.34	14.98
Return on assets .....	1.38	0.96	1.33	1.28	1.04	1.17	0.69	1.30
Net interest income to assets .....	4.27	4.02	4.16	3.93	3.83	4.01	3.42	3.45
Loss provision to assets .....	0.26	0.32	0.35	0.34	0.49	0.84	0.66	0.75
Net operating income to assets .....	1.39	1.00	1.34	1.22	1.12	1.19 0.80	1.27	
Noninterest income to assets .....	2.46	1.88	2.04	2.11	2.38	2.79	2.69	2.96
Noninterest expense to assets .....	4.59	4.20	3.89	3.98	3.93	4.11	4.12	3.66
Loss provision to loans and leases .....	0.44	0.53	0.56	0.53	0.80	1.31	1.00	1.14
Net charge-offs to loans and leases .....	0.29	0.32	0.44	0.40	0.61	1.19	0.71	1.02
Loss provision to net charge-offs .....	152.94	164.21	126.58	134.91	129.67	110.50	140.96	111.91
<b>Performance ratios (%)</b>								
Percent of institutions unprofitable .....	9.12	11.53	2.70	3.24	7.63	4.62	17.39	2.44
Percent of institutions with earnings gains .....	65.15	42.99	68.54	56.07	58.02	61.54	43.48	63.41
Nonint. income to net operating revenue .....	36.57	31.93	32.85	35.01	38.30	41.05	44.05	46.18
Nonint. expense to net operating revenue .....	68.09	71.08	62.73	65.88	63.39	60.53	67.39	57.13
<b>Condition ratios (%)</b>								
Nonperforming assets to assets .....	0.67	0.75	0.58	0.69	0.56	0.68	0.78	1.03
Noncurrent loans to loans .....	0.93	1.05	0.80	0.95	0.83	0.98	1.10	1.47
Loss reserve to noncurrent loans .....	142.17	128.31	176.85	147.92	218.38	207.50	166.03	125.65
Loss reserve to loans .....	1.33	1.34	1.42	1.40	1.81	2.04	1.82	1.85
Equity capital to assets .....	11.11	11.31	9.59	10.30	8.81	9.55	8.28	8.72
Leverage ratio .....	11.30	11.07	9.55	9.79	8.12	8.30	7.12	7.32
Risk-based capital ratio .....	18.20	17.84	14.67	15.05	12.80	13.70	11.43	11.87
Net loans and leases to assets .....	58.97	59.42	62.88	62.22	60.46	62.55	65.05	64.75
Securities to assets .....	27.34	23.45	25.48	23.51	23.20	20.69	12.94	12.06
Appreciation in securities (% of par) .....	-2.28	1.25	-2.48	1.23	-2.27	0.92	-2.55	0.11
Residential mortgage assets to assets .....	21.45	21.71	24.70	24.26	27.00	26.31	19.06	20.18
Total deposits to assets .....	83.88	84.27	80.12	80.68	66.55	65.77	63.31	64.68
Core deposits to assets .....	71.67	70.70	67.66	67.13	56.72	55.53	41.11	43.49
Volatile liabilities to assets .....	15.07	15.42	19.20	18.11	27.28	25.84	39.23	35.85

**Loan performance, FDIC-insured national banks by asset size**  
**Second quarter 2000 and second quarter 2001**

(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2
<b>Percent of loans past due 30–89 days</b>								
Total loans and leases	1.24	1.51	1.05	1.28	1.21	1.29	1.04	1.20
Loans secured by real estate (RE)	1.01	1.37	0.79	1.02	0.81	0.92	1.19	1.48
1–4 family residential mortgages	1.31	1.65	0.94	1.25	0.84	0.85	1.57	2.00
Home equity loans	0.64	0.81	0.64	0.68	0.92	0.84	0.73	0.87
Multifamily residential mortgages	0.41	0.65	0.49	0.44	0.36	0.74	0.43	0.49
Commercial RE loans	0.73	1.10	0.65	0.82	0.64	0.75	0.57	0.68
Construction RE loans	1.07	1.49	0.78	1.23	1.12	1.71	1.02	1.14
Commercial and industrial loans*	2.24	1.83	1.42	1.48	1.37	1.53	0.61	0.68
Loans to individuals	1.94	2.22	1.89	2.45	2.14	2.11	2.11	2.14
Credit cards	2.33	2.66	3.20	5.65	2.53	2.51	2.25	2.46
Installment loans and other plans	1.92	2.24	1.54	1.87	1.88	1.94	1.98	2.11
All other loans and leases	.	.	.	.	0.99	0.87	0.55	0.57
<b>Percent of loans noncurrent</b>								
Total loans and leases	0.93	1.05	0.80	0.95	0.83	0.98	1.10	1.47
Loans secured by real estate (RE)	0.74	0.87	0.62	0.81	0.66	0.73	0.95	1.13
1–4 family residential mortgages	0.61	0.75	0.55	0.69	0.56	0.63	1.00	1.27
Home equity loans	0.39	0.34	0.31	0.36	0.30	0.40	0.34	0.41
Multifamily residential mortgages	0.40	0.39	0.29	0.49	0.26	0.47	0.41	0.47
Commercial RE loans	0.76	0.97	0.73	0.92	0.83	0.86	0.88	0.99
Construction RE loans	0.71	0.74	0.50	0.97	0.80	0.86	0.86	0.97
Commercial and industrial loans*	2.45	1.73	1.53	1.37	1.11	1.44	1.37	2.24
Loans to individuals	0.61	0.76	0.86	1.05	1.13	1.32	1.51	1.51
Credit cards	1.23	1.45	2.45	3.89	1.90	2.17	1.76	1.99
Installment loans and other plans	0.58	0.74	0.43	0.50	0.62	0.73	1.29	1.26
All other loans and leases	.	.	.	.	0.42	0.60	0.51	0.76
<b>Percent of loans charged-off, net</b>								
Total loans and leases	0.29	0.32	0.44	0.40	0.61	1.19	0.71	1.02
Loans secured by real estate (RE)	0.03	0.08	0.04	0.06	0.13	0.16	0.11	0.19
1–4 family residential mortgages	0.06	0.04	0.04	0.05	0.18	0.22	0.11	0.21
Home equity loans	–0.01	0.02	0.03	0.13	0.21	0.35	0.16	0.27
Multifamily residential mortgages	0.06	0.06	0.06	0.06	0.02	0.00	0.14	–0.12
Commercial RE loans	–0.01	0.20	0.03	0.05	0.06	0.07	0.07	0.14
Construction RE loans	0.05	0.05	0.02	0.08	0.07	0.11	0.00	0.07
Commercial and industrial loans*	0.86	0.68	0.46	0.61	0.31	1.34	0.77	1.37
Loans to individuals	0.86	1.03	2.18	1.72	2.28	3.82	2.53	2.92
Credit cards	5.30	6.24	8.37	6.94	4.71	7.05	4.01	4.72
Installment loans and other plans	0.62	0.82	0.47	0.70	0.67	1.29	1.22	1.47
All other loans and leases	.	.	.	.	0.20	0.35	0.20	0.36
<b>Loans outstanding (\$)</b>								
Total loans and leases	\$35,091	\$32,742	\$161,407	\$158,372	\$243,736	\$263,825	\$1,759,996	\$1,800,820
Loans secured by real estate (RE)	20,194	18,972	98,389	98,871	129,177	137,118	642,035	680,740
1–4 family residential mortgages	9,380	8,552	43,435	41,115	61,177	62,312	339,617	355,597
Home equity loans	444	488	4,054	4,174	8,136	8,952	62,823	74,834
Multifamily residential mortgages	497	420	3,408	3,456	4,622	4,946	20,265	18,898
Commercial RE loans	5,877	5,516	34,653	35,967	40,028	42,686	137,581	141,220
Construction RE loans	1,618	1,840	8,674	9,937	13,311	16,167	49,757	58,776
Farmland loans	2,379	2,157	4,160	4,218	1,718	1,897	4,240	4,398
RE loans from foreign offices	0	0	6	3	183	160	27,751	27,016
Commercial and industrial loans	5,967	5,615	28,835	28,983	48,547	52,006	565,117	545,290
Loans to individuals	4,920	4,412	24,250	20,875	49,902	55,218	269,471	295,290
Credit cards**	257	178	5,191	3,402	19,922	23,786	130,802	134,942
Other revolving credit plans	.	77	.	459	.	1,915	.	18,757
Installment loans	4,663	4,158	19,059	17,014	29,980	29,517	138,669	141,591
All other loans and leases	4,092	3,803	10,207	9,848	16,197	19,584	284,541	280,616
Less: Unearned income	82	61	275	205	87	101	1,168	1,115

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

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

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting .....	254	304	434	438	515	231	2,176
Total employees (FTEs) .....	294,435	261,135	172,715	77,408	55,543	101,151	962,387
<b>Selected income data (\$)</b>							
Net income .....	\$3,614	\$3,228	\$1,455	\$992	\$431	\$1,278	\$10,998
Net interest income .....	8,487	8,529	5,473	2,734	1,471	3,915	30,609
Provision for loan losses .....	1,981	1,266	1,283	611	117	986	6,244
Noninterest income .....	9,504	5,668	3,204	2,375	584	3,265	24,600
Noninterest expense .....	10,368	7,991	5,254	2,986	1,334	4,286	32,220
Net operating income .....	3,619	3,170	1,421	976	423	1,163	10,773
Cash dividends declared .....	1,522	1,979	752	1,840	251	761	7,105
Net charge-offs to loan and lease reserve .....	1,796	1,209	901	613	99	927	5,545
<b>Selected condition data (\$)</b>							
Total assets .....	944,722	1,025,802	695,037	266,765	149,563	366,404	3,448,292
Total loans and leases .....	597,159	667,964	469,704	193,210	87,329	240,393	2,255,759
Reserve for losses .....	12,711	10,660	7,990	3,101	1,269	5,634	41,365
Securities .....	133,785	129,262	110,265	34,129	38,857	40,203	486,500
Other real estate owned .....	400	665	244	118	109	146	1,682
Noncurrent loans and leases .....	9,671	9,486	6,387	1,806	922	2,688	30,959
Total deposits .....	653,075	677,855	434,005	176,570	120,920	223,227	2,285,651
Domestic deposits .....	407,164	598,018	386,043	168,517	119,870	210,441	1,890,053
Equity capital .....	84,131	92,625	53,801	26,009	14,551	38,282	309,400
Off-balance-sheet derivatives .....	5,991,449	9,939,261	1,017,350	21,381	5,534	348,042	17,323,017
<b>Performance ratios (annualized %)</b>							
Return on equity .....	17.32	13.99	10.99	14.93	11.91	13.52	14.30
Return on assets .....	1.52	1.26	0.85	1.46	1.15	1.42	1.28
Net interest income to assets .....	3.57	3.34	3.19	4.03	3.93	4.35	3.56
Loss provision to assets .....	0.83	0.50	0.75	0.90	0.31	1.09	0.73
Net operating income to assets .....	1.52	1.24	0.83	1.44	1.13	1.29	1.25
Noninterest income to assets .....	4.00	2.22	1.87	3.50	1.56	3.63	2.86
Noninterest expense to assets .....	4.36	3.13	3.06	4.40	3.57	4.76	3.75
Loss provision to loans and leases .....	1.32	0.76	1.09	1.28	0.54	1.65	1.11
Net charge-offs to loans and leases .....	1.20	0.73	0.77	1.29	0.45	1.56	0.99
Loss provision to net charge-offs .....	110.32	104.71	142.42	99.66	118.15	106.28	112.60
<b>Performance ratios (%)</b>							
Percent of institutions unprofitable .....	5.12	15.13	4.61	4.57	5.24	14.29	7.31
Percent of institutions with earnings gains .....	58.27	54.28	51.15	48.17	46.02	47.62	50.23
Nonint. income to net operating revenue .....	52.83	39.92	36.93	46.48	28.44	45.47	44.56
Nonint. expense to net operating revenue .....	57.63	56.29	60.56	58.45	64.93	59.69	58.36
<b>Condition ratios (%)</b>							
Nonperforming assets to assets .....	1.08	0.99	0.97	0.72	0.69	0.80	0.96
Noncurrent loans to loans .....	1.62	1.42	1.36	0.93	1.06	1.12	1.37
Loss reserve to noncurrent loans .....	131.44	112.37	125.09	171.74	137.69	209.62	133.61
Loss reserve to loans .....	2.13	1.60	1.70	1.60	1.45	2.34	1.83
Equity capital to assets .....	8.91	9.03	7.74	9.75	9.73	10.45	8.97
Leverage ratio .....	7.91	7.46	7.14	7.75	8.28	8.41	7.67
Risk-based capital ratio .....	12.74	12.00	11.58	12.37	13.60	13.15	12.32
Net loans and leases to assets .....	61.86	64.08	66.43	71.26	57.54	64.07	64.22
Securities to assets .....	14.16	12.60	15.86	12.79	25.98	10.97	14.11
Appreciation in securities (% of par) .....	0.27	-0.24	0.53	1.17	1.32	1.27	0.42
Residential mortgage assets to assets .....	14.05	25.84	22.75	22.17	27.22	20.90	21.24
Total deposits to assets .....	69.13	66.08	62.44	66.19	80.85	60.92	66.28
Core deposits to assets .....	34.91	51.39	47.19	57.51	67.07	50.45	47.08
Volatile liabilities to assets .....	43.85	28.32	34.09	23.02	19.47	29.18	33.03



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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
<b>Percent of loans past due 30–89 days</b>							
Total loans and leases	1.14	1.08	1.44	1.36	1.30	1.28	1.22
Loans secured by real estate (RE)	1.26	1.50	1.53	0.88	1.21	1.10	1.35
1–4 family residential mortgages	1.50	2.17	2.02	0.84	1.15	1.33	1.78
Home equity loans	0.58	0.73	1.21	0.75	0.62	0.82	0.86
Multifamily residential mortgages	0.12	0.44	0.54	0.45	1.60	0.69	0.53
Commercial RE loans	0.54	0.55	1.04	0.80	1.05	0.54	0.72
Construction RE loans	0.88	0.76	1.42	1.47	1.66	1.82	1.26
Commercial and industrial loans*	0.44	0.43	1.25	1.79	1.35	1.10	0.79
Loans to individuals	2.47	1.76	2.15	1.91	1.68	2.17	2.15
Credit cards	2.81	2.33	2.37	1.85	1.07	2.39	2.54
Installment loans and other plans	2.36	1.64	2.21	2.38	1.77	2.08	2.07
All other loans and leases	0.43	0.33	0.88	1.31	0.87	0.67	0.60
<b>Percent of loans noncurrent</b>							
Total loans and leases	1.62	1.42	1.36	0.93	1.06	1.12	1.37
Loans secured by real estate (RE)	1.28	1.09	1.19	0.60	0.82	0.66	1.03
1–4 family residential mortgages	1.25	1.31	1.39	0.46	0.76	0.44	1.12
Home equity loans	0.28	0.25	0.73	0.30	0.27	0.33	0.41
Multifamily residential mortgages	0.29	0.58	0.44	0.27	0.21	0.73	0.47
Commercial RE loans	0.85	0.93	1.27	0.68	0.91	0.79	0.95
Construction RE loans	0.79	1.04	0.84	0.99	0.70	1.09	0.94
Commercial and industrial loans*	1.85	2.74	2.10	1.27	1.75	1.97	2.13
Loans to individuals	2.37	0.68	0.73	1.09	0.60	1.44	1.45
Credit cards	2.47	1.64	1.39	1.25	0.71	1.84	2.06
Installment loans and other plans	2.68	0.36	0.67	1.14	0.62	0.69	1.10
All other loans and leases	0.74	0.45	1.02	1.19	1.20	0.69	0.76
<b>Percent of loans charged-off, net</b>							
Total loans and leases	1.20	0.73	0.77	1.29	0.45	1.56	0.99
Loans secured by real estate (RE)	0.11	0.17	0.29	0.12	0.02	0.11	0.17
1–4 family residential mortgages	0.07	0.18	0.35	0.19	0.04	0.20	0.19
Home equity loans	0.20	0.39	0.32	0.24	0.29	-0.10	0.27
Multifamily residential mortgages	-0.09	-0.09	0.01	0.06	0.02	-0.33	-0.07
Commercial RE loans	0.05	0.12	0.27	-0.03	-0.04	0.07	0.11
Construction RE loans	0.02	0.07	0.07	0.16	0.02	0.11	0.08
Commercial and industrial loans*	0.84	1.44	1.26	2.61	1.07	1.85	1.33
Loans to individuals	3.79	1.84	1.68	2.72	0.92	4.69	2.97
Credit cards	5.04	4.12	5.73	4.24	2.67	6.27	5.13
Installment loans and other plans	1.98	1.12	1.20	1.26	0.87	1.26	1.37
All other loans and leases	0.24	0.24	0.44	0.47	0.46	1.04	0.36
<b>Loans outstanding (\$)</b>							
Total loans and leases	\$597,159	\$667,964	\$469,704	\$193,210	\$87,329	\$240,393	\$2,255,759
Loans secured by real estate (RE)	163,380	318,897	209,508	83,117	46,522	114,276	935,701
1–4 family residential mortgages	78,625	181,130	95,812	41,032	18,478	52,499	467,576
Home equity loans	15,881	29,102	26,336	6,315	1,143	9,672	88,447
Multifamily residential mortgages	3,287	8,289	8,439	2,611	1,491	3,602	27,720
Commercial RE loans	33,005	68,239	53,537	21,209	16,460	32,939	225,389
Construction RE loans	7,865	26,370	21,989	8,837	7,342	14,318	86,720
Farmland loans 497	2,830	3,384	3,114	1,609	1,237	12,670	
RE loans from foreign offices	24,220	2,938	12	0	0	9	27,179
Commercial and industrial loans	190,633	186,659	131,782	46,199	22,975	53,647	631,895
Loans to individuals	138,720	75,672	61,599	36,842	12,568	50,394	375,796
Credit cards**	83,411	19,706	6,464	17,822	304	34,601	162,307
Other revolving credit plans	9,593	2,855	2,043	3,285	527	2,905	21,208
Installment loans	45,716	53,111	53,092	15,735	11,737	12,889	192,280
All other loans and leases	105,205	87,091	66,916	27,067	5,383	22,189	313,851
Less: Unearned income	779	354	101	15	120	113	1,483

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

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

**Key indicators, FDIC-insured commercial banks**  
**Annual 1997-2000, year-to-date through June 30, 2001, second quarter 2000, and second quarter 2001**  
(Dollar figures in millions)

	1997	1998	1999	2000	2001YTD Preliminary	2000Q2	2001Q2 Preliminary
Number of institutions reporting.....	9,142	8,773	8,579	8,315	8,178	8,477	8,178
Total employees (FTEs).....	1,538,408	1,626,978	1,657,602	1,670,857	1,690,393	1,661,933	1,690,393
<b>Selected income data (\$)</b>							
Net income.....	\$59,156	\$61,782	\$71,547	\$71,068	\$38,980	\$14,636	\$19,164
Net interest income.....	174,502	182,752	192,142	203,975	104,823	51,004	53,211
Provision for loan losses.....	19,851	22,215	21,816	29,975	16,775	7,227	8,837
Noninterest income.....	104,499	123,688	144,454	153,460	79,231	35,622	39,184
Noninterest expense.....	169,983	194,133	204,208	216,069	110,032	55,174	55,250
Net operating income.....	57,928	59,225	71,313	72,661	37,931	15,498	18,612
Cash dividends declared.....	42,541	41,004	51,936	53,840	25,892	11,267	12,518
Net charge-offs to loan and lease reserve.....	18,318	20,740	20,361	24,773	14,880	5,284	7,926
<b>Selected condition data (\$)</b>							
Total assets.....	5,014,942	5,442,530	5,735,163	6,243,601	6,360,162	5,983,472	6,360,162
Total loans and leases.....	2,970,747	3,238,287	3,491,669	3,819,588	3,859,060	3,704,696	3,859,060
Reserve for losses.....	54,685	57,262	58,773	64,126	65,749	61,957	65,749
Securities.....	871,868	979,852	1,046,526	1,078,980	1,056,247	1,046,678	1,056,247
Other real estate owned.....	3,795	3,150	2,796	2,913	3,203	2,781	3,203
Noncurrent loans and leases.....	28,542	31,253	32,996	42,943	48,809	36,675	48,809
Total deposits.....	3,421,726	3,681,428	3,831,104	4,179,627	4,244,733	3,974,183	4,244,733
Domestic deposits.....	2,895,531	3,109,395	3,175,515	3,472,961	3,565,001	3,288,773	3,565,001
Equity capital.....	417,774	462,141	479,738	529,808	557,373	503,378	557,373
Off-balance-sheet derivatives.....	25,065,499	33,007,227	34,819,179	40,571,148	47,772,923	38,559,615	47,772,923
<b>Performance ratios (annualized %)</b>							
Return on equity.....	14.68	13.93	15.31	14.04	14.31	11.76	13.88
Return on assets.....	1.23	1.19	1.31	1.19	1.24	0.99	1.21
Net interest income to assets.....	3.64	3.51	3.51	3.41	3.32	3.45	3.36
Loss provision to assets.....	0.41	0.43	0.40	0.50	0.53	0.49	0.56
Net operating income to assets.....	1.21	1.14	1.30	1.21	1.20	1.05	1.17
Noninterest income to assets.....	2.18	2.37	2.64	2.57	2.51	2.41	2.47
Noninterest expense to assets.....	3.54	3.73	3.73	3.61	3.49	3.73	3.49
Loss provision to loans and leases.....	0.69	0.72	0.66	0.82	0.87	0.79	0.92
Net charge-offs to loans and leases.....	0.64	0.67	0.61	0.67	0.78	0.58	0.82
Loss provision to net charge-offs.....	108.37	104.81	107.14	121.00	112.74	136.71	111.50
<b>Performance ratios (%)</b>							
Percent of institutions unprofitable.....	4.85	6.11	7.50	7.29	7.10	7.09	8.00
Percent of institutions with earnings gains.....	68.35	61.22	62.83	67.44	51.15	66.71	49.43
Nonint. income to net operating revenue.....	37.45	40.36	42.92	42.93	43.05	41.12	42.41
Nonint. expense to net operating revenue.....	60.93	63.35	60.67	60.45	59.78	63.69	59.80
<b>Condition ratios (%)</b>							
Nonperforming assets to assets.....	0.66	0.65	0.63	0.74	0.82	0.67	0.82
Noncurrent loans to loans.....	0.96	0.97	0.94	1.12	1.26	0.99	1.26
Loss reserve to noncurrent loans.....	191.59	183.22	178.12	149.33	134.71	168.94	134.71
Loss reserve to loans.....	1.84	1.77	1.68	1.68	1.70	1.67	1.70
Equity capital to assets.....	8.33	8.49	8.36	8.49	8.76	8.41	8.76
Leverage ratio.....	7.56	7.54	7.79	7.70	7.73	7.73	7.73
Risk-based capital ratio.....	12.23	12.23	12.16	12.13	12.41	12.19	12.41
Net loans and leases to assets.....	58.15	58.45	59.86	60.15	59.64	60.88	59.64
Securities to assets.....	17.39	18.00	18.25	17.28	16.61	17.49	16.61
Appreciation in securities (% of par).....	1.10	1.07	-2.31	0.20	0.68	-2.33	0.68
Residential mortgage assets to assets.....	20.03	20.93	20.78	20.20	20.86	20.73	20.86
Total deposits to assets.....	68.23	67.64	66.80	66.94	66.74	66.42	66.74
Core deposits to assets.....	50.06	49.39	46.96	46.40	46.92	46.04	46.92
Volatile liabilities to assets.....	31.92	31.68	34.94	34.98	33.89	35.87	33.89

**Loan performance, FDIC-insured commercial banks**  
**Annual 1997-2000, year-to-date through June 30, 2001, second quarter 2000, and second quarter 2001**  
(Dollar figures in millions)

	1997	1998	1999	2000	2001YTD Preliminary	2000Q2	2001Q2 Preliminary
<b>Percent of loans past due 30–89 days</b>							
Total loans and leases . . . . .	1.31	1.26	1.14	1.26	1.22	1.06	1.22
Loans secured by real estate (RE) . . . . .	1.33	1.26	1.09	1.26	1.20	0.98	1.20
1–4 family residential mortgages . . . . .	1.59	1.44	1.43	1.72	1.53	1.25	1.53
Home equity loans . . . . .	0.96	0.98	0.75	0.98	0.82	0.72	0.82
Multifamily residential mortgages . . . . .	1.11	0.86	0.57	0.55	0.54	0.43	0.54
Commercial RE loans . . . . .	0.97	0.99	0.69	0.74	0.78	0.62	0.78
Construction RE loans . . . . .	1.42	1.50	0.98	1.06	1.19	0.94	1.19
Commercial and industrial loans* . . . . .	0.83	0.88	0.79	0.83	0.93	0.85	0.93
Loans to individuals . . . . .	2.50	2.43	2.33	2.46	2.19	2.09	2.19
Credit cards . . . . .	2.73	2.58	2.59	2.66	2.61	2.40	2.61
Installment loans and other plans . . . . .	2.33	2.33	2.18	2.32	2.08	1.89	2.08
All other loans and leases . . . . .	0.51	0.51	0.55	0.66	0.65	0.58	0.65
<b>Percent of loans noncurrent</b>							
Total loans and leases . . . . .	0.96	0.97	0.94	1.12	1.26	0.99	1.26
Loans secured by real estate (RE) . . . . .	1.01	0.91	0.79	0.81	0.91	0.77	0.91
1–4 family residential mortgages . . . . .	0.94	0.88	0.82	0.90	0.96	0.79	0.96
Home equity loans . . . . .	0.44	0.42	0.33	0.37	0.42	0.32	0.42
Multifamily residential mortgages . . . . .	0.95	0.83	0.41	0.44	0.42	0.35	0.42
Commercial RE loans . . . . .	1.21	0.95	0.77	0.72	0.87	0.76	0.87
Construction RE loans . . . . .	0.97	0.81	0.67	0.76	0.90	0.73	0.90
Commercial and industrial loans . . . . .	0.86	0.99	1.17	1.66	2.03	1.41	2.03
Loans to individuals . . . . .	1.47	1.52	1.42	1.40	1.39	1.32	1.39
Credit cards . . . . .	2.18	2.22	2.05	2.01	2.11	1.88	2.11
Installment loans and other plans . . . . .	0.98	1.06	1.04	0.98	1.03	0.97	1.03
All other loans and leases . . . . .	0.25	0.34	0.39	0.70	0.75	0.44	0.75
<b>Percent of loans charged-off, net</b>							
Total loans and leases . . . . .	0.64	0.67	0.61	0.67	0.78	0.58	0.82
Loans secured by real estate (RE) . . . . .	0.06	0.05	0.08	0.09	0.12	0.08	0.13
1–4 family residential mortgages . . . . .	0.08	0.07	0.11	0.11	0.12	0.10	0.15
Home equity loans . . . . .	0.16	0.14	0.15	0.18	0.24	0.13	0.23
Multifamily residential mortgages . . . . .	0.04	0.05	0.02	0.03	0.02	0.05	0.01
Commercial RE loans . . . . .	0.01	0.00	0.03	0.05	0.09	0.05	0.09
Construction RE loans . . . . .	–0.02	0.01	0.04	0.05	0.08	0.03	0.08
Commercial and industrial loans* . . . . .	0.28	0.42	0.58	0.81	1.05	0.69	1.20
Loans to individuals . . . . .	2.70	2.69	2.32	2.42	2.48	2.12	2.56
Credit cards . . . . .	5.11	5.19	4.45	4.39	4.69	4.18	5.10
Installment loans and other plans . . . . .	1.04	1.04	1.04	1.18	1.12	0.86	1.08
All other loans and leases . . . . .	0.16	0.78	0.51	0.46	0.36	0.19	0.34
<b>Loans outstanding (\$)</b>							
Total loans and leases . . . . .	\$2,970,747	\$3,238,287	\$3,491,669	\$3,819,588	\$3,859,060	\$3,704,696	\$3,859,060
Loans secured by real estate (RE) . . . . .	1,244,985	1,345,589	1,510,346	1,673,190	1,737,715	1,627,250	1,737,715
1–4 family residential mortgages . . . . .	620,599	668,706	737,113	790,134	808,360	787,796	808,360
Home equity loans . . . . .	98,163	96,647	102,339	127,542	135,204	116,163	135,204
Multifamily residential mortgages . . . . .	41,231	43,242	53,168	60,401	60,595	59,692	60,595
Commercial RE loans . . . . .	341,522	370,544	417,633	466,404	479,047	447,373	479,047
Construction RE loans . . . . .	88,242	106,719	135,632	162,601	184,611	150,411	184,611
Farmland loans . . . . .	27,072	29,096	31,902	34,076	35,194	33,774	35,194
RE loans from foreign offices . . . . .	28,157	30,635	32,558	32,033	34,705	32,040	34,705
Commercial and industrial loans . . . . .	794,998	898,556	970,987	1,051,069	1,025,888	1,033,497	1,025,888
Loans to individuals . . . . .	561,325	570,863	558,424	609,802	610,629	569,279	610,629
Credit cards** . . . . .	231,092	228,781	212,051	249,372	226,326	219,037	226,326
Other revolving credit plans . . . . .	NA	NA	NA	NA	26,287	NA	26,287
Installment loans . . . . .	330,233	342,081	346,373	360,430	358,016	350,242	358,016
All other loans and leases . . . . .	373,907	427,397	455,584	488,455	487,591	477,874	487,591
Less: Unearned income . . . . .	4,469	4,117	3,671	2,928	2,764	3,205	2,764

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

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

**Key indicators, FDIC-insured commercial banks by asset size**  
**Second quarter 2000 and second quarter 2001**  
(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2	2000Q2	2001Q2
Number of institutions reporting .....	5,037	4,685	3,059	3,101	299	313	82	79
Total employees (FTEs) .....	105,544	96,011	296,494	294,467	248,651	253,437	1,011,244	1,046,478
<b>Selected income data (\$)</b>								
Net income .....	\$706	\$537	\$2,491	\$2,423	\$2,385	\$2,869	\$9,054	\$13,334
Net interest income .....	2,495	2,205	7,947	7,773	8,177	8,784	32,385	34,449
Provision for loan losses .....	172	160	629	640	1,073	1,587	5,353	6,450
Noninterest income .....	730	608	2,981	3,075	4,428	5,353	27,483	30,148
Noninterest expense .....	2,099	1,952	6,669	6,889	7,634	8,338	38,771	38,071
Net operating income .....	711	532	2,518	2,349	2,507	2,748	9,762	12,983
Cash dividends declared .....	391	339	1,224	1,237	1,604	2,802	8,047	8,141
Net charge-offs to loan and lease reserve .....	107	92	402	472	828	1,361	3,948	6,001
<b>Selected condition data (\$)</b>								
Total assets .....	237,248	227,954	766,706	789,808	863,501	899,646	4,116,017	4,442,754
Total loans and leases .....	146,560	141,374	501,221	516,438	541,681	574,499	2,515,233	2,626,749
Reserve for losses .....	2,050	1,967	7,112	7,334	9,284	10,823	43,511	45,625
Securities .....	62,934	52,530	186,545	173,614	203,394	193,989	593,805	636,113
Other real estate owned .....	265	270	638	779	404	450	1,474	1,703
Noncurrent loans and leases .....	1,369	1,528	3,874	4,659	4,544	6,073	26,888	36,550
Total deposits .....	199,320	192,498	620,485	644,362	597,163	624,209	2,557,216	2,783,663
Domestic deposits .....	199,320	192,498	618,237	642,636	584,495	610,964	1,886,721	2,118,902
Equity capital .....	25,950	25,383	71,303	77,406	74,434	85,426	331,691	369,157
Off-balance-sheet derivatives .....	203	103	5,961	6,522	75,015	71,700	38,837,675	48,134,600
<b>Performance ratios (annualized %)</b>								
Return on equity .....	10.98	8.51	14.17	12.66	13.00	13.60	11.02	14.58
Return on assets .....	1.20	0.95	1.32	1.24	1.12	1.28	0.89	1.20
Net interest income to assets .....	4.25	3.91	4.20	3.98	3.84	3.92	3.18	3.11
Loss provision to assets .....	0.29	0.28	0.33	0.33	0.50	0.71	0.53	0.58
Net operating income to assets .....	1.21	0.94	1.33	1.20	1.18	1.23	0.96	1.17
Noninterest income to assets .....	1.24	1.08	1.57	1.57	2.08	2.39	2.70	2.72
Noninterest expense to assets .....	3.58	3.46	3.52	3.52	3.58	3.72	3.81	3.43
Loss provision to loans and leases .....	0.48	0.46	0.51	0.50	0.80	1.11	0.87	0.98
Net charge-offs to loans and leases .....	0.30	0.27	0.33	0.37	0.62	0.95	0.64	0.91
Loss provision to net charge-offs .....	161.15	174.02	156.34	135.72	129.66	116.62	135.52	107.47
<b>Performance ratios (%)</b>								
Percent of institutions unprofitable .....	9.97	11.63	2.39	3.13	6.02	3.51	9.76	1.27
Percent of institutions with earnings gains .....	65.02	43.46	70.28	56.59	61.87	64.22	54.88	63.29
Nonint. income to net operating revenue .....	22.64	21.61	27.28	28.35	35.13	37.86	45.91	46.67
Nonint. expense to net operating revenue .....	65.08	69.40	61.03	63.50	60.56	58.98	64.76	58.94
<b>Condition ratios (%)</b>								
Nonperforming assets to assets .....	0.69	0.79	0.59	0.69	0.58	0.73	0.70	0.87
Noncurrent loans to loans .....	0.93	1.08	0.77	0.90	0.84	1.06	1.07	1.39
Loss reserve to noncurrent loans .....	149.77	128.77	183.60	157.43	204.30	178.22	161.82	124.83
Loss reserve to loans .....	1.40	1.39	1.42	1.42	1.71	1.88	1.73	1.74
Equity capital to assets .....	10.94	11.14	9.30	9.80	8.62	9.50	8.06	8.31
Leverage ratio .....	11.17	10.87	9.30	9.35	8.23	8.45	7.13	7.14
Risk-based capital ratio .....	17.67	17.14	14.14	14.19	12.74	13.17	11.52	11.80
Net loans and leases to assets .....	60.91	61.16	64.45	64.46	61.66	62.66	60.05	58.10
Securities to assets .....	26.53	23.04	24.33	21.98	23.55	21.56	14.43	14.32
Appreciation in securities (% of par)w .....	-2.34	1.29	-2.45	1.25	-2.38	0.81	-2.27	0.43
Residential mortgage assets to assets .....	21.10	21.26	23.59	23.56	26.51	25.53	18.97	19.41
Total deposits to assets .....	84.01	84.45	80.93	81.58	69.16	69.38	62.13	62.66
Core deposits to assets .....	71.75	70.93	68.04	67.63	56.04	55.54	38.36	40.26
Volatile liabilities to assets .....	15.07	15.18	19.04	18.14	28.61	26.91	41.72	39.06

**Loan performance, FDIC-insured commercial banks by asset size**  
**Second quarter 2000 and second quarter 2001**

(Dollar figures in millions)

	Less than \$100M		\$100M to \$1B		\$1B to \$10B		Greater than \$10B	
	2000Q1	2001Q1	2000Q1	2001Q1	2000Q1	2001Q1	2000Q1	2001Q1
<b>Percent of loans past due 30–89 days</b>								
Total loans and leases	1.37	1.61	1.08	1.30	1.14	1.28	1.03	1.16
Loans secured by real estate (RE)	1.15	1.46	0.84	1.09	0.79	0.94	1.08	1.30
1–4 family residential mortgages	1.50	1.79	1.05	1.35	0.90	0.96	1.38	1.70
Home equity loans	0.74	0.99	0.65	0.79	0.83	0.88	0.71	0.81
Multifamily residential mortgages	0.37	0.58	0.44	0.63	0.52	0.75	0.41	0.43
Commercial RE loans	0.87	1.23	0.64	0.86	0.61	0.72	0.59	0.72
Construction RE loans	0.94	1.39	0.92	1.25	0.93	1.51	0.96	1.02
Commercial and industrial loans*	1.42	1.51	1.25	1.37	1.30	1.47	0.66	0.74
Loans to individuals	2.16	2.52	1.94	2.29	2.04	2.22	2.12	2.15
Credit cards	1.99	2.69	3.40	5.24	2.52	2.71	2.32	2.48
Installment loans and other plans	2.16	2.57	1.65	1.96	1.80	2.01	1.95	2.09
All other loans and leases	NA	NA	NA	NA	1.02	0.93	0.58	0.60
<b>Percent of loans noncurrent</b>								
Total loans and leases	0.93	1.08	0.77	0.90	0.84	1.06	1.07	1.39
Loans secured by real estate (RE)	0.77	0.93	0.62	0.76	0.70	0.79	0.84	1.00
1–4 family residential mortgages	0.68	0.81	0.59	0.69	0.67	0.77	0.89	1.09
Home equity loans	0.33	0.32	0.29	0.37	0.32	0.57	0.32	0.41
Multifamily residential mortgages	0.37	0.58	0.41	0.45	0.37	0.45	0.32	0.39
Commercial RE loans	0.79	1.03	0.64	0.80	0.78	0.83	0.82	0.92
Construction RE loans	0.68	0.89	0.60	0.93	0.74	0.91	0.78	0.88
Commercial and industrial loans*	1.33	1.44	1.19	1.27	1.20	1.63	1.41	2.19
Loans to individuals	0.76	0.93	0.78	0.92	0.93	1.21	1.53	1.51
Credit cards	1.10	2.06	2.20	3.32	1.64	2.20	1.90	2.05
Installment loans and other plans	0.75	0.92	0.50	0.61	0.57	0.64	1.22	1.23
All other loans and leases	NA	NA	NA	NA	0.52	0.89	0.46	0.71
<b>Percent of loans charged-off, net</b>								
Total loans and leases	0.30	0.27	0.33	0.37	0.62	0.95	0.64	0.91
Loans secured by real estate (RE)	0.05	0.05	0.04	0.06	0.09	0.12	0.09	0.16
1–4 family residential mortgages	0.06	0.05	0.05	0.06	0.14	0.15	0.10	0.17
Home equity loans	0.04	0.10	0.05	0.14	0.16	0.23	0.13	0.24
Multifamily residential mortgages	–0.01	0.01	0.02	0.04	–0.02	0.05	0.08	–0.01
Commercial RE loans	0.05	0.07	0.03	0.05	0.05	0.08	0.06	0.12
Construction RE loans	0.03	0.03	0.04	0.06	0.06	0.13	0.01	0.06
Commercial and industrial loans*	0.51	0.43	0.46	0.64	0.70	1.24	0.70	1.27
Loans to individuals	0.88	0.83	1.48	1.54	2.27	3.27	2.25	2.60
Credit cards	7.16	4.08	6.84	7.03	4.87	6.80	3.87	4.65
Installment loans and other plans	0.57	0.73	0.41	0.78	0.95	1.11	0.98	1.16
All other loans and leases	NA	NA	NA	NA	0.32	0.51	0.20	0.32
<b>Loans outstanding (\$)</b>								
Total loans and leases	\$146,560	\$141,374	\$501,221	\$516,438	\$541,681	\$574,499	\$2,515,233	\$2,626,749
Loans secured by real estate (RE)	83,809	81,375	319,441	335,096	296,490	312,569	927,510	1,008,676
1–4 family residential mortgages	38,725	36,377	130,629	129,894	130,982	127,842	487,461	514,247
Home equity loans	1,957	2,142	13,423	14,210	17,960	18,508	82,822	100,344
Multifamily residential mortgages	1,848	1,800	10,962	11,337	11,531	12,631	35,351	34,827
Commercial RE loans	23,521	23,025	117,320	125,902	98,461	107,743	208,071	222,377
Construction RE loans	6,809	7,653	33,835	39,856	33,505	41,251	76,262	95,851
Farmland loans	10,948	10,378	13,219	13,857	3,693	4,258	5,914	6,700
RE loans from foreign offices	0	0	52	39	358	336	31,630	34,330
Commercial and industrial loans	25,011	24,748	90,682	94,032	119,076	126,081	798,728	781,027
Loans to individuals	20,115	18,313	64,850	60,293	93,672	101,165	390,642	430,858
Credit cards**	802	543	10,754	7,325	31,587	38,121	175,894	180,338
Other revolving credit plans	NA	344	NA	2,108	NA	3,113	.	20,722
Installment loans	19,313	17,426	54,096	50,861	62,085	59,932	214,748	229,798
All other loans and leases	17,878	17,120	27,057	27,671	33,061	35,272	399,879	407,529
Less: Unearned income	253	181	808	656	618	587	1,525	1,340

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

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

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting 654	1,412	1,744	2,118	1,356	894	8,178	
Total employees (FTEs)	518,748	463,581	297,063	128,717	103,646	178,638	1,690,393
<b>Selected income data (\$)</b>							
Net income	\$6,597	\$5,084	\$2,901	\$1,423	\$775	\$2,383	\$19,164
Net interest income	16,048	13,766	9,264	4,132	2,603	7,398	53,211
Provision for loan losses	2,970	1,759	1,634	775	190	1,509	8,837
Noninterest income	16,866	8,848	5,157	2,724	936	4,653	39,184
Noninterest expense	20,156	13,181	8,634	4,005	2,287	6,988	55,250
Net operating income	6,395	4,998	2,843	1,399	763	2,214	18,612
Cash dividends declared	3,219	4,073	1,519	2,078	452	1,178	12,518
Net charge-offs to loan and lease reserve	2,755	1,646	1,214	729	151	1,430	7,926
<b>Selected condition data (\$)</b>							
Total assets	2,233,856	1,612,369	1,144,169	406,913	264,228	698,628	6,360,162
Total loans and leases	1,136,828	1,066,882	769,844	289,478	155,907	440,120	3,859,060
Reserve for losses	21,184	16,227	12,155	4,623	2,201	9,359	65,749
Securities	345,586	244,982	200,550	63,175	68,961	132,993	1,056,247
Other real estate owned	711	1,145	474	257	252	363	3,203
Noncurrent loans and leases	17,255	13,045	9,299	2,799	1,593	4,818	48,809
Total deposits	1,403,104	1,093,918	756,341	291,004	216,299	484,067	4,244,733
Domestic deposits	904,248	1,003,216	693,246	282,951	215,241	466,099	3,565,001
Equity capital	182,175	147,142	92,624	40,027	25,592	69,813	557,373
Off-balance-sheet derivatives	36,232,855	10,016,576	1,095,663	23,524	6,490	397,816	47,772,923
<b>Performance ratios (annualized %)</b>							
Return on equity	14.60	13.99	12.71	14.06	12.21	13.86	13.88
Return on assets	1.18	1.27	1.02	1.39	1.18	1.39	1.21
Net interest income to assets	2.87	3.43	3.26	4.03	3.95	4.31	3.36
Loss provision to assets	0.53	0.44	0.58	0.75	0.29	0.88	0.56
Net operating income to assets	1.14	1.25	1.00	1.36	1.16	1.29	1.17
Noninterest income to assets	3.02	2.20	1.82	2.65	1.42	2.71	2.47
Noninterest expense to assets	3.61	3.28	3.04	3.90	3.47	4.07	3.49
Loss provision to loans and leases	1.04	0.66	0.85	1.09	0.49	1.38	0.92
Net charge-offs to loans and leases	0.97	0.62	0.63	1.02	0.39	1.31	0.82
Loss provision to net charge-offs	107.82	106.85	134.55	106.25	126.08	105.49	111.50
<b>Performance ratios (%)</b>							
Percent of institutions unprofitable	10.40	13.24	6.14	5.57	5.97	10.40	8.00
Percent of institutions with earnings gains	59.33	46.53	52.01	46.79	45.72	53.58	49.43
Nonint. income to net operating revenue	51.24	39.13	35.76	39.74	26.44	38.61	42.41
Nonint. expense to net operating revenue	61.24	58.28	59.87	58.42	64.62	57.98	59.80
<b>Condition ratios (%)</b>							
Nonperforming assets to assets	0.81	0.88	0.86	0.75	0.70	0.76	0.82
Noncurrent loans to loans	1.52	1.22	1.21	0.97	1.02	1.09	1.26
Loss reserve to noncurrent loans	122.77	124.40	130.71	165.15	138.15	194.25	134.71
Loss reserve to loans	1.86	1.52	1.58	1.60	1.41	2.13	1.70
Equity capital to assets	8.16	9.13	8.10	9.84	9.69	9.99	8.76
Leverage ratio	7.33	7.72	7.56	8.34	8.60	8.66	7.73
Risk-based capital ratio	12.54	12.05	11.87	12.89	14.08	13.06	12.41
Net loans and leases to assets	49.94	65.16	66.22	70.00	58.17	61.66	59.64
Securities to assets	15.47	15.19	17.53	15.53	26.10	19.04	16.61
Appreciation in securities (% of par)	0.04	1.07	0.68	1.33	1.24	1.02	0.68
Residential mortgage assets to assets	15.36	25.77	23.27	21.26	25.74	21.07	20.86
Total deposits to assets	62.81	67.85	66.10	71.52	81.86	69.29	66.74
Core deposits to assets	31.90	53.62	50.80	62.11	67.18	56.65	46.92
Volatile liabilities to assets	47.16	26.32	31.58	20.13	19.73	26.08	33.89

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
<b>Percent of loans past due 30–89 days</b>							
Total loans and leases	1.11	1.12	1.41	1.40	1.31	1.23	1.22
Loans secured by real estate (RE)	1.11	1.29	1.36	1.01	1.20	0.98	1.20
1–4 family residential mortgages	1.26	1.88	1.69	1.01	1.31	1.17	1.53
Home equity loans	0.60	0.71	1.10	0.81	0.64	0.84	0.82
Multifamily residential mortgages	0.28	0.49	0.77	0.45	1.35	0.50	0.54
Commercial RE loans	0.69	0.67	1.05	0.93	1.04	0.52	0.78
Construction RE loans	0.97	0.81	1.29	1.48	1.35	1.81	1.19
Commercial and industrial loans*	0.53	0.60	1.46	1.77	1.35	1.32	0.93
Loans to individuals	2.45	2.02	2.06	2.21	1.81	1.96	2.19
Credit cards	2.86	2.66	2.29	2.52	1.56	2.14	2.61
Installment loans and other plans	2.28	1.88	2.11	2.27	1.87	1.88	2.08
All other loans and leases	0.55	0.40	0.87	1.19	0.94	0.71	0.65
<b>Percent of loans noncurrent</b>							
Total loans and leases	1.52	1.22	1.21	0.97	1.02	1.09	1.26
Loans secured by real estate (RE)	1.01	0.94	1.02	0.68	0.84	0.68	0.91
1–4 family residential mortgages	0.99	1.13	1.09	0.51	0.78	0.51	0.96
Home equity loans	0.31	0.33	0.68	0.33	0.29	0.33	0.42
Multifamily residential mortgages	0.24	0.49	0.52	0.42	0.34	0.46	0.42
Commercial RE loans	0.83	0.82	1.12	0.73	0.86	0.76	0.87
Construction RE loans	1.05	0.86	0.84	1.12	0.86	0.88	0.90
Commercial and industrial loans*	2.10	2.34	1.89	1.30	1.62	1.88	2.03
Loans to individuals	2.11	0.85	0.71	1.17	0.64	1.29	1.39
Credit cards	2.57	1.71	1.36	1.58	0.99	1.77	2.11
Installment loans and other plans	1.87	0.59	0.66	0.99	0.65	0.51	1.03
All other loans and leases	0.72	0.43	0.88	1.17	1.20	0.92	0.75
<b>Percent of loans charged-off, net</b>							
Total loans and leases	0.97	0.62	0.63	1.02	0.39	1.31	0.82
Loans secured by real estate (RE)	0.09	0.13	0.22	0.09	0.05	0.07	0.13
1–4 family residential mortgages	0.06	0.15	0.26	0.13	0.06	0.14	0.15
Home equity loans	0.15	0.32	0.28	0.25	0.28	-0.07	0.23
Multifamily residential mortgages	0.09	-0.04	0.02	0.06	0.02	-0.08	0.01
Commercial RE loans	0.08	0.08	0.21	-0.01	0.02	0.05	0.09
Construction RE loans	0.08	0.05	0.11	0.13	0.06	0.07	0.08
Commercial and industrial loans*	0.95	1.22	1.12	2.04	0.87	1.78	1.20
Loans to individuals	3.04	1.74	1.40	2.75	0.88	4.09	2.56
Credit cards	5.08	4.06	5.22	5.02	3.20	5.81	5.10
Installment loans and other plans	1.24	1.01	1.01	1.03	0.81	1.12	1.08
All other loans and leases	0.24	0.25	0.40	0.41	0.39	0.89	0.34
<b>Loans outstanding (\$)</b>							
Total loans and leases	\$1,136,828	\$1,066,882	\$769,844	\$289,478	\$155,907	\$440,120	\$3,859,060
Loans secured by real estate (RE)	363,325	559,588	372,424	136,644	86,244	219,490	1,737,715
1–4 family residential mortgages	189,635	275,789	165,423	61,593	33,518	82,401	808,360
Home equity loans	27,156	45,914	38,472	7,831	1,442	14,388	135,204
Multifamily residential mortgages	15,181	15,277	14,408	4,068	2,443	9,218	60,595
Commercial RE loans	80,782	145,238	105,526	37,718	31,619	78,164	479,047
Construction RE loans	18,189	67,312	39,818	14,657	13,387	31,248	184,611
Farmland loans	1,325	7,120	8,751	10,778	3,834	3,387	35,194
RE loans from foreign offices	31,057	2,938	26	0	0	684	34,705
Commercial and industrial loans	344,481	264,067	213,798	64,094	37,065	102,382	1,025,888
Loans to individuals	232,173	136,147	87,564	47,905	22,693	84,148	610,629
Credit cards**	109,810	34,066	7,880	20,428	646	53,496	226,326
Other revolving credit plans	11,209	4,504	2,571	3,442	635	3,926	26,287
Installment loans	111,155	97,577	77,113	24,035	21,412	26,725	358,016
All other loans and leases	198,006	107,740	96,302	40,885	10,123	34,535	487,591
Less: Unearned income	1,157	661	244	49	218	435	2,764

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

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

# 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.



---

# Recent Corporate Decisions

---

## Charters

On April 4, 2001, the OCC granted conditional approval to a proposal submitted by Countrywide Credit Industries, Inc., Countrywide Financial Holding Company, Inc., both of Calabasas, California, and Effinity Financial Corporation, Alexandria, Virginia, to establish Treasury Bank Interim, N.A., Washington, D.C., and to merge the interim bank into Treasury Bank, Ltd. following Treasury Bank, Ltd.'s conversion into a national association and relocation to Alexandria, Virginia. The bank will deliver deposit products and mortgage lending services through electronic channels such as telephone and the Internet. Approval was granted subject to certain pre-opening requirements and ongoing conditions addressing capital, technology, and Internet security matters. [Approvals with conditions enforceable under 12 USC 1818 Letter No. 462]

On April 18, 2001, the OCC denied an application to charter a national bank with a community development focus in Spartanburg, South Carolina. The proposal did not satisfy the applicable statutory requirements of the National Bank Act and the supervisory and general policy standards of the OCC, as set forth in 12 CFR 5.20. [Corporate Decision No. 2001-09]

On June 5, 2001, the OCC granted conditional preliminary approval for Guaranty Corporation, a multi-bank holding company and Asset Management Group, an investment management company to establish AMG/Guaranty Trust, N.A., Englewood, Colorado. The trust bank will be 100 percent owned by AMG/Guaranty Corp. The approval is subject to a capital/liquidity maintenance agreement between AMB/Guaranty Corp. and the AMG/Guaranty Trust, N.A. [Approvals with conditions enforceable under 12 USC 1818 Letter No. 472]

## Branches

On April 2, 2001, the OCC approved an application for Exchange National Bank, Moore, Oklahoma, to establish a finance company and a branch. The approval is subject to a preconsummation requirement that the OCC review and approve the bank's subprime lending policy and procedures. [Corporate Decision No. 2001-07]

## Mergers

On April 6, 2001, the OCC granted conditional approval to merge Peoples and Union Bank, Lewisburg, Tennessee, into First Farmers and Merchants National Bank, Columbia, Columbia, Tennessee. The approval requires First Farmers and Merchants National Bank of Columbia to comply with the agreement it signed with the Department of Justice. [Conditional Approval No. 463]

On April 24, 2001, the OCC granted conditional approval for CNB National Bank, Lake City, Florida, to purchase certain assets and assume certain liabilities of the Live Oak, Florida, branch and the Lake City, Florida, branch of Republic Bank, St. Petersburg, Florida. The approval requires the CNB National Bank to comply with the agreement it signed with the Department of Justice. [Conditional Approval No. 464]

## Operating Subsidiary

On April 23, 2001, the OCC granted approval for Bank One, N.A., Columbus, Ohio, to expand the activities of an existing operating subsidiary to include reinsuring credit life and credit-related health and disability insurance in connection with loans to customers made by the bank and affiliated and unaffiliated lenders. [Corporate Decision No. 2001-10]

## Community Reinvestment Act Decisions

On June 14, 2001, the OCC granted approval to First USA Bank, N.A., Wilmington, Delaware, Bank One, N.A., Columbus, Ohio, Bank One Arizona, N.A., Phoenix, Arizona, Bank One Colorado, N.A., Denver, Colorado, Bank One Illinois, N.A., Springfield, Illinois, and Bank One Indiana, N.A., Indianapolis, Indiana, to purchase a credit card portfolio from Wachovia Bank, N.A., Winston-Salem, North Carolina, and to purchase substantially all of the assets of First National Bank of Atlanta, New Castle, Delaware. The OCC received comments from two community organizations expressing concerns with the banks' Community Reinvestment Act (CRA) performance. The OCC's investigation into those concerns disclosed no information that was inconsistent with approval under the CRA. [Corporate Decision No. 2001-16]



---

# Appeals Process

---

## Appeal 1—Appeal of a Potential Violation of the Equal Credit Opportunity Act: Disparate Treatment on the Basis of Marital Status

### Background

A bank appealed the OCC's decision that there was reason to believe the bank had engaged in a pattern or practice of discouraging or denying credit card applications on the basis of marital status in violation of the Equal Credit Opportunity Act (ECOA). Specifically, the OCC concluded that the bank:

impermissibly discriminated against credit card applicants on the basis of marital status:

1. By using the phrase "Name of Spouse for Joint Applications" on credit card pre-approved materials;
2. By permitting only the addressee or the addressee's spouse to accept the pre-approved credit card account by telephone;
3. By permitting only the spouse of a deceased credit cardholder to assume the credit card account without reapplication; and
4. By permitting only the spouse of a store employee to be a joint applicant for the store employee credit card.

The bank appealed the OCC's decision based on the following:

- Their sole business is granting credit to all qualified applicants. It defies logic that management would have taken any action to deny credit or discourage any applicant for credit.
- It is incontrovertible as a matter of law that the ECOA and Regulation B are not applicable to the type of solicitations at issue in this case.
- The OCC's position with respect to the bank's handling of deceased accounts is not only flawed as a matter of law, it evidences an alarming lack of understanding of

the very real issues confronted by a service organization in trying to deal with the pressing needs of its customers.

- The House Account is an employee benefit under federal tax law—not a credit transaction—and is therefore simply not subject to the ECOA.
- The OCC has not identified one instance where any individual was denied credit, or was discouraged from applying for credit, or even complained about the bank's solicitation or application practices. Nor did the OCC provide any evidence that the matters identified in OCC's letter constituted a "pattern or practice."

### Discussion

The ECOA, 15 USC 1691(a), prohibits a creditor from discriminating against an applicant on a prohibited basis regarding any aspect of a credit transaction. The implementing regulation 12 CFR 202.4 (Regulation B) defines prohibited basis as follows:

*Prohibited basis* means race, color, religion, national origin, sex, marital status, or age (provided that the applicant has the capacity to enter into a binding contract); the fact that all or part of the applicant's income derives from any public assistance program; or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act or any state law upon which an exemption has been granted by the Board. (12 CFR 202.2 (z))

While ECOA does not define the term "pattern or practice" the Interagency Policy Statement on Discrimination in Lending offers guidance on the meaning of a pattern or practice. The Policy Statement states that "repeated, intentional, regular, usual, deliberate, or institutionalized practices will almost always constitute a pattern or practice" of lending discrimination but "isolated, unrelated, or accidental occurrences will not." In assessing whether a pattern or practice exists, the OCC considers the totality of circumstances, including the following factors:

- Whether the conduct appears to be grounded in a written or unwritten policy or established practice that is discriminatory in purpose or effect.
- Whether there is evidence of similar conduct by a bank toward more than one applicant.

- Whether the conduct has some common source or cause within the bank's control.
- The relationship of the instances of conduct to one another.
- The relationship of the number of instances of conduct to the bank's total lending activity.

This list of factors is not exhaustive and whether the OCC finds evidence of a pattern or practice depends on the egregiousness of the facts and circumstances involved. Each inquiry is intensively fact-specific and there is no minimum number of violations that will trigger a finding of a pattern or practice of discrimination.

## Conclusion

1. The use of the phrase "Name of Spouse for Joint Applications" on pre-approved materials impermissibly discourages unmarried applicants from applying for credit. The bank has argued that this practice is not covered under the regulation because it is a solicitation, and not an application. However, the discussion of whether the pre-approved materials are applications or solicitations becomes a moot issue when considering section 202.5—Rules Concerning Taking of Applications of the Regulation B Commentary:

5(a) Discouraging applications.

1. Potential applicants. Generally, the regulation's protections apply only to persons who have requested or received an extension of credit. In keeping with the purpose of the act—to promote the availability of credit on a nondiscriminatory basis section 202.5(a) covers acts or practices directed at potential applicants. Practices prohibited by this section include:

- A statement that the applicant should not bother to apply, after the applicant states that he is retired.
- Use of words, symbols, models, or other forms of communication in advertising that express, imply, or suggest a discriminatory preference of a policy of exclusion in violation of the act.

- Use of interview scripts that discourage applications on a prohibited basis.

As noted in the second bullet point, the use of any forms of communication in advertising that express, imply, or suggest a discriminatory preference of exclusion results in a violation of the act. The use of materials that contain the phrase "Name of Spouse for Joint Applications" might discourage unmarried persons from applying for joint credit.

2. As noted in the third bullet point above, the use of interview scripts that discourage applications on a prohibitive basis results in a violation of the act. The practice of permitting either the addressee of a written pre-approved solicitation or the addressee's spouse, but no one else, to accept the credit card account by telephone may impermissibly deny unmarried persons from accepting the account.
3. While sympathetic to issues involving deceased cardholders, the bank's practice of permitting only the spouse of a deceased cardholder to assume the account without reapplication may impermissibly deny unmarried persons from assuming the account.
4. The provisions of Regulation B do not exclude credit transaction accounts offered by employers. The bank's practice of permitting only the spouse of its employees to be a joint applicant for the employee credit card may impermissibly deny unmarried person from applying for the account.

Because of the nature of the violations in this case, it is difficult to identify victims. The lack of identifiable victims, however, is not inconsistent with a finding by the OCC that it has reason to believe that the creditor engaged in a pattern or practice of discouraging or denying applications for credit in violation of ECOA.

Based on the above, the ombudsman opined, that at the time of the examination, there was reason to believe that the bank engaged in a pattern or practice of discouraging or denying credit card applications on the basis of marital status.

## **Appeal 2— Appeal of Sensitivity to Market Risk Component Rating and Violations of 12 USC 375(b)**

The ombudsman received a formal appeal concerning the “sensitivity to market risk” component rating and several violations of 12 USC 375 (b)—Extension of Credit to Executive Officers, Directors, and Principal Shareholders of Member Banks.

### **Sensitivity Rating**

#### **Background**

Bank management and the board stated that while the Report of Examination (ROE) concludes that interest rate risk is “high and stable,” they believed that interest rate risk was not high and was decreasing. The board believed the downgrade in the sensitivity rating from a 2 to a 3 rating was not appropriate. The bank’s submission noted that the risk profile of the bank was actually better than at the prior examination and that interest rate risk was incorrectly evaluated as being high. The appeal also noted that the supervisory office did not consider additional information provided during the examination and that peer standards for sensitivity assessment are not clear.

The supervisory office concluded in the ROE that the option features in the bank’s funding sources and investments contributed to the complexity and high quantity of risk, which warranted strong risk management systems. The ROE further stated that management of interest rate risk was weak because effective risk limits or board reporting processes were not in place and senior management did not effectively measure and monitor the risk. The previous ROE suggested that management obtain periodic stress testing reports to better gauge the potential impact of their decisions.

#### **Discussion**

In accordance with OCC Bulletin 97-1 (“Uniform Financial Institutions Rating System”), the sensitivity to market risk rating is intended to reflect the degree to which changes in interest rates can adversely affect the earnings and capital of a financial institution. Primary considerations in determining the sensitivity rating are management’s ability to identify, measure, monitor, and control market risk, the nature and complexity of the institution’s activities, and the adequacy of the capital and earnings in relation to level of market risk.

In discussion with bank management and the supervisory office, there was a consensus that the bank had a significant level of interest-sensitive assets and liabilities at the time of the examination. Adding to the complexity of the balance sheet, several of the asset and liability categories had features (embedded options, caps and floors, etc.) that increase or decrease the level of risk in a changing rate environment. When these conditions are present, it is critical that risk management processes accurately identify, measure, monitor, and control the risk.

As a result of recommendations made in the previous ROE, management had improved the bank’s risk management process, specifically by measuring the effects of interest rate shocks on the balance sheet. However, the assumptions associated with this modeling were not well supported and hindered an accurate assessment of the risk. Management did not initiate changes to the assumptions until the examination. In addition, the model did not provide the degree of sophistication required to capture the risk, given the complexity of the balance sheet. Finally, risk management limits were not appropriately defined and board minutes did not reflect discussion of the issues associated with interest rate risk.

#### **Conclusion**

At the time of the examination, the bank had a significant level of re-pricing and options risk in its balance sheet. There was a concern that the level of earnings and capital would not adequately support the degree of market risk present, particularly when considering the increased level of credit risk from the bank’s lending activities. While management had taken steps to strengthen the tools used to measure the impact of interest rate risk, the modeling weaknesses identified during the examination warranted further action. Therefore, the ombudsman concluded that the 3 rating assigned during the examination was appropriate.

### **Regulation O/Insider Lending Violations**

#### **Background**

Bank management and the board believed that several violations of the implementing regulation 12 CFR 215 (Regulation O) was subjective in nature and should not be included in the ROE. Specifically, they disagreed with the violations citing preferential terms on loans to insiders. Bank management believed that several items cited as violations of Regulation O/Insider Loans were based on subjective judgment and should not be included as “violations of law” in the ROE. Management believed the vio-

lations of law that were cited in the ROE were either technical in nature or based on a subjective standard that bank management disagreed with in each case. The bank stated they have never given preference to directors or principal shareholders on credit facilities.

The ROE identified eight violations of Regulation O where extensions of credit were granted on favorable terms. These included pricing, waiving of fees, and policy exceptions for a borrower's equity in real property. The ROE comments further explained that these violations were technical because management could not provide transactions considered comparable by the OCC.

## Discussion

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

- (1) No member bank may extend credit to any insider of a bank or insider of its affiliates unless the extension of credit:
  - (i) Is made on substantially the same terms (including interest rates and collateral) as, and following credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions by the bank with other persons that are not covered by this part and who are not employed by the bank; and
  - (ii) Does not involve more than the normal risk of repayment or present unfavorable features.

The ROE criticized bank management for failing to provide comparable transactions to the insider loans cited for

preferential terms. The ombudsman's review revealed that some of the loans provided as comparable transactions were similar to the insider loans, but there were nuances that differentiated the transactions and created questions regarding their comparability. Additionally, the review of the applicable loan profitability worksheets found that they did not include all aspects of the customer's relationship with the bank. In some instances, the deposit relationship was the factor that lent support to the terms given to the insiders but it was not included in the profitability worksheet.

## Conclusion

The ROE specifically concluded that the lack of comparable transactions was a technical violation because "the applicable insiders do have substantial net worth and liquidity and may warrant 'best borrower' rates." This description is more reflective of a violation of 12 CFR 215.8 (a), which states:

- (a) *In general.* Each member bank shall maintain records necessary for compliance with the requirements of this part.

Based on the comments in the ROE and the information provided by bank management, the ombudsman concluded that the preferential treatment violation cited in the ROE was not appropriate. However, bank management's inadequate documentation did not clearly demonstrate compliance with the prohibition against preferential lending to insiders. Therefore the ombudsman concluded that the lack of documentation to demonstrate compliance was a violation of 12 CFR 215.8.



# Special Supervision/Fraud and Enforcement Activities

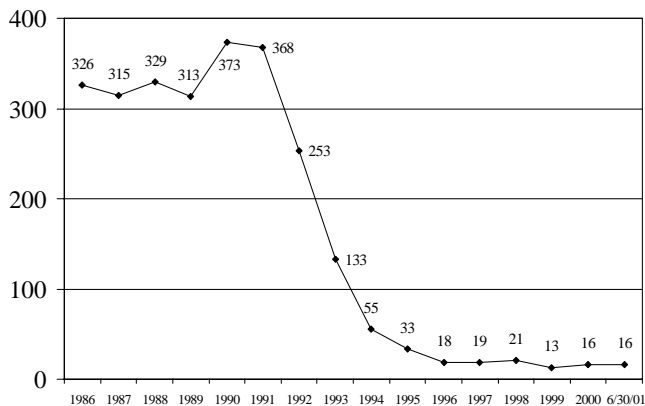
The Special Supervision/Fraud Division of the Bank Supervision Operations Department supervises the resolution of critical problem banks through rehabilitation or orderly failure management, monitors the supervision of delegated problem banks, coordinates fraud/white collar crime examinations, provides 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

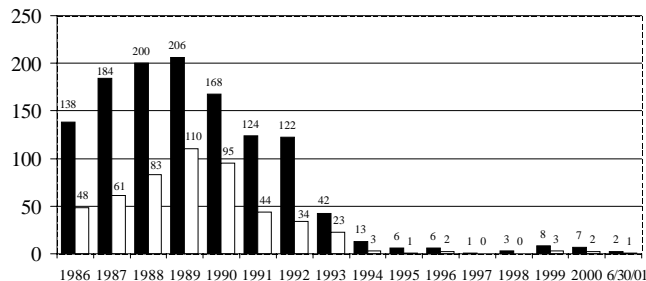
Problem banks represented less than 1 percent of the national bank population as of June 30, 2001. The volume

**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.

of problem banks, those with a CAMELS rating of 4 or 5, has been stable for several years. The CAMELS rating is the composite bank rating based on examiner assessment of capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. The total number of problem banks is 16 as of June 30, 2001. This low volume of problem banks reflects the stable economy and generally favorable economic conditions enjoyed for the past several years. There has been one national bank failure through June 30, 2001 out of two commercial bank failures.

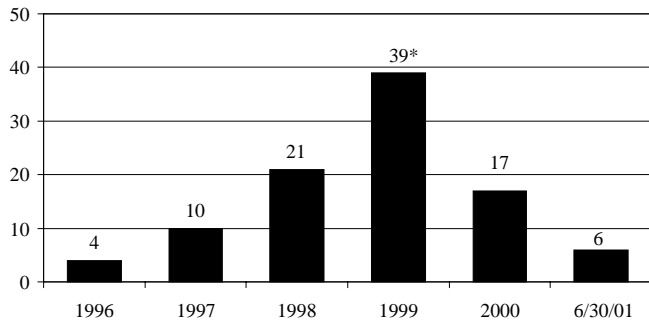
## Enforcement Actions

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.)

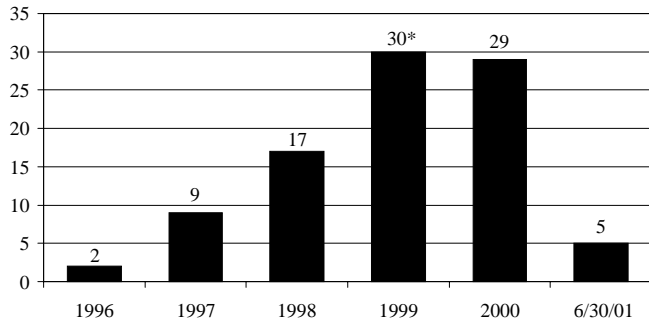
**Figure 3— Commitment letters**



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**



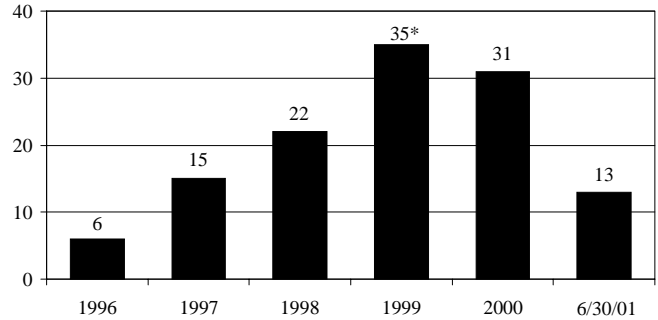
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

\*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 as of June 30, 2001. In the first half of 2001, the OCC also issued six notices of deficiency, which notified the affected banks that they needed to submit a plan for bringing their operations into compliance with safety and soundness standards. As of June 30, 2001, the OCC did not issue any safety and soundness orders.

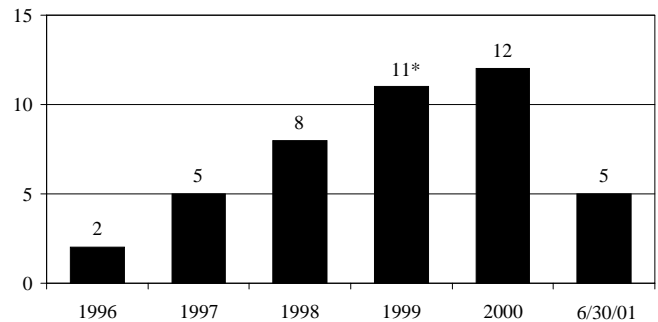
**Figure 5— Formal agreements**



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**

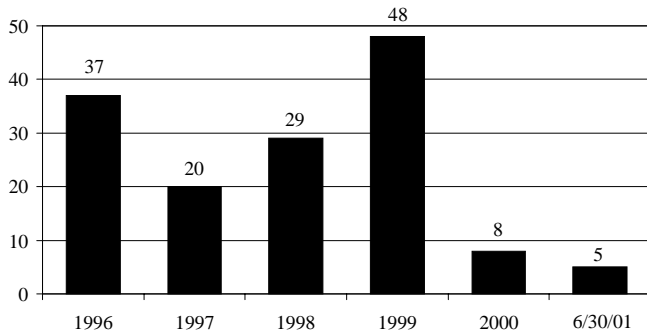


Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

\*1 of which is for year-2000 problems

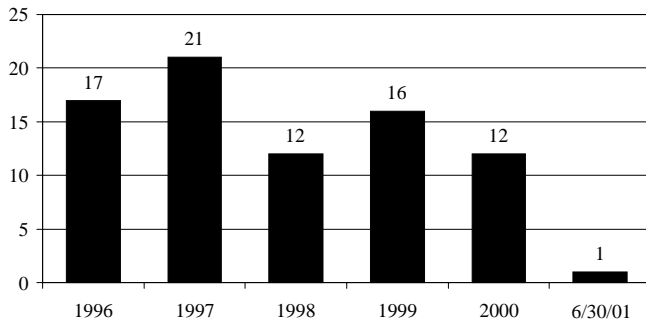
The most common enforcement actions against individuals are CMPs, personal C&Ds, and removal and prohibition orders. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and under certain circumstances, unsafe or unsound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

**Figure 7— Civil money penalties against individuals**



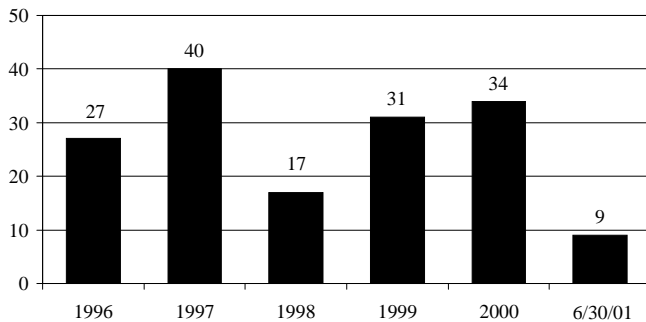
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

**Figure 8— Cease-and-desist orders against individuals**



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

**Figure 9— Removal and prohibition orders**



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

## Recent Enforcement Cases

In April 2001, the OCC conducted a hearing before an administrative law judge in the matter of Belmont National Bank, Wheeling, West Virginia. In the action, the OCC alleges that the bank's former president caused the bank to engage in numerous unsafe or unsound lending practices, which resulted in violations of the bank's legal lend-

ing limit under 12 USC 84 and which caused the bank to lose approximately \$20 million. The OCC received an unfavorable decision from the administrative law judge (ALJ) but the matter has been briefed and is before the Comptroller for a final decision. The OCC is seeking a civil money penalty of \$10,000.

In February 2001, the OCC served a Notice of Assessment of Civil Money Penalty upon the former CEO and director of MetroBank, N.A., Oklahoma City, Oklahoma, on the basis of insider abuse involving his knowing involvement regarding overdrafts on the account of another director at the bank. The respondent defaulted, and in September 2001, the ALJ recommended that the former CEO be assessed a civil money penalty of \$10,000. The ALJ's recommended decision is presently before the Comptroller for final decision.

In March 2001, the OCC served a Notice of Assessment of Civil Money Penalties upon several officers and directors of a national bank in Florida. The OCC alleges that the respondents participated in a violation of law related to the filing of the bank's Report of Condition and Income (call report). A hearing in the matter is scheduled to begin in December 2001.

In March 2001, the OCC served a Notice of Charges for the Issuance of an Order to Cease and Desist and a Temporary Cease and Desist Order against a national bank in Florida. A hearing on the issuance of an Order to Cease and Desist is scheduled to begin in January 2002.

In May 2001, the OCC commenced an administrative hearing in a case involving the former senior lending officer and another former officer of Six Rivers National Bank, Eureka, California. The OCC's Notice of Charges alleges that the respondents violated 12 USC 84 by originating five nominee loans, which, when combined, exceeded the bank's legal lending limit. The OCC is seeking prohibitions, restitution, and civil money penalties. The hearing was stayed and is scheduled to continue in the second half of 2001.

In June 2001, the OCC served a Notice of a Prohibition as well as a Notice of Assessment of a \$50,000 Civil Money Penalty on a former senior loan officer at a national bank in California. The OCC alleges that the respondent falsely represented to the bank's credit committee and to the OCC that one of the bank's loans was supported by \$1.5 million guarantee, when in fact the loan officer had released the guarantee shortly after he originated the loan. The bank has suffered over \$3 million in losses on loans to the particular borrower. A hearing in this matter is scheduled to begin in February 2002.

In June 2001, the OCC served a Notice of Charges for Issuance of a Cease and Desist Order on a national bank in Arkansas. The Notice alleges a wide range of unsafe or unsound practices related to the bank's subprime loan purchases, including risk management systems, books and records, affiliate transactions, liquidity, and other areas. A hearing date in this matter has not been determined.

## **Consent Orders and Formal Agreements**

In January 2001, a director of a national bank in Alabama consented to a civil money penalty of \$2,000 for failing to properly oversee management of the bank, which resulted in violations of the bank's lending limit, Regulation O (limiting loans to bank insiders), and consumer compliance regulations. The bank's senior lending officer also consented to a civil money penalty of \$15,000 for his participation in these violations. In both instances, the amount of the penalties reflected reductions due to the limited financial resources of the individuals.

In January 2001, a former director of a national bank in Oklahoma consented to a civil money penalty of \$3,500 on the basis of insider abuse, due the intentional and repeated overdrafts on his account at the bank.

In February 2001, the former president of a national bank in Texas consented to a prohibition and a civil money penalty of \$3,600 for his participation in numerous unsafe or unsound practices and his concealment of them from the bank's board of directors.

In February 2001, the former president of a national bank in South Dakota consented to a prohibition and civil money penalty of \$2,500 for his misappropriation of bank funds to purchase a vehicle for his personal use. In addition to the OCC enforcement actions, the former president also reimbursed the bank for the money.

In April 2001, the president of a national bank in Texas consented to a personal cease-and-desist order and a civil money penalty of \$10,000 for his origination of two nominee loans to the cashier of the bank. The order

places restrictions on the president's lending activities and requires certain disclosures in the future.

In May 2001, Direct Merchants Credit Card Bank consented to the issuance of a cease-and-desist order that requires the bank to make restitution of \$3.2 million involving over 61,000 of its credit card customers and to correct credit card practices that the OCC identified as deceptive. The practices involved the bank's conduct of "downselling" consumers by prominently marketing one package of credit card terms, but then approving those consumers only for accounts with less favorable terms, and touting the approved account in a fashion designed to mislead the customer about the fact he or she had been "downsold." The OCC concluded that the bank's conduct constituted unfair and deceptive practices in violation of the Federal Trade Commission Act and was unsafe and unsound within the meaning of the Federal Deposit Insurance Act. The OCC also concluded that the bank violated the Truth in Lending Act (TILA) and Regulation Z by failing to disclose in a table the rate, fee, and cost information for any account for which the consumer may be approved.

In June 2001, the president and chief operating officer of a national bank in Missouri consented to a prohibition for his improper origination of a nominee loan for \$70,000, the proceeds of which the nominee transferred back to the president.

## **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 six consent prohibition orders against institution-affiliated parties in the first half of 2001. 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.

---

# Speeches and Congressional Testimony

---

Page

## Of the Comptroller of the Currency

Statement of John D. Hawke Jr., Comptroller of the Currency, before the Subcommittees on Capital Markets, Insurance, and Government-Sponsored Enterprises and on Financial Institutions and Consumer Credit, U.S. House Committee on Financial Services, on merchant banking investment activities of banking organizations, Washington, D.C., April 4, 2001 .....	33
Remarks by John D. Hawke Jr., Comptroller of the Currency, before the University of North Carolina School of Law, Center for Banking and Finance, on consolidation in the financial services industry, Charlotte, North Carolina, April 5, 2001 .....	38
Remarks by John D. Hawke Jr., Comptroller of the Currency, before the California Bankers Association, on issues affecting California bankers, Scottsdale, Arizona, May 22, 2001 .....	42
Statement of John D. Hawke Jr., Comptroller of the Currency, before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, on the condition of the banking system, Washington, D.C., June 20, 2001 .....	46

## Of the First Senior Deputy Comptroller and Chief Counsel

Remarks by Julie Williams, First Senior Deputy Comptroller and Chief Counsel, before the American Bankers' Second Aggregation Conference, on the impact of aggregation on the financial services industry, Tysons Corner, Virginia, April 23, 2001 .....	48
Remarks by Julie Williams, First Senior Deputy Comptroller and Chief Counsel, before the Consumer Bankers Association, on adapting to change in American banking, Arlington, Virginia, May 21, 2001 .....	53

## Of the Ombudsman

Remarks by Samuel P. Golden, Ombudsman, before the Third Annual Conference on Enhancing Black Leadership, sponsored by the National Black MBA Association, Association of Rice University Black Alumni, Jesse H. Jones Graduate School of Management, on his professional journey, Houston, Texas, April 27, 2001 .....	56
---	----



# **Statement of John D. Hawke Jr., Comptroller of the Currency, before the Subcommittees on Capital Markets, Insurance, and Government-Sponsored Enterprises and on Financial Institutions and Consumer Credit, U.S. House Committee on Financial Services, on merchant banking investment activities of banking organizations, Washington, D.C., April 4, 2001**

*Statement required by 12 USC 250: The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.*

## **Introduction**

Chairman Baker, Chairman Bachus, and members of the subcommittees, thank you for inviting the Office of the Comptroller of the Currency (OCC) to participate in this hearing on the rules relating to the merchant banking investment activities of banking organizations. I welcome the efforts of the subcommittees to focus renewed attention on this important issue. It is in all of our interests to appropriately balance the essential role that banking organizations play in promoting capital availability to American businesses with fundamental precepts of safety and soundness.

As noted in the invitation letter, the hearing will focus on the authority given to financial holding companies and bank holding companies by the Gramm–Leach–Bliley Act (GLBA) to conduct merchant banking investment activities, the rules governing these activities promulgated by the Treasury and the Federal Reserve Board (FRB), and the capital standards for merchant banking investments recently proposed by the FRB and subsequently re-proposed jointly by the FRB, OCC and FDIC. The subcommittees specifically asked witnesses to address the following issues:

- The revision of the proposed capital rule—specifically, the process through which the rule was revised, the regulatory capital approach versus the strict supervisory (examination) approach to safety and soundness, and how the revised rule can be reconciled with the proposed Basel standards.
- The Final Rule governing merchant banking activities—particularly, how the Final Rule addresses the concerns raised about the Interim Rule of March, 2000, why there continues to be a cap on merchant banking investment, and the reasons for maintaining the cross-marketing restrictions, holding periods, and other limitations on merchant banking activities.

Before addressing these issues, I would like to make some background remarks that may help to put my testimony in context.

“Merchant banking” is a term with no fixed definition that is generally used to describe a range of financial activities, many of which have long been permissible for national banks. For example, national banks have for many years engaged in buying and selling securities for the accounts of customers, they have advised clients on mergers and acquisitions and on the private placement of securities, they have acted as finders in business combinations, and they have represented and negotiated on behalf of customers in such transactions. GLBA did not affect the ability of national banks to engage in any of these activities.

While we have come to refer to the various rulemaking proceedings that are the subject of this hearing as involving “merchant banking,” it is important to recognize that what we are really addressing today is simply one component of the business generally referred to as merchant banking, namely, the business of making private equity investments in non-financial firms—in particular, equity investments having a venture capital character.

Bank holding companies have for many decades had the authority to make significant non-financial equity investments, particularly pursuant to the authority granted in sections 4(c)(6) and 4(c)(7) of the Bank Holding Company Act (BHCA), which allow a bank holding company, directly or through an intermediate investment company, to invest in up to 5 percent of the outstanding voting stock of any company, irrespective of the business of that company. Moreover, sections 4(c)(6) and 4(c)(7) impose no aggregate dollar limit on such investments, nor do they limit the character of such investments. Thus, it has long been possible for a bank holding company to make very sizeable investments in a virtually unlimited range and number of non-financial companies, including venture capital companies, subject only to the inherent limits of the holding company’s financial capacity to do so.

National banks, as well, have long been permitted to make private equity investments through small business investment companies, and many banks have in fact

done so. The limitations on such investments and on bank ownership of small business investment corporations (SBICs) will be discussed later in my testimony. Suffice it to say that many such investments have been of a venture capital nature.

Prior to the enactment of GLBA, no significant public policy or safety and soundness concerns were raised by bank regulators concerning the ability of either bank holding companies or banks to make equity investments under the authorities described above. Indeed, the clear intent of Congress in that far-reaching new law was to expand the ability of banking organizations to make such investments in excess of the limits contained in prior law, even where such investments might constitute control of the company in which they were made.

As part of a compromise negotiated in the final stages of the GLBA legislative process, this new authority was to be limited to bank holding companies for a period of five years. At the end of that period, the new authority was expected to be extended to financial subsidiaries of banks, if the FRB and the Treasury concurred. We continue to believe that with the carefully crafted safety and soundness protections included in GLBA for financial subsidiaries of banks, the elimination of any disparity between bank holding companies and banks in this regard is appropriate.

Against this background, my testimony today will address principally the performance of national bank equity investments in SBICs, and the OCC's involvement in the February 14, 2001 Notice of Proposed Rulemaking of the Federal banking agencies (February 2001 Capital Proposal), proposing special minimum regulatory capital requirements for those investments. My testimony will address each of the issues relating to the February 2001 Capital Proposal identified in the subcommittees' invitation letter of March 28, 2001. The second set of questions in the invitation letter, however, is not directly discussed in this testimony. Those questions specifically deal with joint Treasury-FRB rulemakings issued on March 17, 2000 and January 10, 2001 relating to the conditions under which the newly authorized merchant bank activity can be conducted. This activity did not affect banks or bank subsidiaries and, therefore, the OCC had no direct role in those rulemakings.

It is also important to note that the public comment period on the February 2001 Capital Proposal is open until April 16, 2001. Therefore, while I can discuss the issues that led to the proposal in its current form, it would be premature for me to express views about the shape of the final rule.

The OCC's primary objective in the development of the February 2001 Capital Proposal was to protect the long-

standing congressional preference for SBICs. As I will discuss in more detail below, we have attempted to achieve that objective by a proposal that imposes additional capital requirements on SBIC investments only when those investments exceed specified concentration thresholds. Other private equity investments are subject to proposed higher initial marginal capital charges.

## **Small Business Investment Corporations**

National banks have long been permitted to make certain limited equity investments in non-financial companies through SBICs, which are privately organized and managed venture capital firms that are licensed and regulated by the Small Business Administration under the Small Business Investment Act (SBIA).

The SBIA was enacted in 1958 with the stated purpose of making equity capital and long-term financing more readily available to small businesses. Based in part on an FRB study on small business capital needs<sup>1</sup>, Congress sought to change the incentives for banks involved in small business financing. To facilitate the formation of SBICs, Congress specifically authorized national banks to invest in the stock of SBICs; state banks were also permitted to purchase SBIC stock compatible with State law. Congress did not specifically authorize life insurance companies and other types of financial intermediaries to purchase SBIC stock, noting their ability to do so would depend entirely upon existing federal or state law. Thus, Congress created a framework in which banks, first and foremost, would improve capital availability for small businesses through SBIC investments.

Congress has consistently reaffirmed its intent to foster capital and credit availability to small businesses through SBICs. It expressly addressed the soundness of the SBIC program in at least five Senate and House hearings in the early 1990s. A key theme of those hearings was the need for greater bank involvement in debt and equity financing of small business. As recently as 1997, Congress reaffirmed the value of bank investment in SBICs when it amended the SBIA to permit banks to invest not only in SBICs organized as corporations, but also in the growing number of SBICs organized as partnerships or limited liability companies.<sup>2</sup>

SBICs, as the vehicles through which banks make small business investments, are themselves regulated entities

---

<sup>1</sup> "Financing Small Business," Report to the Committee on Banking and Currency and the Select Committees on Small Business, by the Federal Reserve System, 85<sup>th</sup> Cong. 2d Sess. (Comm. Print 1958).

<sup>2</sup> Public Law 105-135, 111 Stat. 2592 (1997).



that operate under detailed statutory and regulatory constraints designed to ensure safe and sound business practices. The SBA imposes a number of restrictions, including limitations on the formation, operation, funding and investment of SBICs. For national banks, the most relevant and significant limitation is the provision limiting a bank's investment in an SBIC to 5 percent of the bank's capital and surplus.<sup>3</sup>

Banks have used their statutory SBIC investment authority to become significant participants in the SBIC program, providing billions of dollars of seed capital to small- and medium-sized businesses. At the end of fiscal year 2000, bank-owned and affiliated SBICs held \$15.9 billion in loans, debt and equity securities of small businesses, representing 70 percent of all SBIC program investments. At that same date, bank-owned and affiliated SBICs maintained \$15.6 billion in total capital, or 75 percent of all the private capital in the SBIC program.

SBICs have produced strong returns with minimal losses over a relatively long period of time, involving both expansionary and recessionary markets. According to SBA data, bank SBICs have earned a positive realized return in all but one of the 24 years for which the SBA has supplied data.

## March 2000 Proposal

Before describing the February 2001 Capital Proposal, it may be useful to provide some background and context for this proposed rule. The interagency February 2001 Capital Proposal was preceded by a capital proposal made by the FRB in March 2000 (March 2000 Capital Proposal). This earlier proposal would have assessed, at the holding company level, a 50 percent Tier 1 capital charge on the carrying value of private equity investments in non-financial companies held directly or indirectly by a holding company—including any bank or bank subsidiary holdings. The March 2000 Capital Proposal would have applied to investments directly or indirectly made by a bank holding company under the new merchant banking authority, under Regulation K relating to international investments, under authority to invest in SBICs, under authority to hold indirectly investments under section 24 of the Federal Deposit Insurance Act, and under sections 4(c)(6) and 4(c)(7) of the BHCA.

Public comment on the proposal was extremely negative. Virtually all of the 130 commenters opposed one or more aspects of the proposal. Many commenters contended that the capital charge in the March 2000 Capital Proposal

was excessive and unwarranted, and that the proposed 50 percent Tier 1 deduction, especially as it would have applied to bank-owned investments, was inconsistent with the capital standards applicable to banks themselves and with the historical performance of these investments in banks. It was also argued that any new and higher capital charge should be limited only to merchant banking investments made by financial holding companies under the new merchant banking authority in GLBA, and should not be applied to past or future investments made by banking organizations under other statutory authorities. Finally, some contended that the proposal was inconsistent with the purposes of GLBA by frustrating Congress' desire to permit a "two-way street" between securities firms and banking organizations.

A particular concern that we at the OCC expressed was that any consolidated holding company capital requirement that would apply a charge to assets held by or under a bank that was more stringent than the charge fixed by the primary regulator of the bank would undermine the Congressional mandate that bank capital requirements be set by the primary Federal bank regulator. Since the principal purpose of holding company capital is to protect the subsidiary bank, we saw no basis for the judgments of the primary bank regulator to be displaced in the setting of consolidated holding company capital requirements.

## February 2001 Capital Proposal

The February 2001 Capital Proposal, which was developed jointly by the OCC, FRB, and FDIC (Agencies), is very different from the March 2000 Capital Proposal and, in my view, is a significant improvement over the original proposal in several respects. I have provided a summary of the February 2001 Capital Proposal in Attachment A. A more detailed discussion of some of the more material differences between the February 2001 and March 2000 proposals is set forth in the paragraphs below.

First, the scope of the present proposal is much narrower than the March 2000 Capital Proposal. Consistent with the attendant risk of the activity, the February 2001 Capital Proposal seeks to limit the scope of the regulation to equity investments activities of a character similar to those that might be engaged in by financial holding companies under GLBA. Accordingly, the only national bank equity investments that would be covered by the proposal are equity investments in non-financial companies made pursuant to: (1) the authority to invest through or in SBICs, or (2) the authority to make portfolio investments under Regulation K.

Second, the February 2001 Capital Proposal attempts to better reflect the historical experiences of banking organi-

---

<sup>3</sup>15 USC 682(b).

zations with equity investments in non-financial companies. As discussed above, national banks have engaged in SBIC investment activities for over 40 years without significant safety and soundness concerns. In view of this record of performance, the special statutory and regulatory safeguards placed on these activities, and the important public purpose of encouraging the development and funding of small businesses, the February 2001 Capital Proposal accords SBIC investments preferential treatment. Under the proposal, no additional capital charge would be applied to SBIC investments made by a bank or bank holding company, so long as the adjusted carrying value of the investments does not exceed 15 percent of Tier 1 capital.

As noted earlier, the SBIA restricts national bank investments in SBICs to an amount not exceeding 5 percent of the bank's capital and surplus. At this level of investment, SBIC activities have not historically posed a threat to the safety and soundness of any national bank, nor does the OCC anticipate that they would. However, post-investment appreciation is not included in this limit. Thus, if the activity is profitable, it is possible for the aggregate carrying value of SBIC investments in some banks to grow beyond the 5 percent limit applicable to original investments. In rare instances, the appreciated value of SBIC investments has approached or slightly exceeded the proposed 15 percent Tier 1 capital threshold at some banks.

The banking agencies have recognized, particularly in light of the substantial growth in SBIC investments in recent years, that significant holdings of private equity investments could potentially result in safety and soundness concerns. It is for this reason that the February 2001 Capital Proposal supplements the normal supervisory process with additional capital charges when SBIC aggregate investment levels exceed specified concentration thresholds. Under the proposal, if a bank's SBIC investments constitute less than 15 percent of its Tier 1 capital, those investments would be subject only to the existing capital requirements—a 100 percent risk weight on the assets, representing a 4 percent Tier 1 capital requirement. Once the 15 percent of Tier 1 threshold is reached, the February 2001 Capital Proposal would establish a progression of capital charges that increase with the size of the aggregate equity investment portfolio relative to Tier 1 capital. Specifically, a banking organization would be required to make a deduction from its Tier 1 capital based on the carrying value of the relevant equity investments, consistent with the table set forth in Attachment A. This focus on concentration thresholds is consistent with traditional precepts of safety and soundness and ensures that significant holdings of private equity investments are accompanied by a commensurately higher level of capital.

In its invitation letter, the subcommittees asked whether the February 2001 Capital Proposal can be reconciled with recent proposed revisions to the Basel Capital Accord. The OCC believes that the two proposals are not inconsistent. Although the capital deductions in the February 2001 Capital Proposal would not be explicitly required under proposed Basel revisions, they are consistent with the principles underlying the revised Accord. Under Basel's proposed "standardized approach," venture capital and private equity investments are specifically mentioned as examples of "higher-risk" assets for which national supervisors may decide to apply a 150 percent or higher risk weights. The capital deduction framework proposed in the February 2001 Capital Proposal by the Agencies is consistent with the exercise of supervisory discretion envisioned by the Basel Committee under this provision, and more broadly, under the Supervisory Review pillar. The Basel Committee continues to develop details for the treatment of equity holdings under the "internal ratings-based approach," which is an alternative to the proposed standardized approach. This approach will seek to align risk weights and the resulting capital charges much more closely with the inherent economic risks. While this approach may replace many of our current risk weights for a wide range of bank assets, it is not expected to be implemented before 2004 at the earliest, and will likely apply only to a relatively small number of banks in the early years of implementation.

## Conclusion

For the national banks we supervise, we believe that the approach contained in the February 2001 Capital Proposal promotes the continued conduct of private equity investments while maintaining safety and soundness principles and preserving the intent of Congress to promote bank investments in small businesses through SBICs. We look forward to hearing from members of the subcommittees and other commenters as we work to develop a final rule.

I would be pleased to respond to any questions.

## Attachment

### Summary of February 2001 Capital Proposal

**Introduction.** This summary describes a notice of proposed rulemaking, issued jointly by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, concerning the capital treatment of merchant banking activities. 66 FR 10212 (February 14, 2001). The proposal would apply to

institutions supervised by all three agencies. This summary, however, focuses on the effect of the proposal on national banks.

**Special capital charge for non-financial equity investments.** The proposal requires a banking organization to deduct a percentage of non-financial equity investments from Tier 1 capital. As described in Table 1, the amount required to be deducted generally ranges from 8 percent to 25 percent of the *adjusted carrying value*<sup>4</sup> of the non-financial equity investment. The percentage deduction increases as the amount of the bank's non-financial equity investments increases.

**Scope of application.** For a national bank, the proposal defines non-financial equity investments as only those *equity investments in non-financial companies* made pursuant to: (1) the authority to invest in small business investment companies (SBIC) or (2) the authority to make portfolio investments under Regulation K.

□ The term *equity investment*<sup>5</sup> means "any equity instrument including warrants and call options that give the holder the right to purchase an equity instrument, any equity feature of a debt instrument (such as a warrant or call option), and any debt instrument that is convertible into equity." Subordinated debt or other types of debt may be treated as equity for purposes of the spe-

cial capital charge if the OCC determines that the debt instrument is the "functional equivalent" of equity.

□ The term *non-financial company* means an entity that conducts activities that "have not been determined to be permissible for the bank to conduct directly" or activities that have not been determined to be financial in nature or incidental to financial activities under new section 4(k) of the Bank Holding Company Act.

**Exception.** No deduction is required for non-financial equity investments that are held in the trading account in accordance with applicable accounting principles and as part of an underwriting, market making or dealing activity.

**Special rule for SBIC investments:** No deduction is required for non-financial equity investments made in or through a SBIC in amounts less than 15 percent of Tier 1 capital. For amounts of 15 percent or more, the deduction requirement is required as provided in Table 1. Investments that fall within the 15 percent limit are included in risk-weighted assets and assigned to the 100 percent risk-weight category. Although the special capital charge does not apply to SBIC investments of less than 15 percent, those investments are counted for purposes of determining whether the bank exceeds the aggregate 15 percent limit.

**Table 1—Deduction for non-financial equity investments**

If the aggregate adjusted carrying value of all non-financial equity investments is . . .	Then the required percentage deduction from Tier 1 capital is . . .
Less than 15% of Tier 1 capital	8% } As a percentage of the aggregate adjusted carrying value of non-financial equity investments
Greater than 15% but less than 25% of Tier 1 capital	12% }
Greater than 25% of Tier 1 capital	25% }

**Note:** "High concentration" (generally more than 50% of Tier 1 capital) of non-financial equity investments will be monitored and may be subject to heightened supervision.

<sup>4</sup> *Adjusted carrying value* is defined as the "aggregate value at which the investments are carried on the balance sheet of the bank, reduced by any unrealized gains that are reflected in such carrying value but excluded from the bank's Tier 1 capital."

<sup>5</sup> A national bank's minority interest in any entity that holds non-financial equity investments in a non-financial company is not counted as Tier 1 capital if the national bank holds the minority interest pursuant to its SBIC or Regulation K investment authority.

## Remarks by John D. Hawke Jr., Comptroller of the Currency, before the University of North Carolina School of Law, Center for Banking and Finance, on consolidation in the financial services industry, Charlotte, North Carolina, April 5, 2001

It's a pleasure once again to be a participant in the University of North Carolina School of Law's Banking Institute, being offered for the first time under the auspices of the new Center for Banking and Finance. The Center's commitment to teaching, scholarship, and service to the banking and law communities will be of immense value—and a source of immense pride—to North Carolina and the whole nation in the coming years. I congratulate the faculty and staff who have worked so hard to transform the Center from a vision into a reality.

The last time I was with the Institute was in Chapel Hill, and I spoke to you then about financial modernization and the legislation that went on to become the Gramm–Leach–Bliley Act of 1999. Since we have decamped to Charlotte for this program, it seems fitting to turn to a subject that, for many, virtually defines this great city. That subject is consolidation in the financial services industry—a trend that gave impetus to GLBA, and that has, in turn, been given impetus by it.

The FDIC recently released its “Quarterly Bank Profile,” covering the last three months of 2000, and that report reminded us again of how far industry consolidation has come. In 1985, there were no fewer than 14,400 insured commercial banks in the United States. That number has shrunk every year since then, leaving us with around 8,300 banks today. And of course this shrinkage understates the true level of merger and acquisition activity, for the aggregates include the new charters that are added to the system each year.

Closer inspection of the FDIC's latest numbers actually reveals some slowdown in the rate of consolidation from the frenetic pace of earlier years, and that trend also seems likely to continue for some time. It may be related to the slowdown in the economy or it may simply indicate that the industry is still busy digesting earlier acquisitions—or both. But I have not heard anyone suggest that we've finally reached critical mass, and, with more than 8000 independent banks still on the scene, there seems to be ample opportunity for further consolidation to occur.

If history is a guide, North Carolina will be in the forefront of whatever innovations are in the industry's future. This is a safe prediction now, but who would have predicted 15 or 20 years ago that Charlotte would become one of the world's great banking centers—or, indeed, that the struc-

ture of banking in the United States would look like it does today? So much has changed over that time that it's easy to forget what the banking landscape looked like before the leaders of Charlotte's banking community set out to transform it.

Twenty years ago, banking was essentially a local business. Indeed, a guiding principle for antitrust analysis of bank mergers, first articulated by the Supreme Court in the mid-1960s, was that banking markets are primarily local in character. That principle was buttressed by pervasive legal constraints designed to prevent the geographic expansion of banks—constraints that protected competitors, but deprived banking customers of the efficiencies of open markets and real competition. During the 1980s, those barriers started to fall as leaders like Hugh McColl and Ed Crutchfield brought their intellect, imagination, and energy to bear on the business. Because of their vision—and their relentless pursuit of a competitive marketplace—we have today a genuinely national, and enormously competitive, banking system. Charlotte has become one of its capitals.

Those who opposed these efforts and sought to retain the insulation from competition that banks had traditionally enjoyed argued that a more consolidated industry would be unresponsive to local needs and impossible to supervise. But neither concern has been borne out. Changes of name and ownership involve adjustments on all sides, but most customers have found that they now enjoy the best of both worlds—personalized, highly responsive service *and* access to a comprehensive range of financial products. For example, the evidence suggests that small business loans and financing for community development projects are *more* readily available now than they ever have been. And where there was any basis for believing that a merger might result in less responsiveness to local needs, new entrepreneurs have been quick to enter the market with newly chartered institutions.

For our part, I believe that regulators have demonstrated over time that we're fully capable of adapting to the supervisory challenges presented by a restructuring industry. Today large bank supervision has become a continuous process rather than an episodic event. In our large bank program, which covers almost 30 of the country's largest banks, we now maintain full-time teams of resident examiners, who cover not only basic safety and soundness supervision, but all of the other specialties, as well—

capital markets, compliance, asset management, MIS, and so on. More than 350 dedicated OCC examiners and support staff—men and women specifically trained to identify and address the existing and emerging risks associated with complex banking organizations—staff our large bank program, which has been widely studied and emulated by other U.S. and many foreign bank supervisory agencies. With this experience in supervising large, complex banking institutions, I'm confident that our capabilities are equal to whatever supervisory challenges a consolidating industry poses in the years ahead—just as they have been in the past.

However, there is an Achilles heel in our supervisory system, and it's a vulnerability that's grown increasingly troublesome as the industry confronts a possible turn in the economy, and that is the way in which supervision is funded. It was considered quite a significant reform when, back in the early twentieth century, the country converted from an arrangement under which banks paid a flat fee for their examinations to one that assessed banks on a sliding scale based initially on their total capital and then on their assets. That reform eliminated the incentive for examiners to cram as many exams as possible into a work-week in order to maximize their income.

This change also introduced other, less desirable incentives. For a long time, higher supervisory assessments were considered a small price to pay for growth, and banks paid them, for the most part, without a second thought. But two recent developments changed that. First, a more competitive financial marketplace and intensifying cost pressures have made bankers more attuned even to relatively small opportunities for savings. Second, and more important, we have seen a change in the nature of the competition for membership that lies at the heart of our dual banking system. Traditionally, a banker's choice between a national or state charter centered on such qualities as supervisory philosophy and responsiveness, examination quality, permissible activities, and cost. But with the narrowing of differences between the powers available to state and national banks, in large part due to state wild-card statutes, and with the lessening of burdens on state banks' interstate operations brought about by parity legislation and by agreements among the states, that competition has focused more and more on assessments and the cost of supervision.

This has had both positive and negative consequences. On one hand, sensitivity to supervisory costs has encouraged the OCC and state supervisors to be extremely careful about their spending. Efficiency has long been heralded as a major advantage of the dual banking system, and there's little doubt that the burdens of supervision, financial and otherwise, might be greater but for the responsiveness of the OCC and state supervisors to the

need to be more efficient. Of course, the most substantial portion of the costs of supervising state banks are those of the Federal Reserve and the FDIC, who perform for state-chartered banks exactly the same functions that OCC performs for national banks, but without imposing any charge for their services, as must the OCC. Because those agencies are essentially self-funded—unlike the OCC, which is almost totally dependent on the assessment revenue it collects from national banks—they are not subject to the external pressures for efficiency that work alike on state supervisors and the OCC.

Still, it has to be recognized that the effectiveness of supervision can suffer, and serious inequities can result, if these pressures get out of hand. Consider, for example, what happened during the wave of large bank failures in the late 1980s and early 1990s—a period of stress in the banking system that had not been seen since the Great Depression. Excruciating demands were placed on supervisors to staff up in order to manage the exigencies of a banking system under severe pressures. Yet just as these demands were being felt, the system was contracting as banks failed, thereby reducing the base on which fees could be increased to support the increased costs. At the OCC this meant significant increases in assessments—14 percent in 1989, another 11 percent in 1991, and a whopping 30 percent in 1992. To be sure, there was a series of reductions in subsequent years, but one conclusion is inescapable: well-managed banks—the survivors—were forced to bear significant additional costs to support the supervisory resources needed to deal with problem institutions. This is a perversity in the system that must be addressed before we experience any repeat of the conditions that created such pressures.

Even in good times there are perversities in an assessment-based system of funding supervision. The restructuring of the industry over the past 15 years, for example, has had adverse effects on both the OCC and state bank regulators. Every time there is a merger between a state bank and a national bank, one or the other system will lose a member—and the larger the bank, the larger the loss of revenue. Even apart from mergers, where a large multibank holding company with banks in several states "rolls up" its subsidiaries into a single bank with an interstate branch network—something that's happening ever more frequently since the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994—there will be a loss to either system. The OCC's assessments will be diminished because marginal assessment rates decline as the size of the consolidated bank increases. And in the case of a state bank "roll up," each state in which a separate charter previously existed other than the home state of the consolidated bank will lose dues-paying members.

The effect of these changes on state banking systems, which already spread their expenses over a smaller base of institutions, can be very significant. In 24 of the 50 states, a single large state-chartered institution accounts for 25 percent or more of all state chartered assets—and, presumably, more than 25 percent of the total assessment revenues of the state banking authority. Thus, the loss of a large state bank in those states has the potential for significantly weakening the support for state bank supervision.

A healthy system of state bank supervision is very much in the national interest—not only to maintain a vigorous and dynamic dual banking system, but also to protect important federal interests, for the federal “safety net” stands behind all insured banks, irrespective of charter. Thus, to paraphrase John Donne, don’t ask for whom the bell tolls when a large state bank exits the state system: it tolls for all of us.

The question, of course, is what to do about this. I have already stated publicly that the direct imposition of new federal fees on state banks is not a politically viable approach—even though there is no basis for justifying the federal subsidy that is presently delivered by the Fed and the FDIC. I believe we must come up with a new method of funding bank supervision—a method that will strengthen both the federal and state supervisory processes, protect them from the impact of random structural changes, and ensure that all supervisors, state and national, have adequate, predictable resources available to carry out effective supervisory programs.

There are a number of alternative approaches that one might consider, and I believe that now is the ideal time to do so, as the whole topic of the role of deposit insurance is being reexamined. An idea that I think has considerable appeal would draw on the earnings of the FDIC’s insurance funds to defray the costs of both state and national bank supervision. Today, with the funds aggregating about \$41 billion, and generating earnings of more than \$2 billion per year, there would be considerably more funds available to defray the costs of FDIC, OCC, and state supervision than those agencies today spend in total. Working together, and using the present costs of supervision as a baseline, state and federal supervisors could develop an allocation formula that would reflect not only the breadth of responsibilities of the agencies, but the condition, risk profile, size, and operating environment of the banks they supervise. All agencies would remain free to impose supplemental assessments if they chose, but competitive pressures would presumably work to keep these charges at a minimum.

This arrangement would offer several meaningful advantages. First, it would remedy the inequity to national banks

that exists today, resulting from the fact that the FDIC already funds its supervision of state banks out of the earnings of the deposit insurance funds, to which *all* banks have contributed. We estimate that national banks account for 52 percent of the contributions to the bank insurance fund since the resources of that fund were exhausted in 1991. Considering that the FDIC spent about \$590 million on state nonmember bank supervision in 1999, national banks can be viewed as having contributed about \$300 million to the FDIC’s costs of supervision—this in addition to the \$384 million in assessments they paid to the OCC for their own supervision.

Of course, there are other roads we might take to placing our supervisory funding on a sounder and fairer basis. The inequity of requiring national banks to pay a share of the cost of supervising state-chartered banks could be remedied by having the FDIC return to national banks—or to the OCC, for pass-through to national banks—that portion of their insurance premium that is currently diverted to supervision. Such an approach would get national banks out of the business of subsidizing their competitors, with relatively minor impact on FDIC resources.

But ending this anomaly is not just a matter of fairness to national banks. The very constructive debate now taking place on the future of deposit insurance, and the role that a truly risk-based system of insurance can play in bank supervision, has stressed the importance of allocating the costs and benefits of insurance in an equitable and efficient manner. Separating the actual costs of the FDIC’s supervisory functions from the costs of providing deposit insurance is an essential step toward efficient and rational pricing of both.

There’s a second major advantage of a system under which the OCC and the state supervisory agencies would be funded out of the earnings on the insurance funds. I believe it would reinvigorate the dual banking system. Although there has always been an assessment differential between state and national charters—and, given the federal subsidy to state banks, it has often been substantial—most banks are likely to choose their charters more on the basis of such non-financial factors as regulatory philosophy, access, and the perceived quality of supervision. Indeed, the size and health of the national banking system is testimony to this conclusion. Banks would still be free to choose under the system I’ve described, but those factors would almost certainly loom larger in a regime that was more equitable with regard to supervisory charges, and that encouraged competition in those qualities that are more relevant to a safe and sound banking system.

The devil is always in the details, of course, and obviously the approach I’ve suggested this evening is little more

than that—a concept that requires a full airing and fleshing out. That's what I'm proposing to begin today. I would like to stimulate a broad dialogue among all of the interested parties and policy makers. Through such a dialogue, I believe we can develop concrete proposals to overhaul the current system, and replace it with one that supports rather than undermines our ability to achieve common goals.

There's no doubt in my mind that we have the tools and the expertise to effectively supervise the banking industry of today and tomorrow, whatever form it takes. That's especially true if all who play a role in our supervisory system work and compete constructively and not at cross-purposes. The time to start is now.

## Remarks by John D. Hawke Jr., Comptroller of the Currency, before the California Bankers Association, on issues affecting California bankers, Scottsdale, Arizona, May 22, 2001

California is much in the news these days, for all the usual reasons and some new ones. Indeed, the size of California's economy, accounting as it does for nearly 14 percent of the U.S. gross domestic product, makes it inherently newsworthy. When your economy is larger than that of the smallest 22 states combined; when you've been responsible for creating a quarter of all of the nation's new jobs; and when you're home to one out of every eight of our people, it's hard not to be noticed. To paraphrase old Prince Metternich of Austria, when California sneezes, America catches cold. So it's natural for Americans to have more than a passing interest in the state's well being.

But this interest goes beyond the numbers. California's influence transcends its size, and that's because of the unique role the state has always played in our nation's cultural, as well as its economic, life. The Golden State could easily be renamed the Bellwether State, so long has it been a leader in shaping the trends that define our times.

It's not surprising that more than the usual attention has focused on California lately. There's always the sense in looking at California from the outside that the rest of us are catching a glimpse into our own futures. And these days, that prospect makes many of us more than a little nervous. Are the state's energy woes a harbinger of rolling blackouts and gasoline lines throughout the country? Is the double-digit growth of the new economy a thing of the past? Are we consigned to a lifetime of resource constraints and diminished expectations?

If we're going to draw such sweeping—and depressing— inferences from the facts, we'd better be certain that we have the facts right. I think it's particularly important at this critical stage that we not succumb to the doom and gloom that fills the media these days, because I believe it exaggerates the challenges—real though they are—that your state faces.

Let's not forget that while the California job engine may have downshifted some, it's still running on all cylinders. In the first quarter of this year, job growth exceeded 3 percent, still the fifth fastest in the nation. Unemployment was 4.6 percent, the lowest level since the 1960s. Consensus projections call for continued growth in personal income, retail sales, and single family housing permits. And although the projected growth is much weaker than it

has been in recent years—and certainly weaker than we'd like to see—no recession is in sight.

The condition of the banks you represent will be crucial in determining whether and for how long that remains the case. So far, most indicators look positive. Bank capital and profits are strong. Aggregate return on assets for California banks was 1.18 percent in 2000—exactly the same as a year earlier. In contrast, ROA for non-California institutions *fell* in 2000 from 1.20 percent to 1.10 percent in 1999.

The same pattern holds with most other key ratios. California banks are still performing well, and even when their performance is falling short of previous years, they're still outperforming their peers in all other parts of the country, where there's no talk of a "crisis."

While these statistics point to a fundamentally healthy industry, there's little doubt that this strength will be tested in the coming months. Liquidity and credit quality are two areas of significant concern. Like banks throughout the country, California banks have come to rely heavily on wholesale funding to support robust loan growth. From 1993 to 2000, the ratio of non-core liabilities to assets increased from 14 to 24 percent among California community banks, compared to a current ratio of 20 percent among non-California community banks. This could pose challenges for banks that are dependent on such funds in the event that the market turns against them.

And the deterioration in credit quality that began last year shows no sign of abating. Although noncurrent loans to total loans for all California banks are still only in the 1 percent range—low by historical standards—that represents an increase of nearly 50 percent from 1999 to 2000. For California *community* banks, the increase was smaller—from 0.68 percent to 0.72 percent.

The biggest danger, of course, is that a further surge in nonperforming loans could make it more difficult for banks to continue supplying the new credit that's so essential to keeping the economy on track. Indeed, both Federal Reserve and OCC surveys indicate that banks are tightening their credit underwriting standards in many parts of the country. But that seems to be more the result of prudent risk selection in a slowing economy, as well as an increasing volume of problem loans, rather than of any fundamental impairment in banks' *ability* to lend.



The question is how do we keep things that way? What steps should you be taking now both to ensure that you're able to continue making good loans and to preserve and enhance long-term shareholder value, in the event the economy worsens. And what kind of oversight and support can national banks expect from the OCC as banks attempt to cope with the real challenges of today's economy?

First, here's what *you* can do: above all, you should focus anew on the fundamentals of risk identification and risk management.

That focus should include a reassessment of the adequacy of your bank's loan loss reserves, as well as your loan workout capabilities, which may well be tested in the coming months. And it should include an evaluation of the reliability of management information systems and portfolio risk management capabilities, for they, too, will be crucial in determining how your bank fares in difficult economic times.

Our concerns about loan loss reserves are not limited to the *amounts* of provisions. We also want to work with you to review your provisioning *policies*, and the methodologies you employ to determine an appropriate level of reserves. These methodologies, while rooted in historical experience, must be adjusted for current conditions and be based on observable information—including historical loss percentages, loan growth, macro and microeconomic conditions, changes in bank risk selection and underwriting standards.

There is clearly no "right" number for a loan loss provision. The amount of the provision should reflect management's best estimate of losses, using a methodology that has integrity, and recognizing that there is a range within which a reasonable provision can be set. We believe that given trends in credit quality and in the course of the economy, this is a time to set reserves conservatively within that range. We have had extensive discussions with accounting standards setters on this subject, with the objective of apprising them of our concerns about deteriorating credit quality and encouraging them to bring the relevant accounting standards into better alignment with the way that modern banks actually assess the risks of loss in their portfolios. Working together, I think we have made significant progress.

No bank should make the mistake of skimping on their loan loss provisions out of a fear that some accountant is going to call them to task for being excessive. At the same time, banks that rely on a purely numeric ratio as the principal methodology for setting the level of their reserves are not necessarily going to be in the best position

to defend their decisions if questioned by the accountants.

Also, take a hard look at your loan grading. It is customary for our examiners to rate the loans on a bank's books, but the reliability of management's own internal credit risk ratings is crucial. We not only verify the grades assigned to specific loans, but also look at the timeliness of movement within the credit grades. Management itself should downgrade credits when weaknesses are identified, and not delay that decision based on the hope that conditions will improve, or because of concerns about the short-term earnings impact that might result from a downgrade of a deteriorating credit. Thus, a management that has already downgraded a loan could still be subject to criticism if the examiner concludes that the downgrade was late or too lenient.

Sound risk identification and management require accurate and timely data, and banks need to have the tools in place to properly manage the risk in their portfolios. This is especially critical for banks that have recently gone through a merger or other corporate upheaval, where multiple loan systems, systems conversions, or entirely new systems may disrupt the flow of critical information to bank decision makers. Knowing where the risks are in your portfolio, quantifying and tracking their course, and keeping the board of directors well informed, are important components of good risk management.

Portfolio risk management deals with how well management understands the macro and micro risks in their various portfolios, and how these risks add up to affect the portfolio as a whole. Obviously, the sophistication of the risk analysis and risk management techniques required by each bank depends upon the nature of that bank's risk profile. While less complexity is expected in community banks, all bankers should have the same solid understanding of the types of risks they are taking and the risks that are already embedded in their portfolios. Systems that can accurately monitor that risk and line managers who can manage it are essential.

Finally, bankers need to maintain vigorous loan workout and asset disposal functions. We know that in capable hands many wounded credits can be nursed back to health. Most of the time, that's a win-win for the banker and the borrower. But sometimes the cost of rescuing a credit is greater than the value of the credit itself. Here again, bankers must understand the limits of their capabilities, and be prepared to pull the plug after a reasonable period of time. And they must manage the workout and liquidation functions carefully, with realizable action plans, measurable targets, and regular performance checks.

An increase in problem loans is never good news. We're at that point in the credit cycle, however, where increases may be unavoidable. The question is, how much pain will that cause—and what effect might it have on banks' ability to operate? The answer will obviously vary from bank to bank, but the key variables relate to the measures I've just discussed. Bankers who are clearly on top of the situation—appropriately identifying, managing, reserving, and resolving problem assets—will keep the confidence of shareholders and regulators, and protect the institution's long term viability. They will be in a position to continue making good loans to creditworthy borrowers, thus helping to immunize the economy from recession. And they will have a hand in ensuring that all those down-on-California pundits wind up eating their words.

So, what kind of reaction and support can you expect from regulators in this effort? At the OCC, we have quite literally spent the last ten years preparing—and helping national banks to prepare—for the same circumstances we face today. Post-mortems on the banking crisis of the late 1980s and early '90s concluded that sectoral and geographic concentrations ranked high among its causes, as did an overreliance on volatile net interest income. With that lesson in mind, we have worked to bring about the regulatory changes necessary for banks to diversify their product lines and their market areas, and to develop more predictable sources of fee income. We have defended the industry's right to charge reasonable fees for these services, and to compete on equal terms with nonbanks in the financial services marketplace. And we have argued forcefully that banks should be free to rely on their judgment and expertise in setting loan loss ratios at levels that they, and we, believe is prudent, given the increased credit risk in the banking system today.

But of all the changes that have taken place in our supervision over the past decade—and there have been many—the one that stands out is the one that's the most difficult to put your finger on. Ten years ago, we were widely criticized for inconsistent supervision—for undue forbearance when problems first appeared, followed by draconian reactions when those problems had matured to the point where they could no longer be ignored—or effectively dealt with. When conditions in credit markets had deteriorated as the result of significant deterioration in the condition of the banks themselves, and banks were sometimes reluctant or unable to provide credit even to creditworthy borrowers, supervisors were blamed for creating a "credit crunch." In my view, this was in large part a bad rap: regulators don't create credit crunches; fundamental problems in the economy do. But after all, what better excuse does a banker have when turning down a borrower than "the devil made me do it"?

Nevertheless, we learned a great deal from that experience, and I think we all recognize the importance of a

supervisory approach that is modulated and predictable. Since becoming Comptroller, I've emphasized how imperative it is that we fashion a carefully calibrated response to changes we see taking place in the banks we supervise. But that doesn't mean sitting by silently as conditions deteriorate. It means addressing problems as we see them developing—incrementally—while we still may be able to do something about them—and doing so consistently and in a measured way. It means working with professional organizations, as we do with RMA, for example, to promote better understanding of our supervisory expectations.

Both in public and in our private meeting with bankers, we have addressed issues of declining underwriting standards and eroding credit quality. And while some bankers have sniped at us for doing so—discomfited, perhaps, by the heightened awareness of their own problems that we have stimulated among many bank directors—we will continue to address these issues, keeping in mind the need to do so in a balanced manner.

Bank supervision is inherently pro-cyclical in nature. That is, when the economy comes under stress, traditional bank supervision, with its emphasis on the maintenance of high capital and conservative loan loss reserves, can appear to contravene the efforts of economic policy makers to turn the economy around.

In much the same way, accurate disclosure of a bank's condition can carry pro-cyclical penalties in the market place, increasing the bank's cost of deposits and capital as its condition deteriorates, and in so doing possibly adding to its immediate problems. No one would seriously argue today, however, that fair disclosure should be avoided simply because it might be painful. The value of meaningful disclosure is widely recognized—not only to provide investors with the information they need, but precisely because disclosure brings with it the discipline of the marketplace, helping to encourage managers to run their business in such a way as to avoid the pain that market imposes when deteriorating conditions must be disclosed.

Banks play a critically important role in our economy, as providers of the credit and liquidity so necessary for economic expansion. It is my conviction that bank supervisors must stay focused on their primary responsibility during times of economic stress to assure the health of the banking system—and if they don't, they run the risk of contributing to even greater problems in the economy. One does not have to look very far back in history to see how the task of economic recovery can be made infinitely more difficult if the health and quality of a country's banking system has been allowed to decay and sound pru-

dential supervision has been subordinated to other objectives. Our own experience with the savings and loan debacle of the 1980s should be an object lesson in this regard. The greatest contribution we as bank supervisors can make to the maintenance of a healthy economy is to work with our banks to help preserve their ability and capacity to extend credit to creditworthy borrowers.

Very keen observers have commented that bad loans are made in good times—that it is at the height of an economic expansion, when optimism can easily overtake prudence, that bankers make the loans that will later cause problems. That's true enough. But it's important to recognize that bad loans are *also* made in *bad* times, as bankers strive to maintain high returns and to preserve market share by going further out on the risk spectrum. This is precisely the time when supervision must be most vigilant. To be sure, we must always be cautious not to overreact, for we have learned how repressive supervision—or at least the fear of repressive supervision—runs the risk of causing bankers to retreat even from good credits. But we

have also learned that we can pay a high price for forbearance and inaction. Refusing to note that the emperor has no clothes does not make him any better dressed. The balanced approach so strongly recommended by recent experience, which we at the OCC are committed to, requires that examiners do their jobs consistently, objectively, and impartially, without bending their standards to accommodate a shifting economy. Only in that way can we help to assure that our banks will maintain the capacity to make *good* loans in bad times. I'm confident that our examiners have gotten this message, for they hear it repeatedly and consistently from OCC managers, and from me.

Finally, it takes courage and foresight for bankers to define success in their own way—not as the analyst crowd does, in terms of market capitalization and other short-term ephemeral measures, but in terms of the long-term value of the institution. If you do, I can assure you that your shareholders will thank you, and your customers will be grateful.

# Statement of John D. Hawke Jr., Comptroller of the Currency, before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, on the condition of the banking system, Washington, D.C., June 20, 2001

Mr. Chairman, Senator Gramm, and members of the committee, I appreciate this opportunity to discuss the condition of the banking system.

If one were to take a snapshot of our banks today, it would show a system that evidences great strength. Capital and earnings are at very high levels by historical measure. Yet if one were to look at a moving picture of the system spanning the past few years, it would disclose trends that raise cause for concern.

Let me elaborate.

The last decade has been a period of economic prosperity and strong growth in the banking sector. Commercial bank credit grew by over 5 percent per annum during the 1990s. During this period of prosperity, most banks strengthened their financial positions and improved their risk management practices.

As a result, the national banking system is in a solid position to bear the stresses of any economic slowdown. National banks are reporting strong earnings with a return on equity for the first quarter of this year of 15.2 percent—a level considerably higher than the ROE of 11.5 percent prior to the last economic slowdown in 1990–1991. Fifty five percent of banks reported earnings gains from a year ago. Asset quality for the national banking system is better than it was 10 years ago. The ratio of noncurrent loans (*i.e.*, 90+ days past due and nonaccrual) to total loans is 1.3 percent, compared to 3.3 percent in the first quarter of 1990, the year marking the start of the last slowdown. And capital levels are at historical highs. As of the first quarter of 2001, the ratio of equity capital to assets was 8.9 percent, compared to 6.0 percent in the first quarter of 1990.

Greater diversification of income sources improved the quality of bank earnings during the 1990s. This diversification trend should improve the capacity of banks to weather difficult economic times and better manage the risks embedded in their operations. The trend away from reliance on traditional interest income is in part an active effort by banks to better manage risk. As a supervisor, we strongly support the efforts of national banks to diversify their revenue streams through financially related activities.

Banks have also made gains during these years in diversifying risks. Loan securitization has become a significant funding tool, and banks have broadened the geographic scope of their operations and increased the range of fi-

nancial services they offer, providing them with a greater capacity to weather adverse economic developments. Advances in information technology along with more sophisticated risk measurement tools now provide bank managers with advanced risk management tools that were unavailable a decade ago.

There are, however, trends that concern us, and banks cannot afford to be complacent about the risks that will continue to surface in the current economic environment, particularly in the areas of credit and liquidity. While the level of loan losses is still relatively low, since 1997 the OCC has been concerned about a lowering of underwriting standards at many banks. This relaxation of standards stems from the competitive pressure to maintain earnings in the face of greater competition for high-quality credits, particularly from nonbank lenders. In some cases, banks' credit risk management practices did not keep pace with changes in standards. We now are beginning to see the consequences of those market and operational strategies in a rising number of problem loans. One area where this is most noticeable is in our annual review of shared national credits. In 1999 and 2000 adversely rated shared national credits increased 53 percent and 44 percent, respectively. In addition, the severity of classifications increased in both years. While this year's shared national credit review is not yet complete, we expect problem credits will rise further reflecting the effects of prior lending excesses, a slowing economy, and improved risk recognition by bankers.

And this emerging deterioration of credit quality is not just an issue for large banks. As corporate earnings have weakened, the spillover effects on credit portfolios are beginning to show up in the smaller institutions.

Funding risk at banks is also increasing as households and small businesses reduce their holdings of commercial bank deposits. Banks have traditionally relied on consumers and small businesses in their communities as a major source of funding. With the rapid run up in the stock market in the 1990s, however, and the widespread popularity of money market mutual funds, households and small businesses have increasingly shifted their savings and transaction accounts into pension funds, equities, and mutual funds.

Our job as bank supervisors is to maintain a sound banking system by encouraging banks to address problems early so that they can better weather economic downturns

and remain able to contribute effectively to economic recovery. By acting early, in a measured and calibrated way, bank supervisors can moderate the severity of problems in the banking system that will inevitably arise when the economy weakens. By responding when we first detect weak banking practices, supervisors can avoid the need to take more stringent actions during times of economic weakness. We make our greatest contribution to a sound economy by working to preserve the ability of our banks to make creditworthy loans when the demand exists.

Since 1997 the OCC has implemented a series of increasingly firm regulatory responses to rising credit risk and weak lending and risk management practices. These efforts, which are highlighted in my written statement, have focussed on maintaining an open and candid dialogue with the banking industry and our examiners about rising risk in the system and the need for improved risk management by bankers.

National banks have responded positively to these initiatives. Bankers are adjusting both their risk selection and underwriting practices. Credit spreads are wider, recent credit transactions are better underwritten than they were as little as twelve months ago, and speculative grade and

highly leveraged financing activity has slowed in both the bank and public credit markets.

The OCC has also taken a number of steps, particularly examiner training and banker education, to address our concerns about increasing liquidity and funding risk.

We recognize that we need to ensure a balanced approach as economic conditions weaken. We have implemented, and will continue to follow, a careful but firm approach to addressing weak practices and increasing risks. In this regard, we are constantly mindful that the alternative approach of silent forbearance can allow problems to fester and deepen to the point where sound remedial action is no longer possible—a lesson that all bank supervisors learned painfully in the late 1980s and early 1990s.

If we have learned anything from past economic crises both in the U.S. and overseas, we know that a sound banking system is essential to continued economic growth. I can assure you that the OCC will remain vigilant in our efforts to continually improve the risk management of national banks and thereby maintain a viable, healthy industry to support our economy.

## Remarks by Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel, before the American Bankers' Second Account Aggregation Conference, on the impact of aggregation on the financial services industry, Tysons Corner, Virginia, April 23, 2001

I am going to talk this morning about issues and challenges that banking organizations face in providing account aggregation services. Technology innovations, such as aggregation, make possible today the creation, transfer and manipulation of information in ways we didn't even dream of 10 years ago. Because the financial industry is fundamentally information-based and driven, advances in technology have had and will continue to have a profound affect on financial services and particularly on the evolution of the banking business. Aggregation services are a perfect illustration of both the promise and the new challenges that technology present for the banking industry.

First I'll describe how account aggregation services are a manifestation of a fundamental change in how financial products and services are being created and delivered. Then, viewed from that context, I'll highlight two issues that will be key to successful provision of account aggregation services by banking organizations:

- (1) management and oversight of relationships with third parties that perform aggregation functions on behalf of the organization, and
- (2) fulfilling the organization's responsibilities for protecting customer privacy.

To begin, it is important to recognize that account aggregation is an example of a broader phenomenon that I call "deconstruction," which is occurring throughout the financial industry. By "deconstruction," I mean the process of separating or segmenting the components or attributes of a product or an activity.

Today, we see this process permeating the entire business of banking and finance. Deconstruction of the banking business means the separation or segmentation of products, services, operations and *information* into component parts or processes so they can be provided or obtained separately. A deconstructed perspective permits an organization to analyze the components of the business it does—or wants to do—what it does well, and where it may have a particular advantage in conducting an activity or providing a product. This, in turn, provides new options for firms to decide what activities to conduct themselves and how best to use third-party providers and services.

Technology has vastly enhanced the ability of banking organizations to deconstruct and segment their business.

In some respects, technology also enables highly advanced deconstruction of activities or information that results in the creation of entirely new products or services. On the flip side, from the perspective of banking organizations, technology also enables nonbanks to deconstruct functions or activities traditionally performed by banks and cherry-pick portions of those functions. It also makes possible *involuntary* deconstruction of a bank's activities and *information*, as in the case of account aggregation initiated by *customers* of the bank.

### Account Aggregation as an Example of "Deconstruction" of Financial Functions and Activities

Account aggregation exemplifies two dimensions of deconstruction: First, account aggregation is a service banking organizations typically provide under the bank's brand name. But the product offering has actually been deconstructed because, behind the scenes, the aggregation function actually is being performed by a third-party service provider. Second, as I noted above, aggregation represents deconstruction of information—and, from the perspective of the possessor of the information, the deconstruction may be *involuntary*. Here, technology enables a customer to authorize an aggregator to access and replicate the customer's information in the possession of another source, effectively depriving that source institution of control over its own information about its own customers. The information is then reconstructed to form a new product offered by the aggregator—the account aggregation service—built with the information components from source institutions, but presented with a new look and new functionality.

Early reactions by the banking industry to aggregation services were characterized by fears of disintermediation, concerns regarding the integrity of bank web sites, and the uncertain legal, liability and security ramifications of how aggregated information was being obtained and used. These concerns were magnified by the involuntary nature of how banks' customer information was being deconstructed when aggregators compiled information from Web sites through screen scraping. Not only did the source institution lose control of its confidential customer information, but it might not even know that its information had been deconstructed—"scraped"—much less what was being done with it.

Now, banking organizations increasingly have recognized the importance of being the *aggregator* rather than the *aggregated*. Not only does account aggregation provide a new level of convenience to the online customer, but it has the potential to deepen a bank's relationship with its customers by providing access to a more complete financial picture of them. Banks may find opportunities to assist customers in strengthening their financial portfolios by suggesting appropriate products, or they may find occasions to market products on more competitive terms than other financial products or services the customer may already have.

The value to a banking organization of providing its online customers with account aggregation services is highlighted by a recent survey by Booz, Allen & Hamilton. The survey found that nearly half of those individuals who aggregated their accounts at nonfinancial institutions spent less time at the Web sites of the financial institutions where they had their actual accounts. These findings suggest that banks could lose important opportunities and face some risk of being relegated to mere data providers if they do not make account aggregation available to customers who are in the market for such services. Put starkly, the choice for banking organizations may be to aggregate, or be aggregated.

So, where does account aggregation fit in a deconstructed banking world? Aggregation services demonstrate both how deconstruction has enabled competitors to challenge traditional banking functions—mainly the management of customer account information—and conversely, how banks have been able to respond to the competition by capitalizing on their strengths. While others, such as Internet service providers and Internet portals may have been first out of the box to offer aggregation services, banking organizations appear well-positioned to exploit their core competencies—their reputation as trusted repositories, their existing customer base, their experience in data processing and information management, and their financial expertise—to be successful in providing these services.

But, while account aggregation presents new opportunities, it also poses substantial challenges for banking organizations that offer the service. In fact, account aggregation exemplifies two of the most important challenges for facing modern financial service providers:

- (1) management and oversight of relationships with third parties that perform aggregation functions on behalf of the organization, and
- (2) fulfilling the organization's responsibilities for protecting customer privacy. I will address each of these issues in turn.

## Management and Oversight of Third-Party Relationships

Typically, banks have opted to use third parties to perform the aggregation functions the bank offers to its customers. The aggregation service provider may serve as a prime contractor, specializing in gathering, storing, protecting, and presenting information to the customer. The third-party service provider, in turn, may further outsource some of the aggregation service features, such as bill payment, to other specialists. Yet, to the end user—the bank customer—the aggregation service is seamless. When the bank customer logs onto the aggregation Web site, the customer sees only the bank's brand name. The use of a third party to provide the functions behind account aggregation may be completely invisible to the customer.

In an era of deconstructed financial services, banking firms have the opportunity to exploit their advantages by offering aggregation services to their customers—their reputation, their existing customer base, and their expertise in handling customer financial information—with the assistance of third parties that provide the requisite technology. The use of third parties also allows a bank to provide aggregation services to its customers without making major capital expenditures to develop and maintain the technology.

But, when banking organizations deconstruct the function of providing aggregation services and rely on third parties to provide the technology that supports the service, they must address the risks of outsourcing these functions. The OCC recently issued a bulletin detailing these considerations,<sup>1</sup> and the Federal Financial Institutions Examination Council also issued guidance on the risks associated with outsourcing technology. This guidance was included in a recent OCC advisory letter.<sup>2</sup>

As discussed in the guidance, responsible management of third-party relationships typically requires four essential elements:

- (1) understanding the risks associated with the outsourcing arrangement
- (2) exercising due diligence in selecting the service provider
- (3) ensuring that written contracts address key risk factors associated with the activity, and
- (4) overseeing performance by the service provider

---

<sup>1</sup> OCC Bulletin 2001-12, "Bank-Provided Account Aggregation Services," February 26, 2001.

<sup>2</sup> OCC Advisory Letter 2000-12, "Risk Management of Outsourced Technology Services," November 28, 2000.

Let's look at each of these factors as they apply to banking organizations using third-party aggregators.

*Risk assessment.* The board of directors and senior management of an organization relying on third parties to perform functions on its behalf should fully understand the risks associated with each outsourcing arrangement and ensure that practices are in place to address those risks. Outsourcing aggregation services will involve risks that are similar to those that a bank would face if it performed these services directly, as well as some additional risks. For instance, because aggregation involves the manipulation and transfer of confidential data over the Internet, as well as the collection of customers' passwords, there are clearly risks associated with the security and privacy of customer information. Further, because aggregation relies on data transmissions from various Web sites, there are risks with respect to the integrity and accuracy, and currency of the data that ultimately reaches the customer.

To the extent that third-party aggregators facilitate transactions, there is the additional risk of unauthorized or disputed transactions and the resulting liability. While these risks would be present if a bank provided the aggregation services directly, banks must consider the additional risks associated with the use of third parties, such as the third party's financial stability, the reliability of the service provided by the third party, and the possibility that the third party may develop or market services in ways that are not compatible with the bank's goals or reputation.

*Due diligence.* Banking organizations must exercise due diligence in the selection of third-party service providers. Among other things, that involves assessing the service provider's competence or expertise in offering the service, the extent to which the servicer relies on other third parties to provide the service, the effectiveness of the third party's internal controls, and its financial condition.

A paramount concern for a bank selecting a third-party aggregator should be the aggregator's ability to safeguard the bank's customer information. In this regard, banks should familiarize themselves with the banking agencies' final guidelines on the safeguarding of confidential customer information, issued in February. These interagency guidelines—referred to as the "501(b) guidelines" after the section in the Gramm-Leach-Bliley Act that required the agencies to issue them—require banks to exercise due diligence in selecting service providers, have in place contractual provisions that address how the third party will safeguard customer information, and provide for appropriate oversight of the third party.

To satisfy the due diligence requirements under the 501(b) guidelines, banks should generally review the

measures each service provider takes to protect customer information, even when the information is in the hands of a subservicer.

*Contract provisions.* A bank's contract with a third-party aggregator should address both business requirements and key risk factors. Again, a key risk inherent in aggregation services is security, and therefore a bank's contract should address the aggregator's program for safeguarding bank customer information in accordance with the 501(b) guidelines. Because the guidelines afford third parties flexibility in designing their own security programs, a servicer's program may differ from that of the bank on whose behalf the servicer is processing customer information.

*Oversight.* When a banking organization relies on a third-party service provider, it should implement an oversight program that, among other things, monitors the third party's financial condition and reviews compliance with the contract. The 501(b) guidelines also require banks to exercise an appropriate level of oversight over a service provider to confirm that the provider is actually implementing its security program. A bank need only monitor outsourcing arrangements if such oversight is indicated by the bank's own risk assessment. As a result, not every outsourcing arrangement between a bank and a third party will be subject to ongoing oversight. However, due to the extremely sensitive nature of the activity third-party aggregators perform, the relative newness of the service, and the at least partially unregulated status of some aggregators, banks should consider this a high risk area warranting thorough oversight.

## **Responsibilities for Protecting Customer Privacy**

The successful resolution of issues surrounding security and privacy of customer information will be essential to widespread customer acceptance of account aggregation. Yet, the essence of aggregation—a concentration of nonpublic customer financial information from various sources at one source—increases the magnitude of privacy issues that may arise, and the consequences if something goes wrong. Given the extent of the information held, lapses in security, or breaches in privacy of customers' aggregated financial information, could be devastating.

There are enough privacy issues presented by account aggregation to compose an entire speech on that subject, but I will focus on two key regulatory issues. Then, I'll conclude by discussing why it's important for banking organizations to think about privacy in terms of customer expectations, rather than simply compliance with rules and regulations. These two points are inextricably linked.



As I am sure you are aware, banking organizations and financial services firms that provide aggregation services are subject to privacy regulations that implement the privacy provisions of the Gramm–Leach–Bliley Act. Two essential features of that act and the new rules, which will become effective this July 1st, are:

- (1) the requirement that institutions provide notice of their privacy policies and practices to their customers, and
- (2) the prohibition on disclosure of customers' nonpublic personal information to unaffiliated third parties unless the institution has first provided customers with notice of the type of disclosure the institution may make, and the type of parties to whom the information may be disclosed, and has given its customers an opportunity to "opt-out" of having their information disclosed in that manner.

From the perspective of banking organizations that offer aggregation services, this means privacy policies must adequately and accurately reflect the types of information collected as part of the aggregation service. The point to watch here is that the privacy policy and privacy notices a banking organization provides to customers of *its financial products* probably would not address the broader types of information it receives when aggregating information from other sources on behalf of a customer of its aggregation services. Thus, banking organizations need to ensure that their privacy policies and notices are sufficient to encompass the scope of information they may receive as account aggregators, or else consider separate privacy policies tailored to their aggregation customers.

A more complex regulatory issue is presented by the interaction of the basic customer notice and opt-out features of the privacy rules and the reuse and redisclosure limits of the rules. Most of the information a banking organization will collect in connection with performing aggregation services will come from other financial institutions, which are also subject to the privacy rules. These rules include provisions that limit the ability of a bank, or any other entity for that matter, that receives nonpublic personal information about a customer from a financial institution, to subsequently use or disclose that information.

Where, as here, an aggregating bank receives information about a customer from another financial institution so that the bank may provide the aggregation service, in general, the reuse/redisclosure limits would provide that the aggregating bank may only use that information or disclose it to third parties as needed to perform the aggregation service. In other words, the aggregating bank may not sell the information for marketing purposes, and may not use

the information for its own purposes if that exceeds the scope of the aggregation service.

Now, you may be thinking that I just told you about the basic provisions of the privacy rule requiring notice to customers of an institution's privacy policies, disclosure of the types of information collected, and the ability of a firm to share customers' nonpublic personal information with third parties, subject to the customer's opportunity to opt-out. What if a banking organization's privacy policies appropriately describe the breadth of information it may collect in performing account aggregation, and indicate that such information may be used or shared for certain purposes—and an aggregation customer does not opt-out of that information sharing? Which prevails, the reuse/redisclosure limitations that apply to information obtained from the source financial institution, or the bank's ability to disclose the information freely since its aggregation customer has declined to exercise his or her opt-out right?

The answer is not clear from the regulations, and that brings me to my final point. This issue is a perfect example of why it is important to think about privacy issues that arise in connection with aggregation services in terms of customer expectations, rather than simply compliance with rules and regulations.

Given uncertainty in this area and the sensitivity of the customer information at issue, institutions would be wise to fully explain in their agreements with customers the precise nature of the services they intend to perform in conjunction with aggregating the customer's information. Obtaining a customer's informed consent to any specific information sharing practices the bank contemplates may well be deemed to be within the scope of and consistent with the aggregation services, and thus would not run afoul of the limits on reuse and redisclosure.

A "no surprises" approach is clearly in order for customer relationships concerning aggregation services. Account aggregation is still in its early stages but clearly holds tremendous promise. The activities involved offer potential for new dimensions in customer convenience and enhancement of customer relationships, but they are based on functions—transfer and manipulation of sensitive customer information—that also hold the potential for significant backlash if breaches in security or customer privacy abuses occur.

Not long ago, consumer privacy in the financial services arena was governed largely by self-regulatory approaches. Remember what prompted the GLBA privacy legislation? Learn a lesson from that experience. Go the extra mile to make sure customer interests are respected and protected.

Account aggregation provides new opportunities for banks to serve their customers, indeed, being an *aggregator* rather than being *aggregated* may become a business imperative. The industry's key challenge is to offer these services in a way that capitalizes on, and pre-

serves, a hallmark of banking organizations—their reputation as trusted protectors of consumers' most valued assets.

Thank you very much.

## Remarks by Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel, before the Consumer Bankers Association, on adapting to change in American banking, Arlington, Virginia, May 21, 2001

It's a pleasure to join the Consumer Bankers Association and its members, who have been the catalysts for so much of what's working in American banking today. The banking industry's contribution over many years to the rise in home ownership, the growth in small business formation, and the improvement in material well-being in the United States is beyond calculation, and CBA's members have long been in the forefront of progressive change in each of these crucial areas. I appreciate the opportunity to participate in this CBA conference. Your topic, the Community Reinvestment Act, is very timely.

The ability to anticipate and adapt to changing times has been one of the keys to your success, and change is the theme of my remarks today. In 1919, when CBA was founded, retail banking was still struggling to overcome an unfortunate reputation as a specialization somehow beneath the dignity of respectable bankers. Fortunately, that's a stigma that no longer exists, due in large part to the high standards and technical competence that CBA has effectively advocated and upheld. As with the issues that absorbed it back then, the issues that are prominent for retail bankers today—customer privacy, responsible lending practices, and community development, to name a few, are fundamental to the industry's credibility, and, therefore, to its profitability, both today and into the future.

As regulators, we face a similar challenge—specifically, the challenge of assuring that the regulations we're responsible for writing and enforcing faithfully implement the statutes on which they are based *and* continue to be relevant to the evolving requirements of a changing industry—even if the statute is decades-old. This has never been easy, in part because of the requirements of the regulation-writing process itself. Much as we have tried to modernize our rules and streamline our procedures and make them more efficient—and as OCC Chief Counsel, I can tell you that few things have absorbed more of my time and attention—producing timely and meaningful regulations remains a complex and challenging process. Yet, outdated and obsolete regulations are inherently burdensome and represent an unfair drag on your ability to compete and effectively serve your customers—and we must do what we can to change them.

The challenge of producing regulations today is greater than ever before, because change is occurring faster than ever before; in other words, the *velocity* of change is steadily accelerating. That places growing pressure on

regulators to ensure that regulations reflect the realities of the current financial marketplace, *and* embody some elasticity to be durable in the face of constant changes in the industry. This balancing act also must be coupled with the need to keep regulations appropriately tethered to their underlying statutory authority.

Since CRA is what this conference is all about, let me use it as an example of the challenge we face—and how we're responding to that challenge.

It was only 24 years ago—still a living memory for most of us—that the Community Reinvestment Act became law. Yet one could argue that the financial world of 1977 more closely resembled the world of more than 50 years earlier, when CBA was founded, than it resembles the one in which we operate today. When CRA became law, the typical financial portfolio—even in well-to-do American families—consisted of one or more passbook accounts, a stack of savings bonds, and a few shares of AT&T or something similar. Back then, American households owned nearly \$3 in bank deposits and government securities for every \$2 in stocks and mutual funds; today, the ratio is roughly one to two.

There were only a tenth as many ATMs then as there are today, and they were little more than rudimentary cash dispensers. Of necessity, then, the great majority of banking transactions were conducted face to face, during what were derisively—or enviously—referred to as “banker's hours.”

The industry itself—with more than 14,000 independent offices—was more fragmented in 1977 than at any time since the Great Depression. In the absence of general authority to branch interstate, banks were overwhelmingly local businesses, operating in local, largely sheltered markets, facing limited competition. The balance sheet reflected this structure: working with a big base of core deposits and generous spreads, banks earned \$10 in interest income for every dollar of noninterest income; today, the ratio is more like two to one. Senator Proxmire's statement in 1977 about the need for the CRA illustrates how differently the world of banking was viewed: A reason for CRA, he said then, was to “encourage bankers to get out of the office and walk around the block and find loan opportunities here at home. . . .”

That was a snapshot of the financial world of 1977, when CRA implementation began. The rules written back then

were probably right for their time. They established basic procedures and requirements, and defined the standards for CRA compliance. But within 10 years, many found flaws in those rules—principally that the *process* aspects of the rules did not seem to be producing the tangible results that were the goal of the law. Some have referred to the old rules as producing a “paper chase.” And so in 1995, the CRA regulations were revised, shifting the focus away from process toward the achievement of results, as measured by actual loans made, services performed, and investments consummated. In management jargon, this could be characterized as a shift from “inputs” to “outcomes.” Many institutions found that, properly managed, community development lending and investment could make a positive addition to the communities they served and to their own bottom line.

Some would say that we should now leave well enough alone. But, when the current rules were adopted, the banking agencies pledged to review how they were working after five years in effect—2002. And, even if the agencies had not made that promise, the extent of the changes that have taken place in the banking system since then make a case for reviewing the regulations anew, to ensure that they retain their relevance and effectiveness.

The changes that have occurred in the industry since 1995 would be no less startling if they had occurred over a much longer period of time. Industry consolidation is perhaps the most visible of these changes: there are some 6,000 fewer banks today than there were in 1977, and 1,500 fewer than just six years ago.

Even more significant for purposes of our discussion today is the reach of the institutions that remain. The Riegle-Neal Interstate Banking Act of 1994 swept away most interstate banking restrictions and has given rise to national financial institutions that operate from coast to coast. This, in turn, has raised questions about the way they are evaluated under CRA. For example, how do we define, for CRA purposes, the “assessment area” of institutions whose name brand and products—whether delivered through traditional brick-and-mortar outlets or, as is increasingly the case, over the Web—now extend into every corner and community, and potentially every computer, in America? The language of the statute, with its references to “local communities,” could begin to sound anachronistic in the future if facility-based delivery systems tied to particular geographies are overtaken by boundless technology-based systems. It’s even been argued that the current CRA definition creates a *disincentive* for institutions to extend credit in low- and moderate-income communities where there are market opportunities, if they happen not to have branches there.

That’s led to suggestions that institutions be permitted to designate non-branch-based assessment areas.

Additional examples abound of how a changing industry throws CRA into a new light. The revolution in retail bank delivery systems has reduced some costs, increased convenience, and expanded access to banking services for millions of Americans. About 13 million U.S. households banked online by the end of 2000—twice as many as in the previous year—and the outlook is for that number to double again in the next year. Millions more bank by phone, and take advantage of direct deposit, full-featured ATMs, and debit cards. For example, between 1990 and 2000, the number of purchase transactions using debit cards in this country increased by an astonishing two *thousand* percent, and the forecasts call for another tripling in the volume of transactions by the year 2010.

With all of this new and improving technology, it’s possible for a typical bank customer to go months—even years—without setting foot in a branch or speaking to a teller. And even where banks today do maintain a physical presence, it is often a nontraditional presence—a loan production office, for example, which is not a branch and does not accept deposits.

How do we square this new reality with the emphasis in the CRA rule’s service test on branch outlets? Would the goals of CRA be better served by encouraging financial institutions to focus on developing innovative non-traditional means to address financial services needs? Or, as some tell us, should financial institutions continue to be encouraged to deliver banking services through traditional physical facilities because they are necessary, especially in low- and moderate-income neighborhoods where consumers may not have access to electronic banking services? And finally, we must remember that efforts to regulate this new reality must be squared with the “old reality” reflected in the statute itself.

In reviewing the CRA regulation, we seek answers—from you and all other affected parties—to these types of thorny questions.

The changes in the industry’s corporate structure have been accompanied by equally far reaching changes in the composition of bank portfolios, and these changes also have important CRA implications. Specialization is increasingly the rule in the industry, as financial institutions, of all sizes, drop or outsource product lines in which they lack resources or critical mass, choosing to focus instead on those product lines in which they command significant market share. In keeping with the growing emphasis on fee income, banks are also holding fewer and fewer of the loans they originate and securitizing more of them to others.

The mortgage business is one example of this change. Many banks are leaving the mortgage business, and some of those that remain are originating fewer loans through their own offices, turning increasingly to mortgage brokers.

Credit cards offer perhaps the most vivid illustration of the trend toward product concentration. Eighty percent of all Americans now carry at least one bank card, and increasingly, the cards they're carrying are from the same banks. In just the last 10 years, the top 10 issuers of Visa and MasterCard saw their market share increase from 51 percent to 82 percent, with the top five accounting for nearly 57 percent of the total market. Last year alone, more than 4 percent of all credit card receivables were sold by smaller issuers to larger ones, with the top two issuers taking almost 80 percent of that business. While the big keep getting bigger, many of the others are dropping out of the race altogether.

What ramifications do these changes pose for CRA? Under the current framework, the CRA lending test is weighted most heavily in formulating a large retail institution's summary rating. But that puts banks that have chosen to curtail their retail lending activities at what some say is an unfair disadvantage. In such cases, they argue, the investment and service tests ought to rank higher. Others still insist, however, that deposits derived from the community should be invested back in those communities through loans.

The prevalence of loan securitization creates a similar dilemma. The regulations allow equal consideration for loan originations and purchases. Some have asserted that only loans originated by an institution should be considered. Supporters of this position maintain that consideration of purchased loans does not encourage institutions to increase capital in their communities and places too much emphasis on generating reportable "numbers."

Others believe that loan purchases free up capital to the selling institution, and enable it to make additional loans. Therefore, purchasing loans may be valuable in helping to meet the credit needs of a community. As such, they argue that both purchases and originations should be considered, although some argue that originations should be weighted more heavily because they require more involve-

ment by the institution with the borrower. Still others propose that all secondary market activity, whether evidenced by purchased loans or purchased asset-backed securities, should be captured under the lending test because they both involve loans.

The types of questions I've raised here today—and others I have not touched upon—will be presented in an Advance Notice of Public Rulemaking, which the banking agencies are now developing. We welcome—and need—need your comments to ensure that any changes we eventually undertake make sense, and make the CRA rule both more effective and efficient.

On that score, let me emphasize one final point. It is relatively easy for commenters to address a single dimension of the current regulation, to suggest, on the one hand, that the agencies should eliminate provisions from the current rule, in order to make it less burdensome, or, on the other hand, to urge that new measures and new recordkeeping requirements be added in order to show institutions' performance more precisely and comprehensively. But, the challenge is actually three-dimensional—to achieve a CRA regulation that: (1) effectively furthers the Community Reinvestment Act, (2) without imposing unnecessary or artificial regulatory requirements, and (3) which is framed so that it reflects and can accommodate change of the type affecting the banking industry.

So I offer a suggestion to prospective commenters: your thoughts and recommendations will be most helpful to us if they take into account not just one, but all three perspectives.

We—and you—face a considerable challenge. Consolidation, commoditization, and securitization have transformed the way the financial services industry is structured and the way products and services are delivered. CRA has played an important role in highlighting the variety of marketplace opportunities that exist for banks in their communities. But there's still work to be done to ensure that all of our communities are able to share in the benefits that the modern financial industry has to offer. For the foreseeable future, the Community Reinvestment Act will play a part in that effort. We at the OCC look forward to working with CBA and its members—and all interested parties—to ensure that the regulations implementing the CRA provide a workable framework to meet these new challenges.

## **Remarks by Samuel P. Golden, Ombudsman, before the Third Annual Conference on Enhancing Black Leadership, sponsored by the National Black MBA Association, Association of Rice University Black Alumni, Jesse H. Jones Graduate School of Management, on his professional journey, Houston, Texas, April 27, 2001**

I'm overwhelmed by this—it is perhaps the most humbling of all professional invitations I've ever received to speak. Frequently, I am granted the opportunity to address large audiences of very prestigious bankers, attorneys, and business leaders. Yet, never have I been afforded a chance like this to address an audience of professionals with whom I share so much. When my long-time friend, Jeff Rose, extended this invitation, I was touched and remain so beyond my ability to sufficiently express in words.

The theme of this, third annual conference on enhancing black leadership is in my opinion, perfect and totally on target: "Seizing Opportunity in a Fluid Economy." Jeff asked me to take a reflective walk back in my professional journey, and I will spend just a few moments doing such simply to illustrate several points that are relevant.

For 27 years, I have shouldered a diversity of duties while working for the Office of the Comptroller of the Currency, or OCC, as it is often called. We are an independent and self-sufficient bureau of the U.S. Treasury Department, which means that we are not funded by an appropriation of *your* federal tax dollars. We have the task of effectively supervising the national banking industry, which consists of approximately 2,500 national banks having combined assets of \$3.5 trillion. It's an industry that possesses far too few trailblazers like Jeff Rose, Reddick Edwards, Larry Hawkins, Paul Poulards, and Effie Booker-Worrell, just to mention a few.

As Ombudsman, I sit on the OCC's nine-member Executive Committee and often joke that I have the good fortune of being the only one that does not reside in Washington, D.C. I'll ask your patience as I walk quickly through these 27 years of challenge, excitement, disappointment, and fulfillment. I want to confess up-front that much of what I plan to share with you is not original. A substantive portion of it had its origins in the minds of a set of people upon whose shoulders I stand: my grandmother, who lacked a formal education but who clearly was one of the wisest persons I've known; my father and mother, who, I thought, were tough to the point of being unreasonable, but whom I now know were simply caring because they instilled in me many of the core principles that I will now share. I'm not presumptuous enough to think that all of what I will share is ideal or that it's suited for you. It is simply my set of guiding principles, philosophies, values, and beliefs.

Original they are not, but to date, they have enabled me to live a life with *joy* at its center. Joy is much different from happiness because peace permeates from its core.

After finishing my undergraduate work in the spring of 1974, I began as an entry-level assistant national bank examiner assigned to the OCC's Houston office. Outfitted with two new Johnny Carson double knit suits, I traveled throughout southeast Texas learning from top to bottom how banks operated and why. I learned everything from bank operations to how they are funded, how loans and investments are analyzed, and, most importantly, how banks are managed well, and in some case, not so well.

Throughout my career, I've been blessed with wonderful mentors (three middle-aged white men who held key senior managerial positions with OCC) who bonded with and cared genuinely about me as a person. The late 1970s and early 1980s in Texas banking was a period of exuberant growth where many business people, including bankers, thought that the economic cycle had been mothballed. Projections called for the price of oil to exceed \$60 per barrel by 1985. At the time, I truly did not understand the breadth of opportunity that this period afforded. The turnover rate at the OCC was high, with many examiners opting to take some of the lucrative employment opportunities that existed within the banking industry. The rate of asset growth experienced by many banks was staggering, and in some cases, exceeded 40 to 50 percent increases each year. Loans were made to people who possessed little experience in operating businesses—in industries that they did not truly understand. It was a wild time. Many banks experienced an array of problems.

At the ripe and tender age of 29, I requested the chance to head the review of the lending function during the annual exam of Texas Commerce Bank (the predecessor of Chase Texas). TCB was one of the largest banks in the state of Texas. I fully expected to be told "no." I was not. It was an opportunity to succeed or fall on my face. It was a blast! From this assignment came the chance to not just head the exam of the lending function, but to serve as the examiner-in-charge of the entire bank. At the age of 32, I was promoted to the position of field manager. I supervised the staff assigned to one of our largest operating office at the time, the one in Houston. Conditions within the banking industry in the Southwest became very

difficult—so difficult that many banks simply did not survive. But from this opportunity seized, I became an expert in dealing with problem institutions, and that led to assignments throughout the country. I found myself shouldering leadership roles in the exams of some of our nation's largest and most complex banks and often most troubled institutions. It often resulted in extended periods of travel that took me away from those who are dearest to me—my family.

Despite the opportunities to shoulder assignments that placed me at the eye of turbulent storms, advancement in title and compensation were slow to come during the middle part of my career. I thank God that it did not result in me becoming sarcastic or worst yet, to lose focus. I stayed on course and through God's grace and my own determination, I eventually received the opportunity that led me to where I am today. The nation's last major recession was in the early 1990s, and it was a period where some of our largest banking companies experienced an array of financial trouble. Some bankers believed that they had few options when they disagreed with the conclusions rendered by bank examiners. The position of Ombudsman, which really functions as a binding arbitrator, was established by the OCC in 1993. I still resided in Houston and assumed that this position, like all other senior-level positions at the agency, required the person to maintain an office at our headquarters in Washington, D.C. I applied anyway, and was chosen. It was a job that placed me at the center of controversy on some of our toughest challenges. Many believed that I was unwise to take on this assignment which placed me at the center of fierce disputes, often involving decisions that had multimillion dollar implications. That was almost eight years ago and it's a ride that I would not trade.

Now, why did I share an abbreviated snapshot of my professional career? Simply for illustrative purposes to facilitate a brief discussion of my core beliefs, values, and philosophies. As a young man starting out in this organization, I established a goal way back in 1974. My goal was simple: to earn my way up the organizational ladder. I approached it one step at a time, building on a foundation of simple principles and short-term goals. It's a journey that has been traveled on a road with multiple turns and sometimes detours and stop signs. I am permanently grateful to parents that reared me in a God-fearing home and carried me to church whether I wanted to go or not. I recognize that this is not the forum to espouse my religious beliefs (and I will not) but those beliefs were and remain the concrete and rebar to all that I have and will accomplish.

When I was preparing these comments, I stepped back and analyzed each stage of my career with a focus on what, how, and why. My analysis highlighted distinct differ-

ences in the path that I traveled versus the journey taken by many of my white peers. I did not progress up the ladder in the same way or at the same pace. A screening process occurs in all organizations—a process whereby promising contenders for top jobs are identified and groomed early: the fast trackers. David Thomas, in his article that appears in this month's *Harvard Business Review*, refers to it as the two-tournament system. He espouses that in the tournament for non-minorities, contenders are sorted early on, and only those deemed most promising proceed to future competition. In contrast, the tournament for minorities includes a screening process for top jobs that typically occurs much later. This two-tournament system results in some high-potential, very qualified minorities becoming discouraged at their failure to be fast tracked early in their careers—particularly when they watch their white colleagues receive coveted assignments and promotions while appearing to only possess modest skill.

I mentioned earlier that I had three mentors at the OCC. In my career, the role of mentors has been hugely important. Despite not being on the fast track to higher level management positions, I had influential mentors who continued to invest in me. Their investment in me materially aided in my avoidance of the most damaging trap: ratcheted down performance or premature or early departure from the organization because of frustration with the “good ole boy” system. It was a stage of my professional life where I focused most on gaining confidence, competence, and credibility. I don't want to send the message that I endured this tough and disappointing middle part of my career without pain. It took much prayer and support from my best friend and personal mentor, my wife, who is in the audience today. She often jokingly tells me that she made me what I am today. In many respects, she is not far off. Her support gave me confidence to stay the course, ever sharpening my skill saw and remaining ready for the opportunity that would eventually present itself.

As I alluded to a moment ago, the role of professional mentors cannot be understated. They did facilitate key components of my journey. They often assisted in opening doors for challenging assignments that resulted in enhancement of my skill set where my successes (or failures) would be highly visible (challenge is not without *risk*). This sent the message to the remainder of our organization that I was competent and a high performer, which helped materially in my ability to gain their confidence and to establish credibility. My mentors were honest and nakedly candid with me and provided wise counsel that kept me out of dead-end jobs—the proverbial ditch. Most importantly, my mentors willingly spoke up for me when I was unjustly attacked or stereotyped by others.

I will never forget the call from former Comptroller of the Currency Gene Ludwig, when he asked me if I was willing

to accept a promotion to our organization's Executive Committee. He said two things: (1) you are ready, have earned it, and will add significant value to the organization and, (2) I will not place you on an island! While Gene is no longer the Comptroller and is back in the private sector, we still maintain a rich personal relationship. What my mentors have done for me and what I'm committed to do for others is multifaceted and involves both coaching and counseling.

In this age where change occurs at the speed of light, the success formula remains rooted in the basics. I've always focused on three simple principles or virtues: desire, discipline, and determination. I believe that although life is difficult and filled with challenge, it does not have to be hard or excessively complicated unless we make it so. We make life a bit easier when we learn and understand the unwritten, but real, rules of the culture within our organization. I'm not implying that you should partake in the ugly, the "cut-throat, climb-on-the-other-guy's-back-to-get-ahead" climate that exists in some organizations. But I am saying that if you don't understand the rules, which can get ugly, they will adversely affect you and occasionally consume you. Some may call this unrealistic, while others would even go as far as calling it Pollyannaish, but I never focus on failure. And, I'm not a wildcatter, but I firmly espouse informed and rational risk-taking. Failure to take risks permeates complacency and complacency cultivates stagnation.

Do *your part*, recognizing that it often involves sacrifice and self-denial. I believe in being driven by a rational desire to excel, coupled by a willingness to commit to the needed effort to prepare. My parents drilled this principle into me, and then it was reinforced by coaches, who preached that "luck is preparation meeting opportunity." We are never guaranteed that opportunity will surface, but we have an obligation to be ready. Be prepared for detours. They will come. Said another way, the boogey bear will cross your path—be ready for him.

I make no excuse for my uncompromising passion for equal opportunity for qualified women and minorities. I'm convinced that many senior managers just don't get it. They simply don't understand what equal opportunity means or why it's critical, or worst yet, they get it but are unwilling to manage in a fashion that creates balanced opportunities for all. Please don't be dissuaded because of a lack of apparent diversity in your organization. Don't let it be a showstopper. Be prepared and stay the course. I have alluded on several occasions to the basics and, in my view, the most fundamental of all principles is *integrity*. Your reputation and character and your good name are the most valuable assets you have. Stay grounded. It's a small world. I have a tombstone on my desk that constantly reminds me that my greatest ability is my dependability. Mean what you say, do what you say you will, and

do it when you say you're going to do it. While you have probably heard this trite saying your entire life, it's reality. Keeping your word defines you. Having a reputation of being trustworthy, honest, fair, and dependable will proceed you and is valued more than core technical abilities.

What some believe are the soft skill sets are, in my opinion, the basis of the foundation—your people skills. How you treat and interact with others and how you communicate with them will ultimately determine your success. Insincerity, empty rhetoric, and trickery breed distrust. Never fall asleep. Stay alert, learning never stops. Remain sharp, with skills honed and relevant. This is a journey with a variable destination that is dynamic. You will always go *somewhere*, but you never arrive until the journey is over.

It's not a solo journey. I'm not naïve enough to believe that you or I individually can revolutionize the world but I do know that adherence to these principles will make a difference and can influence organizational cultures. It won't happen overnight, but one step at a time. It's well worth the effort. And, when you get into a position of influence or leadership, do your part. Reach back and never forget that you stand on the broad shoulders of others that braved much more treacherous and less rewarding paths before us.

You can't be of assistance to anyone without paying attention to your well being. Pay attention to your health. Get regular physicals. I would not be here today if it were not for the care and diligence of my doctor who during my annual physical four years ago did not feel comfortable with my PSA that was slightly elevated. Because of his caring and God's grace, the prostate cancer that was diagnosed was successfully removed and I can enjoy a normal life with my family. But successful treatment is not enough. I feel an obligation to help educate and spread the word to other men, particularly African-American men who are affected by this disease at a rate that is materially higher than other races. That's why you see that I am a director and president of Prostate Action, Inc. We must give back.

I've mentioned family on several occasions this morning. I value my professional responsibilities but they are pale in comparison to the significance of my role with the other four people who share the last name of Golden. Again, don't take your health for granted. Lastly, please use the income that you make wisely. Income does very little used irrationally but wealth permits great flexibility and I'm not just talking about being rich. Failure to discipline oneself to budget and simply say no to our desires to acquire depreciating consumer goods is the enemy to wealth accumulation. Seizing opportunity in any economic setting is grounded in the basics! I sincerely appreciate your attention and would be delighted to take a few questions.



---

# Interpretations— April 1 to June 30, 2001

---

	<i>Page</i>
<b>Interpretive Letters</b> .....	61
	<i>Letter No.</i>
	<i>Page</i>
<b>Laws</b>	
12 USC 24(7) .....	907, 61
	909 64
12 USC 84.....	908 62
12 USC 6802(d) and (e) .....	910 67
12 USC 6804(d) .....	910 67
<b>Regulations</b>	
12 CFR 1 .....	907 61
12 CFR 3 .....	907 61
12 CFR 40.12 .....	910 67
<b>Subjects</b>	
Housing Mortgage Finance Program bonds as Type I securities .....	907 61
Trust-preferred securities may be purchased and held as loans.....	908 62
Noncontrolling equity investment held in a corporation that provides benefit and payroll services to small businesses .....	909 64
Interagency interpretation of privacy provisions for limits on disclosing account numbers.....	910 67



# Interpretive Letters

## Interpretive Letter No. 907— February 1, 2001

**12 USC 24(7)**  
**12 CFR 1**  
**12 CFR 3**

Subject: Housing Mortgage Finance Program Bonds of the Connecticut Housing Finance Authority

Dear [ ]:

This is in response to your December 5, 2000 letter requesting a legal opinion regarding the risk-based capital requirements for Housing Mortgage Finance Program Bonds ("bonds") of the Connecticut Housing Finance Authority. We conclude that the bonds qualify as Type I securities under the OCC's investment securities regulation. The bonds would have a 20 percent risk-weight under the OCC's risk-based capital regulation.

### Facts

The Connecticut Housing Finance Authority (the "authority") is issuing and has issued tax exempt and taxable bonds pursuant to Chapter 134 of the General Statutes of Connecticut, as amended (the "act"). The authority is a public instrumentality and political subdivision of the State of Connecticut created in 1969 for the purpose of increasing the supply of and encouraging and assisting in the purchase, development, and construction of housing for low and moderate income individuals and families in the state. The bonds are used to finance the purchase of permanent home mortgage loans for owner occupied housing consisting of not more than four household units, to make certain construction and permanent loans for multi-family residential housing, and to fund certain reserves. In addition, the bonds may be issued to fund a capital reserve fund, to replace and refund current and future maturities of outstanding bonds, and to pay certain costs of issuance. The bonds are payable from revenues derived from mortgage loans financed by the authority and from other funds, including the authority's capital reserve fund.

The bonds are general obligations of the authority for which the authority has pledged its full faith and credit. The authority has no taxing power. The bonds do not constitute a debt or liability of the state or a pledge of its full faith and credit or taxing power. The act requires the state to provide sufficient money from its general fund to restore

the authority's capital reserve fund to required minimum levels, however.

Pursuant to the act, the authority is required to establish a "Housing Mortgage Capital Reserve Fund" ("capital reserve fund"). The capital reserve fund must be maintained in an amount at least equal the principal and interest becoming due on the bonds in the next calendar year.<sup>1</sup> In the event the authority is required to withdraw moneys from the capital reserve fund for the payment of the bonds, the act provides that the state shall appropriate from its general funds the amount necessary to restore the capital reserve fund to minimum required levels. This appropriation does not require further legislative approval.<sup>2</sup>

Amounts paid by the state to restore the capital reserve fund to the minimum requirement are required by the act to be repaid to the state by the authority and credited to the state's general fund, as soon as possible, from any moneys available therefor in excess of the amounts that the authority determines will keep it self supporting.<sup>3</sup>

### Legal Analysis

#### A. Indirect General Obligations Qualify as Type I Securities

National banks may purchase investment securities for their own account "under such limitations and restrictions as the Comptroller of the Currency may by regulation provide."<sup>4</sup> Section 24(Seventh) states that the limitations on bank purchases of securities do not apply to "general obligations of any state or political subdivision thereof."<sup>5</sup> OCC regulations implementing 12 USC 24(Seventh) define Type I securities as "general obligations of a state of the United States or any political subdivision."<sup>6</sup> The OCC further defines "general obligation of a state or political subdivision" to include:

---

<sup>1</sup> Conn. Gen. Stat. § 8-258(a) (1999).

<sup>2</sup> Specifically, the act requires that:

On or before December first of each year, there is deemed to be appropriated from the state general fund such sums, if any, as shall be certified by the chairman of the authority, to the Secretary of the Office of Policy and Management, as necessary to restore said fund to an amount equal to the required minimum capital reserve, and such amounts shall be allotted and paid to the authority.

Conn. Gen. Stat. § 8-258(a)(1) (1999).

<sup>3</sup> *Id.*

<sup>4</sup> 12 USC 24(Seventh).

<sup>5</sup> *Id.*

<sup>6</sup> 12 CFR 1.2(i).

An obligation payable from a special fund or by an obligor not possessing general powers of taxation, when an obligor possessing general powers of taxation, including property taxation, has unconditionally promised to make payments into the fund or otherwise provide funds to cover all required payments on the obligation.<sup>7</sup>

Pursuant to that definition, the OCC has determined that a state's commitment to provide funds to maintain a reserve fund may qualify as a general obligation of the state under certain circumstances.<sup>8</sup> The reserve fund must at least equal the amount necessary to meet the annual payment of interest on, and principal of, the obligation as required by applicable law.<sup>9</sup> The maintenance of a refillable reserve fund may be provided, for instance, by statutory direction for an appropriation or by statutory automatic apportionment and payment from the state funds of amounts necessary to restore the fund to the required level.<sup>10</sup>

In this instance, the state's commitment to provide funds to maintain the authority's capital reserve fund qualifies as an indirect general obligation of the state and therefore constitutes a general obligation under the OCC's investment securities regulation. Under Connecticut law, the state is required to withdraw from its general funds the amount necessary to restore the authority's capital reserve fund to an amount equal to the next year's debt service on all outstanding bonds in the event the authority is required to withdraw moneys from the capital reserve fund for the payment of the bonds. This statutory commitment represents the state's unconditional promise to provide funds to restore the capital reserve fund to the required level. Thus, the bonds qualify as Type I securities under the OCC's investment securities regulation.

## **B. Risk-Based Capital Treatment**

OCC risk-based capital regulations contain four risk weights for national bank assets and off-balance sheet items, ranging from zero to 100 percent.<sup>11</sup> The 20 percent risk-weight category includes "claims representing general obligations of any public sector entity in any OECD country and that portion of any claim guaranteed by any such public sector entity."<sup>12</sup> In the United States, these obligations must qualify as general obligations of a state

or political subdivision under the OCC's investment securities regulation.<sup>13</sup> Because the bonds would meet the requirements under 12 CFR 1.2(b)(2) for a general obligation of a state or political subdivision, they would qualify for a 20 percent risk-weight under the OCC's risk-based capital regulations. The bonds are "obligations of any public sector entity in an OECD country," since the authority constitutes an entity established by Connecticut and the bonds are ultimately supported by payments from the state's general revenues.

## **Conclusion**

National banks may purchase the bonds as Type I securities and should treat them as having a 20 percent risk weight under Part 3. The OCC does not endorse specific investments and this letter should not be used in a manner that suggests otherwise. If you have any questions, please do not hesitate to contact Beth Kirby, senior attorney, or me at (202) 874-5210.

Ellen Broadman  
Director, Securities and Corporate Practices

## **Interpretive Letter No. 908— April 23, 2001**

### **12 USC 84**

Re: [ ] Trust Preferred Securities

Dear [ ]:

This letter responds to your request for confirmation from the Office of the Comptroller of the Currency (OCC) that [ ] trust preferred securities may be purchased and treated as loans by national banks. Based on the information and representations you have provided, we conclude that national banks may purchase and treat [ ] trust preferred securities as loans, subject to the lending limits of 12 USC 84 and the requirements of OCC Banking Circular No. 181 (Rev.) (August 2, 1984) (BC-181).

---

<sup>7</sup> 12 CFR 1.2(b)(2). See also 12 CFR 1.100(a).

<sup>8</sup> 12 CFR 1.100(b)(3).

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> See 12 CFR Part 3, Appendix A, Section 3.

<sup>12</sup> 12 CFR Part 3, Appendix A, Section 3(a)(2)(ix).

---

<sup>13</sup> See *Id.*, which establishes a 20 percent risk weight for "claims representing general obligations of any public sector entity in an OECD country, and that portion of any claims guaranteed by any such public-sector entity. Section 3(a)(2)(ix) further provides that "[i]n the U.S., these obligations must meet the requirements of 12 CFR 1.3(g)." The reference to 12 CFR 1.3(g) is to a prior version of the regulation. Section 1.3(g), which appears at section 1.2(b) in the revised regulation, is the definition of "general obligation of a State or political subdivision."

## Background

[ ], the holding company for [ ] (“BB”), plans to issue and privately place between \$15 and \$20 million of trust preferred securities (“securities”). [BB] is a bankers’ bank, and [ ] anticipates that all of the purchasers of its securities will be national or state banks.

As proposed, [ ] will establish a [ ] business trust as a wholly owned subsidiary for the sole purpose of issuing trust preferred securities to investors. This trust will lend the proceeds it receives from the sale of the trust preferred securities to [ ] in exchange for a subordinated debenture with terms (*i.e.*, coupon rate, maturity, redemption, etc.) that are identical to the terms of the trust preferred securities. [ ]’s payments on the debentures will be the sole source of cash flow from which the trust’s obligations to the holders of the trust preferred securities would be satisfied.<sup>1</sup>

The OCC has previously permitted national banks to purchase and hold trust preferred securities as Type III investment securities if the securities meet the applicable rating and marketability requirements of 12 CFR 1.2.<sup>2</sup> The [ ] securities may not qualify as Type III securities, however, due to several factors. The securities will be sold in a private placement, they will not be rated, and there will be no ready market into which they can be sold.

## Discussion

Section 24(Seventh) of the National Bank Act expressly authorizes national banks to conduct the business of banking, including “by discounting and negotiating promissory notes, drafts, bills of exchange and other evidences of debt.” 12 USC 24(Seventh). This authority has long included the power to purchase and hold debt secu-

---

<sup>1</sup> This structure is used so that the securities will qualify for Tier 1 capital treatment for [ ] under the guidelines and policies for holding companies established by the Board of Governors of the Federal Reserve System. Furthermore, [ ]’s proposal is typical of a trust preferred securities offering. In a typical trust preferred securities deal structure, a company forms a special purpose subsidiary, for example a [ ] business trust, and purchases all of its common stock. The trust issues preferred stock to investors for cash. The trust then uses proceeds from the sale of the common and preferred stock to purchase subordinated debentures with terms that mirror those of the trust preferred securities from the company. The trust uses the periodic interest payments on the subordinated debentures it receives from the company to fund its payments of dividends on the preferred securities.

<sup>2</sup> See Interpretive Letter No. 777 (April 8, 1997), *reprinted in* [1997 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–204.

rities as loans, consistent with safety and soundness considerations.<sup>3</sup>

Trust preferred securities are instruments that, despite their label, possess characteristics typically associated with debt securities, such as corporate and municipal bonds.<sup>4</sup> Like debt holders, the holders of trust preferred securities do not have voting rights in the management or the ordinary course of business of the Issuer Trust. In addition, holders of trust preferred securities do not share in any appreciation in the value of the Issuer Trust, and are protected from changes in the value of the principal of the instruments (except for credit risk). Also, since the business trust’s only source of revenue for the dividends on the trust preferred securities is the interest on the underlying subordinated debt, the trust preferred securities must be redeemed upon redemption of the subordinated debt. Thus, the trust preferred securities, like debt, are not perpetual. Further, the distributions on the trust preferred securities are cumulative and resemble the periodic interest payments on debt.<sup>5</sup> For these reasons, the OCC has previously concluded that trust preferred securities are debt-like instruments that may qualify as investment securities under 12 CFR Part 1.<sup>6</sup>

---

<sup>3</sup> See Interpretive Letter No. 833 (July 8, 1998), *reprinted in* [1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–287; Interpretive Letter No. 834, (July 8, 1998), *reprinted in* [1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–288; Interpretive Letter No. 600 (July 31, 1992), *reprinted in* [1992–1993 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,427; Interpretive Letter No. 579 (March 24, 1992), *reprinted in* [1991–1992 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,349; Interpretive Letter No. 182 (March 10, 1981), *reprinted in* [1981–982 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,263.

<sup>4</sup> See Interpretive Letter No. 777, *supra*. Many substantive characteristics distinguish equity from debt securities. Common stock typically is perpetual and has broad voting rights, while debt securities generally have limited life. Common stock provides an ownership interest, and appreciation in the market value of the issuer and dividends. In contrast, debt securities offer investors periodic interest payments and a principal payment at maturity. In the event of the failure of an issuer, the claims of the common stockholders are subordinate to the holders of debt. Rating agencies typically do not rate equity instruments but will assign credit ratings to debt securities. Preferred stock is a hybrid and can be structured to resemble either debt or equity. See, *e.g.*, *Landreth Timber Co. v. Landreth*, 471 U.S. 681, 686 n. 2 (1985); *United Housing Foundation, Inc. v. Forman*, 421 U.S. 837 (1975); and Robert Hamilton, *Fundamentals of Modern Business*, (1989).

<sup>5</sup> We also understand that the SEC has indicated that it will not object to a bank holding company treating trust preferred securities as debt under generally accepted accounting principles (even if the bank holding company classifies these securities as minority interests in consolidated subsidiaries for regulatory reporting purposes).

<sup>6</sup> OCC Conditional Approval No. 331, *Interpretations and Actions*, November 1999, Vol. 12, No. 11 (dealing in trust preferred securities is functionally equivalent or similar to arranging loan participations in commercial loans).

Because they qualify as debt obligations, trust preferred securities may be purchased and held as loans under the authority to discount and negotiate evidences of debt. Moreover, they may qualify for purchase under this authority even if they do not satisfy the requirements for investment securities under 12 CFR Part 1.<sup>7</sup>

### **Regulatory Limitations on Purchase of Trust Preferred Securities**

National banks that purchase trust preferred securities as loans must comply with the lending limit restrictions in 12 USC 84 and may not purchase an amount exceeding 15 percent of the bank's capital and surplus.<sup>8</sup> Bank purchasers also must adhere to the prudential requirements in Banking Circular No. 181 (Rev.).<sup>9</sup> Before purchasing trust preferred securities as loans, a national bank should conduct a complete review of relevant credit information and loan administration practices, and determine that the purchases meet the bank's own internal loan underwriting standards.<sup>10</sup> The nature and extent of a bank's independent analysis is a function of the type of transaction at issue and the purchaser's lending policies and procedures.<sup>11</sup> A purchaser's acceptance of a favorable analysis of a loan issued by the seller, a credit rating institution, or another entity does not satisfy the need to conduct an independent credit analysis. A prudent purchaser may, however, consider such analysis obtained from the seller and other sources as factors when independently assessing a loan.<sup>12</sup>

National banks also must have continued access to appropriate credit and portfolio performance data as long as they hold the trust preferred securities.<sup>13</sup> Bank purchasers must maintain the analysis undertaken at the time they

acquire trust preferred securities and on an ongoing basis as part of their fully documented loan files.<sup>14</sup>

### **Conclusion**

National banks may purchase and hold the [ ] trust preferred securities as loans under their authority to discount and negotiate evidences of debt. Banks that invest in these trust preferred securities as loans are subject to the limitations of 12 USC 84 and the requirements of Banking Circular No. 181 (Rev.).

If you have any questions, please do not hesitate to contact me at (202) 874-5210.

Beth Kirby  
Special Counsel, Securities and Corporate Practices Division

## **Interpretive Letter No. 909— May 2, 2001**

### **12 USC 24(7)**

Dear [ ]:

This is in response to your communications of November 24, 2000, and February 6, 2001, concerning a noncontrolling equity interest held by ["bank"], [city, state], in [ ]. [ ] is an [state] corporation that plans to provide employee benefit services and payroll services to small community banks and their small business customers. The bank is currently a noncontrolling investor in [ ]. This letter confirms that, for the reasons set forth below, it is my opinion that upon the commencement of [ ]'s proposed activities, the bank may continue to hold its noncontrolling equity investment in [ ], in the manner and as described herein.

### **A. Background**

The bank currently holds about a two percent interest in the ownership of [ ].<sup>1</sup> The bank first acquired its interest in [ ] in October 1999. [ ] plans to provide employee benefit services and payroll services to small community banks and their small business customers. The bank represents that small businesses with fewer than 10 employees cannot provide employee benefit services cost effectively due to the overhead costs associated with pro-

---

<sup>7</sup> See Interpretive Letter Nos. 833, 834, 600, 579, and 182, all *supra*.

<sup>8</sup> See 12 USC 84(a)(1) and 12 CFR 32.3(a); Under 12 USC 84(b)(1) and 12 CFR 32.2(j), the term "loan" is defined to include "any direct or indirect advances of funds to a person (a) made on the basis of any obligation of that person to repay the funds or (b) repayable from specific property pledged by or on behalf of the person."

<sup>9</sup> BC--181 defines "loan" as any binding agreement to advance funds on the basis of an obligation to repay the funds. See BC--181, *supra*.

<sup>10</sup> See *id.*

<sup>11</sup> See *id.*

<sup>12</sup> See *id.*; see generally, Interpretive Letter No. 779 (April 3, 1997), reprinted in [1997 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81-206.

<sup>13</sup> See Interpretive Letter No. 600, *supra*.

---

<sup>14</sup> See *id.*

<sup>1</sup> This investment is equal to approximately 1.6 percent of the bank's tier 1 capital.

viding these services. The bank asserts that its ownership interest in [ ] will enable the bank to provide its small business customers with cost-effective ways to provide their employees with benefit services.

## B. Analysis

A national bank may engage in activities that are part of or incidental to the business of banking. 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.<sup>2</sup> The OCC has concluded that national banks are legally permitted to make a noncontrolling investment in a company provided four criteria or standards are met.<sup>3</sup> 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 [ ] 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).*

The National Bank Act, in relevant part, provides 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 receiv-

ing deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes . . .

The Supreme Court has held that this powers clause of 12 USC 24(Seventh) is a broad grant of power to engage in the business of banking, which is not limited to the five enumerated powers. Further, national banks are authorized to engage in an activity if it is incidental to the performance of the enumerated powers in section 24(Seventh) *or* if it is incidental to the performance of an activity that is part of the business of banking.<sup>4</sup>

You have indicated that [ ] will engage in the provision of employee benefit services (including purchasing for the customers' employees health, life, and retirement related benefits) and payroll services to small community banks and their small business customers. The OCC has already found that the activities in which [ ] plans to engage are permissible for national banks.<sup>5</sup> Thus, 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 the ability and the intention to divest itself of its investment in [ ] should [ ] engage in activities that are impermissible for a national bank. This ability to divest and intention to do so, if necessary, appear adequate to permit the bank to withdraw its investment in [ ] should [ ] undertake impermissible activities.

Accordingly, the second standard is satisfied.

---

<sup>4</sup> *NationsBank of North Carolina, N.A. v. Variable Annuity Life Ins. Co.*, 513 U.S. 215 (1995).

<sup>5</sup> See, e.g., Corporate Decision No. 98-51 (November 30, 1998) (providing employee benefit and compensation advisory services); Conditional Approval Letter No. 270 (February 21, 1998) (providing medical insurance cost information, benefits counseling, premium collection and disbursement, and related activities); Corporate Decision No. 98-13 (February 9, 1998) (providing benefit plan and pension and retirement plan services); 12 CFR 5.34(e)(5)(v)(H) (providing data processing, data warehousing and data transmission products and services), 5.34(e)(5)(v)(J) (providing tax planning and preparation services), 5.34(e)(5)(v)(P) (providing permissible types of insurance agency or brokerage activities).

---

<sup>2</sup> See, e.g., Conditional Approval Letter No. 219 (July 15, 1996).

<sup>3</sup> See Interpretive Letter No. 692 (November 1, 1995); Interpretive Letter No. 694 (December 13, 1995).

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. Normally, this is not a concern when a national bank invests in a corporation, for it is generally accepted that a corporation is an entity distinct from its shareholders, with its own separate rights and liabilities, provided proper corporate separateness is maintained.<sup>6</sup> This is the case here. The corporate veil of [ ] will protect the bank from liability or loss associated with its ownership interests in [ ].<sup>7</sup>

*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 less than 20 percent ownership share or investment in a corporate entity is to report it as an unconsolidated entity under the equity or cost method of accounting. You have represented that the bank will account for its ownership interest in [ ] according to the cost method of accounting. Under the cost method of accounting, losses recognized by the investor will not exceed the amount of the investment (including extensions of credit or guarantees, if any) shown on the investor's books.

Therefore, for both legal and accounting purposes, the bank's potential loss exposure arising from its investment in [ ] should be limited to the amount of those investments. 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 banking business.

A national bank's investment in an enterprise or entity must also satisfy the requirement that the investment have a beneficial connection to the bank's business, *i.e.*, be convenient or useful to the investing bank's business activities, and not constitute a mere passive investment un-

related to that bank's banking business. Twelve USC 24(Seventh) gives national banks incidental powers that are "necessary" to carry on the business of banking. "Necessary" has been judicially construed to mean "convenient or useful."<sup>8</sup> 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.<sup>9</sup>

In this instance, the ownership interest by the bank in [ ] is not merely evidence of a passive relationship, but rather is part of a business plan between the bank and [ ] to provide useful services to the bank's small business customers and to their employees. [ ] would provide the bank's small business customers with convenient employee benefit and payroll services that would not be cost efficient for those customers to attempt to provide themselves. Small business customers of the bank will thus be benefited by being able to purchase a wider range of services from a single and convenient source, without having to incur the expense of developing these services themselves. Thus, the investment is not a mere passive investment unrelated to the banks' banking 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 letters, and for the reasons discussed above, it is my opinion that upon the commencement of [ ]'s proposed activities, that the bank may continue to hold its noncontrolling equity investment in [ ], subject to the following conditions:

- (1) [ ] will engage only in activities that are permissible for a national bank;
- (2) In the event that [ ] engages in an activity that is inconsistent with condition number one, the bank will divest its interest in [ ] in accord with the bank's letter of February 6, 2001;
- (3) The bank will account for its investment in [ ] under the equity or cost method of accounting; and

<sup>8</sup> See *Arnold Tours, Inc. v. Camp*, 472 F.2d 427, 432 (1st Cir. 1972).

<sup>9</sup> See, *e.g.*, Interpretive Letter No. 543 (February 13, 1991); Interpretive Letter No. 427 (May 9, 1988); Interpretive Letter No. 421 (March 14, 1988).

<sup>6</sup> 1 W. Fletcher, *Cyclopedia of the Law of Private Corporations* § 25 (rev. perm. ed. 1990).

<sup>7</sup> Del. Code Ann. tit. 8, 102(b)(6) (Michie 1991).



(4) [ ] will be subject to OCC supervision and examination, subject to the limitations and requirements of 12 USC 1820a and 1831v.<sup>10</sup>

These conditions are conditions imposed in writing by the OCC in connection with this opinion letter stating that the bank's investment in [ ] is permissible under 12 USC 24 (Seventh). As such, these conditions may be enforced in proceedings under applicable law.

If you have any questions, please contact Senior Attorney John Soboeiro in the Bank Activities and Structure Division, at (202) 874-5300.

Julie L. Williams  
First Senior Deputy Comptroller and Chief Counsel

## Interpretive Letter No. 910— May 25, 2001

### 15 USC 6802(d) and (e) 15 USC 6804(d) 12 CFR 40.12

Re: Limits on Disclosing Account Numbers

Dear [ ]:

This letter responds to your letters to the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision (the agencies) dated May 2, 2001. You ask the agencies to allow financial institutions to disclose unencrypted account numbers to [ ] upon a customer's express, written consent.

[ ] markets insurance products by direct mail to customers of financial institutions pursuant to joint marketing agreements between [ ] and the financial institutions. Under these agreements, financial institutions disclose lists of their customers' names, addresses, and encrypted account numbers to [ ]. Using this information, [ ] mails materials to market its insurance products to financial institution customers. When a customer decides to enroll in an insurance plan, the customer signs an authorization for the customer's financial institution to provide the customer's unencrypted account number to [ ]. Upon receiving that unencrypted number, [ ] charges the customer's account.

---

<sup>10</sup> This examination authority will be in addition to any authority over KIMG vested in the OCC by the Bank Service Company Act. 12 USC 1867(c).

Section 502(d) of the Gramm-Leach-Bliley Act provides that a "financial institution shall not disclose, other than to a consumer reporting agency, an account number or similar form of access number or access code for a credit card account, deposit account, or transaction account of a consumer to any nonaffiliated third party *for use in telemarketing, direct mail marketing, or other marketing through electronic mail to the consumer.*" (Emphasis added.) The primary reason a marketer seeks access to a customer's account number is to allow the marketer to initiate a charge to the customer's account as part of the transaction. We believe that interpreting the act to consider marketing to have ended at the time the customer accepts the product would substantially undermine the prohibition, effectively limiting its application to the sharing of account numbers for tracking purposes while not denying third party marketers access to customer accounts.

Section 502(d) does not contain any exceptions to this prohibition. Moreover, the general exceptions for notice and opt out under section 502(e) of the act, including the exception for disclosing information with the consent or at the direction of the consumer, do not apply to the account number disclosure prohibition under section 502(d). Accordingly, under the act and the agencies' privacy regulations,<sup>1</sup> a financial institution may not provide its customers' account numbers to a third party, such as [ ], under the circumstances you describe.

Section 504(b) of the act provides that the agencies may prescribe exceptions to section 502 that the agencies deem consistent with the purposes of the act if the agencies adopt the exception by rule. Section \_\_\_\_ .12 of the agencies' rules implements the section 502(d) prohibition and provides only two exceptions: financial institutions may disclose their account numbers a) to their agents to market the financial institution's own products or services or b) to their partners in a private label credit card or affinity program. The [ ] disclosure does not fit within either of the limited exceptions that the agencies have adopted by rule.

The privacy rule makes clear that the statutory prohibition focuses on restricting *access* to customer accounts. Accordingly, the financial institution itself must retain control of its customers' account numbers. For instance, one of the limited exceptions to the prohibition against disclosing transaction account numbers permits a financial institution to disclose a customer's transaction account number to

---

<sup>1</sup> See 12 CFR Part 40 (OCC); 12 CFR Part 216 (FRB); 12 CFR Part 332 (FDIC); 12 CFR Part 573 (OTS); and 12 CFR Part 716 (NCUA). Each of the agencies adopted a consumer financial privacy regulation in substantially identical form. Each agency uses a different part number but identical section numbers in its privacy regulation. In this letter, citations to the regulations use section numbers only, leaving the part numbers blank.

its third party agent or service provider solely to market the institution's own products or services, *provided* the third party may not directly initiate a charge to the customer's account. In the supplementary information to the regulations, the agencies explain that while an institution may frequently use agents to assist in marketing, a consumer's protections are potentially eroded by allowing agents involved in the marketing to have access to a consumer's account. 65 Fed. Reg. 35162, 35181 (June 1, 2000); *see also* 65 Fed. Reg. 31722, 31733 (May 18, 2000) (NCUA).

Other aspects of this section make clear that a financial institution may not provide [ ] with transaction account numbers to access customer accounts—that is, to initiate charges. For example, section \_\_\_\_ .12(c)(1) states that an encrypted account number is not protected from disclosure as long as the financial institution does not provide the third party with the code to decrypt. The agencies explain, in the supplementary materials, that such an encrypted number “operates as an identifier attached to an account for internal tracking purposes only.” 65 Fed. Reg. at 35182; *see also* 65 Fed. Reg. at 31733 (NCUA). The agencies reason that encrypting the account numbers would adequately protect consumers because the encryption would prevent the recipient from accessing the consumer's account. *Id.* For similar reasons, the prohibition against disclosing transaction account numbers does not apply to any accounts to which third parties *cannot initiate charges*. The agencies explain that, because a third party cannot post charges to these types of accounts, the numbers for such accounts would not be cov-

ered by the prohibition. *Id.* If a third party could initiate charges to the account, however, the agencies maintain that disclosure of the account number would be prohibited. *Id.*

While a financial institution may not provide a customer's account number to a third party under the circumstances you describe, a financial institution may initiate charges to its customer's account for a [ ] product where the customer has agreed to purchase the product. Of course, an individual is free to provide [ ], or any other merchant, with his or her own account number to purchase a product.

We trust that this responds to your question.

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

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

Robert M. Fenner  
General Counsel, National Credit Union Administration

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

Carolyn J. Buck  
Chief Counsel, Office of Thrift Supervision

---

# Mergers— April 1 to June 30, 2001

---

	<i>Page</i>
Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks) . . . . .	71
Affiliated mergers (mergers consummated involving affiliated operating banks) . . . . .	72
Affiliated mergers—thrift (mergers consummated involving affiliated national banks and savings and loan associations) . . . . .	74



## Mergers— April 1 to June 30, 2001

Most transactions in this section do not have accompanying decisions. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction has minimal or no adverse competitive effects. The OCC

found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects. In addition, the Attorney General either filed no report on the proposed transaction or found that the proposal would not have a significantly adverse effect on competition.

### Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks), from April 1 to June 30, 2001

Title and location (charter number)	Total assets
<b>Delaware</b>	
Chase Manhattan Bank USA, National Association, Newark (023160) . . . . .	34,871,568,000
and First USA Financial Services, Inc., Salt Lake City . . . . .	151,893,000
merged on April 1, 2001 under the title of <b>Chase Manhattan Bank USA, National Association, Newark (023160)</b> . . . . .	35,059,873,000
<b>Illinois</b>	
First Mid-Illinois Bank & Trust, National Association, Mattoon (010045) . . . . .	640,000,000
and American Bank of Illinois in Highland, Highland . . . . .	33,000,000
merged on April 20, 2001 under the title of <b>First Mid-Illinois Bank &amp; Trust, National Association, Mattoon (010045)</b> . . . . .	674,000,000
Community Trust Bank, National Association, Pikeville (007030) . . . . .	2,246,362,000
and The Bank of Mt. Vernon, Richmond . . . . .	132,020,000
merged on January 26, 2001 under the title of <b>Community Trust Bank, National Association, Pikeville (007030)</b> . . . . .	2,357,382,000
<b>Mississippi</b>	
Trustmark National Bank, Jackson (010523) . . . . .	6,804,269,000
and Peoples Bank, Barretville . . . . .	336,235,000
merged on April 6, 2001 under the title of <b>Trustmark National Bank, Jackson (010523)</b> . . . . .	7,108,346,000
<b>New York</b>	
NBT Bank, National Association, Norwich (001354) . . . . .	1,508,597,000
and The First National Bank of Northern New York, Norfolk (010895) . . . . .	114,239,000
merged on June 1, 2001 under the title of <b>NBT Bank, National Association, Norwich (001354)</b> . . . . .	2,742,823,000
Community Bank, National Association, Canton (008531) . . . . .	1,971,371,000
and First Liberty Bank & Trust, Jermyn . . . . .	646,502,000
merged on May 11, 2001 under the title of <b>Community Bank, National Association, Canton (008531)</b> . . . . .	2,617,873,000
<b>Tennessee</b>	
First Farmers & Merchants National Bank of Columbia, Columbia (014710) . . . . .	627,356,000
and Peoples and Union Bank, Lewisburg . . . . .	340,692,000
merged on April 27, 2001 under the title of <b>First Farmers &amp; Merchants National Bank of Columbia, Columbia (014710)</b> . . . . .	792,791,000

**Affiliated mergers (mergers consummated involving affiliated operating banks),  
from April 1 to June 30, 2001**

Title and location (charter number)	Total assets
<b>Arizona</b>	
First National Bank of Arizona, Chandler (024189)	125,760,000
First Bank of Arizona, National Association, Scottsdale (023876)	177,403,000
merged on June 1, 2001 under the title of <b>First National Bank of Arizona, Chandler (024189)</b>	303,163,000
<b>Arkansas</b>	
First National Bank of Phillips County, Helena (013520)	126,424,630,000
and The Delta State Bank, Elaine	7,433,448,000
merged on April 20, 2001 under the title of <b>First National Bank of Phillips County, Helena (013520)</b>	132,463,078,000
<b>Colorado</b>	
The Bank of Cherry Creek, National Association, Denver (022332)	273,214,000
and The Bank of Cherry Creek in Boulder, National Association, Boulder (023194)	34,566,000
merged on April 27, 2001 under the title of <b>The Bank of Cherry Creek, National Association, Denver (022332)</b>	307,780,000
<b>District of Columbia</b>	
Century National Bank, Washington (017278)	291,342,000
and GrandBank, Rockville	117,402,000
merged on May 18, 2001 under the title of <b>Century National Bank, Washington (017278)</b>	427,203,000
<b>Illinois</b>	
The First National Bank in Toledo, Toledo (013682)	97,827,000
and The Greenup National Bank, Greenup (008115)	53,913,000
merged on June 23, 2001 under the title of <b>The First National Bank in Toledo, Toledo (013682)</b>	151,740,000
<b>Louisiana</b>	
Whitney National Bank, New Orleans (014977)	6,136,937,000
and Bank of Prattville, Prattville	160,626,000
merged on June 8, 2001 under the title of <b>Whitney National Bank, New Orleans (014977)</b>	6,674,018,000
<b>Michigan</b>	
Comerica Bank & Trust, National Association, Ann Arbor (021527)	1,457,000
and Comerica Bank, National Association, Toledo (018021)	9,522,000
merged on March 30, 2001 under the title of <b>Comerica Bank &amp; Trust, National Association, Ann Arbor (021527)</b>	10,979,000
<b>Minnesota</b>	
First National Bank of the North, Sandstone (016871)	53,834,000
and Prairie National Bank, Belle Plaine (022942)	38,913,000
merged on April 6, 2001 under the title of <b>First National Bank of the North, Sandstone (016871)</b>	85,647,000
<b>Missouri</b>	
First National Bank, Mountain View (023530)	87,076,000
and First National Bank, Houston (023529)	53,883,000
merged on June 15, 2001 under the title of <b>First National Bank, Mountain View (023530)</b>	140,959,000
<b>Nevada</b>	
Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	6,816,129,000
and First Security Bank of Nevada, Mesquite	272,815,000
merged on April 21, 2001 under the title of <b>Wells Fargo Bank Nevada, National Association, Las Vegas (023444)</b>	7,088,944,000
<b>New Jersey</b>	
Commerce Bank National Association, Cherry Hill (017094)	4,382,066,000
and Commerce Bank/Central, National Association, Raritan Township (023840)	397,552,000
merged on March 31, 2001 under the title of <b>Commerce Bank National Association, Cherry Hill (017094)</b>	4,778,610,000
<b>North Carolina</b>	
Bank of America, National Association, Charlotte (013044)	581,367,273,000
and NationsBank Trust Company of New York, New York	3,240,000
merged on May 31, 2001 under the title of <b>Bank of America, National Association, Charlotte (013044)</b>	581,370,513,000

## Affiliated mergers (continued)

Title and location (charter number)	Total assets
<b>Oklahoma</b>	
The First National Bank of Heavener, Heavener (009888) . . . . .	34,663,000
and The State National Bank of Heavener, Heavener (010239) . . . . .	46,161,000
merged on April 20, 2001 under the title of <b>First National Bank of Heavener, Heavener (009888)</b> . . . . .	80,824,000
<b>Pennsylvania</b>	
PNC Bank, National Association, Pittsburgh (001316) . . . . .	69,361,303,000
and PNC Advisors, National Association, Boston (023938) . . . . .	13,235,000
merged on March 31, 2001 under the title of <b>PNC Bank, National Association, Pittsburgh (001316)</b> . . . . .	69,374,538,000
<b>Texas</b>	
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 <b>Bank of Texas, National Association, Dallas (024082)</b> . . . . .	680,444,000
State National Bank, El Paso, Texas, El Paso (016369) . . . . .	505,496,000
and Ruidoso State Bank, Ruidoso . . . . .	114,880,000
merged on May 18, 2001 under the title of <b>State National Bank, El Paso, Texas, El Paso (016369)</b> . . . . .	620,376,000
Bank of Texas, National Association, Dallas (024082) . . . . .	1,155,638,000
and Citizens National Bank of Texas, Bellaire (017954) . . . . .	435,255,000
merged on May 18, 2001 under the title of <b>Bank of Texas, National Association, Dallas (024082)</b> . . . . .	1,635,781,000
NBC Bank, National Association, Eagle Pass (004490) . . . . .	308,294,000
and NBC Bank—Laredo National Association, Larado (016127) . . . . .	110,136,000
and NBC Bank—Rockdale, Rockdale . . . . .	111,101,000
merged on March 30, 2001 under the title of <b>NBC Bank, National Association, Eagle Pass (004490)</b> . . . . .	569,099,000
Wells Fargo Bank Texas, National Association, San Antonio (014208) . . . . .	21,581,981,000
and Midland Trust Company, National Association, Midland (024128) . . . . .	10,000,000
merged on June 28, 2001 under the title of <b>Wells Fargo Bank Texas, National Association, San Antonio (014208)</b> . . . . .	21,591,981,000
State National Bank of West Texas, Lubbock (023117) . . . . .	216,836,000
and State National Bank of West Texas, Abilene (017614) . . . . .	478,071,000
merged on March 9, 2001 under the title of <b>State National Bank of West Texas, Lubbock (023117)</b> . . . . .	694,907,000
Summit National Bank, Fort Worth (016422) . . . . .	247,657,000
and Summit Community Bank, National Association, Fort Worth (018188) . . . . .	366,806,000
merged on May 14, 2001 under the title of <b>Summit Bank, National Association, Fort Worth (016422)</b> . . . . .	614,463,000
Associated Bank Green Bay, National Association, Green Bay (023695) . . . . .	2,505,239,000
and Associated Bank Milwaukee, Milwaukee on April 20, 2001 . . . . .	3,016,091,000
and Associated Bank North, Wausau on May 25, 2001 . . . . .	1,486,648,000
and Associated Bank South Central, Madison on May 25, 2001 . . . . .	993,744,000
and Associated Bank, National Association, Neenah (023700) on April 20, 2001 . . . . .	759,622,000
and Associated Bank Lakeshore, National Association, Manitowoc (023701) on May 25, 2001 . . . . .	615,360,000
merged on those respective dates under the title of <b>Associated Bank, National Association, Green Bay (023695)</b> . . . . .	9,050,668,000
The First National Bank and Trust Company of Beloit, Beloit (002725) . . . . .	355,718,000
and First National Bank of Winnebago, Winnebago (015225) . . . . .	43,028,000
merged on May 31, 2001 under the title of <b>The First National Bank and Trust Company of Beloit, Beloit (002725)</b> . . . . .	398,746,000

**Affiliated mergers– thrift (mergers consummated involving affiliated national banks and savings and loan associations), from April 1 to June 30, 2001**

Title and location (charter number)	Total assets
<b>Texas</b>	
First National Bank, Fairfield (012423) .....	89,262,000
and Texas Bank, S.S.B., Buffalo .....	9,772,000
merged on March 30, 2001 under the title of First National Bank, Fairfield (012423) .....	98,134,000



---

# Tables on the Corporate Structure of the National Banking System

---

	<i>Page</i>
Changes in the corporate structure of the national banking system, by state, January 1 to June 30, 2001 .	77
Applications for new, full-service national bank charters, approved and denied, by state, January 1 to June 30, 2001 . . . . .	78
Applications for new, limited-purpose national bank charters, approved and denied, by state, January 1 to June 30, 2001 . . . . .	79
New, full-service national bank charters issued, January 1 to June 30, 2001 . . . . .	80
New, limited-purpose national bank charters issued, January 1 to June 30, 2001 . . . . .	81
State-chartered banks converted to full-service national banks, January 1 to June 30, 2001 . . . . .	82
State-chartered banks converted to limited-purpose national banks, January 1 to June 30, 2001 . . . . .	83
Nonbanking institutions converted to full-service national banks, January 1 to June 30, 2001 . . . . .	84
Applications for national bank charters, by state and charter type, January 1 to June 30, 2001 . . . . .	85
Voluntary liquidations of national banks, January 1 to June 30, 2001 . . . . .	86
National banks merged out of the national banking system, January 1 to June 30, 2001 . . . . .	87
Failed national banks acquired by other than national banks, January 1 to June 30, 2001 . . . . .	88
National banks converted out of the national banking system, January 1 to June 30, 2001 . . . . .	89
Federal branches and agencies of foreign banks in operation, January 1 to June 30, 2001 . . . . .	90



**Changes in the corporate structure of the national banking system, by state, January 1 to June 30, 2001**

	In operation January 1, 2001	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation June 30, 2001
						Converted to non-national institutions	Merged with non-national institutions	
Alabama.....	24	0	0	0	0	1	0	23
Alaska.....	4	0	0	0	0	0	0	4
Arizona.....	19	1	1	0	0	0	1	18
Arkansas.....	43	1	0	0	0	1	0	43
California.....	88	3	0	0	0	0	1	90
Colorado.....	57	0	1	0	0	0	0	56
Connecticut.....	10	0	0	0	0	0	0	10
Delaware.....	22	0	0	0	0	0	0	22
District of Columbia ..	07	1	1	0	0	0	0	7
Florida.....	86	0	3	0	0	0	1	81
Georgia.....	67	3	0	0	0	0	4	66
Hawaii.....	01	0	0	0	0	0	0	1
Idaho.....	02	0	0	0	0	0	0	2
Illinois.....	203	1	7	1	0	1	1	194
Indiana.....	36	0	0	0	0	0	1	35
Iowa.....	46	3	0	0	0	0	0	49
Kansas.....	107	2	0	0	0	0	0	109
Kentucky.....	55	1	1	0	0	0	1	54
Louisiana.....	19	0	2	0	0	0	0	17
Maine.....	7	0	0	0	0	0	0	7
Maryland.....	15	1	0	0	0	1	0	15
Massachusetts.....	23	0	1	0	0	0	0	22
Michigan.....	29	0	0	0	0	0	0	29
Minnesota.....	132	0	2	0	0	0	0	130
Mississippi.....	20	1	0	0	0	0	1	20
Missouri.....	49	0	1	0	0	1	0	47
Montana.....	19	0	0	0	0	0	1	18
Nebraska.....	77	3	1	0	0	0	0	79
Nevada.....	8	0	0	0	0	0	0	8
New Hampshire.....	7	0	0	0	0	0	0	7
New Jersey.....	27	1	1	0	0	1	0	26
New Mexico.....	16	0	0	0	0	0	1	15
New York.....	65	0	2	0	0	0	1	62
North Carolina.....	9	0	0	0	0	1	0	8
North Dakota.....	16	0	0	0	0	1	0	15
Ohio.....	97	0	1	0	0	0	3	93
Oklahoma.....	105	0	1	0	0	6	0	98
Oregon.....	5	0	0	0	0	0	0	5
Pennsylvania.....	95	0	3	0	0	0	2	91
Rhode Island.....	3	1	0	0	0	0	0	4
South Carolina.....	25	0	0	0	0	1	0	24
South Dakota.....	21	0	0	1	0	0	1	19
Tennessee.....	29	0	0	0	0	0	0	29
Texas.....	361	3	8	0	0	1	4	352
Utah.....	8	0	0	0	0	0	0	8
Vermont.....	13	0	0	1	0	0	0	12
Virginia.....	37	0	0	0	0	0	0	37
Washington.....	16	1	0	0	0	0	0	17
West Virginia.....	24	0	0	0	0	0	0	24
Wisconsin.....	54	0	2	0	0	0	0	52
Wyoming.....	20	0	0	0	0	0	0	20
United States:	2,328	27	39	3	0	16	24	2,271

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,  
January 1 to June 30, 2001**

Title and location	Approved	Denied
<b>Alabama</b>		
First National Bank of Baldwin County, Foley .....	May 25, 2001	
<b>Arizona</b>		
BNC National Bank of Arizona, Tempe.....	April 4, 2001	
<b>California</b>		
CommerceWest Bank, National Association, Newport Beach .....	April 27, 2001	
Ramon National Bank, Ramona .....	March 9, 2001	
Regents Bank, National Association, La Jolla .....	June 1, 2001	
<b>Florida</b>		
Florida Coastline National Bank, Miami .....	May 30, 2001	
<b>Georgia</b>		
National Bank of Gainesville, Gainesville .....	January 22, 2001	
SouthBank, National Association, Woodstock .....	January 2, 2001	
<b>Kansas</b>		
American State Bank & Trust Company, National Association, Great Bend.....	January 31, 2001	
<b>Maryland</b>		
Net Express Bank, National Association, Silver Spring .....	June 7, 2001	
<b>Massachusetts</b>		
Leader Bank, National Association, Arlington .....	February 12, 2001	
<b>Minnesota</b>		
American National Bank of Alexandria, Alexandria .....	June 28, 2001	
American National Bank of Detroit Lakes, Detroit Lakes .....	June 28, 2001	
American National Bank of Grand Rapids, Grand Rapids .....	June 28, 2001	
American National Bank of Pequot Lakes, Pequot Lakes .....	June 28, 2001	
American National Bank of Walker, Walker .....	June 28, 2001	
<b>Minnesota</b>		
Neighborhood National Bank, Alexandria .....	May 17, 2001	
<b>New York</b>		
Community Bank of Orange, National Association, Middletown .....	May 9, 2001	
<b>Oklahoma</b>		
First National Bank of Muskogee, Muskogee .....	April 10, 2001	
<b>Pennsylvania</b>		
American Home Bank, National Association, Lancaster .....	April 26, 2001	
<b>South Carolina</b>		
Security National Bank, Spartanburg .....	April 18, 2001	
<b>Washington</b>		
Eastside Commercial Bank, National Association, Bellevue .....	January 9, 2001	

**Applications for new, limited-purpose national bank charters, approved and denied, by state,  
January 1 to June 30, 2001**

Title and location	Type of bank	Approved	Denied
<b>Colorado</b> AMG Guaranty Trust, National Association, Greenwood Village . . . . .	Trust (non-deposit)	June 5, 2001	
<b>New York</b> The Goldman Sachs Trust Company, National Association, New York . . .	Trust (non-deposit)	March 1, 2001	
<b>South Dakota</b> Marquette Trust Company of South Dakota, National Association, Sioux Falls . . . . .	Trust (non-deposit)	June 28, 2001	
<b>Texas</b> Midland Trust Company, National Association, Midland . . . . .	Trust (non-deposit)	January 24, 2001	

**New, full-service national bank charters issued,  
January 1 to June 30, 2001**

Title and location	Charter number	Date opened
<b>California</b>		
Bridge Bank of Silicon Valley, National Association, Santa Clara.....	024129	May 14, 2001
Business First National Bank, Santa Barbara .....	000240	January 26, 2001
California First National Bank, Santa Ana.....	023925	May 23, 2001
<b>Georgia</b>		
Futurus Bank, National Association, Alpharetta.....	023989	May 2, 2001
<b>Illinois</b>		
Advantage National Bank, Elk Grove Village.....	024150	January 22, 2001
<b>Iowa</b>		
The National Bank, Bettendorf.....	024171	January 22, 2001
<b>Kansas</b>		
American State Bank & Trust Company, National Association, Great Bend.....	024183	April 20, 2001
Community First National Bank, Manhattan.....	024080	February 1, 2001
<b>Kentucky</b>		
Boone National Bank, Burlington.....	024138	April 30, 2001
<b>Nebraska</b>		
American National Bank, Lincoln.....	024188	March 19, 2001
Heritage Bank, National Association, Doniphan.....	024155	January 18, 2001
<b>Texas</b>		
Community Bank of Texas, National Association, Grand Prairie.....	024156	May 30, 2001

**New, limited-purpose national bank charters issued,  
January 1 to June 30, 2001**

Title and location	Charter number	Date opened
<b>Georgia</b>		
Bank of America Georgia, National Association, Atlanta . . . . .	024166	February 13, 2001
AMVESCAP National Trust Company, Atlanta . . . . .	024106	December 31, 2000
<b>Iowa</b>		
First Community Trust, National Association, Dubuque . . . . .	024120	January 2, 2001
<b>Mississippi</b>		
Mississippi National Bankers Bank, Ridgeland . . . . .	024160	December 27, 2000
<b>Nebraska</b>		
World's Foremost Bank, National Association, Sidney . . . . .	024125	March 23, 2001
<b>Texas</b>		
Midland Trust Company, National Association, Midland . . . . .	024128	February 16, 2001
<b>Washington</b>		
Neuberger Berman National Trust Company, Seattle . . . . .	024151	January 5, 2001

**State-chartered banks converted to full-service national banks,  
January 1 to June 30, 2001**

Title and location (charter number)	Effective date	Total assets
<b>Arizona</b>		
First National Bank of Arizona (024189) conversion of Rocky Mountain Bank, Chandler .....	January 31, 2001	126,583,000
<b>Arkansas</b>		
One Bank & Trust, National Association (024126) conversion of One Bank & Trust, Little Rock .....	May 1, 2001	186,042,000
<b>District of Columbia</b>		
Effinity Bank, National Association (024141) conversion of Treasury Bank, Washington .....	May 17, 2001	110,981,000
<b>Iowa</b>		
Mills County Bank National Association (024192) conversion of Mills County State Bank, Glenwood .....	May 1, 2001	90,900,000
<b>New Jersey</b>		
Monmouth Community Bank, National Association (024240) conversion of Monmouth Community Bank, Long Beach .....	June 8, 2001	80,805,000
<b>Texas</b>		
First National Bank (024185) conversion of State Bank, Alpine .....	January 19, 2001	43,338,000



**State-chartered banks converted to limited-purpose national banks,  
January 1 to June 30, 2001**

Title and location (charter number)	Effective date	Total assets
<b>Rhode Island</b> New England Trust Company, National Association (024230) conversion of New England Trust Company, Providence .....	May 31, 2001	4,030,000

**Nonbanking institutions converted to full-service national banks,  
January 1 to June 30, 2001**

Title and location (charter number)	Effective date	Total assets
<b>Maryland</b> FBR National Bank & Trust (024087) conversion of Rushmore Trust and Savings, FSB, Bethesda .....	March 31, 2001	22,737,000

**Applications for national bank charters, by state and charter type,  
January 1 to June 30, 2001**

	Received	Approved	Denied	Charters issued					
				New, full-service national bank charters issued	New, limited-purpose national bank charters issued	Full-service national charters issued to converting state-chartered banks	Limited-purpose national charters issued to converting state-chartered banks	Full-service national charters issued to converting nonbanking institutions	Limited-purpose national charters issued to converting nonbanking institutions
Alabama.....	1	1	0	0	0	0	0	0	0
Alaska.....	0	0	0	0	0	0	0	0	0
Arizona.....	2	1	0	0	0	0	1	0	0
Arkansas.....	0	0	0	0	0	0	1	0	0
California.....	3	3	0	3	0	0	0	0	0
Colorado.....	1	1	0	0	0	0	0	0	0
Connecticut.....	0	0	0	0	0	0	0	0	0
Delaware.....	0	0	0	0	0	0	0	0	0
District of Columbia..	0	0	0	0	0	0	1	0	0
Florida.....	1	1	0	0	0	0	0	0	0
Georgia.....	3	3	0	1	2	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.....	1	0	0	1	0	0	0	0	0
Indiana.....	0	0	0	0	0	0	0	0	0
Iowa.....	0	0	0	1	1	1	0	0	0
Kansas.....	0	1	0	0	2	0	0	0	0
Kentucky.....	0	0	0	1	0	0	0	0	0
Louisiana.....	0	0	0	0	0	0	0	0	0
Maine.....	0	0	0	0	0	0	0	0	0
Maryland.....	0	1	0	0	0	0	0	1	0
Massachusetts.....	0	1	0	0	0	0	0	0	0
Michigan.....	0	0	0	0	0	0	0	0	0
Minnesota.....	6	6	0	0	0	0	0	0	0
Mississippi.....	0	0	0	0	1	0	0	0	0
Missouri.....	0	0	0	0	0	0	0	0	0
Montana.....	0	0	0	0	0	0	0	0	0
Nebraska.....	0	0	0	2	1	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	0	0	1	0	0	0
New Mexico.....	0	0	0	0	0	0	0	0	0
New York.....	2	2	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	0	0	0	0	0	0
Oklahoma.....	0	1	0	0	0	0	0	0	0
Oregon.....	0	0	0	0	0	0	0	0	0
Pennsylvania.....	1	1	0	0	0	0	0	0	0
Rhode Island.....	1	0	0	0	0	0	1	0	0
South Carolina.....	0	0	1	0	0	0	0	0	0
South Dakota.....	1	1	0	0	0	0	0	0	0
Tennessee.....	0	0	0	0	0	0	0	0	0
Texas.....	2	1	0	1	1	1	0	0	0
Utah.....	0	0	0	0	0	0	0	0	0
Vermont.....	0	0	0	0	0	0	0	0	0
Virginia.....	1	0	0	0	0	0	0	0	0
Washington.....	0	1	0	0	1	0	0	0	0
West Virginia.....	0	0	0	0	0	0	0	0	0
Wisconsin.....	0	0	0	0	0	0	0	0	0
Wyoming.....	0	0	0	0	0	0	0	0	0
Total.....	28	26	1	12	7	6	1	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,  
January 1 to June 30, 2001**

Title and location (charter number)	Effective date	Total assets
<b>Illinois</b>		
D.L. Moody Trust Company, National Association, Chicago (023707) .....	March 28, 2001	3,405,000
<b>South Dakota</b>		
United Credit National Bank, Sioux Falls (023116) .....	January 29, 2001	1,000
<b>Vermont</b>		
VNB National Trust Company, Brattleboro (023591) .....	December 29, 2000	3,584,000

**National banks merged out of the national banking system,  
January 1 to June 30, 2001**

Title and location	Charter number	Effective date
<b>Arizona</b>		
Jewelers National Bank, Tempe . . . . .	023403	March 8, 2001
<b>California</b>		
Founders National Bank of Los Angeles, Los Angeles . . . . .	022394	April 30, 2001
<b>Florida</b>		
Marine National Bank of Jacksonville, Jacksonville . . . . .	015653	January 2, 2001
<b>Georgia</b>		
First National Bank of Northwest Georgia, Calhoun . . . . .	007549	May 11, 2001
Wayne National Bank, Jesup . . . . .	022047	May 11, 2001
First National Bank of Effingham, Springfield . . . . .	021790	May 11, 2001
First National Bank of West Point, West Point . . . . .	014547	March 2, 2001
<b>Indiana</b>		
The Holland National Bank, Holland . . . . .	009090	October 1, 2000
<b>Kentucky</b>		
The First National Bank of Paintsville, Paintsville . . . . .	013763	March 16, 2001
<b>Mississippi</b>		
First National Bank of Holmes County, Lexington . . . . .	013313	June 23, 2000
<b>Montana</b>		
Stockman Bank, National Association, Conrad . . . . .	023803	May 4, 2001
<b>New Mexico</b>		
First Security Bank of New Mexico, National Association, Albuquerque . . . . .	013814	February 16, 2001
<b>New York</b>		
Premier National Bank, Poughkeepsie . . . . .	000035	February 9, 2001
<b>Ohio</b>		
Capital Bank, National Association, Sylvania . . . . .	018764	March 9, 2001
Fifth Third Bank, Northwestern Ohio, National Association, Toledo . . . . .	014586	December 29, 2000
<b>Pennsylvania</b>		
Keystone Financial Bank, National Association, Harrisburg . . . . .	001663	October 6, 2000
Guaranty Bank, National Association, Shamokin . . . . .	005625	May 31, 2001
<b>South Dakota</b>		
Founders Trust National Bank, Sioux Falls . . . . .	022915	March 31, 2001
<b>Texas</b>		
City National Bank, Austin . . . . .	023198	January 2, 2001
Independent National Bank, Irving . . . . .	017911	March 16, 2001
Bayshore National Bank of La Porte, La Porte . . . . .	015468	March 30, 2001
CaminoReal Bank, National Association, San Antonio . . . . .	018350	June 8, 2001

**Failed national banks acquired by other than national banks,  
January 1 to June 30, 2001**

Title and location	Charter number	Effective date
<b>Illinois</b> The National State Bank of Metropolis, Metropolis .....	005254	December 14, 2000
<b>Ohio</b> The Malta National Bank, Malta .....	002052	May 3, 2001

**National banks converted out of the national banking system,  
January 1 to June 30, 2001**

Title and location (charter number)	Effective date	Total assets
<b>Alabama</b>		
AmeriFirst Bank, National Association, Union Springs (012962) .....	December 31, 2000	120,217,000
<b>Arkansas</b>		
The Planters National Bank of Hughes, Hughes (011542) .....	January 31, 2001	22,209,000
<b>Illinois</b>		
First National Bank, Grand Tower (007712) .....	January 10, 2001	13,860,000
<b>Maryland</b>		
Farmers & Mechanics National Bank, Frederick (001267) .....	March 31, 2001	1,532,406,000
<b>Missouri</b>		
American Sterling Bank, A National Association, Sugar Creek (015169) .....	February 28, 2001	179,820,000
<b>New Jersey</b>		
United National Bank, Bridgewater (005621) .....	May 4, 2001	2,108,980,000
<b>North Carolina</b>		
First Charter National Bank, Concord (003903) .....	June 22, 2001	2,912,255,000
<b>North Dakota</b>		
First National Bank, Bowbells (007116) .....	May 3, 2001	39,966,000
<b>Oklahoma</b>		
First National Bank at Antlers, Antlers (014131) .....	December 29, 2000	89,085,000
First National Bank and Trust Company in Clinton, Clinton (014352) .....	June 1, 2001	41,210,000
Heritage Trust Company, National Association, Oklahoma City (023620) .....	May 30, 2001	2,904,000
National Bank of Commerce, Oklahoma City (017457) .....	June 28, 2001	131,551,000
National Bank of Commerce, Tulsa (013756) .....	June 28, 2001	136,648,000
<b>South Carolina</b>		
Hartsville Community Bank, National Association, Hartsville (023798) .....	January 10, 2001	89,109,000
<b>Texas</b>		
First National Bank of West Texas, Hale Center (012744) .....	January 23, 2001	36,521,000

**Federal branches and agencies of foreign banks in operation,  
January 1 to June 30, 21**

	In operation January 1, 2001	Opened January 1–June 30	Closed January 1–June 30	In operation June 30, 2001
<b>Federal branches</b>				
California .....	0	0	0	1
Connecticut .....	1	0	0	1
District of Columbia .....	1	0	0	1
New York .....	38	0	2	36
Washington .....	1	0	0	1
<b>Limited federal branches</b>				
California .....	7	0	0	7
District of Columbia .....	1	0	0	1
New York .....	3	0	0	3
<b>Federal agency</b>				
Illinois .....	1	0	0	1
<b>Total United States</b>	<b>54</b>	<b>0</b>	<b>2</b>	<b>52</b>



---

# Tables on the Financial Performance of National Banks

---

	<i>Page</i>
Assets, liabilities, and capital accounts of national banks, June 30, 2000 and June 30, 2001 .....	93
Quarterly income and expenses of national banks, second quarter 2000 and second quarter 2001 .....	94
Year-to-date income and expenses of national banks, through June 30, 2000 and through June 30, 2001 ..	95
Assets of national banks by asset size, June 30, 2001 .....	96
Past-due and nonaccrual loans and leases of national banks by asset size, June 30, 2001 .....	97
Liabilities of national banks by asset size, June 30, 2001 .....	98
Off-balance-sheet items of national banks by asset size, June 30, 2001 .....	99
Quarterly income and expenses of national banks by asset size, second quarter 2001 .....	100
Year-to-date income and expenses of national banks by asset size, through June 30, 2001 .....	101
Quarterly net loan and lease losses of national banks by asset size, second quarter 2001 .....	102
Year-to-date net loan and lease losses of national banks by asset size, through June 30, 2001 .....	103
Number of national banks by state and asset size, June 30, 2001 .....	104
Total assets of national banks by state and asset size, June 30, 2001 .....	105



**Assets, liabilities, and capital accounts of national banks**  
**June 30, 2000 and June 30, 2001**  
(Dollar figures in millions)

	June 30, 2000	June 30, 2001	Change June 30, 2000– June 30, 2001 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
Number of institutions . . . . .	2,302	2,176	(126)	(5.47)
<b>Total assets . . . . .</b>	<b>\$3,363,683</b>	<b>\$3,448,292</b>	<b>\$84,609</b>	<b>2.52</b>
Cash and balances due from depositories . . . . .	192,811	192,378	(433)	(0.22)
Noninterest-bearing balances, currency and coin . . . . .	144,566	150,409	5,843	4.04
Interest bearing balances . . . . .	48,246	41,969	(6,276)	(13.01)
<b>Securities . . . . .</b>	<b>516,153</b>	<b>486,500</b>	<b>(29,653)</b>	<b>(5.74)</b>
Held-to-maturity securities, amortized cost . . . . .	44,477	27,490	(16,987)	(38.19)
Available-for-sale securities, fair value . . . . .	471,676	459,010	(12,666)	(2.69)
<b>Federal funds sold and securities purchased . . . . .</b>	<b>109,743</b>	<b>139,584</b>	<b>29,842</b>	<b>27.19</b>
<b>Net loans and leases . . . . .</b>	<b>2,160,964</b>	<b>2,214,395</b>	<b>53,430</b>	<b>2.47</b>
Total loans and leases . . . . .	2,200,230	2,255,759	55,530	2.52
Loans and leases, gross . . . . .	2,201,841	2,257,242	55,401	2.52
Less: Unearned income . . . . .	1,611	1,483	(129)	(8.00)
Less: Reserve for losses . . . . .	39,266	41,365	2,099	5.35
<b>Assets held in trading account . . . . .</b>	<b>107,321</b>	<b>115,511</b>	<b>8,190</b>	<b>7.63</b>
<b>Other real estate owned . . . . .</b>	<b>1,507</b>	<b>1,682</b>	<b>175</b>	<b>11.61</b>
<b>Intangible assets . . . . .</b>	<b>78,384</b>	<b>76,274</b>	<b>(2,110)</b>	<b>(2.69)</b>
<b>All other assets . . . . .</b>	<b>196,800</b>	<b>221,968</b>	<b>25,168</b>	<b>12.79</b>
<b>Total liabilities and equity capital . . . . .</b>	<b>3,363,683</b>	<b>3,448,292</b>	<b>84,609</b>	<b>2.52</b>
Deposits in domestic offices . . . . .	1,788,806	1,890,053	101,247	5.66
Deposits in foreign offices . . . . .	408,226	395,598	(12,628)	(3.09)
<b>Total deposits . . . . .</b>	<b>2,197,032</b>	<b>2,285,651</b>	<b>88,619</b>	<b>4.03</b>
Noninterest-bearing deposits . . . . .	426,807	445,742	18,935	4.44
Interest-bearing deposits . . . . .	1,770,225	1,839,909	69,685	3.94
<b>Federal funds purchased and securities sold . . . . .</b>	<b>268,417</b>	<b>242,413</b>	<b>(26,004)</b>	<b>(9.69)</b>
<b>Other borrowed money . . . . .</b>	<b>349,527</b>	<b>349,758</b>	<b>231</b>	<b>0.07</b>
<b>Trading liabilities less revaluation losses . . . . .</b>	<b>18,682</b>	<b>22,120</b>	<b>3,438</b>	<b>18.40</b>
<b>Subordinated notes and debentures . . . . .</b>	<b>59,787</b>	<b>64,681</b>	<b>4,894</b>	<b>8.19</b>
<b>All other liabilities . . . . .</b>	<b>154,085</b>	<b>174,269</b>	<b>20,184</b>	<b>13.10</b>
Trading liabilities revaluation losses . . . . .	51,658	51,490	(167)	(0.32)
Other . . . . .	102,427	122,778	20,351	19.87
<b>Total equity capital . . . . .</b>	<b>285,504</b>	<b>309,400</b>	<b>23,896</b>	<b>8.37</b>
Perpetual preferred stock . . . . .	932	582	(351)	(37.64)
Common stock . . . . .	14,711	13,268	(1,443)	(9.81)
Surplus . . . . .	155,483	162,248	6,765	4.35
Retained earnings and other comprehensive income . . . . .	115,429	133,911	18,482	16.01
Other equity capital components . . . . .	NA	(32)	(32)	NM

NA—indicates not available prior to 2001.

NM—indicates calculated percent change is not meaningful.

**Quarterly income and expenses of national banks**  
**Second quarter 2000 and second quarter 2001**  
(Dollar figures in millions)

	Second quarter 2000	Second quarter 2001	Change Second quarter, 2000– second quarter, 2001 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
<b>Number of institutions</b> .....	<b>2,302</b>	<b>2,176</b>	<b>(126)</b>	<b>(5.47)</b>
<b>Net income</b> .....	<b>\$6,605</b>	<b>\$10,998</b>	<b>\$4,393</b>	<b>66.50</b>
<b>Net interest income</b> .....	<b>29,424</b>	<b>30,609</b>	<b>1,185</b>	<b>4.03</b>
Total interest income .....	60,311	58,079	(2,232)	(3.70)
On loans .....	46,298	44,895	(1,402)	(3.03)
From lease financing receivables .....	1,940	1,940	0	0.01
On balances due from depositories .....	912	704	(208)	(22.81)
On securities .....	8,823	7,682	(1,141)	(12.93)
From assets held in trading account .....	786	989	203	25.86
On federal funds sold and securities repurchased .....	1,553	1,560	7	0.43
Less: Interest expense .....	30,887	27,470	(3,417)	(11.06)
On deposits .....	19,927	18,540	(1,388)	(6.96)
Of federal funds purchased and securities sold .....	3,812	2,738	(1,074)	(28.18)
On demand notes and other borrowed money* .....	6,146	5,201	(945)	(15.38)
On subordinated notes and debentures .....	1,001	991	(10)	(1.00)
<b>Less: Provision for losses</b> .....	<b>5,061</b>	<b>6,244</b>	<b>1,182</b>	<b>23.36</b>
<b>Noninterest income</b> .....	<b>21,636</b>	<b>24,600</b>	<b>2,963</b>	<b>13.70</b>
From fiduciary activities .....	2,352	2,089	(263)	(11.19)
Service charges on deposits .....	3,886	4,401	515	13.24
Trading revenue .....	1,327	1,551	225	16.93
From interest rate exposures .....	245	530	286	116.77
From foreign exchange exposures .....	771	882	111	14.42
From equity security and index exposures .....	289	59	(230)	NM
From commodity and other exposures .....	22	76	54	NM
Total other noninterest income .....	30,726	16,557	(14,168)	(46.11)
<b>Gains/losses on securities</b> .....	<b>(983)</b>	<b>480</b>	<b>1,463</b>	<b>NM</b>
<b>Less: Noninterest expense</b> .....	<b>33,992</b>	<b>32,220</b>	<b>(1,772)</b>	<b>(5.21)</b>
Salaries and employee benefits .....	12,135	12,782	647	5.34
Of premises and fixed assets .....	3,874	3,868	(6)	(0.16)
Other noninterest expense .....	17,982	14,124	(3,858)	(21.46)
<b>Less: Taxes on income before extraordinary items</b> .....	<b>4,419</b>	<b>6,129</b>	<b>1,710</b>	<b>38.69</b>
<b>Income/loss from extraordinary items, net of income taxes</b> .....	<b>(0.01)</b>	<b>(99)</b>	<b>(99)</b>	<b>NM</b>
<b>Memoranda:</b>				
Net operating income .....	7,421	10,773	3,352	45.16
Income before taxes and extraordinary items .....	11,024	17,225	6,201	56.25
Income net of taxes before extraordinary items .....	6,605	11,096	4,491	67.99
Cash dividends declared .....	6,852	7,105	253	3.69
Net charge-offs to loan and lease reserve .....	3,636	5,545	1,909	52.50
Charge-offs to loan and lease reserve .....	4,571	6,626	2,055	44.96
Less: Recoveries credited to loan and lease reserve .....	935	1,081	146	15.63

\* Includes mortgage indebtedness

NM—indicates calculated percent change is not meaningful.

**Year-to-date income and expenses of national banks**  
**Through June 30, 2000 and through June 30, 2001**  
(Dollar figures in millions)

	June 30, 2000	June 30, 2001	Change June 30, 2000– June 30, 2001 fully consolidated	
			Amount	Percent
	Consolidated foreign and domestic	Consolidated foreign and domestic		
<b>Number of institutions</b> .....	<b>2,302</b>	<b>2,176</b>	<b>(126)</b>	<b>(5.47)</b>
<b>Net income</b> .....	<b>\$18,147</b>	<b>\$22,383</b>	<b>\$4,236</b>	<b>23.34</b>
<b>Net interest income</b> .....	<b>58,399</b>	<b>60,175</b>	<b>1,776</b>	<b>3.04</b>
Total interest income .....	117,647	118,986	1,339	1.14
On loans .....	90,377	92,136	1,760	1.95
From lease financing receivables .....	3,599	3,962	363	10.09
On balances due from depositories .....	1,648	1,523	(125)	(7.57)
On securities .....	17,609	15,675	(1,935)	(10.99)
From assets held in trading account .....	1,462	1,947	484	33.11
On federal funds sold and securities repurchased ..	2,952	3,237	285	9.66
Less: Interest expense .....	59,247	58,810	(437)	(0.74)
On deposits .....	38,210	39,294	1,084	2.84
Of federal funds purchased and securities sold .....	7,316	6,020	(1,297)	(17.72)
On demand notes and other borrowed money* .....	11,783	11,397	(386)	(3.27)
On subordinated notes and debentures .....	1,938	2,099	161	8.33
<b>Less: Provision for losses</b> .....	<b>9,145</b>	<b>11,559</b>	<b>2,415</b>	<b>26.41</b>
<b>Noninterest income</b> .....	<b>46,401</b>	<b>49,606</b>	<b>3,205</b>	<b>6.91</b>
From fiduciary activities .....	4,932	4,213	(719)	(14.58)
Service charges on deposits .....	7,608	8,378	770	10.12
Trading revenue .....	3,135	3,701	566	18.07
From interest rate exposures .....	1,025	1,610	585	57.06
From foreign exchange exposures .....	1,504	1,709	205	13.66
From equity security and index exposures .....	571	246	(325)	(56.88)
From commodity and other exposures .....	35	133	98	276.54
Total other noninterest income .....	14,071	33,313	19,242	136.75
<b>Gains/losses on securities</b> .....	<b>(1,686)</b>	<b>945</b>	<b>2,631</b>	<b>(156.05)</b>
<b>Less: Noninterest expense</b> .....	<b>65,014</b>	<b>64,225</b>	<b>(789)</b>	<b>(1.21)</b>
Salaries and employee benefits .....	24,592	25,357	765	3.11
Of premises and fixed assets .....	7,827	7,710	(116)	(1.49)
Other noninterest expense .....	32,595	28,471	(4,124)	(12.65)
<b>Less: Taxes on income before extraordinary items</b> .....	<b>10,825</b>	<b>12,190</b>	<b>1,365</b>	<b>12.61</b>
<b>Income/loss from extraordinary items, net of income taxes</b>	<b>16</b>	<b>(368)</b>	<b>(385)</b>	<b>NM</b>
<b>Memoranda:</b>				
Net operating income .....	19,405	22,118	2,713	13.98
Income before taxes and extraordinary items .....	28,956	34,941	5,986	20.67
Income net of taxes before extraordinary items .....	18,131	22,752	4,621	25.49
Cash dividends declared .....	13,512	14,051	539	3.99
Net charge-offs to loan and lease reserve .....	7,254	10,331	3,077	42.42
Charge-offs to loan and lease reserve .....	9,137	12,391	3,254	35.61
Less: Recoveries credited to loan and lease reserve .....	1,883	2,061	177	9.41

\* Includes mortgage indebtedness

NM—indicates calculated percent change is not meaningful.

## Assets of national banks by asset size

June 30, 2001

(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	2,176	1,049	956	130	41	8,178
<b>Total assets</b>	<b>\$3,448,292</b>	<b>\$54,364</b>	<b>\$250,973</b>	<b>\$413,198</b>	<b>\$2,729,757</b>	<b>\$6,360,162</b>
Cash and balances due from	192,378	2,942	11,334	20,657	157,445	384,680
Securities	486,500	12,746	59,012	85,502	329,240	1,056,247
Federal funds sold and securities purchased	139,584	3,721	10,950	18,118	106,796	320,237
<b>Net loans and leases</b>	<b>2,214,395</b>	<b>32,302</b>	<b>156,155</b>	<b>258,446</b>	<b>1,767,491</b>	<b>3,793,311</b>
Total loans and leases	2,255,759	32,742	158,372	263,825	1,800,820	3,859,060
Loans and leases, gross	2,257,242	32,803	158,577	263,926	1,801,935	3,861,824
Less: Unearned income	1,483	61	205	101	1,115	2,764
Less: Reserve for losses	41,365	439	2,217	5,380	33,328	65,749
Assets held in trading account	115,511	2	63	771	114,675	313,772
Other real estate owned	1,682	67	230	170	1,214	3,203
Intangible assets	76,274	136	1,527	6,034	68,577	107,623
All other assets	221,968	2,447	11,703	23,500	184,318	381,091
<b>Gross loans and leases by type:</b>						
<b>Loans secured by real estate</b>	<b>935,701</b>	<b>18,972</b>	<b>98,871</b>	<b>137,118</b>	<b>680,740</b>	<b>1,737,715</b>
1-4 family residential mortgages	467,576	8,552	41,115	62,312	355,597	808,360
Home equity loans	88,447	488	4,174	8,952	74,834	135,204
Multifamily residential mortgages	27,720	420	3,456	4,946	18,898	60,595
Commercial RE loans	225,389	5,516	35,967	42,686	141,220	479,047
Construction RE loans	86,720	1,840	9,937	16,167	58,776	184,611
Farmland loans	12,670	2,157	4,218	1,897	4,398	35,194
RE loans from foreign offices	27,179	0	3	160	27,016	34,705
<b>Commercial and industrial loans</b>	<b>631,895</b>	<b>5,615</b>	<b>28,983</b>	<b>52,006</b>	<b>545,290</b>	<b>1,025,888</b>
<b>Loans to individuals</b>	<b>375,796</b>	<b>4,412</b>	<b>20,875</b>	<b>55,218</b>	<b>295,290</b>	<b>610,629</b>
Credit cards*	162,307	178	3,402	23,786	134,942	226,326
Other revolving credit plans	21,208	77	459	1,915	18,757	26,287
Installment loans	192,280	4,158	17,014	29,517	141,591	358,016
All other loans and leases	313,851	3,803	9,848	19,584	280,616	487,591
<b>Securities by type:</b>						
<b>U.S. Treasury securities</b>	<b>21,338</b>	<b>809</b>	<b>2,965</b>	<b>4,046</b>	<b>13,518</b>	<b>55,016</b>
<b>Mortgage-backed securities</b>	<b>264,713</b>	<b>3,250</b>	<b>19,782</b>	<b>46,381</b>	<b>195,300</b>	<b>518,338</b>
Pass-through securities	185,101	2,239	12,481	29,276	141,106	330,298
Collateralized mortgage obligations	79,612	1,012	7,301	17,105	54,194	188,040
<b>Other securities</b>	<b>166,149</b>	<b>8,650</b>	<b>35,747</b>	<b>32,025</b>	<b>89,727</b>	<b>404,494</b>
Other U.S. government securities	58,340	5,854	20,358	14,465	17,664	187,856
State and local government securities	41,369	2,189	10,945	8,592	19,643	94,014
Other debt securities	59,187	465	3,264	8,036	47,423	104,967
Equity securities	7,252	142	1,180	933	4,997	17,657
<b>Memoranda:</b>						
Agricultural production loans	21,671	3,277	5,111	3,244	10,039	48,927
Pledged securities	232,388	4,967	27,726	41,394	158,301	517,636
Book value of securities	484,769	12,623	58,428	84,778	328,940	1,050,268
Available-for-sale securities	457,279	10,261	49,555	73,908	323,554	952,191
Held-to-maturity securities	27,490	2,361	8,873	10,870	5,386	98,077
Market value of securities	486,798	12,780	59,146	85,556	329,316	1,057,390
Available-for-sale securities	459,010	10,385	50,139	74,632	323,855	958,170
Held-to-maturity securities	27,788	2,396	9,007	10,924	5,462	99,220

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

## Past-due and nonaccrual loans and leases of national banks by asset size

**June 30, 2001**

(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	2,176	1,049	956	130	41	8,178
<b>Loans and leases past due 30–89 days</b>	<b>\$27,605</b>	<b>\$495</b>	<b>\$2,034</b>	<b>\$3,398</b>	<b>\$21,678</b>	<b>\$46,917</b>
Loans secured by real estate	12,618	259	1,012	1,268	10,079	20,854
1–4 family residential mortgages	8,307	142	515	531	7,119	12,392
Home equity loans	757	4	28	75	649	1,105
Multifamily residential mortgages	146	3	15	36	92	325
Commercial RE loans	1,634	61	294	318	962	3,734
Construction RE loans	1,096	27	122	277	670	2,199
Farmland loans	138	23	38	30	48	366
RE loans from foreign offices	540	0	0	0	540	733
Commercial and industrial loans	5,020	103	428	793	3,697	9,531
Loans to individuals	8,089	98	511	1,167	6,313	13,353
Credit cards	4,118	5	192	596	3,325	5,900
Installment loans and other plans	3,971	93	318	571	2,988	7,453
All other loans and leases	1,878	35	84	170	1,589	3,179
<b>Loans and leases past due 90+ days</b>	<b>7,542</b>	<b>113</b>	<b>456</b>	<b>1,056</b>	<b>5,916</b>	<b>12,264</b>
Loans secured by real estate	2,267	55	220	246	1,746	3,830
1–4 family residential mortgages	1,608	28	108	129	1,343	2,413
Home equity loans	106	1	4	14	87	202
Multifamily residential mortgages	24	0	7	2	14	46
Commercial RE loans	283	12	56	61	154	647
Construction RE loans	128	4	25	34	65	302
Farmland loans	50	10	20	7	13	144
RE loans from foreign offices	69	0	0	0	69	78
Commercial and industrial loans	825	24	75	139	587	1,614
Loans to individuals	4,063	18	143	638	3,264	6,195
Credit cards	2,929	2	99	478	2,349	3,973
Installment loans and other plans	1,134	16	43	160	915	2,222
All other loans and leases	387	16	18	33	319	625
<b>Nonaccrual loans and leases</b>	<b>23,292</b>	<b>229</b>	<b>1,042</b>	<b>1,535</b>	<b>20,485</b>	<b>36,370</b>
Loans secured by real estate	7,412	111	583	750	5,970	12,017
1–4 family residential mortgages	3,642	36	178	266	3,163	5,376
Home equity loans	255	1	11	22	222	371
Multifamily residential mortgages	107	1	10	21	75	208
Commercial RE loans	1,868	42	274	305	1,247	3,531
Construction RE loans	689	10	71	106	502	1,354
Farmland loans	214	21	40	29	125	440
RE loans from foreign offices	636	0	0	0	636	737
Commercial and industrial loans	12,616	73	321	611	11,612	19,213
Loans to individuals	1,386	16	76	92	1,203	2,269
Credit cards	408	0	33	37	338	813
Installment loans and other plans	978	15	43	55	865	1,456
All other loans and leases	2,002	30	63	85	1,824	3,046

## Liabilities of national banks by asset size

**June 30, 2001**

(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 .....	2,176	1,049	956	130	41	8,178
<b>Total liabilities and equity capital .....</b>	<b>\$3,448,292</b>	<b>\$54,364</b>	<b>\$250,973</b>	<b>\$413,198</b>	<b>\$2,729,757</b>	<b>\$6,360,162</b>
Deposits in domestic offices.....	\$1,890,053	\$45,815	\$202,226	\$269,173	\$1,372,839	\$3,565,001
Deposits in foreign offices.....	395,598	0	252	2,586	392,760	679,732
<b>Total deposits.....</b>	<b>2,285,651</b>	<b>45,815</b>	<b>202,478</b>	<b>271,760</b>	<b>1,765,599</b>	<b>4,244,733</b>
Noninterest bearing .....	445,742	7,170	30,941	47,748	359,883	753,219
Interest bearing .....	1,839,909	38,645	171,537	224,011	1,405,716	3,491,517
<b>Other borrowed funds.....</b>	<b>349,758</b>	<b>1,343</b>	<b>11,875</b>	<b>49,247</b>	<b>287,293</b>	<b>560,426</b>
Subordinated notes and debentures .....	64,681	7	158	3,188	61,328	89,580
<b>All other liabilities .....</b>	<b>174,269</b>	<b>550</b>	<b>3,386</b>	<b>8,387</b>	<b>161,945</b>	<b>332,571</b>
<b>Equity capital.....</b>	<b>309,400</b>	<b>6,146</b>	<b>25,841</b>	<b>39,467</b>	<b>237,945</b>	<b>557,373</b>
<b>Total deposits by depositor:</b>						
Individuals and corporations .....	1,752,780	29,728	142,840	215,886	1,364,326	3,252,046
U.S., state, and local governments.....	81,703	3,701	14,885	14,590	48,527	169,497
Depositories in the U.S.....	52,799	474	1,337	530	50,458	105,171
Foreign banks and governments.....	65,837	3	309	1,216	64,308	117,337
<b>Domestic deposits by depositor:</b>						
Individuals and corporations .....	1,463,370	29,728	142,798	213,932	1,076,912	2,766,682
U.S., state, and local governments.....	81,703	3,701	14,885	14,590	48,527	169,497
Depositories in the U.S.....	6,285	474	1,337	491	3,982	16,777
Foreign banks and governments.....	6,406	3	99	629	5,674	12,063
<b>Foreign deposits by depositor:</b>						
Individuals and corporations .....	289,410	0	42	1,954	287,414	485,365
Depositories in the U.S.....	46,514	0	0	38	46,476	88,394
Foreign banks and governments.....	59,432	0	210	587	58,634	105,275
<b>Deposits in domestic offices by type:</b>						
<b>Transaction deposits.....</b>	<b>359,392</b>	<b>13,274</b>	<b>47,936</b>	<b>43,045</b>	<b>255,136</b>	<b>656,930</b>
Demand deposits.....	295,807	7,115	27,991	34,595	226,105	504,774
<b>Savings deposits.....</b>	<b>887,545</b>	<b>9,354</b>	<b>58,604</b>	<b>124,801</b>	<b>694,786</b>	<b>1,549,971</b>
Money market deposit accounts .....	626,798	5,201	35,462	85,031	501,103	1,082,921
Other savings deposits .....	260,747	4,153	23,141	39,771	193,683	467,050
<b>Time deposits .....</b>	<b>643,116</b>	<b>23,187</b>	<b>95,687</b>	<b>101,327</b>	<b>422,916</b>	<b>1,358,100</b>
Small time deposits .....	376,617	15,807	61,940	61,617	237,254	777,377
Large time deposits .....	266,499	7,380	33,747	39,710	185,662	580,722



## Off-balance-sheet items of national banks by asset size

**June 30, 2001**

(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 .....	2,176	1,049	956	130	41	8,178
<b>Unused commitments</b> .....	<b>\$3,242,855</b>	<b>\$88,660</b>	<b>\$334,082</b>	<b>\$265,363</b>	<b>\$2,554,750</b>	<b>\$4,674,885</b>
Home equity lines .....	146,750	379	3,991	10,815	131,565	197,310
Credit card lines .....	1,994,038	84,236	305,540	202,380	1,401,883	2,726,528
Commercial RE, construction, and land .....	77,922	1,067	7,366	13,118	56,371	157,514
All other unused commitments .....	1,024,145	2,978	17,186	39,049	964,931	1,593,533
<b>Letters of credit:</b>						
<b>Standby letters of credit</b> .....	<b>149,081</b>	<b>142</b>	<b>1,456</b>	<b>5,777</b>	<b>141,706</b>	<b>251,437</b>
Financial letters of credit .....	119,501	90	864	4,229	114,318	206,728
Performance letters of credit .....	29,579	52	592	1,548	27,388	44,709
<b>Commercial letters of credit</b> .....	<b>18,079</b>	<b>24</b>	<b>480</b>	<b>615</b>	<b>16,960</b>	<b>26,384</b>
<b>Securities lent</b> .....	<b>100,342</b>	<b>8</b>	<b>277</b>	<b>9,943</b>	<b>90,113</b>	<b>560,030</b>
<b>Spot foreign exchange contracts</b> .....	<b>220,820</b>	<b>0</b>	<b>7</b>	<b>88</b>	<b>220,724</b>	<b>440,002</b>
<b>Credit derivatives (notional value)</b>						
Reporting bank is the guarantor .....	44,680	0	20	7	44,653	176,855
Reporting bank is the beneficiary .....	78,568	0	50	0	78,518	174,420
<b>Derivative contracts (notional value)</b> .....	<b>17,323,017</b>	<b>44</b>	<b>2,998</b>	<b>38,381</b>	<b>17,281,594</b>	<b>47,772,923</b>
<b>Futures and forward contracts</b>						
Interest rate contracts .....	5,041,978	29	144	3,825	5,037,980	10,459,221
Foreign exchange contracts .....	2,641,336	29	130	3,345	2,637,833	5,802,746
All other futures and forwards .....	2,328,326	0	15	480	2,327,832	4,507,349
All other futures and forwards .....	72,315	0	0	0	72,315	149,125
<b>Option contracts</b> .....	<b>3,639,602</b>	<b>10</b>	<b>2,181</b>	<b>9,629</b>	<b>3,627,782</b>	<b>11,602,206</b>
Interest rate contracts .....	3,015,229	10	2,181	9,588	3,003,450	9,681,275
Foreign exchange contracts .....	428,478	0	0	2	428,476	1,129,395
All other options .....	195,895	0	0	39	195,856	791,535
<b>Swaps</b> .....	<b>8,518,189</b>	<b>5</b>	<b>603</b>	<b>24,921</b>	<b>8,492,660</b>	<b>25,360,222</b>
Interest rate contracts .....	8,090,864	5	551	20,035	8,070,273	24,146,611
Foreign exchange contracts .....	373,545	0	2	4,573	368,970	1,053,850
All other swaps .....	53,780	0	50	312	53,418	159,760
<b>Memoranda: Derivatives by purpose</b>						
Contracts held for trading .....	16,477,553	29	25	9,634	16,467,865	46,283,750
Contracts not held for trading .....	722,216	15	2,903	28,740	690,557	1,137,899
<b>Memoranda: Derivatives by position</b>						
Held for trading—positive fair value .....	185,254	0	1	121	185,131	563,517
Held for trading—negative fair value .....	177,693	0	0	99	177,594	548,351
Not for trading—positive fair value .....	8,908	0	15	241	8,653	11,612
Not for trading—negative fair value .....	4,844	0	24	127	4,693	7,578

**Quarterly income and expenses of national banks by asset size**  
**Second quarter 2001**  
(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 .....	2,176	1,049	956	130	41	8,178
Net income .....	\$10,998	\$129	\$795	\$1,209	\$8,864	\$19,164
<b>Net interest income</b> .....	<b>30,609</b>	<b>540</b>	<b>2,445</b>	<b>4,142</b>	<b>23,482</b>	<b>53,211</b>
Total interest income .....	58,079	997	4,534	7,540	45,007	104,329
On loans .....	44,895	747	3,459	5,842	34,848	77,169
From lease financing receivables .....	1,940	4	29	78	1,829	2,847
On balances due from depositories .....	704	12	28	31	634	1,656
On securities .....	7,682	188	865	1,294	5,334	16,014
From assets held in trading account .....	989	0	1	14	974	2,456
On fed. funds sold & securities repurchased .....	1,560	43	124	214	1,179	3,611
Less: Interest expense .....	27,470	457	2,089	3,399	21,525	51,118
On deposits .....	18,540	431	1,864	2,194	14,051	35,723
Of federal funds purchased & securities sold .....	2,738	6	73	473	2,186	5,525
On demand notes & other borrowed money* .....	5,201	19	151	688	4,343	8,478
On subordinated notes and debentures .....	991	0	3	44	945	1,393
<b>Less: Provision for losses</b> .....	<b>6,244</b>	<b>43</b>	<b>209</b>	<b>867</b>	<b>5,125</b>	<b>8,837</b>
<b>Noninterest income</b> .....	<b>24,600</b>	<b>254</b>	<b>1,317</b>	<b>2,884</b>	<b>20,145</b>	<b>39,184</b>
From fiduciary activities .....	2,089	13	141	394	1,542	5,025
Service charges on deposits .....	4,401	69	281	440	3,611	6,756
Trading revenue .....	1,551	0	2	(16)	1,566	2,826
From interest rate exposures .....	530	0	2	(26)	554	1,364
From foreign exchange exposures .....	882	0	0	2	881	924
From equity security and index exposures .....	59	0	0	5	54	408
From commodity and other exposures .....	76	0	0	0	76	116
Total other noninterest income .....	16,557	171	893	2,066	13,427	24,577
<b>Gains/losses on securities</b> .....	<b>480</b>	<b>4</b>	<b>23</b>	<b>23</b>	<b>430</b>	<b>861</b>
<b>Less: Noninterest expense</b> .....	<b>32,220</b>	<b>564</b>	<b>2,478</b>	<b>4,253</b>	<b>24,925</b>	<b>55,250</b>
Salaries and employee benefits .....	12,782	267	1,042	1,437	10,036	23,236
Of premises and fixed assets .....	3,868	67	296	436	3,069	6,840
Other noninterest expense .....	14,124	226	1,100	2,056	10,743	23,203
<b>Less: Taxes on income before extraord. items</b> .....	<b>6,129</b>	<b>53</b>	<b>323</b>	<b>683</b>	<b>5,070</b>	<b>9,988</b>
<b>Income/loss from extraord. items, net of taxes</b> .....	<b>(368)</b>	<b>(9)</b>	<b>23</b>	<b>(45)</b>	<b>(336)</b>	<b>(352)</b>
<b>Memoranda:</b>						
Net operating income .....	10,773	135	758	1,231	8,649	18,612
Income before taxes and extraordinary items .....	17,225	191	1,097	1,930	14,007	29,169
Income net of taxes before extraordinary items .....	11,096	139	774	1,247	8,937	19,180
Cash dividends declared .....	7,105	103	421	1,096	5,484	12,518
Net loan and lease losses .....	5,545	26	155	785	4,580	7,926
Charge-offs to loan and lease reserve .....	6,626	34	201	893	5,497	9,565
Less: Recoveries credited to loan & lease resv. ....	1,081	9	47	109	917	1,639

\* Includes mortgage indebtedness

**Year-to-date income and expenses of national banks by asset size**  
**Through June 30, 2001**  
(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 .....	2,176	1,049	956	130	41	8,178
<b>Net income</b> .....	<b>\$22,383</b>	<b>\$273</b>	<b>\$1,605</b>	<b>\$2,699</b>	<b>\$17,806</b>	<b>\$38,980</b>
<b>Net interest income</b> .....	<b>60,175</b>	<b>1,066</b>	<b>4,838</b>	<b>8,217</b>	<b>46,054</b>	<b>104,823</b>
Total interest income .....	118,986	1,993	9,150	15,472	92,371	213,521
On loans .....	92,136	1,476	6,968	11,977	71,715	157,914
From lease financing receivables .....	3,962	7	56	160	3,739	5,759
On balances due from depositories .....	1,523	23	57	74	1,368	3,564
On securities .....	15,675	389	1,764	2,668	10,854	32,661
From assets held in trading account .....	1,947	0	2	30	1,915	5,027
On fed. funds sold & securities repurchased .....	3,237	90	256	449	2,441	7,626
Less: Interest expense .....	58,810	927	4,312	7,254	46,317	108,698
On deposits .....	39,294	874	3,830	4,602	29,988	75,418
Of federal funds purchased & securities sold .....	6,020	14	164	1,066	4,776	12,033
On demand notes & other borrowed money* .....	11,397	39	313	1,496	9,550	18,330
On subordinated notes and debentures .....	2,099	0	5	91	2,003	2,917
Less: Provision for losses .....	11,559	72	380	1,429	9,679	16,775
<b>Noninterest income</b> .....	<b>49,606</b>	<b>490</b>	<b>2,654</b>	<b>5,693</b>	<b>40,769</b>	<b>79,231</b>
From fiduciary activities .....	4,213	29	286	793	3,105	10,093
Service charges on deposits .....	8,378	134	539	837	6,867	12,892
Trading revenue .....	3,701	0	4	46	3,651	6,809
From interest rate exposures .....	1,610	0	4	26	1,581	3,238
From foreign exchange exposures .....	1,709	0	0	4	1,705	2,252
From equity security and index exposures .....	246	0	0	13	233	1,113
From commodity and other exposures .....	133	0	0	0	133	187
Total other noninterest income .....	33,313	327	1,826	4,016	27,145	49,438
<b>Gains/losses on securities</b> .....	<b>945</b>	<b>9</b>	<b>48</b>	<b>94</b>	<b>795</b>	<b>2,030</b>
<b>Less: Noninterest expense</b> .....	<b>64,225</b>	<b>1,107</b>	<b>4,893</b>	<b>8,345</b>	<b>49,880</b>	<b>110,032</b>
Salaries and employee benefits .....	25,357	528	2,068	2,861	19,900	46,213
Of premises and fixed assets .....	7,710	135	590	863	6,121	13,653
Other noninterest expense .....	28,471	436	2,159	4,128	21,748	46,512
<b>Less: Taxes on income before extraord. items</b> .....	<b>12,190</b>	<b>104</b>	<b>684</b>	<b>1,486</b>	<b>9,916</b>	<b>19,946</b>
<b>Income/loss from extraord. items, net of taxes</b> .....	<b>(368)</b>	<b>(9)</b>	<b>23</b>	<b>(45)</b>	<b>(336)</b>	<b>(352)</b>
<b>Memoranda:</b>						
Net operating income .....	22,118	275	1,548	2,682	17,613	37,931
Income before taxes and extraordinary items .....	34,941	386	2,267	4,230	28,058	59,278
Income net of taxes before extraordinary items .....	22,752	282	1,583	2,744	18,143	39,332
Cash dividends declared .....	14,051	186	775	2,187	10,902	25,892
Net loan and lease losses .....	10,331	42	275	1,290	8,724	14,880
Charge-offs to loan and lease reserve .....	12,391	58	369	1,518	10,447	18,004
Less: Recoveries credited to loan & lease resv. ....	2,061	16	93	228	1,724	3,124

\* Includes mortgage indebtedness

**Quarterly net loan and lease losses of national banks by asset size**  
**Second quarter 2001**  
(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 .....	2,176	1,049	956	130	41	8,178
<b>Net charge-offs to loan and lease reserve .....</b>	<b>\$5,545</b>	<b>\$26</b>	<b>\$155</b>	<b>\$785</b>	<b>\$4,580</b>	<b>\$7,926</b>
Loans secured by real estate .....	386	4	14	56	312	546
1-4 family residential mortgages .....	224	1	5	35	183	292
Home equity loans .....	59	0	1	8	50	75
Multifamily residential mortgages .....	(5)	0	1	(0)	(6)	2
Commercial RE loans .....	63	3	4	7	49	110
Construction RE loans .....	16	0	2	4	10	34
Farmland loans .....	6	0	0	2	4	9
RE loans from foreign offices .....	0	0	0	0	0	0
<b>Commercial and industrial loans .....</b>	<b>2,126</b>	<b>9</b>	<b>44</b>	<b>173</b>	<b>1,900</b>	<b>3,111</b>
<b>Loans to individuals .....</b>	<b>2,750</b>	<b>11</b>	<b>89</b>	<b>538</b>	<b>2,112</b>	<b>3,859</b>
Credit cards .....	2,021	3	58	436	1,524	2,824
Installment loans and other plans .....	729	9	31	102	588	1,035
<b>All other loans and leases .....</b>	<b>282</b>	<b>1</b>	<b>8</b>	<b>17</b>	<b>256</b>	<b>410</b>
<b>Charge-offs to loan and lease reserve .....</b>	<b>6,626</b>	<b>34</b>	<b>201</b>	<b>893</b>	<b>5,497</b>	<b>9,565</b>
Loans secured by real estate .....	497	5	22	64	406	701
1-4 family residential mortgages .....	279	1	8	39	231	363
Home equity loans .....	68	0	2	8	58	89
Multifamily residential mortgages .....	2	0	1	0	1	9
Commercial RE loans .....	95	3	9	10	72	156
Construction RE loans .....	19	0	2	4	12	41
Farmland loans .....	7	0	1	2	5	13
RE loans from foreign offices .....	28	0	0	0	28	31
<b>Commercial and industrial loans .....</b>	<b>2,420</b>	<b>12</b>	<b>55</b>	<b>198</b>	<b>2,155</b>	<b>3,576</b>
<b>Loans to individuals .....</b>	<b>3,356</b>	<b>15</b>	<b>114</b>	<b>609</b>	<b>2,618</b>	<b>4,767</b>
Credit cards .....	2,330	3	69	476	1,782	3,303
Installment loans and other plans .....	1,026	12	45	133	836	1,464
<b>All other loans and leases .....</b>	<b>353</b>	<b>3</b>	<b>11</b>	<b>22</b>	<b>318</b>	<b>521</b>
<b>Recoveries credited to loan and lease reserve .....</b>	<b>1,081</b>	<b>9</b>	<b>47</b>	<b>109</b>	<b>917</b>	<b>1,639</b>
Loans secured by real estate .....	111	1	8	8	94	155
1-4 family residential mortgages .....	55	0	2	4	49	72
Home equity loans .....	9	0	1	1	8	13
Multifamily residential mortgages .....	7	0	0	0	6	7
Commercial RE loans .....	31	0	5	3	23	45
Construction RE loans .....	2	0	0	0	2	8
Farmland loans .....	1	0	1	0	0	3
RE loans from foreign offices .....	5	0	0	0	5	7
<b>Commercial and industrial loans .....</b>	<b>294</b>	<b>3</b>	<b>11</b>	<b>25</b>	<b>256</b>	<b>465</b>
<b>Loans to individuals .....</b>	<b>606</b>	<b>4</b>	<b>25</b>	<b>70</b>	<b>506</b>	<b>908</b>
Credit cards .....	309	0	11	40	259	479
Installment loans and other plans .....	297	4	14	31	248	429
<b>All other loans and leases .....</b>	<b>70</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>62</b>	<b>111</b>

**Year-to-date net loan and lease losses of national banks by asset size**

**Through June 30, 2001**

(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 .....	2,176	1,049	956	130	41	8,178
<b>Net charge-offs to loan and lease reserve .....</b>	<b>10,331</b>	<b>42</b>	<b>275</b>	<b>1,290</b>	<b>8,724</b>	<b>14,880</b>
Loans secured by real estate .....	732	5	25	105	596	1,019
1-4 family residential mortgages .....	381	2	12	52	315	498
Home equity loans .....	130	0	2	29	99	156
Multifamily residential mortgages .....	(1)	0	1	0	(2)	7
Commercial RE loans .....	127	3	8	14	102	224
Construction RE loans .....	41	1	2	9	29	69
Farmland loans .....	15	0	(0)	2	13	20
RE loans from foreign offices .....	40	0	0	0	40	44
Commercial and industrial loans .....	3,761	16	68	255	3,423	5,463
Loans to individuals .....	5,232	18	169	899	4,146	7,519
Credit cards .....	3,763	3	108	715	2,936	5,411
Installment loans and other plans .....	1,469	15	61	184	1,210	2,108
All other loans and leases .....	606	2	13	31	559	880
<b>Charge-offs to loan and lease reserve .....</b>	<b>12,391</b>	<b>58</b>	<b>369</b>	<b>1,518</b>	<b>10,447</b>	<b>18,004</b>
Loans secured by real estate .....	941	7	39	126	769	1,313
1-4 family residential mortgages .....	487	3	17	61	407	638
Home equity loans .....	148	0	3	31	114	182
Multifamily residential mortgages .....	6	0	1	0	5	17
Commercial RE loans .....	183	3	15	21	143	306
Construction RE loans .....	50	1	3	11	36	88
Farmland loans .....	17	0	1	2	14	26
RE loans from foreign offices .....	50	0	0	0	50	57
Commercial and industrial loans .....	4,271	21	89	297	3,865	6,266
Loans to individuals .....	6,423	26	221	1,053	5,123	9,313
Credit cards .....	4,349	4	132	803	3,410	6,334
Installment loans and other plans .....	2,074	22	89	250	1,713	2,979
All other loans and leases .....	757	5	19	42	691	1,112
<b>Recoveries credited to loan and lease reserve .....</b>	<b>2,061</b>	<b>16</b>	<b>93</b>	<b>228</b>	<b>1,724</b>	<b>3,124</b>
Loans secured by real estate .....	209	2	14	20	173	295
1-4 family residential mortgages .....	106	1	4	9	92	140
Home equity loans .....	18	0	1	2	15	26
Multifamily residential mortgages .....	7	0	0	0	7	10
Commercial RE loans .....	56	0	7	7	42	82
Construction RE loans .....	10	0	0	2	7	19
Farmland loans .....	2	0	1	0	0	6
RE loans from foreign offices .....	10	0	0	0	10	12
Commercial and industrial loans .....	510	5	21	42	442	803
Loans to individuals .....	1,191	7	52	154	977	1,794
Credit cards .....	586	1	24	88	474	923
Installment loans and other plans .....	605	7	29	66	503	871
All other loans and leases .....	151	2	6	11	132	233

**Number of national banks by state and asset size  
June 30, 2001**

	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.....	2,176	1,049	956	130	41	8,178
Alabama.....	23	12	10	1	0	157
Alaska.....	3	1	0	2	0	6
Arizona.....	17	6	6	2	3	43
Arkansas.....	41	12	28	1	0	183
California.....	82	33	40	7	2	300
Colorado.....	55	31	21	2	1	180
Connecticut.....	8	3	5	0	0	25
Delaware.....	16	2	9	2	3	33
District of Columbia.....	6	2	4	0	0	6
Florida.....	77	29	40	8	0	262
Georgia.....	65	32	31	1	1	331
Hawaii.....	1	0	1	0	0	8
Idaho.....	1	0	1	0	0	17
Illinois.....	187	78	99	6	4	703
Indiana.....	31	7	17	5	2	155
Iowa.....	47	25	20	2	0	426
Kansas.....	108	78	26	4	0	376
Kentucky.....	52	25	24	3	0	231
Louisiana.....	16	8	6	1	1	144
Maine.....	6	1	4	1	0	15
Maryland.....	15	7	7	1	0	72
Massachusetts.....	12	3	7	2	0	42
Michigan.....	27	11	15	0	1	163
Minnesota.....	126	78	43	2	3	486
Mississippi.....	20	8	10	2	0	101
Missouri.....	46	24	19	3	0	354
Montana.....	17	13	2	2	0	83
Nebraska.....	78	57	19	2	0	276
Nevada.....	8	2	2	4	0	32
New Hampshire.....	6	2	2	1	1	15
New Jersey.....	24	4	13	7	0	80
New Mexico.....	15	6	6	3	0	52
New York.....	60	12	40	7	1	145
North Carolina.....	8	2	3	0	3	77
North Dakota.....	15	6	6	3	0	107
Ohio.....	88	38	36	8	6	206
Oklahoma.....	96	58	34	4	0	284
Oregon.....	4	1	2	1	0	42
Pennsylvania.....	87	23	55	6	3	182
Rhode Island.....	3	1	0	1	1	7
South Carolina.....	24	15	8	1	0	75
South Dakota.....	18	9	7	1	1	93
Tennessee.....	29	6	20	1	2	194
Texas.....	347	209	129	8	1	693
Utah.....	8	2	3	2	1	57
Vermont.....	11	3	7	1	0	18
Virginia.....	35	11	22	2	0	144
Washington.....	15	11	4	0	0	76
West Virginia.....	23	9	11	3	0	71
Wisconsin.....	49	22	24	3	0	286
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**

**June 30, 2001**

(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 .....	\$3,448,292	\$54,364	\$250,973	\$413,198	\$2,729,757	\$6,360,162
Alabama .....	3,867	750	2,040	1,077	0	184,740
Alaska .....	5,080	61	0	5,019	0	6,082
Arizona .....	66,822	202	2,870	5,330	58,420	69,339
Arkansas .....	7,930	668	6,244	1,018	0	26,716
California .....	195,179	1,715	12,501	20,248	160,714	334,623
Colorado .....	27,703	1,573	4,908	5,414	15,809	47,631
Connecticut .....	1,276	250	1,026	0	0	3,835
Delaware .....	108,640	144	2,724	4,076	101,696	153,112
District of Columbia .....	922	78	844	0	0	922
Florida .....	27,140	1,822	9,834	15,484	0	62,358
Georgia .....	30,660	1,778	7,363	4,704	16,815	171,767
Hawaii .....	332	0	332	0	0	23,494
Idaho .....	240	0	240	0	0	2,641
Illinois .....	269,024	3,954	25,037	15,380	224,654	403,958
Indiana .....	64,535	346	6,366	17,020	40,802	99,723
Iowa .....	15,796	1,306	4,690	9,800	0	45,335
Kansas .....	19,665	3,744	6,847	9,074	0	38,953
Kentucky .....	24,417	1,565	4,494	18,359	0	53,704
Louisiana .....	24,736	493	1,183	6,801	16,258	41,052
Maine .....	5,969	35	1,557	4,377	0	7,846
Maryland .....	4,460	419	2,103	1,939	0	45,696
Massachusetts .....	9,544	168	1,530	7,846	0	112,774
Michigan .....	18,836	482	4,470	0	13,885	135,026
Minnesota .....	149,946	3,687	11,069	3,942	131,248	173,283
Mississippi .....	10,540	425	2,085	8,031	0	35,202
Missouri .....	25,981	1,257	5,974	18,750	0	65,843
Montana .....	3,558	528	460	2,570	0	12,237
Nebraska .....	15,943	2,686	4,533	8,724	0	29,673
Nevada .....	20,331	64	391	19,875	0	32,337
New Hampshire .....	22,470	59	386	4,517	17,508	24,729
New Jersey .....	30,652	325	4,256	26,071	0	67,468
New Mexico .....	10,224	332	1,879	8,012	0	14,537
New York .....	421,774	777	12,597	16,219	392,181	1,370,224
North Carolina .....	860,007	168	1,240	0	858,598	963,820
North Dakota .....	11,932	261	1,760	9,911	0	17,889
Ohio .....	298,462	1,956	10,492	17,042	268,972	372,509
Oklahoma .....	24,426	2,927	6,593	14,906	0	44,194
Oregon .....	9,007	4	514	8,488	0	16,830
Pennsylvania .....	139,063	1,425	16,914	9,286	111,438	180,052
Rhode Island .....	196,675	8	0	5,953	190,714	206,466
South Carolina .....	5,363	830	2,349	2,184	0	25,038
South Dakota .....	27,502	330	2,444	8,301	16,426	35,937
Tennessee .....	65,194	434	6,000	7,280	51,480	87,207
Texas .....	82,247	10,433	30,627	20,223	20,965	137,728
Utah .....	32,004	62	822	9,946	21,174	124,294
Vermont .....	3,276	195	2,081	1,000	0	7,493
Virginia .....	12,708	635	5,757	6,315	0	64,599
Washington .....	1,792	572	1,220	0	0	20,373
West Virginia .....	10,322	483	2,104	7,735	0	17,639
Wisconsin .....	19,762	1,391	5,838	12,533	0	79,247
Wyoming .....	4,356	555	1,383	2,418	0	7,815
U.S. territories .....	0	0	0	0	0	54,173





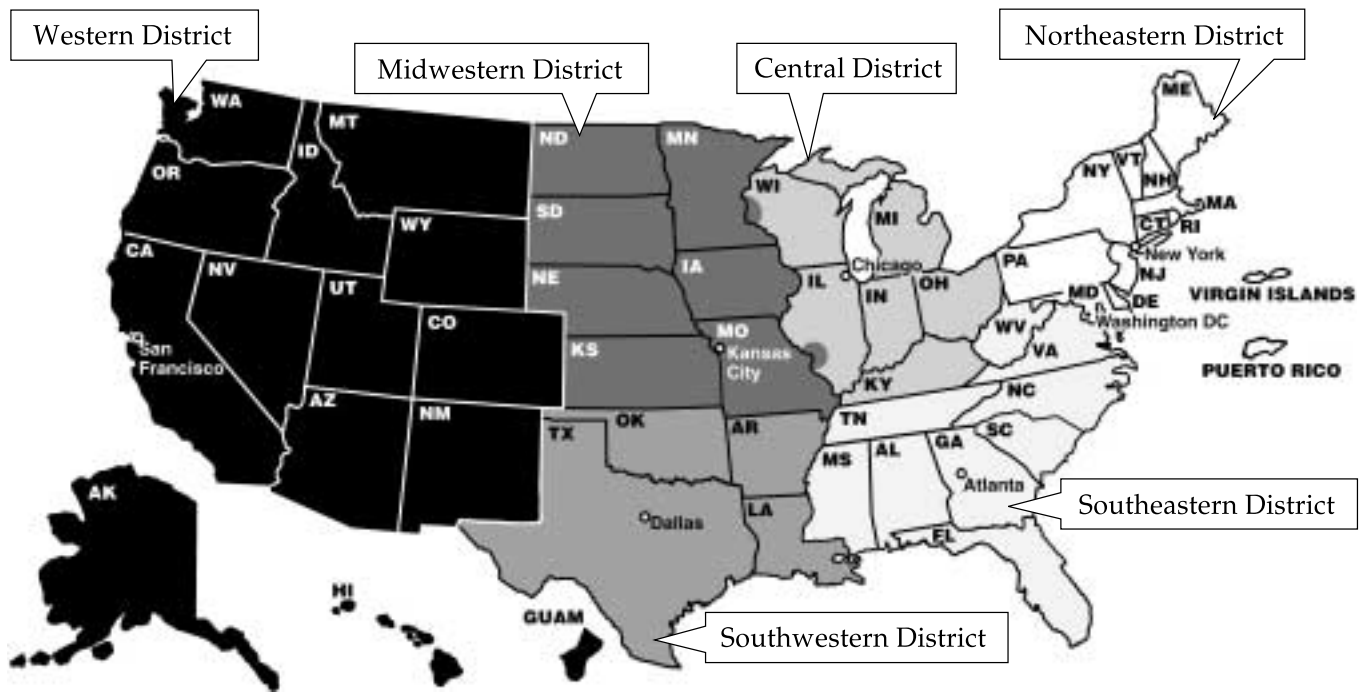
---

# Index

---

- Affiliated mergers:  
For quarter, **72**
- Affiliated mergers—thrift:  
For quarter, **74**
- Appeals process, **23**
- Applications for national bank charters, by state and charter type, **85**
- Applications for new, full-service national bank charters, approved and denied, by state (corporate structure table), **78**
- Applications for new, limited-purpose national bank charters, approved and denied, by state (corporate structure table), **79**
- Assets, liabilities, and capital accounts of national banks (financial table), **93**
- Assets of national banks by asset size (financial table), **96**
- Assets, total, of national banks by state and asset size (financial table), **105**
- Changes in the corporate structure of the national banking system, by state (corporate structure table), **77**
- Commercial banks:  
Condition and performance of, **1**
- Number of commercial banks by state, **104**
- Off-balance-sheet items, **99**
- Past-due and nonaccrual loans and leases, **97**
- Quarterly income and expenses, **100**
- Quarterly net loan and lease losses, **102**
- Total assets, **96, 105**
- Total assets by state, **105**
- Total liabilities, **98**
- Year-to-date income and expenses, **101**
- Year-to-date net loan and lease losses, **103**
- Condition and performance of commercial banks, **1**
- Congressional testimony, speeches and, **31**
- Corporate decisions, recent, **21**
- Corporate structure of the national banking system, tables on the, **75**
- Decisions, recent corporate, **21**
- Enforcement activities, special supervision/fraud and, **27**
- Failed national bank acquired by other that national banks, **88**
- Federal branches and agencies of foreign banks in operation (corporate structure table), **90**
- Financial performance of national banks, tables on the, **91**
- Golden, Samuel P., Ombudsman:  
Speech, **56**
- Hawke, John D., Jr., Comptroller of the Currency:  
Biography, **inside front cover**
- Speeches and congressional testimony, **33, 38, 42, 46**
- Interpretations, **59**
- Interpretive letters:  
Interpretive Letter No. 907: Housing Mortgage Finance Program bonds as Type I securities, **61**
- Interpretive Letter No. 908: Trust-preferred securities may be purchased and held as loans, **62**
- Interpretive Letter No. 909: Noncontrolling equity investment held in a corporation that provides benefit and payroll services to small businesses, **64**
- Interpretive Letter No. 910: Interagency interpretation of privacy provisions for limits on disclosing account numbers, **67**
- Key indicators, FDIC-insured commercial banks (condition tables):  
Annual 1997–2000, year-to-date through quarter, **12**
- By asset size, **14**
- By region, **16**
- Key indicators, FDIC-insured national banks (condition tables):  
Annual 1997–2000, year-to-date through quarter, **6**
- By asset size, **8**
- By region, **10**
- Liabilities of national banks by asset size (financial table), **98**
- Loan performance, FDIC-insured commercial banks (condition tables):  
Annual 1997–2000, year-to-date through quarter, **13**
- By asset size, **15**
- By region, **17**
- Loan performance, FDIC-insured national banks (condition tables):  
Annual 1997–2000, year-to-date through quarter, **7**
- By asset size, **9**
- By region, **11**
- Mergers:  
Affiliated, (involving affiliated operating banks), for quarter, **72**
- Affiliated, —thrift (involving affiliated national banks and savings and loan associations), for quarter, **74**

- Nonaffiliated, (involving two or more nonaffiliated operating banks), for quarter, **71**
- National banks converted out of the national banking system (corporate structure table), **89**
- National banks merged out of the national banking system (corporate structure table), **87**
- New, full-service national bank charters issued (corporate structure table), **80**
- New, limited-purpose national bank charters issued (corporate structure table), **81**
- Nonaffiliated mergers:  
For quarter, **71**
- Nonbanking institutions converted to full-service national banks (corporate structure table), **84**
- Number of national banks by state and asset size (financial table), **104**
- Off-balance-sheet items of national banks by asset size (financial table), **99**
- Office of the Comptroller of the Currency:  
Interpretations, **59**  
Speeches and congressional testimony, **31**
- Past-due and nonaccrual loans and leases of national banks by asset size (financial table), **97**
- Quarterly income and expenses of national banks by asset size (financial table), **100**
- Quarterly income and expenses of national banks (financial table), **94**
- Quarterly net loan and lease losses of national banks by asset size (financial table), **102**
- Recent corporate decisions, **21**
- Special supervision/fraud and enforcement activities, **27**
- Speeches and congressional testimony:  
Of John D. Hawke Jr., Comptroller of the Currency:  
On merchant banking investment activities of banking organizations, **33**  
On consolidation in the financial services industry, **38**
- On issues affecting California bankers, **42**
- On the condition of the banking system, **46**
- Of Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel:  
On the impact of aggregation on the financial services industry, **48**  
On adapting to change in American banking, **53**
- Of Samuel P. Golden, Ombudsman:  
On his professional journey, **56**
- State-chartered banks converted to full-service national banks (corporate structure table), **82**
- State-chartered banks converted to limited-purpose national banks (corporate structure table), **83**
- Tables on the corporate structure of the national banking system, **75**
- Tables on the financial performance of national banks, **91**
- Testimony, congressional, speeches and, **31**
- Total assets of national banks by state and asset size (financial table), **105**
- Voluntary liquidations of national banks (corporate structure table), **86**
- Williams, Julie L., First Senior Deputy Comptroller and Chief Counsel:  
Speeches, **48, 53**
- Year-to-date income and expenses of national banks by asset size (financial table), **101**
- Year-to-date income and expenses of national banks (financial table), **95**
- Year-to-date net loan and lease losses of national banks by asset size (financial table), **103**
- 12 USC 24(7) (interpretive letters), **61, 64**
- 12 USC 84 (interpretive letter), **62**
- 12 USC 6802(d) and (e) (interpretive letter), **67**
- 12 USC 6804(d) (interpretive letter), **67**
- 12 CFR 1 (interpretive letter), **61**
- 12 CFR 3 (interpretive letter), **61**
- 12 CFR 40.12 (interpretive letter), **67**



**Northeastern District**

New York District Office  
 1114 Avenue of the Americas  
 Suite 3900  
 New York, NY 10036-7780

(212) 819-9860

**Southwestern District**

Dallas District Office  
 1600 Lincoln Plaza, Suite 1600  
 500 North Akard Street  
 Dallas, TX 75201-3394

(214) 720-0656

**Central District**

Chicago District Office  
 One Financial Place, Suite 2700  
 440 South LaSalle Street  
 Chicago, IL 60605-1073

(312) 360-8800

**Midwestern District**

Kansas City District Office  
 2345 Grand Boulevard  
 Suite 700  
 Kansas City, MO 64108-2683

(816) 556-1800

**Southeastern District**

Atlanta District Office  
 Marquis One Tower, Suite 600  
 245 Peachtree Center Ave., NE  
 Atlanta, GA 30303-1223

(404) 659-8855

**Western District**

San Francisco District Office  
 50 Fremont Street  
 Suite 3900  
 San Francisco, CA 94105-2292

(415) 545-5900

**Headquarters**

Washington Office  
 250 E Street, SW  
 Washington, DC 20219-0001

(202) 874-5000

For more information on the Office of the Comptroller of the Currency, contact:  
 OCC Public Information Room, Communications Division, Washington, DC 20219  
 fax (202) 874-4448\*\*\*\*e-mail Kevin.Satterfield@occ.treas.gov  
 See the *Quarterly Journal* on the World Wide Web at <http://www.occ.treas.gov/qj/qj.htm>