Comptroller of the Currency
Administrator of National Banks

QJ Quarterly Journal

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The Value of the National Bank Charter

Office of the Comptroller of the Currency

March 2003

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Background

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

The OCC regulates national banks by its power to:

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

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

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

The Comptroller

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

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

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

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and congressional testimony, material released in the interpretive letters series, statistical data, and other information of interest to the administration of national banks. Send suggestions or questions to Rebecca Miller, Senior Writer-Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for $120 a year by writing to Publications—QJ, Comptroller of the Currency, Attn: Accounts Receivable, MS 4–8, 250 E St., SW, Washington, DC 20219. 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
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John D. Hawke, Jr.
Comptroller of the Currency

Volume 22, Number 1

March 2003
(Fourth Quarter Data)

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Condition and Performance of Commercial Banks

Summary

The fourth quarter of 2002 capped a very strong year for earnings at national banks, in which banks established new records in all major income categories: net income, net interest income, and noninterest income. Return on assets surpassed its previous peak, and return on equity approached its all-time high. Record-low interest rates continued to power the housing market, boosting both lending and fee income. As in recent quarters, the benefits flowed disproportionately to larger banks.

Asset quality continued to slip, however, particularly for commercial and industrial (C&I) loans at the larger banks, as excess capacity in many industries continued to squeeze corporate profits. Credit card charge-offs again set a record. Housing prices are decelerating across the country, which should slow the growth of interest and fee income for banks.

Table1—All major income categories up in 2002

National banks	Major income components (Change, $ millions)			
	2000-2001	% Change	2001-2002	% Change
Revenues				
New inter est income	9,748	8.4%	15,919	12.7%
Real gains/losses sec	4,213	231.1%	795	33.3%
Noninter est income	3,357	3.5%	9,619	9.7%
Expenses				
Pr ovisioning	8,448	41.1%	3,614	12.5%
Noninter est expense	2,610	2.0%	5,114	3.9%
Net income	5,383	13.8%	12,415	28.0%

Sour ce: Integrated Banking Information System (OCC)

Key Trends

In 2002, all major income categories showed improvement over the previous year, and earnings in each quarter of the year surpassed the previous quarterly record. For the year, net income rose 28 percent, interest income 13 percent, noninterest income 10 percent, and gains and losses on the sale of securities 33 percent. Return on assets reached 1.51 percent, easily surpassing the previous record of 1.28 percent, and return on equity rose 2 percentage points to 15.8 percent, the third highest on record.

Once again, low short-term interest rates and wide spreads between short- and long-term rates boosted net interest income. Declining rates also allowed banks to realize gains on the sale of appreciated securities. Provisions rose 13 percent for the year, responding to persistent problems in credit quality.

Large banks continue to be the primary beneficiaries of the favorable trends in income. For the year, net income rose 6 percent for nonspecialty small banks[1] (assets under $1 billion), but 34 percent for nonspecialty large banks (assets over $1 billion). Net interest income rose 2 percent for small banks, but 15 percent for large banks. Noninterest income rose 4 percent for small banks, but 12 percent for large banks. As large net purchasers of wholesale funds, large banks have particularly benefited from record-low interest rates.

Banks have taken advantage of strong earnings to build their capital base. For all national banks, the ratio of equity capital to assets reached a record 9.51 percent in 2002, as both small and large banks showed sizeable gains.

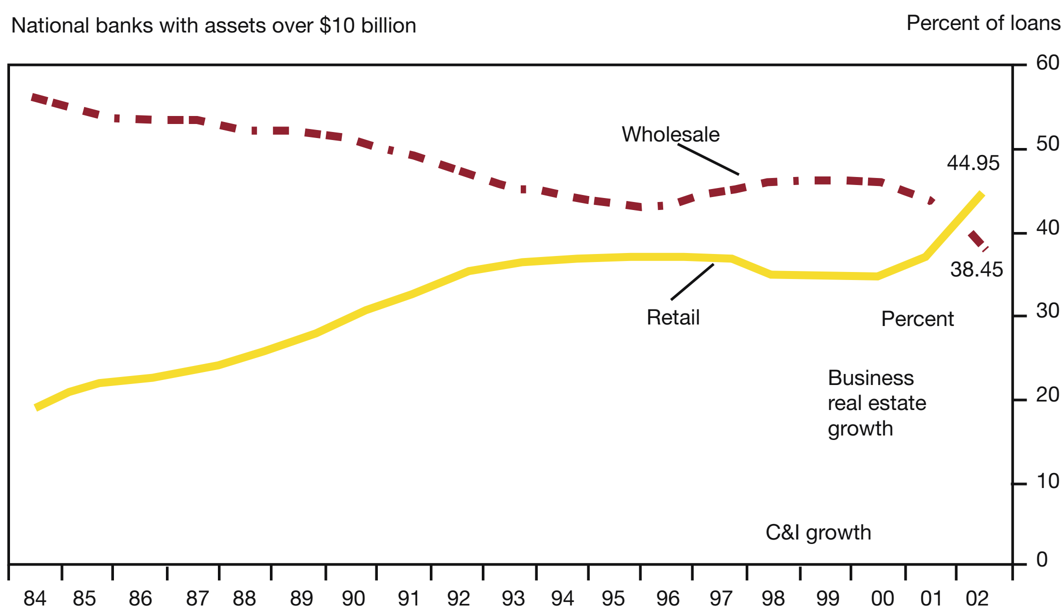
Some of the recent advantages enjoyed by large banks come from their decision to move toward retail lending, particularly home mortgages and consumer loans. As Figure 1 indicates, for banks with assets over $10 billion, this shift began in the mid-1980s. The booming industrial economy of the mid- and late 1990s interrupted the trend toward retail lending, but it resumed and then accelerated over the last two years.

Explanations for this shift appear to be found on both the cost side and the customer side. Large banks have reduced the costs of processing retail loans by adopting new tools like credit scoring to automate loan processing. At the same time, broadening of the capital markets has given more large- and mid-size companies access to nonbank sources of capital, shrinking the demand for C&I loans from large banks. This shift from wholesale to retail lending has reduced provisioning expenses for large banks, because retail loans have performed better.

Credit quality continued to deteriorate during the fourth quarter for C&I and credit card loans at large banks and stabilized elsewhere. Excess capacity has continued to depress corporate profits

[1] Nonspecialty category excludes credit card and trust banks.

Figure 1—Largest banks move into retail

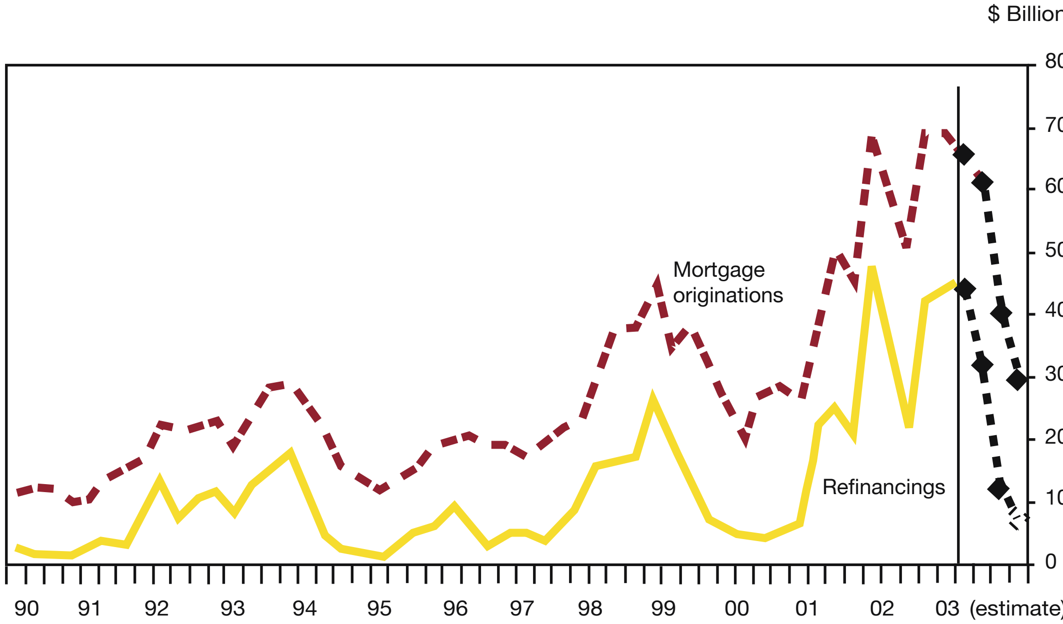


in the United States and around the world. Defaults of U.S. high-yield bonds topped $100 billion in 2002, 16 percent of the entire high-yield market. In the telecommunications sector alone, for example, more than 52 percent of all bonds outstanding are now below investment grade. While most forecasters anticipate growth in corporate profits during 2003, earlier optimism about a quick profit rebound has subsided, and the consensus now is for only modest growth this year, which suggests continued credit quality problems for the C&I sector.

Large banks show a higher average C&I noncurrent ratio, but a subset of small banks is experiencing significant C&I problems of its own. For example, none of the largest banks (over $10 billion in assets), but 13 percent of the smallest banks (under $100 million in assets), have C&I noncurrent ratios above 5 percent.

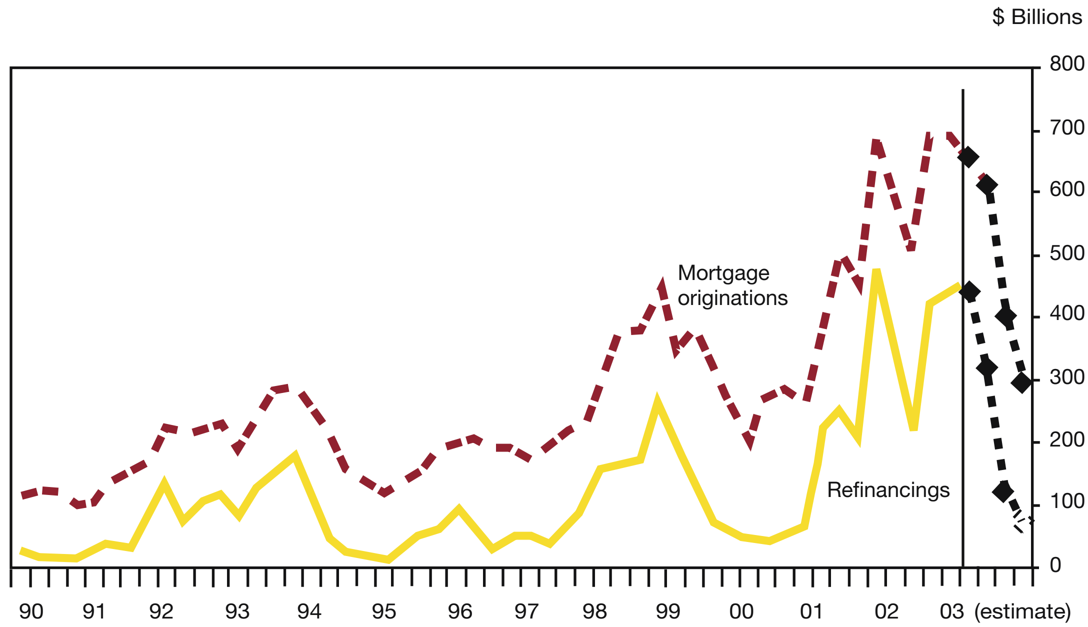
Credit card charge-offs surged to nearly 7 percent for the year, due largely to the sluggish economy. This surge in charge-offs comes even as a boom in mortgage refinancing has allowed many homeowners to pay down their credit card debt with lower-cost home equity loans. If home refinancing drops sharply in 2003, as many predict, credit card loan quality could slide further, as consumers with high levels of credit card debt find themselves with no alternative other than bankruptcy.

Figure 2—Loan growth driven by real estate and credit cards



Real estate, particularly residential real estate, again emerged as the key to higher bank income. As Figure 2 indicates, real estate and credit card loans together have grown by an average of about 10 percent annually over the last four years, and 15 percent in 2002 alone. In contrast, all other loans, of which the largest category is C&I, grew by only around 2 percent annually over this period, including declines in the 2001 and 2002. Many analysts now anticipate a drop in residential mortgage volume over the next several quarters, as Figure 3 indicates. This is consistent with the slowing of house prices that has been observed across the country. In the fourth quarter of 2002, for example, house price growth slowed in two-thirds of the nation's metropolitan statistical areas (MSAs), compared with deceleration in less than one-third of MSAs two years earlier.

Figure 3—Residential mortgage volume expected to fall



Key indicators, FDIC-insured national banks
Annual 1998–2001, year-to-date through December 31, 2002, fourth quarter 2001, and fourth quarter 2002

(Dollar figures in millions)

	1998	1999	2000	2001	Preliminary 2002YTD	2001Q4	Preliminary 2002Q4
Number of institutions reporting	2,456	2,364	2,230	2,137	2,078	2,137	2,078
Total employees (FTEs)	974,871	983,186	948,652	966,538	993,466	966,538	993,466
Selected income data ($)							
Net income	$37,584	$42,539	$38,901	$44,284	$56,699	$12,530	$13,512
Net interest income	110,985	114,557	115,905	125,653	141,572	34,850	36,033
Provision for loan losses	15,242	15,550	20,559	29,007	32,621	9,579	8,605
Noninterest income	81,311	92,570	96,101	99,458	109,077	26,341	27,724
Noninterest expense	122,606	125,812	128,542	131,152	136,266	34,372	36,252
Net operating income	35,525	42,364	40,152	43,055	54,506	12,124	12,768
Cash dividends declared	25,414	29,870	32,327	27,739	41,744	6,770	10,864
Net charge-offs to loan and lease reserve	14,492	14,179	17,241	25,184	31,412	8,566	7,720
Selected condition data ($)							
Total assets	3,183,313	3,271,180	3,414,298	3,635,292	3,908,098	3,635,292	3,908,098
Total loans and leases	2,015,585	2,127,927	2,227,069	2,272,839	2,447,866	2,272,839	2,447,866
Reserve for losses	36,810	37,684	40,021	45,580	48,357	45,580	48,357
Securities	516,120	537,315	502,297	575,933	653,162	575,933	653,162
Other real estate owned	1,833	1,572	1,553	1,794	2,073	1,794	2,073
Noncurrent loans and leases	19,513	20,818	27,161	34,589	38,160	34,589	38,160
Total deposits	2,137,908	2,154,230	2,250,402	2,384,413	2,565,795	2,384,413	2,565,795
Domestic deposits	1,785,818	1,776,084	1,827,064	2,001,253	2,168,905	2,001,253	2,168,905
Equity capital	274,120	277,889	293,656	340,735	371,702	340,735	371,702
Off-balance-sheet derivatives	10,953,514	12,077,568	15,502,911	20,549,785	25,953,414	20,549,785	25,953,414
Performance ratios (annualized %)							
Return on equity	14.29	15.55	13.69	13.88	15.85	14.89	14.64
Return on assets	1.24	1.35	1.18	1.26	1.51	1.39	1.39
Net interest income to assets	3.67	3.63	3.50	3.56	3.76	3.87	3.72
Loss provision to assets	0.50	0.49	0.62	0.82	0.87	1.06	0.89
Net operating income to assets	1.17	1.34	1.21	1.22	1.45	1.35	1.32
Noninterest income to assets	2.69	2.94	2.90	2.82	2.90	2.92	2.86
Noninterest expense to assets	4.05	3.99	3.88	3.72	3.62	3.81	3.74
Loss provision to loans and leases	0.79	0.76	0.95	1.28	1.38	1.69	1.42
Net charge-offs to loans and leases	0.75	0.70	0.80	1.11	1.33	1.51	1.28
Loss provision to net charge-offs	105.12	109.66	119.24	115.18	103.85	111.83	111.45
Performance ratios (%)							
Percent of institutions unprofitable	5.94	7.11	6.95	7.44	6.59	11.75	9.29
Percent of institutions with earnings gains	61.60	62.14	66.64	56.81	71.61	57.70	60.20
Nonint. income to net operating revenue	42.28	44.69	45.33	44.18	43.52	43.05	43.48
Nonint. expense to net operating revenue	63.76	60.74	60.63	58.26	54.37	56.17	56.86
Condition ratios (%)							
Nonperforming assets to assets	0.68	0.70	0.86	1.02	1.06	1.02	1.06
Noncurrent loans to loans	0.97	0.98	1.22	1.52	1.56	1.52	1.56
Loss reserve to noncurrent loans	188.65	181.02	147.35	131.77	126.72	131.77	126.72
Loss reserve to loans	1.83	1.77	1.80	2.01	1.98	2.01	1.98
Equity capital to assets	8.61	8.50	8.60	9.37	9.51	9.37	9.51
Leverage ratio	7.42	7.49	7.49	7.81	7.89	7.81	7.89
Risk-based capital ratio	11.79	11.70	11.84	12.61	12.68	12.61	12.68
Net loans and leases to assets	62.16	63.90	64.06	61.27	61.40	61.27	61.40
Securities to assets	16.21	16.43	14.71	15.84	16.71	15.84	16.71
Appreciation in securities (% of par)	0.82	-2.45	-0.01	0.48	2.12	0.48	2.12
Residential mortgage assets to assets	20.41	20.60	19.60	22.54	24.72	22.54	24.72
Total deposits to assets	67.16	65.85	65.91	65.59	65.65	65.59	65.65
Core deposits to assets	49.72	47.01	45.61	48.07	48.74	48.07	48.74
Volatile liabilities to assets	31.77	34.81	35.18	31.24	30.31	31.24	30.31

Loan performance, FDIC-insured national banks
Annual 1998–2001, year-to-date through December 31, 2002, fourth quarter 2001, and fourth quarter 2002

(Dollar figures in millions)

	1998	1999	2000	2001	Preliminary 2002YTD	2001Q4	Preliminary 2002Q4
Percent of loans past due 30-89 days							
Total loans and leases	1.27	1.16	1.26	1.38	1.14	1.38	1.14
Loans secured by real estate (RE)	1.33	1.22	1.42	1.42	1.07	1.42	1.07
1-4 family residential mortgages	1.50	1.61	1.95	1.80	1.45	1.80	1.45
Home equity loans	0.97	0.77	1.07	0.98	0.62	0.98	0.62
Multifamily residential mortgages	0.94	0.69	0.59	0.75	0.40	0.75	0.40
Commercial RE loans	1.02	0.70	0.72	0.86	0.58	0.86	0.58
Construction RE loans	1.82	1.07	1.12	1.28	0.93	1.28	0.93
Commercial and industrial loans	0.81	0.71	0.71	0.95	0.76	0.95	0.76
Loans to individuals	2.44	2.36	2.40	2.39	2.16	2.39	2.16
Credit cards	2.52	2.53	2.50	2.51	2.57	2.51	2.57
Installment loans and other plans	2.37	2.24	2.31	2.65	2.08	2.65	2.08
All other loans and leases	0.46	0.50	0.58	0.84	0.56	0.84	0.56
Percent of loans noncurrent							
Total loans and leases	0.97	0.98	1.22	1.52	1.56	1.52	1.56
Loans secured by real estate (RE)	0.98	0.87	0.93	1.05	0.97	1.05	0.97
1-4 family residential mortgages	0.95	0.91	1.06	1.05	1.02	1.05	1.02
Home equity loans	0.41	0.32	0.41	0.42	0.33	0.42	0.33
Multifamily residential mortgages	0.88	0.43	0.55	0.49	0.44	0.49	0.44
Commercial RE loans	1.01	0.84	0.77	1.03	1.05	1.03	1.05
Construction RE loans	0.80	0.63	0.82	1.15	1.03	1.15	1.03
Commercial and industrial loans	0.86	1.11	1.66	2.44	3.00	2.44	3.00
Loans to individuals	1.59	1.52	1.46	1.58	1.61	1.58	1.61
Credit cards	2.06	2.00	1.89	2.05	2.16	2.05	2.16
Installment loans and other plans	1.19	1.16	1.06	1.41	1.30	1.41	1.30
All other loans and leases	0.31	0.40	0.85	1.18	1.10	1.18	1.10
Percent of loans charged-off, net							
Total loans and leases	0.75	0.70	0.80	1.11	1.33	1.51	1.28
Loans secured by real estate (RE)	0.05	0.10	0.12	0.26	0.19	0.29	0.20
1-4 family residential mortgages	0.07	0.14	0.14	0.32	0.17	0.21	0.17
Home equity loans	0.16	0.19	0.23	0.35	0.23	0.52	0.23
Multifamily residential mortgages	0.07	0.02	0.03	0.04	0.10	0.10	0.16
Commercial RE loans	-0.02	0.03	0.07	0.18	0.17	0.33	0.21
Construction RE loans	-0.01	0.03	0.05	0.15	0.19	0.28	0.21
Commercial and industrial loans	0.38	0.54	0.87	1.50	1.80	2.44	1.82
Loans to individuals	2.92	2.65	2.84	3.14	4.02	3.95	3.61
Credit cards	5.03	4.51	4.43	5.08	6.58	6.39	5.37
Installment loans and other plans	1.23	1.27	1.54	1.66	1.91	2.17	2.09
All other loans and leases	0.40	0.23	0.24	0.45	0.63	0.50	0.78
Loans outstanding ($)							
Total loans and leases	$2,015,585	$2,127,927	$2,227,069	$2,272,839	$2,447,866	$2,272,839	$2,447,866
Loans secured by real estate (RE)	764,944	853,141	892,140	976,120	1,139,562	976,120	1,139,562
1-4 family residential mortgages	381,597	433,807	443,002	472,715	573,982	472,715	573,982
Home equity loans	66,091	67,267	82,672	102,094	140,999	102,094	140,999
Multifamily residential mortgages	23,201	26,561	28,026	30,074	33,988	30,074	33,988
Commercial RE loans	200,469	214,145	221,267	236,472	253,409	236,472	253,409
Construction RE loans	56,261	71,578	76,899	91,482	95,404	91,482	95,404
Farmland loans	10,930	11,957	12,350	12,615	13,225	12,615	13,225
RE loans from foreign offices	26,396	27,825	27,923	30,668	28,556	30,668	28,556
Commercial and industrial loans	583,903	622,004	646,988	597,230	546,005	597,230	546,005
Loans to individuals	386,410	348,634	370,363	390,420	450,594	390,420	450,594
Credit cards*	176,408	147,179	176,372	167,079	209,936	167,079	209,936
Other revolving credit plans	NA	NA	NA	29,259	33,514	29,259	33,514
Installment loans	210,003	201,455	193,991	194,082	207,145	194,082	207,145
All other loans and leases	282,367	306,041	319,144	311,001	314,153	311,001	314,153
Less: Unearned income	2,039	1,893	1,565	1,931	2,447	1,931	2,447

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

Key indicators, FDIC-insured national banks by asset size
Fourth quarter 2001 and fourth quarter 2002

(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4
Number of institutions reporting	996	941	968	968	131	126	42	43
Total employees (FTEs)	23,207	21,946	95,733	94,185	108,851	100,133	738,747	777,202
Selected income data ($)								
Net income	$108	$125	$726	$794	$2,017	$1,735	$9,679	$10,858
Net interest income	505	492	2,519	2,554	4,218	3,618	27,608	29,370
Provision for loan losses	56	46	313	265	160	510	9,051	7,784
Noninterest income	247	226	1,445	1,581	2,987	3,140	21,662	22,777
Noninterest expense	547	511	2,661	2,869	4,066	3,669	27,098	29,203
Net operating income	104	120	710	781	1,970	1,689	9,339	10,177
Cash dividends declared	161	143	639	831	1,225	1,184	4,745	8,707
Net charge-offs to loan and lease reserve	40	35	230	212	885	525	7,410	6,948
Selected condition data ($)								
Total assets	51,684	50,273	253,990	261,150	413,775	394,724	2,915,844	3,201,951
Total loans and leases	30,761	29,606	157,941	162,261	255,062	240,036	1,829,075	2,015,964
Reserve for losses	423	416	2,250	2,322	4,563	3,987	38,344	41,631
Securities	12,781	12,471	61,721	65,051	88,282	83,579	413,150	492,061
Other real estate owned	70	79	248	279	188	216	1,287	1,499
Noncurrent loans and leases	347	325	1,480	1,585	2,491	2,339	30,272	33,911
Total deposits	43,535	42,212	205,362	210,864	268,836	257,963	1,866,681	2,054,756
Domestic deposits	43,535	42,212	204,918	210,761	266,792	255,302	1,486,008	1,660,630
Equity capital	5,794	5,791	25,327	27,051	40,392	42,730	269,222	296,130
Off-balance-sheet derivatives	6	25	1,378	3,194	36,968	28,751	20,593,583	26,069,129
Performance ratios (annualized %)								
Return on equity	7.40	8.63	11.44	11.71	20.13	16.40	14.59	14.77
Return on assets	0.85	1.01	1.16	1.22	1.98	1.77	1.34	1.37
Net interest income to assets	3.96	3.96	4.02	3.93	4.14	3.69	3.81	3.70
Loss provision to assets	0.44	0.37	0.50	0.41	0.16	0.52	1.25	0.98
Net operating income to assets	0.82	0.97	1.13	1.20	1.93	1.72	1.29	1.28
Noninterest income to assets	1.94	1.82	2.31	2.43	2.93	3.20	2.99	2.87
Noninterest expense to assets	4.28	4.12	4.25	4.41	3.99	3.74	3.74	3.68
Loss provision to loans and leases	0.73	0.63	0.80	0.66	0.25	0.85	1.99	1.57
Net charge-offs to loans and leases	0.53	0.48	0.59	0.53	1.39	0.87	1.63	1.40
Loss provision to net charge-offs	137.42	130.11	135.79	124.98	18.08	97.25	122.14	112.02
Performance ratios (%)								
Percent of institutions unprofitable	17.47	14.67	6.20	5.17	8.40	2.38	14.29	4.65
Percent of institutions with earnings gains	51.81	53.99	63.22	64.05	62.60	73.81	54.76	69.77
Nonint. income to net operating revenue	32.89	31.48	36.45	38.25	41.46	46.46	43.97	43.68
Nonint. expense to net operating revenue	72.68	71.29	67.14	69.38	56.42	54.29	55.00	56.00
Condition ratios (%)								
Nonperforming assets to assets	0.81	0.82	0.69	0.72	0.66	0.65	1.10	1.14
Noncurrent loans to loans	1.13	1.10	0.94	0.98	0.98	0.97	1.66	1.68
Loss reserve to noncurrent loans	122.01	128.21	152.01	146.52	183.21	170.43	126.67	122.76
Loss reserve to loans	1.38	1.41	1.42	1.43	1.79	1.66	2.10	2.07
Equity capital to assets	11.21	11.52	9.97	10.36	9.76	10.83	9.23	9.25
Leverage ratio	10.93	11.09	9.40	9.47	8.66	9.42	7.50	7.51
Risk-based capital ratio	17.91	18.28	14.68	15.17	14.20	15.82	12.21	12.13
Net loans and leases to assets	58.70	58.06	61.30	61.24	60.54	59.80	61.41	61.66
Securities to assets	24.73	24.81	24.30	24.91	21.34	21.17	14.17	15.37
Appreciation in securities (% of par)	1.20	2.40	1.14	2.53	0.89	2.38	0.27	2.01
Residential mortgage assets to assets	22.35	22.02	24.79	24.51	27.10	26.01	21.70	24.62
Total deposits to assets	84.23	83.97	80.85	80.74	64.97	65.35	64.02	64.17
Core deposits to assets	70.97	71.13	67.87	68.04	55.70	55.93	44.86	45.93
Volatile liabilities to assets	15.15	14.68	17.33	16.97	24.87	23.58	33.64	32.48

Loan performance, FDIC-insured national banks by asset size
Fourth quarter 2001 and fourth quarter 2002

(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4
Percent of loans past due 30-89 days								
Total loans and leases	1.55	1.53	1.32	1.13	1.31	1.17	1.40	1.13
Loans secured by real estate (RE)	1.37	1.38	1.14	0.98	1.08	1.02	1.52	1.08
1-4 family residential mortgages	1.71	1.86	1.56	1.46	1.41	1.47	1.89	1.44
Home equity loans	0.85	0.93	0.65	0.45	0.77	0.50	1.02	0.64
Multifamily residential mortgages	0.53	0.49	0.55	0.46	0.55	0.38	0.84	0.39
Commercial RE loans	1.09	1.05	0.85	0.64	0.75	0.55	0.88	0.56
Construction RE loans	1.60	1.18	1.07	1.05	1.04	1.08	1.36	0.86
Commercial and industrial loans	1.69	1.53	1.32	1.14	1.16	1.18	0.90	0.69
Loans to individuals	2.74	2.69	2.39	2.22	2.20	1.89	2.42	2.18
Credit cards	2.56	2.00	3.79	3.83	2.32	1.93	2.52	2.61
Installment loans and other plans	2.79	2.78	2.17	1.98	2.29	2.06	2.76	2.08
All other loans and leases	0.94	1.01	0.95	0.74	0.88	0.48	0.83	0.55
Percent of loans noncurrent								
Total loans and leases	1.13	1.10	0.94	0.98	0.98	0.97	1.66	1.68
Loans secured by real estate (RE)	0.98	0.99	0.78	0.83	0.78	0.86	1.14	1.00
1-4 family residential mortgages	0.77	0.81	0.73	0.79	0.60	0.93	1.17	1.05
Home equity loans	0.35	0.28	0.31	0.19	0.41	0.30	0.43	0.34
Multifamily residential mortgages	0.81	0.82	0.42	0.56	0.52	0.27	0.48	0.45
Commercial RE loans	1.22	1.16	0.92	0.95	0.95	0.92	1.08	1.11
Construction RE loans	0.92	1.10	0.64	0.78	1.18	0.83	1.23	1.12
Commercial and industrial loans	1.78	1.56	1.43	1.57	1.41	1.36	2.59	3.26
Loans to individuals	0.83	0.86	1.01	0.98	1.21	1.13	1.68	1.70
Credit cards	1.96	1.75	3.40	3.59	1.75	1.74	2.07	2.18
Installment loans and other plans	0.80	0.83	0.57	0.54	0.86	0.86	1.61	1.45
All other loans and leases	1.25	1.23	0.95	0.87	0.69	0.45	1.21	1.15
Percent of loans charged-off, net								
Total loans and leases	0.53	0.48	0.59	0.53	1.39	0.87	1.63	1.40
Loans secured by real estate (RE)	0.12	0.15	0.12	0.12	0.18	0.16	0.34	0.22
1-4 family residential mortgages	0.08	0.16	0.12	0.12	0.06	0.18	0.25	0.17
Home equity loans	0.03	0.13	0.04	0.10	0.35	0.08	0.56	0.24
Multifamily residential mortgages	0.24	0.01	0.10	0.11	0.08	0.11	0.10	0.18
Commercial RE loans	0.15	0.19	0.14	0.09	0.28	0.21	0.40	0.24
Construction RE loans	0.15	0.15	0.09	0.17	0.27	0.03	0.32	0.26
Commercial and industrial loans	1.33	1.10	1.06	1.01	1.56	1.04	2.60	1.95
Loans to individuals	1.42	1.28	2.39	2.15	4.76	2.88	3.95	3.79
Credit cards	4.64	4.31	9.41	7.26	8.52	5.63	5.96	5.32
Installment loans and other plans	1.29	1.12	1.18	1.28	1.85	1.25	2.34	2.30
All other loans and leases	0.39	0.45	0.43	0.52	0.35	0.55	0.52	0.82
Loans outstanding ($)								
Total loans and leases	$30,761	$29,606	$157,941	$162,261	$255,062	$240,036	$1,829,075	$2,015,964
Loans secured by real estate (RE)	17,911	17,683	101,017	107,018	140,094	130,475	717,098	884,386
1-4 family residential mortgages	7,984	7,544	40,919	39,874	63,915	58,075	359,897	468,489
Home equity loans	445	479	4,433	5,369	9,404	9,089	87,812	126,062
Multifamily residential mortgages	420	479	3,578	3,914	5,267	5,057	20,809	24,539
Commercial RE loans	5,330	5,383	37,147	41,445	43,286	40,846	150,709	165,735
Construction RE loans	1,692	1,709	10,622	11,509	16,269	15,279	62,899	66,907
Farmland loans	2,039	2,089	4,315	4,907	1,822	1,699	4,438	4,529
RE loans from foreign offices	0	0	3	1	130	431	30,534	28,124
Commercial and industrial loans	5,185	4,841	27,967	27,562	46,394	45,371	517,684	468,230
Loans to individuals	4,093	3,674	19,606	18,106	52,002	45,452	314,719	383,362
Credit cards*	170	204	3,094	2,696	22,812	16,954	141,003	190,082
Other revolving credit plans	65	61	374	370	2,229	2,726	26,590	30,357
Installment loans	3,857	3,409	16,138	15,041	26,961	25,771	147,126	162,924
All other loans and leases	3,622	3,448	9,549	9,768	16,659	18,834	281,171	282,103
Less: Unearned income	50	40	197	194	86	96	1,598	2,118

Key indicators, FDIC-insured national banks by region
Fourth quarter 2002
(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	230	243	413	427	592	173	2,078
Total employees (FTEs)	297,452	218,354	213,609	65,520	97,094	101,437	993,466
Selected income data ($)							
Net income	$3,118	$2,952	$3,202	$1,155	$1,025	$2,059	$13,512
Net interest income	10,360	7,688	8,050	2,950	2,752	4,233	36,033
Provision for loan losses	3,980	1,197	1,625	807	256	739	8,605
Noninterest income	9,945	4,848	5,029	2,438	1,941	3,524	27,724
Noninterest expense	11,727	7,675	7,050	2,857	3,022	3,922	36,252
Net operating income	2,991	2,672	2,962	1,126	986	2,032	12,768
Cash dividends declared	3,124	2,930	2,594	678	1,142	397	10,864
Net charge-offs to loan and lease reserve	3,254	1,248	1,549	699	232	740	7,720
Selected condition data ($)							
Total assets	1,043,401	974,217	970,379	236,491	292,029	391,581	3,908,098
Total loans and leases	633,326	554,736	641,491	166,726	176,496	275,091	2,447,866
Reserve for losses	17,183	9,005	11,723	3,251	2,523	4,671	48,357
Securities	190,968	158,647	175,837	30,311	62,588	34,811	653,162
Other real estate owned	207	517	729	129	315	177	2,073
Noncurrent loans and leases	14,404	7,738	9,796	1,924	1,844	2,455	38,160
Total deposits	704,186	660,346	605,008	136,696	220,297	239,262	2,565,795
Domestic deposits	451,764	601,010	552,488	130,893	218,920	213,830	2,168,905
Equity capital	102,765	91,956	81,299	25,320	28,393	41,969	371,702
Off-balance-sheet derivatives	8,982,570	14,509,792	1,707,638	7,452	44,530	701,431	25,953,414
Performance ratios (annualized %)							
Return on equity	12.28	12.83	15.81	18.44	14.43	20.01	14.64
Return on assets	1.21	1.21	1.32	1.98	1.43	2.15	1.39
Net interest income to assets	4.02	3.16	3.33	5.05	3.83	4.42	3.72
Loss provision to assets	1.55	0.49	0.67	1.38	0.36	0.77	0.89
Net operating income to assets	1.16	1.10	1.22	1.93	1.37	2.12	1.32
Noninterest income to assets	3.86	1.99	2.08	4.17	2.70	3.68	2.86
Noninterest expense to assets	4.55	3.15	2.92	4.89	4.20	4.09	3.74
Loss provision to loans and leases	2.54	0.87	1.02	1.94	0.59	1.12	1.42
Net charge-offs to loans and leases	2.07	0.91	0.97	1.68	0.53	1.13	1.28
Loss provision to net charge-offs	122.34	95.92	104.97	115.44	110.55	99.87	111.45
Performance ratios (%)							
Percent of institutions unprofitable	7.83	13.17	7.75	8.43	10.14	8.67	9.29
Percent of institutions with earnings gains	69.13	64.20	57.63	54.10	58.11	71.10	60.20
Nonint. income to net operating revenue	48.98	38.67	38.45	45.25	41.36	45.43	43.48
Nonint. expense to net operating revenue	57.75	61.23	53.90	53.03	64.37	50.56	56.86
Condition ratios (%)							
Nonperforming assets to assets	1.46	0.85	1.12	0.87	0.74	0.67	1.06
Noncurrent loans to loans	2.27	1.39	1.53	1.15	1.04	0.89	1.56
Loss reserve to noncurrent loans	119.30	116.38	119.67	168.99	136.80	190.25	126.72
Loss reserve to loans	2.71	1.62	1.83	1.95	1.43	1.70	1.98
Equity capital to assets	9.85	9.44	8.38	10.71	9.72	10.72	9.51
Leverage ratio	8.51	7.09	7.20	9.64	8.00	8.82	7.89
Risk-based capital ratio	12.95	11.95	12.17	14.14	13.19	13.83	12.68
Net loans and leases to assets	59.05	56.02	64.90	69.13	59.57	69.06	61.40
Securities to assets	18.30	16.28	18.12	12.82	21.43	8.89	16.71
Appreciation in securities (% of par)	1.51	2.21	2.05	2.88	2.76	3.59	2.12
Residential mortgage assets to assets	15.51	29.93	27.74	22.60	28.90	26.95	24.72
Total deposits to assets	67.49	67.78	62.35	57.80	75.44	61.10	65.65
Core deposits to assets	35.74	55.53	51.22	51.09	63.56	47.87	48.74
Volatile liabilities to assets	42.12	23.00	27.30	27.36	21.47	32.89	30.31

Loan performance, FDIC-insured national banks by region
Fourth quarter 2002

(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30-89 days							
Total loans and leases	1.23	0.78	1.31	1.40	1.15	1.07	1.14
Loans secured by real estate (RE)	0.99	0.89	1.43	0.74	1.07	0.92	1.07
1-4 family residential mortgages	1.30	1.22	2.09	0.80	1.52	1.16	1.45
Home equity loans	0.48	0.69	0.71	0.38	0.65	0.49	0.62
Multifamily residential mortgages	0.36	0.21	0.52	0.22	0.74	0.19	0.40
Commercial RE loans	0.34	0.38	0.84	0.67	0.73	0.46	0.58
Construction RE loans	0.70	0.42	1.21	0.83	0.84	1.36	0.93
Commercial and industrial loans	0.67	0.37	1.05	1.31	1.04	0.82	0.76
Loans to individuals	2.39	1.73	1.92	2.34	1.96	2.01	2.16
Credit cards	2.78	1.64	1.97	2.50	2.40	2.24	2.57
Installment loans and other plans	2.54	1.83	2.06	1.90	2.03	1.89	2.08
All other loans and leases	0.52	0.26	0.77	0.85	0.73	0.47	0.56
Percent of loans noncurrent							
Total loans and leases	2.27	1.39	1.53	1.15	1.04	0.89	1.56
Loans secured by real estate (RE)	1.27	0.67	1.43	0.50	0.95	0.47	0.97
1-4 family residential mortgages	1.37	0.60	1.86	0.30	1.09	0.33	1.02
Home equity loans	0.28	0.25	0.47	0.24	0.29	0.21	0.33
Multifamily residential mortgages	0.34	0.36	0.51	0.21	0.78	0.28	0.44
Commercial RE loans	0.78	0.99	1.48	1.01	0.94	0.66	1.05
Construction RE loans	0.86	0.97	1.15	0.68	0.97	1.16	1.03
Commercial and industrial loans	3.66	3.52	2.71	1.28	1.53	1.97	3.00
Loans to individuals	2.43	0.50	0.74	1.89	0.71	1.33	1.61
Credit cards	2.36	1.14	1.53	2.17	1.65	1.82	2.16
Installment loans and other plans	3.69	0.53	0.62	1.04	0.70	0.38	1.30
All other loans and leases	1.47	1.17	0.75	0.96	1.04	0.70	1.10
Percent of loans charged-off, net							
Total loans and leases	2.07	0.91	0.97	1.68	0.53	1.13	1.28
Loans secured by real estate (RE)	0.15	0.12	0.38	0.19	0.18	0.08	0.20
1-4 family residential mortgages	0.07	0.11	0.39	0.08	0.19	0.02	0.17
Home equity loans	0.05	0.11	0.43	0.10	0.23	0.12	0.23
Multifamily residential mortgages	0.44	0.00	0.15	0.41	0.16	0.08	0.16
Commercial RE loans	0.07	0.07	0.42	0.58	0.19	0.07	0.21
Construction RE loans	0.01	0.23	0.26	0.07	0.11	0.36	0.21
Commercial and industrial loans	2.04	2.46	1.43	1.02	1.09	1.32	1.82
Loans to individuals	4.73	1.29	2.58	4.03	1.38	4.29	3.61
Credit cards	5.36	5.56	6.27	5.04	4.54	5.49	5.37
Installment loans and other plans	3.67	1.25	1.83	0.87	1.24	1.57	2.09
All other loans and leases	0.68	0.93	0.88	0.29	0.74	0.77	0.78
Loans outstanding ($)							
Total loans and leases	$633,326	$554,736	$641,491	$166,726	$176,496	$275,091	$2,447,866
Loans secured by real estate (RE)	177,395	301,218	323,548	68,037	112,949	156,415	1,139,562
1-4 family residential mortgages	78,546	171,815	151,588	40,512	45,995	85,525	573,982
Home equity loans	26,156	30,592	50,123	4,301	11,842	17,986	140,999
Multifamily residential mortgages	3,991	7,334	13,205	1,712	3,421	4,325	33,988
Commercial RE loans	35,224	64,039	72,382	13,832	32,933	34,999	253,409
Construction RE loans	8,005	22,362	32,101	4,515	15,867	12,553	95,404
Farmland loans	495	1,914	3,734	3,166	2,891	1,025	13,225
RE loans from foreign offices	24,978	3,162	415	0	0	1	28,556
Commercial and industrial loans	168,788	132,294	141,559	23,359	35,108	44,897	546,005
Loans to individuals	180,916	55,717	83,023	59,876	19,543	51,520	450,594
Credit cards	113,520	433	14,348	45,766	833	35,036	209,936
Other revolving credit plans	20,979	2,987	4,984	655	781	3,128	33,514
Installment loans	46,417	52,297	63,691	13,455	17,929	13,356	207,145
All other loans and leases	108,258	65,568	93,451	15,479	9,033	22,363	314,153
Less: Unearned income	2,030	60	90	25	137	104	2,447

Key indicators, FDIC-insured commercial banks
Annual 1998–2001, year-to-date through December 31, 2002, fourth quarter 2001, and fourth quarter 2002

(Dollar figures in millions)

	1998	1999	2000	2001	Preliminary 2002YTD	2001Q4	Preliminary 2002Q4
Number of institutions reporting	8,773	8,579	8,315	8,079	7,887	8,079	7,887
Total employees (FTEs)	1,626,978	1,657,602	1,670,861	1,701,717	1,745,296	1,701,717	1,745,296
Selected income data ($)							
Net income	$61,752	$71,491	$70,945	$73,967	$90,110	$18,446	$21,657
Net interest income	182,752	192,141	203,960	215,157	237,006	58,132	60,539
Provision for loan losses	22,215	21,817	30,013	43,433	48,054	15,555	12,871
Noninterest income	123,642	144,373	153,370	157,048	171,475	40,476	43,870
Noninterest expense	194,133	204,213	216,112	222,295	232,619	57,567	61,863
Net operating income	59,194	71,257	72,534	71,137	85,761	17,578	20,125
Cash dividends declared	41,004	51,936	53,854	54,160	67,504	15,143	18,333
Net charge-offs to loan and lease reserve	20,740	20,367	24,787	36,557	44,481	12,818	11,280
Selected condition data ($)							
Total assets	5,442,416	5,735,079	6,244,467	6,551,636	7,075,212	6,551,636	7,075,212
Total loans and leases	3,238,286	3,491,659	3,819,516	3,889,474	4,160,001	3,889,474	4,160,001
Reserve for losses	57,261	58,767	64,145	72,323	76,957	72,323	76,957
Securities	979,855	1,046,530	1,078,983	1,171,921	1,333,888	1,171,921	1,333,888
Other real estate owned	3,150	2,796	2,912	3,565	4,158	3,565	4,158
Noncurrent loans and leases	31,253	33,002	42,942	54,908	60,532	54,908	60,532
Total deposits	3,681,390	3,831,062	4,179,571	4,377,512	4,689,519	4,377,512	4,689,519
Domestic deposits	3,109,356	3,175,473	3,472,905	3,748,006	4,031,486	3,748,006	4,031,486
Equity capital	462,042	479,610	530,543	593,869	647,924	593,869	647,924
Off-balance-sheet derivatives	33,007,016	34,819,179	40,571,148	45,315,938	56,077,643	45,315,938	56,077,643
Performance ratios (annualized %)							
Return on equity	13.92	15.30	14.01	13.12	14.53	12.49	13.46
Return on assets	1.19	1.31	1.19	1.15	1.33	1.12	1.24
Net interest income to assets	3.51	3.51	3.41	3.36	3.51	3.54	3.46
Loss provision to assets	0.43	0.40	0.50	0.68	0.71	0.95	0.74
Net operating income to assets	1.14	1.30	1.21	1.11	1.27	1.07	1.15
Noninterest income to assets	2.37	2.64	2.56	2.45	2.54	2.47	2.51
Noninterest expense to assets	3.73	3.73	3.61	3.47	3.44	3.51	3.53
Loss provision to loans and leases	0.72	0.66	0.82	1.13	1.20	1.60	1.25
Net charge-offs to loans and leases	0.67	0.61	0.67	0.95	1.11	1.32	1.10
Loss provision to net charge-offs	104.81	107.11	121.08	118.81	108.03	121.35	114.10
Performance ratios (%)							
Percent of institutions unprofitable	6.11	7.52	7.34	8.12	6.21	13.60	10.70
Percent of institutions with earnings gains	61.21	62.83	67.34	56.29	73.26	57.71	62.39
Nonint. income to net operating revenue	40.35	42.90	42.92	42.19	41.98	41.05	42.02
Nonint. expense to net operating revenue	63.36	60.68	60.48	59.72	56.95	58.38	59.25
Condition ratios (%)							
Nonperforming assets to assets	0.65	0.63	0.74	0.92	0.94	0.92	0.94
Noncurrent loans to loans	0.97	0.95	1.12	1.41	1.46	1.41	1.46
Loss reserve to noncurrent loans	183.22	178.07	149.38	131.72	127.13	131.72	127.13
Loss reserve to loans	1.77	1.68	1.68	1.86	1.85	1.86	1.85
Equity capital to assets	8.49	8.36	8.50	9.06	9.16	9.06	9.16
Leverage ratio	7.54	7.79	7.70	7.79	7.84	7.79	7.84
Risk-based capital ratio	12.23	12.15	12.12	12.71	12.78	12.71	12.78
Net loans and leases to assets	58.45	59.86	60.14	58.26	57.71	58.26	57.71
Securities to assets	18.00	18.25	17.28	17.89	18.85	17.89	18.85
Appreciation in securities (% of par)	1.07	-2.31	0.20	0.82	2.22	0.82	2.22
Residential mortgage assets to assets	20.93	20.78	20.20	21.64	23.29	21.64	23.29
Total deposits to assets	67.64	66.80	66.93	66.82	66.28	66.82	66.28
Core deposits to assets	49.39	46.96	46.39	48.73	48.68	48.73	48.68
Volatile liabilities to assets	31.68	34.94	34.98	31.46	31.42	31.46	31.42

Loan performance, FDIC-insured commercial banks
Annual 1998–2001, year-to-date through December 31, 2002, fourth quarter 2001, and fourth quarter 2002

(Dollar figures in millions)

	1998	1999	2000	2001	Preliminary 2002YTD	2001Q4	Preliminary 2002Q4
Percent of loans past due 30-89 days							
Total loans and leases	1.26	1.14	1.26	1.37	1.18	1.37	1.18
Loans secured by real estate (RE)	1.26	1.09	1.26	1.31	1.08	1.31	1.08
1-4 family residential mortgages	1.44	1.43	1.72	1.67	1.48	1.67	1.48
Home equity loans	0.98	0.75	0.98	0.91	0.60	0.91	0.60
Multifamily residential mortgages	0.86	0.57	0.55	0.69	0.45	0.69	0.45
Commercial RE loans	0.99	0.69	0.74	0.90	0.68	0.90	0.68
Construction RE loans	1.50	0.98	1.06	1.21	0.89	1.21	0.89
Commercial and industrial loans	0.88	0.79	0.83	1.01	0.89	1.01	0.89
Loans to individuals	2.43	2.33	2.47	2.46	2.23	2.46	2.23
Credit cards	2.58	2.59	2.66	2.69	2.73	2.69	2.73
Installment loans and other plans	2.33	2.18	2.34	2.55	2.09	2.55	2.09
All other loans and leases	0.51	0.54	0.65	0.84	0.59	0.84	0.59
Percent of loans noncurrent							
Total loans and leases	0.97	0.95	1.12	1.41	1.46	1.41	1.46
Loans secured by real estate (RE)	0.91	0.79	0.81	0.96	0.89	0.96	0.89
1-4 family residential mortgages	0.88	0.82	0.90	0.96	0.93	0.96	0.93
Home equity loans	0.42	0.33	0.37	0.39	0.31	0.39	0.31
Multifamily residential mortgages	0.83	0.41	0.44	0.43	0.36	0.43	0.36
Commercial RE loans	0.95	0.77	0.72	0.96	0.95	0.96	0.95
Construction RE loans	0.81	0.67	0.76	1.06	0.98	1.06	0.98
Commercial and industrial loans	0.99	1.18	1.66	2.41	2.92	2.41	2.92
Loans to individuals	1.52	1.42	1.41	1.48	1.51	1.48	1.51
Credit cards	2.22	2.05	2.01	2.12	2.24	2.12	2.24
Installment loans and other plans	1.06	1.04	0.98	1.21	1.14	1.21	1.14
All other loans and leases	0.34	0.39	0.69	0.96	1.00	0.96	1.00
Percent of loans charged-off, net							
Total loans and leases	0.67	0.61	0.67	0.95	1.11	1.32	1.10
Loans secured by real estate (RE)	0.05	0.08	0.09	0.19	0.15	0.22	0.18
1-4 family residential mortgages	0.07	0.11	0.11	0.22	0.14	0.17	0.15
Home equity loans	0.14	0.15	0.18	0.27	0.19	0.39	0.19
Multifamily residential mortgages	0.05	0.02	0.03	0.04	0.07	0.08	0.11
Commercial RE loans	0.00	0.03	0.05	0.14	0.15	0.23	0.19
Construction RE loans	0.01	0.04	0.05	0.14	0.17	0.24	0.22
Commercial and industrial loans	0.42	0.58	0.81	1.43	1.76	2.42	1.75
Loans to individuals	2.69	2.32	2.43	2.73	3.34	3.36	3.14
Credit cards	5.19	4.45	4.39	5.14	6.38	6.35	5.52
Installment loans and other plans	1.04	1.04	1.18	1.29	1.46	1.65	1.62
All other loans and leases	0.39	0.25	0.23	0.41	0.58	0.49	0.76
Loans outstanding ($)							
Total loans and leases	$3,238,286	$3,491,659	$3,819,516	$3,889,474	$4,160,001	$3,889,474	$4,160,001
Loans secured by real estate (RE)	1,345,589	1,510,342	1,673,325	1,800,226	2,067,999	1,800,226	2,067,999
1-4 family residential mortgages	668,706	737,110	790,030	810,832	945,866	810,832	945,866
Home equity loans	96,647	102,339	127,694	154,157	214,647	154,157	214,647
Multifamily residential mortgages	43,242	53,168	60,406	64,127	71,934	64,127	71,934
Commercial RE loans	370,544	417,633	466,453	505,836	555,801	505,836	555,801
Construction RE loans	106,719	135,632	162,613	193,047	207,437	193,047	207,437
Farmland loans	29,096	31,902	34,096	35,531	38,034	35,531	38,034
RE loans from foreign offices	30,635	32,558	32,033	36,695	34,280	36,695	34,280
Commercial and industrial loans	898,555	969,257	1,051,992	981,394	912,022	981,394	912,022
Loans to individuals	570,863	558,424	606,663	629,896	703,576	629,896	703,576
Credit cards*	228,781	212,051	249,372	232,899	275,753	232,899	275,753
Other revolving credit plans	NA	NA	NA	34,203	38,483	34,203	38,483
Installment loans	342,081	346,373	357,291	362,794	389,340	362,794	389,340
All other loans and leases	427,397	457,309	490,448	481,068	479,802	481,068	479,802
Less: Unearned income	4,117	3,673	2,912	3,110	3,399	3,110	3,399

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

Key indicators, FDIC-insured commercial banks by asset size
Fourth quarter 2001 and fourth quarter 2002

(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4
Number of institutions reporting	4,485	4,168	3,195	3,314	320	325	79	80
Total employees (FTEs)	89,778	82,895	298,306	299,662	247,247	245,664	1,066,386	1,117,075
Selected income data ($)								
Net income	$377	$451	$2,271	$2,540	$2,760	$3,548	$13,039	$15,118
Net interest income	2,129	2,065	8,188	8,588	8,812	8,539	39,004	41,347
Provision for loan losses	255	192	1,084	1,004	1,798	1,237	12,417	10,437
Noninterest income	596	566	3,395	3,633	5,468	5,867	31,017	33,805
Noninterest expense	1,996	1,882	7,418	7,857	8,268	8,045	39,885	44,079
Net operating income	356	435	2,202	2,490	2,659	3,431	12,361	13,770
Cash dividends declared	487	444	1,758	1,999	2,725	4,225	10,173	11,665
Net charge-offs to loan and lease reserve	190	156	799	789	2,115	1,162	9,714	9,174
Selected condition data ($)								
Total assets	221,584	211,267	819,921	869,517	915,038	936,690	4,595,093	5,057,739
Total loans and leases	135,356	128,952	532,939	563,766	564,650	568,429	2,656,528	2,898,854
Reserve for losses	1,929	1,871	7,715	8,296	10,371	9,918	52,309	56,871
Securities	53,191	50,647	185,622	200,109	213,575	228,823	719,533	854,309
Other real estate owned	310	332	908	1,147	537	578	1,809	2,100
Noncurrent loans and leases	1,485	1,452	5,058	5,431	5,984	6,056	42,382	47,593
Total deposits	187,697	178,302	668,419	707,074	625,049	639,611	2,896,347	3,164,532
Domestic deposits	187,696	178,296	666,850	705,743	614,417	628,925	2,279,043	2,518,522
Equity capital	24,113	23,507	79,282	85,951	88,868	96,974	401,606	441,491
Off-balance-sheet derivatives	38	67	4,750	6,808	81,546	70,934	45,340,464	56,195,717
Performance ratios (annualized %)								
Return on equity	6.21	7.70	11.48	11.88	12.52	14.81	13.07	13.79
Return on assets	0.69	0.87	1.12	1.18	1.22	1.53	1.13	1.21
Net interest income to assets	3.90	3.96	4.05	3.99	3.91	3.69	3.37	3.30
Loss provision to assets	0.47	0.37	0.54	0.47	0.80	0.54	1.07	0.83
Net operating income to assets	0.65	0.83	1.09	1.16	1.18	1.48	1.07	1.10
Noninterest income to assets	1.09	1.08	1.68	1.69	2.42	2.54	2.68	2.70
Noninterest expense to assets	3.66	3.61	3.67	3.65	3.67	3.48	3.44	3.52
Loss provision to loans and leases	0.76	0.60	0.82	0.72	1.28	0.88	1.87	1.46
Net charge-offs to loans and leases	0.57	0.49	0.61	0.57	1.50	0.82	1.46	1.28
Loss provision to net charge-offs	134.59	122.96	135.63	127.36	85.03	106.50	127.82	113.77
Performance ratios (%)								
Percent of institutions unprofitable	18.97	16.31	6.64	4.50	8.13	3.38	12.66	5.00
Percent of institutions with earnings gains	52.87	57.10	63.79	67.86	65.94	73.23	53.16	67.50
Nonint. income to net operating revenue	21.87	21.50	29.31	29.73	38.29	40.73	44.30	44.98
Nonint. expense to net operating revenue	73.26	71.56	64.04	64.29	57.90	55.85	56.96	58.65
Condition ratios (%)								
Nonperforming assets to assets	0.81	0.86	0.73	0.76	0.72	0.72	1.00	1.01
Noncurrent loans to loans	1.10	1.13	0.95	0.96	1.06	1.07	1.60	1.64
Loss reserve to noncurrent loans	129.92	128.85	152.52	152.74	173.30	163.77	123.42	119.50
Loss reserve to loans	1.42	1.45	1.45	1.47	1.84	1.74	1.97	1.96
Equity capital to assets	10.88	11.13	9.67	9.88	9.71	10.35	8.74	8.73
Leverage ratio	10.61	10.67	9.17	9.21	8.69	9.08	7.23	7.24
Risk-based capital ratio	16.94	17.10	14.03	14.20	13.70	14.53	12.16	12.12
Net loans and leases to assets	60.22	60.15	64.06	63.88	60.57	59.63	56.67	56.19
Securities to assets	24.00	23.97	22.64	23.01	23.34	24.43	15.66	16.89
Appreciation in securities (% of par)	1.18	2.43	1.14	2.49	0.88	2.18	0.70	2.15
Residential mortgage assets to assets	21.71	21.66	23.97	23.66	26.22	26.30	20.30	22.74
Total deposits to assets	84.71	84.40	81.52	81.32	68.31	68.28	63.03	62.57
Core deposits to assets	71.59	71.50	68.14	67.98	55.76	55.72	42.76	43.11
Volatile liabilities to assets	14.73	14.47	17.50	17.36	25.86	25.22	35.87	35.69

Loan performance, FDIC-insured commercial banks by asset size
Fourth quarter 2001 and fourth quarter 2002

(Dollar figures in millions)

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4	2001Q4	2002Q4
Percent of loans past due 30-89 days								
Total loans and leases	1.71	1.60	1.38	1.20	1.33	1.18	1.36	1.15
Loans secured by real estate (RE)	1.55	1.47	1.20	1.04	1.05	0.93	1.41	1.10
1-4 family residential mortgages	2.01	2.04	1.68	1.61	1.36	1.28	1.72	1.47
Home equity loans	0.87	0.62	0.77	0.55	0.81	0.58	0.94	0.60
Multifamily residential mortgages	0.77	0.78	0.61	0.52	0.48	0.35	0.78	0.44
Commercial RE loans	1.17	1.09	0.87	0.72	0.81	0.69	0.94	0.61
Construction RE loans	1.64	1.22	1.15	0.92	1.07	0.92	1.26	0.85
Commercial and industrial loans	1.85	1.69	1.38	1.31	1.27	1.32	0.90	0.74
Loans to individuals	2.88	2.83	2.57	2.30	2.41	2.14	2.44	2.22
Credit cards	2.52	2.04	4.74	4.12	2.77	2.73	2.59	2.69
Installment loans and other plans	2.94	2.90	2.33	2.13	2.33	1.99	2.62	2.06
All other loans and leases	1.05	0.93	0.99	0.79	0.92	0.69	0.82	0.55
Percent of loans noncurrent								
Total loans and leases	1.10	1.13	0.95	0.96	1.06	1.07	1.60	1.64
Loans secured by real estate (RE)	0.98	1.00	0.83	0.83	0.84	0.88	1.03	0.91
1-4 family residential mortgages	0.88	0.93	0.76	0.80	0.80	0.89	1.06	0.96
Home equity loans	0.30	0.28	0.34	0.24	0.41	0.30	0.40	0.31
Multifamily residential mortgages	0.62	0.74	0.51	0.48	0.45	0.27	0.39	0.34
Commercial RE loans	1.14	1.11	0.91	0.88	0.89	0.91	1.01	0.98
Construction RE loans	1.04	1.06	0.93	0.92	1.06	1.13	1.13	0.94
Commercial and industrial loans	1.62	1.62	1.36	1.46	1.68	1.73	2.68	3.36
Loans to individuals	0.99	1.01	0.95	0.97	1.16	1.07	1.64	1.65
Credit cards	1.64	1.45	3.02	3.50	1.89	2.01	2.13	2.24
Installment loans and other plans	1.00	1.02	0.66	0.66	0.77	0.65	1.45	1.33
All other loans and leases	1.04	1.17	1.00	1.05	0.74	0.76	0.97	1.01
Percent of loans charged-off, net								
Total loans and leases	0.57	0.49	0.61	0.57	1.50	0.82	1.46	1.28
Loans secured by real estate (RE)	0.16	0.14	0.16	0.16	0.15	0.17	0.27	0.19
1-4 family residential mortgages	0.13	0.15	0.13	0.12	0.09	0.16	0.21	0.16
Home equity loans	0.10	0.24	0.15	0.08	0.24	0.13	0.46	0.21
Multifamily residential mortgages	0.16	0.05	0.17	0.07	0.01	0.08	0.07	0.14
Commercial RE loans	0.19	0.14	0.15	0.17	0.19	0.17	0.31	0.21
Construction RE loans	0.22	0.24	0.28	0.30	0.25	0.24	0.23	0.17
Commercial and industrial loans	1.43	1.20	1.31	1.29	3.06	1.18	2.49	1.92
Loans to individuals	1.37	1.29	2.12	2.11	4.34	2.78	3.39	3.36
Credit cards	4.20	4.07	8.64	8.82	9.07	6.22	5.70	5.35
Installment loans and other plans	1.30	1.23	1.23	1.24	1.48	1.11	1.80	1.80
All other loans and leases	0.48	0.45	0.64	0.62	0.55	0.68	0.48	0.79
Loans outstanding ($)								
Total loans and leases	$135,356	$128,952	$532,939	$563,766	$564,650	$568,429	$2,656,528	$2,898,854
Loans secured by real estate (RE)	79,507	77,629	352,463	385,881	320,174	330,037	1,048,081	1,274,453
1-4 family residential mortgages	34,882	32,713	132,079	132,510	127,032	125,357	516,839	655,286
Home equity loans	2,188	2,291	15,395	19,456	19,637	22,543	116,936	170,357
Multifamily residential mortgages	1,795	1,802	11,833	13,794	14,042	14,802	36,457	41,536
Commercial RE loans	23,191	23,366	134,921	154,313	113,337	118,649	234,387	259,473
Construction RE loans	7,473	7,424	43,680	49,174	41,702	43,472	100,192	107,366
Farmland loans	9,979	10,031	14,517	16,601	4,089	4,168	6,946	7,234
RE loans from foreign offices	0	0	37	33	334	1,045	36,323	33,202
Commercial and industrial loans	23,241	21,661	94,565	95,806	113,810	109,551	749,778	685,005
Loans to individuals	16,858	14,758	58,944	54,160	98,417	92,250	455,678	542,408
Credit cards*	397	363	7,501	6,286	36,975	30,036	188,026	239,068
Other revolving credit plans	295	244	1,593	1,637	3,733	4,058	28,581	32,544
Installment loans	16,166	14,151	49,849	46,237	57,708	58,156	239,070	270,797
All other loans and leases	15,902	15,017	27,573	28,489	32,813	37,075	404,780	399,222
Less: Unearned income	152	113	605	569	564	483	1,789	2,233

Key indicators, FDIC-insured commercial banks by region
Fourth quarter 2002

(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	626	1,076	1,681	2,052	1,761	691	7,887
Total employees (FTEs)	535,868	406,884	335,526	118,483	175,260	173,275	1,745,296
Selected income data ($)							
Net income	$5,258	$5,091	$4,686	$1,600	$1,593	$3,428	$21,657
Net interest income	17,927	13,245	12,019	4,530	4,772	8,046	60,539
Provision for loan losses	5,632	2,039	2,142	1,025	458	1,575	12,871
Noninterest income	17,561	8,490	7,060	2,839	2,616	5,305	43,870
Noninterest expense	22,819	13,172	10,487	4,054	4,762	6,569	61,863
Net operating income	4,557	4,697	4,388	1,562	1,536	3,385	20,125
Cash dividends declared	4,230	6,117	3,900	1,006	1,580	1,502	18,333
Net charge-offs to loan and lease reserve	4,771	1,909	1,926	890	410	1,374	11,280
Selected condition data ($)							
Total assets	2,405,391	1,590,889	1,439,863	395,294	493,230	750,544	7,075,212
Total loans and leases	1,174,614	973,470	945,182	273,045	298,242	495,448	4,160,001
Reserve for losses	27,258	15,236	16,039	4,981	4,235	9,208	76,957
Securities	468,847	283,644	274,952	64,803	116,188	125,455	1,333,888
Other real estate owned	535	1,096	1,077	348	700	402	4,158
Noncurrent loans and leases	25,132	11,456	13,019	2,966	3,106	4,854	60,532
Total deposits	1,494,118	1,092,999	938,155	265,323	386,540	512,384	4,689,519
Domestic deposits	1,021,654	1,015,976	867,026	259,520	385,136	482,174	4,031,486
Equity capital	207,008	149,525	122,783	41,420	48,169	79,018	647,924
Off-balance-sheet derivatives	38,827,460	14,643,312	1,801,830	9,772	45,936	749,333	56,077,643
Performance ratios (annualized %)							
Return on equity	10.24	13.66	15.34	15.65	13.26	17.64	13.46
Return on assets	0.89	1.29	1.31	1.64	1.31	1.87	1.24
Net interest income to assets	3.02	3.35	3.36	4.65	3.93	4.38	3.46
Loss provision to assets	0.95	0.52	0.60	1.05	0.38	0.86	0.74
Net operating income to assets	0.77	1.19	1.23	1.60	1.26	1.84	1.15
Noninterest income to assets	2.96	2.15	1.97	2.91	2.15	2.89	2.51
Noninterest expense to assets	3.84	3.33	2.93	4.16	3.92	3.58	3.53
Loss provision to loans and leases	1.93	0.85	0.91	1.51	0.62	1.32	1.25
Net charge-offs to loans and leases	1.64	0.79	0.82	1.31	0.56	1.15	1.10
Loss provision to net charge-offs	118.05	106.80	111.19	115.15	111.82	114.64	114.10
Performance ratios (%)							
Percent of institutions unprofitable	10.70	12.08	7.56	10.77	12.21	12.16	10.70
Percent of institutions with earnings gains	67.25	66.91	63.89	56.82	60.02	69.90	62.39
Nonint. income to net operating revenue	49.48	39.06	37.00	38.52	35.41	39.74	42.02
Nonint. expense to net operating revenue	64.30	60.61	54.96	55.02	64.45	49.20	59.25
Condition ratios (%)							
Nonperforming assets to assets	1.11	0.79	1.01	0.84	0.77	0.71	0.94
Noncurrent loans to loans	2.14	1.18	1.38	1.09	1.04	0.98	1.46
Loss reserve to noncurrent loans	108.46	132.99	123.20	167.95	136.34	189.71	127.13
Loss reserve to loans	2.32	1.57	1.70	1.82	1.42	1.86	1.85
Equity capital to assets	8.61	9.40	8.53	10.48	9.77	10.53	9.16
Leverage ratio	7.43	7.54	7.59	9.52	8.43	8.94	7.84
Risk-based capital ratio	12.88	12.10	12.30	14.05	13.75	13.76	12.78
Net loans and leases to assets	47.70	60.23	64.53	67.81	59.61	64.79	57.71
Securities to assets	19.49	17.83	19.10	16.39	23.56	16.72	18.85
Appreciation in securities (% of par)	1.62	2.80	2.22	2.61	2.69	2.48	2.22
Residential mortgage assets to assets	17.67	28.00	26.52	21.55	27.76	23.12	23.29
Total deposits to assets	62.12	68.70	65.16	67.12	78.37	68.27	66.28
Core deposits to assets	33.95	56.15	53.11	59.00	65.21	55.28	48.68
Volatile liabilities to assets	45.12	22.44	26.88	21.95	20.50	27.40	31.42

Loan performance, FDIC-insured commercial banks by region
Fourth quarter 2002

(Dollar figures in millions)

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30-89 days							
Total loans and leases	1.29	0.93	1.26	1.37	1.30	1.05	1.18
Loans secured by real estate (RE)	1.20	0.91	1.32	0.88	1.20	0.83	1.08
1-4 family residential mortgages	1.52	1.28	1.94	1.04	1.70	1.16	1.48
Home equity loans	0.51	0.59	0.65	0.60	0.65	0.58	0.60
Multifamily residential mortgages	0.43	0.34	0.57	0.30	0.81	0.25	0.45
Commercial RE loans	0.72	0.56	0.86	0.72	0.84	0.43	0.68
Construction RE loans	1.05	0.60	1.15	0.85	0.95	0.98	0.89
Commercial and industrial loans	0.80	0.58	1.09	1.33	1.16	1.09	0.89
Loans to individuals	2.38	2.21	1.88	2.49	2.28	1.94	2.23
Credit cards	2.86	4.26	1.97	2.76	2.29	2.16	2.73
Installment loans and other plans	2.27	1.97	1.98	1.96	2.35	1.83	2.09
All other loans and leases	0.56	0.28	0.77	0.88	0.85	0.52	0.59
Percent of loans noncurrent							
Total loans and leases	2.14	1.18	1.38	1.09	1.04	0.98	1.46
Loans secured by real estate (RE)	1.00	0.70	1.27	0.62	0.94	0.55	0.89
1-4 family residential mortgages	0.99	0.69	1.60	0.45	1.01	0.35	0.93
Home equity loans	0.24	0.25	0.42	0.26	0.29	0.26	0.31
Multifamily residential mortgages	0.24	0.31	0.49	0.36	0.74	0.21	0.36
Commercial RE loans	0.86	0.83	1.31	0.85	0.96	0.70	0.95
Construction RE loans	1.10	0.85	1.18	0.75	0.90	1.03	0.98
Commercial and industrial loans	4.23	2.73	2.36	1.36	1.49	2.03	2.92
Loans to individuals	2.14	0.92	0.69	1.84	0.77	1.24	1.51
Credit cards	2.45	2.64	1.51	2.28	1.49	1.80	2.24
Installment loans and other plans	2.17	0.68	0.59	0.92	0.76	0.38	1.14
All other loans and leases	1.24	0.93	0.70	0.97	1.27	0.86	1.00
Percent of loans charged-off, net							
Total loans and leases	1.64	0.79	0.82	1.31	0.56	1.15	1.10
Loans secured by real estate (RE)	0.10	0.13	0.32	0.20	0.20	0.09	0.18
1-4 family residential mortgages	0.06	0.12	0.32	0.11	0.20	0.03	0.15
Home equity loans	0.05	0.15	0.35	0.14	0.21	0.10	0.19
Multifamily residential mortgages	0.18	0.03	0.12	0.22	0.17	0.04	0.11
Commercial RE loans	0.06	0.11	0.35	0.36	0.20	0.12	0.19
Construction RE loans	0.00	0.16	0.35	0.45	0.17	0.21	0.22
Commercial and industrial loans	2.17	1.88	1.25	1.04	1.15	1.92	1.75
Loans to individuals	3.79	1.96	2.20	3.94	1.47	3.77	3.14
Credit cards	5.59	5.96	6.02	5.37	4.55	5.20	5.52
Installment loans and other plans	2.09	1.29	1.57	0.90	1.34	1.41	1.62
All other loans and leases	0.71	0.80	0.84	0.38	0.71	0.95	0.76
Loans outstanding ($)							
Total loans and leases	$1,174,614	$973,470	$945,182	$273,045	$298,242	$495,448	$4,160,001
Loans secured by real estate (RE)	404,311	560,719	499,538	131,369	192,215	279,847	2,067,999
1-4 family residential mortgages	201,857	264,848	218,627	62,722	75,912	121,900	945,866
Home equity loans	43,411	56,882	69,270	6,527	13,630	24,927	214,647
Multifamily residential mortgages	16,014	15,154	20,584	3,598	5,322	11,262	71,934
Commercial RE loans	90,449	149,308	130,520	35,130	62,513	87,881	555,801
Construction RE loans	21,110	66,131	50,789	11,607	27,906	29,893	207,437
Farmland loans	1,400	5,235	9,282	11,785	6,931	3,401	38,034
RE loans from foreign offices	30,070	3,162	465	0	0	583	34,280
Commercial and industrial loans	297,869	206,723	214,079	42,101	56,508	94,742	912,022
Loans to individuals	288,495	114,008	108,579	70,445	34,091	87,956	703,576
Credit cards	139,878	15,570	15,907	48,374	1,467	54,557	275,753
Other revolving credit plans	22,358	4,487	5,463	796	1,000	4,380	38,483
Installment loans	126,260	93,951	87,209	21,275	31,625	29,019	389,340
All other loans and leases	186,152	92,324	123,157	29,179	15,685	33,305	479,802
Less: Unearned income	2,214	305	170	49	258	402	3,399

Glossary

Data Sources

Data are from the Federal Financial Institutions Examination Council (FFIEC) Reports of Condition and Income (call reports) submitted by all Federal Deposit Insurance Corporation (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 Office of the Comptroller of the Currency's (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- to 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.

Special Studies

The Structure, Scope, and Independence of Bank Supervision: An International Comparison

by Daniel E. Nolle, Senior Financial Economist, Policy Analysis Division[*]

Introduction

Many countries around the world have experienced banking crises in the past two decades, and all countries are witnessing substantial changes in the structure and nature of banking. These developments have led national and multilateral policymakers to focus increased attention on the crucial role of banking supervision. This focus is reinforced by the fact that "one of the important [international] trends has been, and continues to be, a move away from regulation and towards supervision."[1]

In light of this trend, policy discussions specifically focus on several issues that must be addressed in establishing and maintaining effective supervision, including the structure, scope, and independence of bank supervision.

- Should banks be subject to one or multiple supervisory authorities?
- Should the central bank be involved in bank supervision?
- Should bank supervisory authorities supervise other financial service industries, including in particular securities and insurance?
- To what degree should bank supervisors be subject to political and economic policy pressure and influence?

How these issues are addressed is important because policies that fail to provide for an appropriate bank supervisory framework may undermine bank performance and even lead to full-scale banking crises.

* The views expressed in this article are those of the author, and do not necessarily represent those of the Office of the Comptroller of the Currency (OCC) or the U.S. Treasury Department. The author wishes to thank Cindy Lee for assistance with the data and Rebecca Miller for excellent editorial assistance.

[1]Crockett, Andrew (2001), "Banking Supervision and Regulation: International Trends," Paper presented at the 64th Banking Convention of the Mexican Bankers' Association, Acapulco, March 30. "Regulation" refers to the set of laws and rules applicable to banking, and "supervision" is defined as the monitoring by authorities of banks' activities and the enforcement of banking regulations.

The intense interest policymakers have shown in these issues has not been matched by researchers. In particular, there is very little systematic empirical evidence on how, or indeed whether, the structure, scope, and independence of bank supervision affect the banking industry. This gap was addressed in a recent OCC working paper (Working Paper 2002-2),[2] which this article summarizes.

Section I of this article provides information on the structure, scope, and independence of banking supervision across a wide range of developed and emerging market economies. Section II draws on the discussion in the OCC Working Paper 2002-2 of the conceptual debates to explain possible channels of influence of the structure, scope, and independence of banking supervision on bank performance. Section III summarizes the statistical tests developed in the working paper to test whether and how the structure, scope, and independence of banking supervision affect a key dimension of bank performance—bank profitability. The results indicate, at most, a weak influence for the type of structure of supervision on actual bank performance.

I. The Structure, Scope, and Independence of Bank Supervision Around the Globe

Supervisory Structure: Single or Multiple Bank Supervisors?

A key policy decision in designing the structure of a bank supervisory system is whether there should be a single bank supervisory authority or multiple supervisors. Although previous conceptual literature covers a number of possible advantages and disadvantages to each option, perhaps the strongest reason for advocating a single supervisory authority is because of a fear of "competition in laxity" between multiple supervisors, while those in favor of having two or more bank supervisors stress the benefits of a "competition in ideas" among multiple supervisors.[3]

One essential set of information largely missing from the previous literature on the issue of the structure of supervision is what different countries around the world have chosen to do. Table 1 provides information on the international "landscape" of bank supervisory structure.[4] The vast majority of countries—83 percent of the 118 countries for which the relevant information is available—have a single bank supervisory authority. Nevertheless, 20 countries (17 percent of the

[2]Barth, James R., Daniel E. Nolle, Triphon Phumiwasana, and Glenn Yago (2002), "A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance," *Economic and Policy Analysis Working Paper 2002–2* (September), Office of the Comptroller of the Currency.

[3]OCC Working Paper 2002–2 includes an extended discussion and summary of the previous literature on the possible advantages and disadvantages of single versus multiple bank supervisors. See especially pp. 6–9.

[4]Tables 1–4 in this article draw directly on detailed information in the working paper and augment that information with new information on a wider range of countries. The data come from a World Bank survey of 118 countries' bank supervisory authorities. Not all of the countries listed in Tables 1–4 were included in the statistical analyses in the working paper because of gaps in necessary complementary data, as required by the statistical model developed in that paper.

total), including the United States, assign banking supervision to multiple supervisory authorities. There is no systematic pattern to the division between single and multiple supervisory regimes across geographical regions or country income levels.

Supervisory Structure: A Role for the Central Bank?

Countries must also decide whether to assign responsibility for bank supervision to the central bank. As with the issue of single or multiple bank supervisors, the conceptual literature is split on the relative advantages and disadvantages of the central bank being a bank supervisor.[5] Perhaps the most strongly emphasized argument in favor of assigning supervisory responsibility to the central bank is that as a bank supervisor, the central bank will have first-hand knowledge of the condition and performance of banks. This in turn can help it identify and respond to the emergence of a systemic problem in a timely manner.

Those pointing to the disadvantages of assigning bank supervision to the central bank stress the inherent conflict of interest between supervisory responsibilities and responsibility for monetary policy. The conflict could become particularly acute during an economic downturn, in that the central bank may be tempted to pursue a too-loose monetary policy in order to avoid adverse effects on bank earnings and credit quality, and/or encourage banks to extend credit more liberally than warranted based on credit quality conditions in order to complement an expansionary monetary policy.

As with the single–multiple supervisor debate, a useful first step in addressing the debate over the bank supervisory role of the central bank is to ascertain basic facts. Table 2 compares the bank supervisory role of the central bank in 117 countries. More than three-fourths of the 117 countries shown assign banking supervision to the central bank, including 64 percent in which the central bank is the single bank supervisory authority. Like the United States, a few countries (12 percent of the total) give bank supervisory authority to the central bank and at least one other agency. About one-fifth of the countries do not assign any bank supervisory responsibilities to the central bank.

The Scope of Supervision: Which Financial Institutions Should the Bank Supervisor Supervise?

Policymakers have also grappled with the issue of whether bank supervisory authorities should be responsible for the supervision of nonbank financial service industries—in addition to banking. Impetus for the debate over the scope of supervisors' responsibilities comes from the ongoing blurring of distinctions between different types of financial activities, the growing complexity and size of financial services firms, and the increasing globalization of financial services. In general,

[5]OCC Working Paper 2002–2 summarizes the theoretical debate and the small amount of empirical literature on this issue on pp. 9–12.

Table 1—Single banking supervisory authority predominates (118 countries)

Region	Single Banking Supervisory Authority			Multiple Banking Supervisory Authorities
Africa	Botswana Gambia Lesotho Namibia Zambia	Burundi Ghana Malawi Nigeria	Egypt Kenya Morocco South Africa	Rwanda
Americas	Bolivia Chile Guyana Mexico Trinidad and Tobago	Brazil El Salvador Honduras Panama Venezuela	Canada Guatemala Jamaica Peru	Argentina United States Puerto Rico
Asia/Pacific	Azerbaijan Cambodia Indonesia Jordan New Zealand Kyrgyzstan Philippines Singapore Tonga	Bangladesh China Israel Malaysia Kuwait Lebanon Qatar Sri Lanka Turkmenistan	Bhutan India Japan Maldives Kazakhstan Nepal Saudi Arabia Tajikistan Vietnam	Australia Korea Taiwan Thailand
Europe	Albania Bosnia-Herzegovina Denmark France Iceland Liechtenstein Macedonia Portugal Slovenia Switzerland	Austria Bulgaria Estonia Georgia Ireland Lithuania Moldova Romania Spain Cyprus	Belgium Croatia Finland Greece Italy Luxembourg Netherlands Slovakia Sweden United Kingdom	Belarus Czech Republic Germany Hungary Latvia Poland Turkey Yugoslavia
Offshore Financial Centers	Aruba British Virgin Islands Malta Seychelles Turks and Caicos Islands	Bahrain Guernsey Mauritius Solomon Islands Western Samoa	Cayman Islands Macau Oman St. Kitts and Nevis	Gibraltar Vanuatu
	83% of countries			**17% of countries**

Sources: Barth, James R., Daniel E. Nolle, Triphon Phumiwasana, and Glenn Yago, "A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance," Economic and Policy Analysis Working Paper 2002–2 (September), Office of the Comptroller of the Currency; and World Bank.

Table 2—Majority of Countries Rely on Central Bank as a Supervisory Authority (117 countries)

Region	Central Bank Only		Central Bank Among Multiple Supervisors	Central Bank Not a Bank Supervisor	
Africa	Botswana Burundi Egypt Gambia Ghana Kenya	Lesotho Malawi Morocco Nigeria South Africa Zambia	Rwanda		
Americas	Brazil Guatemala Guyana	Jamaica Trinidad and Tobago	Argentina United States	Bolivia Canada Chile El Salvador	Mexico Panama Peru Puerto Rico
Asia/Pacific	Armenia Azerbaijan Bangladesh Bhutan Cambodia China India Indonesia Israel Jordan Kazakhstan Kuwait Kyrgyzstan Lebanon	Malaysia Maldives Nepal New Zealand Philippines Qatar Saudi Arabia Singapore Sri Lanka Tajikistan Tonga Turkmenistan Vietnam	Taiwan Thailand	Australia Japan Korea	Venezuela
Europe	Albania Bosnia-Herzegovina Bulgaria Croatia Estonia Georgia Greece Ireland Italy Lithuania	Macedonia Cyprus Moldova Netherlands Portugal Romania Russia Slovakia Slovenia Spain	Belarus Czech Republic Germany Hungary Latvia Poland Turkey Yugoslavia	Austria Belgium Denmark Finland France Iceland Liechtenstein Luxembourg Sweden Switzerland	
Offshore Financial Centers	Aruba Bahrain Cayman Islands Macau Malta Mauritius	Oman Seychelles St. Kitts and Nevis Solomon Islands Western Samoa	Vanuatu	British Virgin Islands Gibraltar Guernsey Turks and Caicos	
	64% of countries		**12% of countries**	**22% of countries**	

Sources: Barth, James R., Daniel E. Nolle, Triphon Phumiwasana, and Glenn Yago, “A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance,” Economic and Policy Analysis Working Paper 2002–2 (September), Office of the Comptroller of the Currency; and World Bank.

the debate has been cast in terms of whether or not it is best to have a single "consolidated," or "unified," supervisor of all financial services.[6]

Much of the discussion about consolidating financial services supervision takes as its starting point the observation that financial service companies are growing increasingly complex. Financial conglomerates that operate in the banking, securities, and insurance industries are among the most powerful corporations in many countries. In order to supervise such entities effectively, and in particular to insure that supervisory oversight of risk management by such conglomerates is not fragmented, uncoordinated, or incomplete, some have argued that a supervisor with broad scope to cover all financial services is necessary. The most significant argument against a supervisory authority with broad scope is that it would result in an undue concentration of power that would otherwise be somewhat dispersed among several agencies.

Table 3 presents an international comparison of the scope of supervision across 116 countries. In the majority of countries (55 percent) the authority responsible for bank supervision is confined to just the banking industry. However, bank supervisory authorities also supervise securities firms in 11 percent of the countries and insurance firms in 20 percent of the countries. In 16 countries (14 percent), the authority responsible for bank supervision also supervises both securities and insurance firms.

A third bank supervision issue has begun to receive far greater attention from researchers in the wake of numerous recent and costly banking and currency crises. There is an emerging consensus, arising out of the burgeoning research on the causes of banking and currency crises, that independence for supervisory authorities is crucial for well-functioning banks and, more

[6]Generally the discussion focuses on banks, securities firms, and insurance companies. Abrams, Richard K., and Michael W. Taylor (2000), "Issues in the Unification of Financial Sector Supervision" IMF Working Paper 213, includes a discussion of a "unified" supervisor also having supervisory responsibility for pension funds, finance houses, and leasing companies. They also note that the case for consolidating the supervision of banking and securities firms may be stronger than for including insurance firms as well. This is because, for banking and securities firms, "risks tend to arise on the assets side of the balance sheet," whereas for insurance firms "the main financial risks occur on the liabilities side of the balance sheet (i.e., the primary risk is unanticipated claims by policyholders)" [Abrams and Taylor (2000, p. 9)].

In the debate over unified supervision, more attention generally has been given to a discussion of consolidation of "prudential" supervision (i.e., safety and soundness), as compared to "conduct of business" supervision (i.e., consumer and investor protection). Nevertheless, both issues have played a prominent part in policy debates in the United Kingdom, where the Financial Services Authority (FSA) became the first consolidated supervisor to have wide responsibility for both of these main aspects of supervision. In Australia, however, a "twin peaks" supervisory structure was constructed that gives prudential supervision responsibility to the Australian Prudential Regulation Authority and conduct of business supervision responsibility to the Australian Securities and Investments Commission. Although the latter has responsibility across banking, insurance, and securities firms, the former has responsibility over banking and insurance firms, but not securities firms. Abrams and Taylor (2000) discuss the issue of an even wider scope for a unified supervisory authority, which could include the setting of accounting standards and competition (antitrust) policy.

Table 3. Scope of Supervision for Bank Supervisors: International Comparison (116 countries)

Banks Only			Banks and Securities Firms	Banks and Insurance Firms	Banks, Securities, and Insurance Firms
Argentina	Albania	Armenia	Belgium	Anguilla	Australia
Bahamas	Bahrain	Bangladesh	Bermuda	Aruba	Bolivia
Barbados	Belarus	Bosnia-Herzegovina	Cyprus	Austria	China
Botswana	Brazil	Bulgaria	Finland	British Virgin Islands	Denmark
Cambodia	Chile	Croatia	France	Canada	Guernsey
Czech Republic	Egypt	Estonia	Guyana	Cayman Islands	Iceland
Georgia	Germany	Ghana	Hungary	Ecuador	Japan
Greece	Hong Kong	India	Ireland	El Salvador	Jersey
Indonesia	Israel	Italy	Isle of Man	Ethiopia	Korea
Jamaica	Jordan	Kazakhstan	Luxembourg	Gambia	Malta
Kenya	Kuwait	Latvia	Mexico	Gibraltar	Norway
Liechtenstein	Lithuania	Macedonia	Saudi Arabia	Guatemala	Singapore
Maldives	Mauritius	Mozambique	Switzerland	Honduras	Sweden
Netherlands	Nepal	New Zealand		Lesotho	United Kingdom
Nigeria	Oman	Panama		Macau	Uruguay
Philippines	Poland	Portugal		Malaysia	Zambia
Romania	Russia	Seychelles		Malawi	
Slovakia	Slovenia	South Africa		Paraguay	
Spain	Sri Lanka	Taiwan		Peru	
Thailand	Trinidad and Tobago	Tunisia		Saudi Arabia	
Turkey	United States	Vanuatu		Sierra Leone	
Venezuela				Suriname	
				Turks and Caicos	
55% of countries			**11% of countries**	**20% of countries**	**14% of countries**

Sources: Barth, James R., Daniel E. Nolle, Triphon Phumiwasana, and Glenn Yago, "A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance," Economic and Policy Analysis Working Paper 2002–2 (September), Office of the Comptroller of the Currency; and Courtis, Neil (ed.), "How Countries Supervise Their Banks, Insurers and Securities Markets 2002," London: Central Banking Publications (2001).

generally, for financial system stability.[7] Supervisors are "independent" to the extent they are insulated from, or able to resist, pressure and influence to modify supervisory practices in order to advance a policy agenda that is at odds with the maintenance of a safe and sound banking system. Supervisory independence allows bank supervisors to monitor the financial condition of banks in a strictly professional and consistent fashion. In addition, it allows them to elicit the appropriate level of responsiveness to the guidance, constructive criticism, and direction they give to banks. In essence, supervisory independence makes it possible for supervisors to "call it like they see it" and to have their advice and orders heeded.

[7]The issue of independence for supervisory authorities has also attracted increasing attention among policymakers. In particular, the Basel Committee's 1997 *Core Principles for Effective Banking Supervision* highlights supervisory independence. The *Core Principles* is comprised of 25 basic principles that need to be in place for a supervisory system to be effective. The principles cover licensing, prudential regulations and requirements, methods of supervision, information requirements, formal powers of supervisory authorities, and cross-border banking. Importantly, the first principle outlines necessary "preconditions for effective banking supervision," and chief among these fundamental preconditions is that agencies responsible for banking supervision "should possess operational independence." (*Core Principles*, p. 4.)

Using information from the World Bank, the working paper constructs an index of the degree of independence bank supervisors possess. The index, with values from 1 (low independence) to 3 (high independence), was based on supervisory authorities' answers to a series of questions designed to ascertain how insulated from political pressure the supervisor is. Table 4 displays how 104 countries ranked according to this index. Just over half (54 percent) of the countries have bank supervisory authorities with relatively low independence, while almost one-quarter (24 percent) have relatively high independence; 22 percent of the countries rank in between. One pattern that emerges from this ranking is that less developed economies are less likely to have highly independent bank supervisory authorities.

Table 4. Independence of Bank Supervisory Authorities: International Comparison (104 countries)

Region	Low Independence		Medium Independence		High Independence	
Africa	Botswana Burundi Gambia Kenya South Africa	Morocco Nigeria Rwanda Malawi Zambia			Egypt Ghana Lesotho	
Americas	Argentina Brazil Chile El Salvador Puerto Rico	Guyana Honduras Mexico Guatemala	Bolivia Trinidad and Tobago Venezuela	Jamaica	Canada Panama Peru United States	
Asia/Pacific	Bhutan Cambodia China Israel Korea Nepal	Philippines Vietnam Sri Lanka Taiwan Tajikistan New Zealand	Bahrain Kuwait Bangladesh Malaysia India Maldives	Indonesia Japan Singapore Thailand Jordan Tonga	Australia Lebanon Qatar Saudi Arabia	
Europe	Austria Czech Republic Denmark Estonia Finland Hungary	Greece Lithuania Macedonia Moldova Romania Russia	Belgium Switzerland Croatia Italy	Sweden Cyprus Liechtenstein	Belarus France Portugal Germany Slovenia Ireland	Poland Netherlands Spain Turkey United Kingdom Luxembourg
Offshore Financial Centers	Aruba British Virgin Islands St. Kitts and Nevis Islands Cayman Islands Turks and Caicos Islands Gibraltar Malta Vanuatu	Oman Macau Mauritius Western Samoa	Guernsey		Solomon Islands	
	54% of countries		**22% of countries**		**24% of countries**	

Sources: Barth, James R., Daniel E. Nolle, Triphon Phumiwasana, and Glenn Yago, "A Cross-Country Analysis of the Bank Supervisory Framework and Bank Performance," Economic and Policy Analysis Working Paper 2002–2 (September), Office of the Comptroller of the Currency; and World Bank.

II. Impact on Bank Performance?

As decision makers consider policy changes affecting the structure, scope, and independence of banking supervision, a key issue is whether these aspects of bank supervision affect bank performance. A related question is, "If there is an impact on bank performance, what is the direction of the impact?" OCC Working Paper 2002–2 is the first to provide systematic empirical evidence on this issue, by developing a statistical model in which the structure, scope, and independence of supervision enter as explanatory factors for a key dimension of bank performance—profitability. Before summarizing that evidence, it is useful to consider possible channels of influence of bank supervision structure, scope, and independence on bank profitability.[8]

If a multiple supervisors system leads to a competition in laxity, which in turn could encourage poor risk management by banks, then one could argue that a single supervisor system is to be preferred for avoiding this route to a detrimental impact on bank performance. In addition, some have argued that a single supervisor system imposes less regulatory burden on banks than does a more complicated multiple supervisors system. To the extent there is less burden, bank costs would be lower and profits higher. However, if a multiple supervisors system results in a competition in ideas between supervisory authorities, and hence greater responsiveness to banking industry innovations than would be the case under a single supervisor system, bank profitability would be enhanced. With equally plausible conceptual arguments, but no empirical evidence on the issue, it is not possible to say definitively what the expected direction of influence would be for this aspect of the structure of supervision on bank profitability.

In the absence of previous empirical evidence, one also must be agnostic about the relationship between [or prediction of] bank profitability and whether or not the central bank is the supervisory authority. This is particularly true with respect to the conflict of interest between managing monetary policy and being responsible for bank supervision. On the one hand, if, during a downturn in the economy the central bank eases up on banks, and they therefore subsequently grow out of credit quality problems (i.e., there is "enlightened forbearance"), then the central bank's conflict of interest will have resulted in a positive impact on bank profitability. On the other hand, if supervisory easing encourages poor credit extension, and subsequently even worse credit quality problems, bank profitability would decline.

Similarly, the conceptual research yields no definitive directional prediction for the effect of the scope of bank supervision on bank profitability. It is possible, for example, that a consolidated supervisor would foster better risk management by banks, especially large, complex

[8]The current discussion draws on a much more detailed discussion in the OCC working paper of the prior conceptual literature on the advantages and disadvantages of various supervisory structure, scope, and independence policy options.

organizations, and hence result in better banking industry performance. However, it has also been argued that a supervisor with a wide scope of financial activity to oversee might be less attuned to the banking industry and its innovations than to some other aspect of the financial services industry. This lack of focus could lead to less responsiveness to the needs of the banking industry, resulting in lower profitability than under a more narrowly focused supervisory system. As with the issues of single versus multiple supervisors and the role of the central bank in bank supervision, without clear-cut guidance from the conceptual literature, and in the absence of previous empirical evidence, it is not possible to unambiguously predict the effect of the scope of supervision on bank profitability.

There is no ambiguity in the expected effect for supervisory independence on bank performance. Under a supervisory regime dominated by political pressures instead of market forces, banks are more likely to make (and/or be compelled by the government to make) credit extension decisions that advance a particular political agenda. With an independent supervisor able to effectively encourage banks to make decisions on the basis of objective credit quality criteria, bank performance and profitability will be better.

III. An Empirical Test of the Impact of the Structure, Scope, and Independence on Bank Profitability

Data and Model

The OCC working paper develops a multivariate regression model to test whether the structure, scope, and independence of bank supervision affect bank profitability. The analysts use country-specific data from a new World Bank database, as well as country-specific data on banking industry structure and performance collected in an OCC survey of over 100 supervisory agencies around the world. The resultant data set was then combined with bank-specific data from FitchIBCA's BankScope database to yield a data set of over 2,300 banks in 55 countries.

The analysts observe that there is a group of recent empirical studies employing cross-country data to investigate the determinants of bank profitability.[9] Following those studies, they model bank profitability (measured as the bank-specific ratio of pre-tax profits to total assets) as a function of bank-specific variables (such as the bank capital to asset ratio), country-specific macroeconomic variables (e.g., gross domestic product per capita), and other control variables such as the percent of banking system assets that are government-owned.[10] To this they add new

[9]Among the most significant are Demirgüç-Kunt, Asli, and Harry Huizinga (2000), "Financial Structure and Bank Profitability," *World Bank Policy Research Working Paper 2430*; and Demirgüç-Kunt, Asli, and Harry Huizinga (1999), "Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence," *The World Bank Economic Review* 13: 2: 379–408.

[10]See OCC Working Paper 2002–2, Table 6, and pp. 26–33 for a detailed description of the model variables.

variables to test for the influence of the structure, scope, and independence of supervision on bank profitability, as follows: SINGLE for whether a banking system has one or multiple supervisory authorities, CBANK for whether or not the central bank is a bank supervisor, SCOPE for the range of financial services industries for which the bank supervisory authorities are responsible, and INDSUP for the degree of independence the bank supervisor enjoys. Table 5 precisely defines these key variables, and shows their expected impact on bank profitability.

Table 5—Banking Supervisory Variables and Expected Impact on Bank Profitability

Supervisory Variable	Concept	Value	Expected Impact on bank profitabliity
SINGLE	Is there a single bank supervisor, or are there multiple supervisors?	1 if there is a single bank supervisor, 0 if there are multiple supervisors.	?
CBANK	Is the central bank a bank supervisor?	1 if central bank is a bank supervisor, 0 if it is not.	?
SCOPE	Do bank supervisory authorities also supervise other financial industries?	1 if bank supervisor has responsibility for securities firms, insurers, or both, 0 if bank supervisor just supervises banks.	?
INDSUP	Independence of supervisor: How independent from outside political pressures is the supervisory authority?	1 = low independence, 2 = medium independence, 3 = high independence	Positive

Note: "?" indicates theoretical ambiguity about the expected impact.

Empirical Results

The results of the regression analysis of the determinants of bank profitability are in line with the previous cross-country research on which the working paper's model is based.[11] This article focuses primarily on the new supervisory structure, scope, and independence variables' results, which are displayed in Table 6. That table shows six sets of regression results for the supervisory variables, entered separately and in combination with each other. The top line in the table highlights the only statistically significant result: regardless of whether it is entered as the lone supervisory variable in the equation, or in combination with one or more of the other supervisory variables of interest, only SINGLE is statistically significant. The positive sign on this variable indicates that, controlling for other determinants of bank profitability (not shown), banks in a system with a single supervisor will perform better than under a multiple supervisors system.

[11]See OCC Working Paper 2002–2, Tables 8–11 and pp. 34–39 for a detailed discussion of regression results.

Table 6—Impact of Bank Supervisory Variables on Bank Profitability: Ordinary Least Squares Estimation Results

Bank supervisory variables	Estimated coefficients					
SINGLE	0.0083* (0.028)		0.0090* (0.028)			0.0090* (0.031)
CBANK		-0.0020 (0.366)	0.0014 (0.550)			-0.0021 (0.561)
SCOPE				0.0009 (0.650)		-0.0051 (0.177)
INDSUP					-0.0027 (0.199)	-0.0025 (0.262)
Summary statistics:						
Adjusted R^2	0.1922	0.1906	0.1923	0.1910	0.1910	0.1933
F-statistic	27.92**	27.64**	26.59**	27.54**	27.70**	24.27**
Number of observations	2,368	2,368	2,368	2,354	2,368	2,354
Number of countries	55	55	55	53	55	53

Notes: See table 5 for description of bank supervisory variables.
* Significant at the 5% level
** Significant at the 1% level
p-values in parentheses

The working paper's authors caution against drawing firm conclusions based on these results, however. In particular, they introduce an alternative set of data on supervisory structure, based on information from a private sector catalog of financial supervisors across the globe.[12] This set of data is largely in accord with the data from the World Bank survey of supervisory authorities. However, in the case of a few countries, the two sources of information differ because a key difficulty in characterizing the structure of supervision is being able to ascertain "where to draw the line" in deciding if an agency has supervisory power.[13] For example in France, central bank officials contribute to deliberations conducted by the bank supervisory authority but do not themselves have direct responsibility for bank supervision. Is the central bank a bank supervisory authority? It is possible for reasonable people to disagree on the answer.

In light of this, the analysts re-estimated the regressions using the somewhat different data on supervisory structure. They found only one significant difference between the re-estimated results and their first results: the statistical significance of the SINGLE variable disappeared. That is, the alternative data yielded results indicating that, whether there is a single bank supervisor or multiple bank supervisory authorities, this has no impact on bank performance.

[12]Courtis, Neil (ed.) (1999), *How Countries Supervise Their Banks, Insurers and Securities Markets,* London: Central Banking Publications, compiled detailed information on financial system supervision in 137 countries.

[13]For Argentina, Canada, Czech Republic, France, Japan, Korea, Poland, Thailand, and Turkey, there are discrepancies between the two data sets in whether there is a single bank supervisor or multiple bank supervisors. In addition, for one of the countries (France), there is a discrepancy in the supervisory role played by the central bank.

IV. Conclusions

In a recent address, Edgar Meister, member of the directorate of the Deutsche Bundesbank, pointed out that the "design of regulatory and supervisory responsibilities is one of the most important matters affecting the future course of financial market policy. There is, however, no universally valid answer to the question of *how* this should be done."[14] He went on to observe that the "best way of organizing supervision cannot be derived from theory."[15] Policymakers in a growing number of countries not only continue to debate supervisory framework issues, but a growing number have acted to radically change supervision within their countries. They have had to do so without the benefit of empirical evidence on the impact of choices about supervisory structure on the banking industry. The primary aim of the OCC's working paper is to provide such evidence. The results published in this paper indicate, at most, a weak influence for the structure of supervision on bank performance. In particular, they found some evidence that a single-supervisor system enhances bank performance. However, their re-estimates using an alternative source of data on the structure of supervision failed to duplicate this result.

These results have a bearing on a key dimension of the policy debate on how to structure supervision. In particular, given the dearth of empirical evidence on the issues, advocates of one form or another of supervisory structure have asserted that a particular change is likely to affect (favorably or adversely, as the advocate sees fit) the performance of banks. The working paper's results provide little support at best to the belief that any particular bank supervisory structure will greatly affect bank performance. This is significant, because it suggests that the on-going debate might more broadly focus on the impact of the supervisory structure on other aspects of the health of the banking system, including individual bank safety and soundness, systemic stability, and the development of the banking system.

[14]Meister, Edgar (2001), "How Should Regulatory and Supervisory Responsibilities Be Shared among the National Functional Regulators?" Lecture held at the Multinational Banking Seminar, New York (June 9).

[15] *Ibid*.

Comptroller's Report of Operations—FY 2002

Contents

Comptroller of the Currency

The Office of the Comptroller of the Currency (OCC) is responsible for the licensing, regulation and supervision of all of the nation's federally chartered (national) banks. The OCC promotes a safe and sound banking system by requiring that national banks adhere to sound banking and management principles and that they comply with the law. The OCC's mission is carried out through a nationwide staff of bank examiners and other professional and support personnel who examine and supervise national banks and federally licensed branches and agencies of foreign banks. As of December 31, 2002, there were about 2,100 national banks and 51 federal branches and agencies, representing about 26 percent of the number of all insured commercial banks in the United States and 55 percent of the total assets of the banking system.

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

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

Executive Committee

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

- Comptroller;
- First Senior Deputy Comptroller and Chief Counsel;
- Senior Deputy Comptroller and Chief National Bank Examiner;
- Senior Deputy Comptroller for Large Bank Supervision;
- Ombudsman;
- Senior Deputy Comptroller for Mid-Size/Community Bank Supervision;
- Senior Deputy Comptroller for International and Economic Affairs;
- Senior Deputy Comptroller for Management and Chief Financial Officer;
- Chief of Staff and the Senior Deputy Comptroller for Public Affairs (acting); and
- Chief Information Officer.

First Senior Deputy Comptroller and Chief Counsel

In 2002, the first senior deputy comptroller and chief counsel (chief counsel) continued the function of advising the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The chief counsel was responsible for directing the legal functions in and for the OCC, including writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties were carried out through two deputy chief counsels and two assistant chief counsels. The deputy chief counsels were responsible for overseeing Administrative and Internal Law, Bank Activities and Structure, Community and Consumer Law, Enforcement and Compliance, Legislative and Regulatory Activities, Litigation, Securities and Corporate Practices, and the six district counsels.

The chief counsel in 2002 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

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

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

Along with his duties in direct support of the Comptroller, the chief of staff is responsible for overseeing the Web Content unit, Program and Management Accountability division, and the Workplace Fairness and Alternative Resolutions division.

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

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

Senior Deputy Comptroller and Chief National Bank Examiner

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

Senior Deputy Comptroller for International and Economic Affairs

The senior deputy comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing expert advice to examiners in the assessment of banks' risk measurement methods; providing model development and support for bank supervision work; providing policy advice based on economic analysis and research on the risks in the banking industry; maintaining and developing capital regulations and interpretations; assessing international banking risks; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The senior deputy comptroller is responsible for coordinating OCC participation on the Basel Committee on Banking Supervision. These activities are carried out through the International Banking and Finance, Financial Analysis, Capital Policy, Risk Analysis, and Policy Analysis divisions.

Senior Deputy Comptroller for Large Bank Supervision

The senior bank comptroller for Large Bank Supervision is responsible for examinations and other supervision activities in the largest national banks and in the OCC's London office. This position was established effective October 2001. Specific responsibilities of the senior deputy comptroller for Large Bank Supervision include directing programs for the examination and regulation of large national banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior bank comptroller for Large Bank Supervision is responsible for directing the examination, supervision, and analysis of the largest national banks, which account for about 83 percent of the nation's national banking assets.

Senior Deputy Comptroller for Management and Chief Financial Officer

The senior deputy comptroller (SDC) for Management and chief financial officer is responsible for efficiently and effectively deploying the management functions of the OCC. In this capacity the SDC is assisted by deputy comptrollers that oversee the functional areas of Workforce Effectiveness, Financial Management, Management Services, and Continuing Education. In 2002, the SDC focused on continuing efforts to strengthen OCC's financial management and internal controls and modernize OCC's financial management and related systems.

Senior Deputy Comptroller for Mid-Size/Community Bank Supervision

The senior deputy comptroller for Mid-Size/Community Bank Supervision is responsible for examinations and other supervision activities in the OCC's six districts, the Supervision Operations and Special Supervision/Fraud departments, and the newly formed Mid-Size and Credit Card Bank Supervision department. The senior deputy comptroller for Mid-Size/Community Bank Supervision is also a member of the OCC's Committee on Bank Supervision, which oversees the Compliance and Technology department. Specific responsibilities of the senior deputy comptroller for Mid-Size/Community Bank Supervision include directing programs for the examination and regulation of nationally chartered mid size banks, credit card banks, community banks, and federal branches of foreign banks to promote the continuing existence of a safe, sound, and competitive national banking system. The senior deputy comptroller for Mid-Size/Community Bank Supervision was responsible during 2002 for directing the examination, supervision, and analysis of about 2,100 national banks and about 52 federal branches and agencies of foreign banks in the United States accounting for about 56 percent of the nation's banking assets. Supervision of national trust companies, bank data processing servicers, and bank data software vendors is also the responsibility of the senior deputy comptroller for Mid-Size/Community Bank Supervision.

Chief Information Officer

As the senior Information Technology (IT) official, the chief information officer (CIO) is the advisor to the OCC executive staff regarding IT investments and solutions, and their impact on business programs and goals. The CIO has primary responsibility to direct, manage, and maintain the agency's technology infrastructure and information systems. As the co-chair of the Investment Review Board, the CIO oversees the Capital Planning Program. She recommends and provides oversight for the agency's capital investments to ensure that cost, schedule, and performance are on target and that projects are vital to the agency's mission and strategic objectives.

As a member of the Treasury CIO Council, the CIO represents the OCC on all IT issues and has a working/liaison relationship with the Office of Management and Budget on the IT-related portions of the President's Management Agenda. The CIO has also maintained partnerships with other federal financial regulators to ensure OCC's technology architecture continues to support consistency and best practices in infrastructure, security, customer service, data management, and information systems development.

The CIO and IT staff have working relationships with other Treasury bureaus and federal agencies and serve on committees that investigate, develop and provide technology solutions that enable financial economies of scale and efficiency of services for the OCC. The IT staff has developed strong standards and guidance to continue to implement technology solutions to meet the legislative and regulatory mandates in support of the examination and supervision of national banks. The IT staff supports more than 200 OCC systems and oversees the agency's technology infrastructure.

Ombudsman

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

Office of the First Senior Deputy Comptroller and Chief Counsel

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The chief counsel in 2002 advised the Comptroller on policy matters involving corporate activities and had responsibility for overseeing the OCC's licensing functions. The Comptroller delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, to the chief counsel. These responsibilities were carried out through the deputy comptroller for Licensing, the Licensing Operations division, with licensing units in each of the OCC's six district offices, and the Licensing Policy and Systems division.

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

Assistant Chief Counsel

The assistant chief counsel responsible for electronic banking issues coordinated the legal work in OCC on those issue. He provided counsel on electronic bank activities including consulting services, security of bank systems, use of service providers, the establishment and control of relationships with third parties, and data processing services. The assistant chief counsel also assisted in developing and implementing the OCC's Continuity of Management Plan; participated in the establishment and issuance of regulations and supervisory policy related to Internet banking and e-commerce; and spoke at various seminars, conferences and courses on electronic banking issues.

The assistant chief counsel responsible for privacy issues provided counsel on legal and operational issues relating to the privacy rules implementing Title V of the Gramm-Leach-Bliley Act, as well as provisions of the Fair Credit Reporting Act. The assistant chief counsel worked closely with supervision to develop appropriate responses to violations found in the initial round of privacy notices and detected during the first round of examinations. The assistant chief counsel participated in interagency working groups on a number of privacy-related issues: formulating a new proposed rule on affiliate-information sharing under the FCRA; providing guidance to banks on identity theft issues; assisting the Department of the Treasury in designing and drafting a privacy study mandated by Title V of the Gramm–Leach–Bliley Act; assisting the Department of the Treasury in formulating a response to the European Union privacy directive as applied to US financial institutions; and crafting consistent responses to written and verbal inquiries to the agencies about the application of the privacy rule. The assistant chief counsel represented the agency in panel discussions at a number of seminars and conferences on financial privacy.

Law Department

1. Administrative and Internal Law Division

The Administrative and Internal Law division (AIL) has specialized experience in a number of legal areas associated with the OCC's administrative functions, including equal employment opportunity, compensation and benefits, personnel matters, labor relations, acquisitions and procurement, leasing, licensing agreements, finance, travel, the Freedom of Information Act, the Privacy Act of 1974, information, and ethics. AIL provides legal advice in these areas to units throughout the OCC. The division, in conjunction with the district legal staffs, also administers the OCC's ethics program and the law department's attorney recruiting program. In 2002, the Department of the Treasury recognized the OCC's ethics program as one of the best in the Department. Among other things, the division also provided legal advice on the establishment of the on-line corporate application process and on district restructuring, made presentations on the Americans with Disabilities Act and various labor relations issues, and drafted a white paper on establishing internal record systems.

2. Bank Activities and Structure Division

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

BAS provides legal advice and service on these topics to clients within the OCC, such as Licensing, Large Bank Supervision, Mid-Size/Community Bank Supervision, units supervised by the Chief National Bank Examiner, International Banking and Finance, and Special Supervision/Fraud. It also provides advisory services to national banks, the banking bar, other banking regulators, and the public. In developing its legal positions, the division works closely with other Law Department units, including the OCC's district legal staffs.

Highlights of BAS work in 2002 included drafting a summary of the Federal Reserve's newly issued Regulation W governing affiliate transactions for the use of OCC examiners; making panel presentations at an OCC Law Department continuing legal education program; providing legal advice to Licensing Policy & Systems on revisions to various booklets of the *Comptroller's Licensing Manual*; providing legal assistance for issuance of a revised edition of *A Guide to Tribal Ownership of a National Bank*; and working with Licensing Policy and Systems to develop licensing applications for branches and main office relocations that can be submitted electronically. Legal opinions were issued on diverse topics including finder activities, the OCC's pilot lending limit program under 12 CFR 32.7 and other lending limits questions, providing of credit card loss notification and credit monitoring services as activities that are incidental to banking, and purchasing transferable state tax credits. In addition, the division spent a significant amount of time providing legal support for the supervision and resolution of problem banks.

3. Community and Consumer Law Division

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

The division advises other units within the OCC, including Licensing, Compliance Operations, Community Development, Congressional Liaison, and examination staff, on issues arising under such laws as the Truth in Lending Act, the Electronic Fund Transfer Act, the Expedited

Funds Availability Act, the Equal Credit Opportunity Act, the Community Reinvestment Act, and the National Bank Act. In addition, CCL prepares and reviews a wide range of written materials, including regulations, memoranda, correspondence, legislation, decisions on corporate applications, speeches, Congressional testimony, OCC issuances, enforcement documents, and examination procedures.

In 2002, the division focused considerable attention upon OCC enforcement of the Federal Trade Commission Act's prohibition against unfair or deceptive acts or practices. CCL prepared an advisory letter to national banks on unfair or deceptive practices, and provided legal support to enforcement actions that alleged violations of this prohibition. The division also provided legal support to other enforcement activities that raised fair lending or consumer protection issues, including matters involving payday lending operations. Similarly, CCL provided legal advice and assistance on a number of Licensing matters raising Community Reinvestment Act, fair lending, or consumer protection concerns, as well as charter proposals for community development banks, and continued to support ongoing regulatory projects relating to the Fair Credit Reporting Act, the Community Reinvestment Act, and other laws, including National Bank Act provisions authorizing public welfare investments. The division also prepared a number of OCC bulletins to apprise national banks and examiners of developments under consumer protection laws such as the Truth in Lending Act, the Home Mortgage Disclosure Act, the Home Ownership and Equity Protection Act, and the Real Estate Settlement Procedures Act.

4. Congressional Liaison Division

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

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

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

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

5. District Counsel

In addition to its Washington attorneys, the law department includes a district counsel and legal staff in each of the OCC's six district offices. Each district counsel's staff consists of four to six attorneys plus support personnel. The district counsel and their attorneys serve as the OCC's frontline legal advisors, working directly with bank examiners in the field, assistant deputy comptrollers in Bank Supervision Operations, district licensing staff, and the district deputy comptrollers. District attorneys also advise large- and mid-size-bank examination teams and deputy comptrollers for the large and mid-size banks within the same geographic areas. They advise these clients on virtually the entire spectrum of banking law issues, frequently dealing with questions that arise during bank examinations and require prompt resolution. District attorneys also respond to telephone and written inquiries from banks, the banking bar, and the general public. During 2002, district attorneys frequently provided advice to banking companies on the most significant aspects of the national bank charter and how particular structures or transactions could be undertaken to solve operational, legal, or financial obstacles to the lawful exercise of the powers of a national bank or to better service customers in particular markets.

District attorneys provide legal support on all types of enforcement matters, including informal and formal agency actions against banks, individuals, and other institution-affiliated parties. District attorneys often serve with Washington attorneys on working groups on particular topics, and work jointly with Washington attorneys on complex assignments that arise in their districts. In addition, the district legal offices administer the OCC's ethics and financial disclosure requirements for their respective district and Large Bank teams, conduct legal training programs for examiners, and speak to bankers at district and Large Bank outreach meetings. During the first three quarters of 2002, the district counsel offices prepared a variety of significant enforcement actions, corporate opinions, and legal advisory letters.

6. Enforcement and Compliance Division

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

The division provides advice on enforcement and compliance issues to senior OCC officials. In conjunction with the offshore banking and fraud unit in the Special Supervision/Fraud division, E&C issued a total of ten alerts from January 1, 2002 to September 30, 2002. E&C also supports criminal law enforcement agencies by, for example, working closely with the interagency Bank

Fraud Working Group (BFWG), chaired by the Department of Justice (DOJ), and participating in OCC's National Anti-Money-Laundering Group. The OCC continued to participate in a number of interagency groups focused on combating money laundering, including the Bank Secrecy Act Advisory Group.

From January 1, 2002, to September 30, 2002, the OCC issued nine cease-and-desist orders against individuals and other institution-affiliated parties, including four restitution orders. During that same period, the OCC assessed 40 civil money penalties (CMPs) against individuals, totaling $294,000, and issued 14 letters of reprimand and 83 supervisory letters to bank insiders. In addition, the OCC issued 24 removal and prohibition orders.

From January 1, 2002, to September 30, 2002, the OCC issued 17 cease-and-desist orders and assessed one civil money penalty against banks. In addition, the OCC issued 37 formal agreements, 19 memoranda of understanding, and eight commitment letters against banks. The OCC also issued two temporary cease-and-desist orders and issued three prompt corrective action directives pursuant to 12 USC 1831o. A comprehensive listing and description of the noteworthy formal enforcement actions taken by the OCC in the first half of 2002 appears in the September issue of the *Quarterly Journal*, "Special Supervision/Fraud and Enforcement Activities." For July 1, 2002, to September 30, 2002, see the same section below in this issue. In addition, E&C continued its Fast Track Enforcement Program (initiated in 1996), which helps ensure that bank insiders and employees who have committed criminal acts involving banks, but who are not being criminally prosecuted, are prohibited from working in the banking system. From July 1, 2002, to September 30, 2002, the Fast Track program resulted in 14 prohibition orders, two of which included restitution orders.

7. Legislative and Regulatory Activities Division

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

Significant regulations issued by the OCC through the end of fiscal year 2002 include a final rule pertaining to the electronic activities of national banks, which facilitates national banks' use of new technologies to conduct business. The rule includes provisions addressing national banks' exercise of their federally authorized powers—including the power to act as finder--through electronic means; the location, for purposes of the national banking laws, of a national bank that engages in activities through electronic means; and the disclosures required when a national bank provides its customers with access to other service providers through hyperlinks in the bank's Web site or other shared, electronic "space."

The OCC also issued a final rule a final rule establishing consumer protection and safety and soundness requirements for debt cancellation contracts and debt suspension agreements. The regulation codifies the OCC's longstanding position that these arrangements are permissible banking products. It establishes safeguards and standardized disclosure requirements designed to protect against consumer confusion. It also prohibits certain potentially abusive potentially abusive practices and establishes certain safety and soundness standards for national banks that offer these products.

The division's legislative work included extensive analysis of the effect of the Sarbanes–Oxley Act of 2002 on national banks. This new law includes provisions that are designed to improve the corporate governance, financial disclosures and auditing relationships of companies, including banking organizations, that have a class of securities registered or that are required to file reports under the Securities Exchange Act of 1934.

In the international area, LRA participated in preparing a Joint Agency Statement on Parallel-Owned Banking Organizations. The statement, which was issued together with the Federal Reserve Board, the FDIC, and the OTS, discusses the characteristics of parallel-owned banking organizations, reviews potential risks associated with these banking organizations, and sets forth the agencies' approach to supervision of those risks. It also provides information on the licensing process for proposals involving parallel-owned banking organizations. In addition, we assisted in the preparation of the Basel Electronic Working Group's October 2002 paper "Management and Supervision of Cross-Border Electronic Banking Activities." The paper identified banks' risk management responsibilities with respect to cross-border electronic banking and contained refinements to the risk management principles concerning these responsibilities.

In fiscal year 2002, LRA worked on a number of projects designed to clarify either the scope of permissible national bank activities or the extent to which various types of state laws apply to national banks and their subsidiaries. The former category included preparing letters concluding that certain fees charged by particular national banks, including so-called "on us" check cashing fees and not sufficient funds (NSF) fees satisfied the requirements of the OCC's regulations at 12 CFR 7.4002 and were therefore authorized for those banks. The latter category included letters opining, based on the governing statute and our regulations, that state law limitations and restrictions, including licensing requirements, do not apply to national bank operating subsidiaries and a letter confirming that national bank subsidiaries, like their parent banks, may export their home state interest rates under 12 USC 85.

Finally, in March 2002, the OCC released its second opinion letter addressing whether a state's insurance sales laws were preempted pursuant to the insurance preemption standards established by section 104 of the Gramm–Leach–Bliley Act (GLBA). Section 104 establishes several different preemption standards, depending on the type of activity at issue. The opinion analyzed the Section 104 standards for insurance sales, solicitation, and cross-marketing activities and concluded that certain provisions of the Massachusetts Consumer Protection Act Relative to the Sale of Insurance by Banks were preempted.

8. Litigation Division

The Litigation division represents the OCC in court under a statutory grant of independent litigating authority. The division also works closely with the U.S. Department of Justice and with U.S. attorneys on matters of mutual interest. In 2002, the division represented the OCC or prepared *amicus* briefs in several cases relating to bank powers, federal preemption of state law, OCC enforcement actions, Title VII actions, and the liability of the OCC and its officials arising from the OCC's placement of national banks into receivership. The Litigation division serves as counsel to the Comptroller of the Currency in contested administrative enforcement actions. The division also participates in overseeing the Office of Financial Institutions Adjudication, which employs the administrative law judges who issue initial decisions on enforcement actions initiated by the financial institution regulatory agencies.

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

9. Securities and Corporate Practices Division

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

From January 1 through September 30, 2002, SCP prepared or participated in the issuance of several significant opinions and interpretations in a variety of areas, such as permissible activities; investment securities; derivatives; hedging; and fiduciary activities including collective investment funds. SCP contributed to development of OCC's "Insurance Activities" handbook booklet providing bankers and examiners with legal guidance and other information on the risks, controls, and supervision of national banks' insurance activities. SCP also participated in drafting the OCC's final rule on debt cancellation contracts and debt suspension agreements and is handling interpretive requests arising under this new regulation.

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

Licensing Department

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

The department is divided into two divisions: Licensing Operations and Licensing Policy and Systems. The Licensing Operations division performs all application analysis within a single division comprised of district, large bank and headquarters operations. The Licensing Policy and Systems division develops and implements general policies and procedures and develops and maintains the Licensing database for the licensing activities of the OCC.

Publication of Decisions

Decisions that represent new or changed policy or present issues of general interest to the public or the banking industry are published monthly in the OCC publication, *Interpretations and Actions*. In addition, summaries of important corporate decisions for the previous quarter are published in each issue of the *Quarterly Journal*.

Application Volume and Decision Results

Table 1 summarizes corporate application activity for the year ending September 30, 2002. During this period, a total of 1,770 applications were filed with the OCC, decreasing from 1,932 for the same period in 2001. Declines occurred primarily in the number of applications for branches, reorganizations, mergers and charters, while there were increases in relocations and fiduciary powers applications. In addition, the increase in the number of after-the-fact notices equaled the decline in subsidiary applications.

In 2002, the OCC decided 1,554 applications. Of these decisions, the OCC issued 1 denial and 59 conditional approvals. This compares to 2 denials and 71 conditional approvals of 1,828 decisions in 2001.

Table 1—Corporate application activity for the year ending September 30, 2002

	Applications received		2002 Decisions			
	2001	2002	Approved	Conditionally approved[1]	Denied	Total 2002 Decisions
Branches	1,070	966	893	2	0	895
Capital / sub debt	157	148	83	8	0	91
Change in Bank Control	20	12	11	0	1	12
Charters	46	29	2	28	0	30
Conversions[2]	18	21	10	8	0	18
Federal Branches	0	4	0	0	0	0
Fiduciary Powers	27	39	13	0	0	13
Mergers[3]	109	84	73	4	0	77
Relocations	192	226	214	2	0	216
Reorganizations	167	128	114	4	0	118
Stock appraisals	2	1	2	0	0	2
Subsidiaries[4]	124	112	79	3	0	82
Total	**1,932**	**1,770**	**1,494**	**59**	**1**	**1,554**

Note: This chart reflects corporate application activity for the fiscal years ending September 30, 2001, and 2002.

Source: Licensing Department, Comptroller of the Currency

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

[2]Conversions to national bank charters

[3]Mergers include failure transactions when the national bank is the resulting institution.

[4]This count does not include 99 after-the-fact notices received in 2001 and 111 after-the-fact notices received in 2002.

Processing Timeliness

One measure of OCC's effectiveness in processing corporate applications is the percentage of applications processed within target time frames. Processing timeliness varies with the volume and complexity of applications. These, in turn, vary with economic conditions and changes in banking law. Table 2 shows the time frame performance for the applications processed by the OCC in 2001 and for the first nine months of 2002 (excluding after-the-fact notices for subsidiaries). The OCC generally meets target time frames for all application types. Deviations from these targets are primarily the result of application complexity and OCC's need to obtain additional information.

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

The OCC's time frame performance for application processing has been relatively consistent at approximately 96 percent for the last four years.

Table 2—OCC Licensing actions and timeliness for the years ending September 30, 2001 and 2002

		2001			2002		
			Within target			Within target	
Application type	Target time frames in days[1]	Number of decisions	Number	%	Number of decisions	Number	%
Branches	45 / 60	1,065	1,046	98.2%	895	875	97.8%
Capital / sub debt	30 / 45	105	102	97.1%	91	84	92.3%
Change in Bank Control	NA / 60	19	19	100.0%	12	12	100.0%
Charters[2]	49	31	63.3%	30	19	63.3%	
Conversions	30 / 90	18	14	78.8%	18	11	61.1%
Federal branches	NA / 120	0	0	N/A	0	0	N/A
Fiduciary powers	30 / 45	15	13	86.7%	13	13	100.0%
Mergers	45 / 60	111	99	89.2%	77	70	90.9%
Relocations	45 / 60	196	194	99.0%	216	214	99.1%
Reorganizations	45 / 60	161	155	96.3%	118	110	93.2%
Stock appraisals	NA / 90	2	2	100.0%	2	2	100.0%
Subsidiaries	30 / 60	87	78	89.7%	82	74	90.2%
Total		**1,828**	**1,753**	**95.9%**	**1,554**	**1,484**	**95.5%**

Note: Most decisions (97 percent in 2001 and 96 percent YTD 2002) were decided in the district offices, International Banking and Finance, and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials.

Source: Licensing Department, Comptroller of the Currency

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

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

Licensing Policy and Systems Division

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

In the first nine months of 2002, LP&S continued to define policies and to improve upon previously developed systems. Significant policy and systems projects included the following.

Policy

During 2002, LP&S revised and published on the OCC's Web site 11 booklets from the *Comptroller's Licensing Manual* series in an electronic version. Going forward, all booklets will be published on OCC's Web site rather than in printed format. The Licensing Manual contains information on corporate applications, such as charter and merger applications, and other policies and procedures on corporate changes sought by national banks. By providing a frequently revised Licensing Manual on line the OCC can better meet the needs of national banks, interested parties, and staff for reliable and easily accessible guidance.

LP&S issued an updated "A Guide to Tribal Ownership of a National Bank" that summarizes guidance about how federal banking law and regulations apply in Indian Country. This booklet identifies important considerations for tribes pursuing tribal ownership of a national bank. The revised guide contains expanded policy and procedural discussions and additional reference materials, and resource contacts.

Beginning January 1, 2002, the OCC, pursuant to section 327 of the Uniting and Strengthening America by Providing the Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), added a new evaluation factor to its review of mergers filed pursuant to 12 USC 1828(c). This section of the act requires the OCC to take into consideration the effectiveness of any insured depository institution involved in the proposed merger transaction in combating money-laundering activities, including overseas activities. The OCC implemented this evaluative factor without creating additional burden to applicant banks.

During the year, LP&S revised Licensing policy for new bank charters by removing the three-year limitation for a 12 USC 1818 condition requiring a bank to notify the OCC and obtain OCC's written determination of nonobjection before it initiates any significant deviation from its business plan or operations. The condition is now perpetual. The condition is also available for other filings if the OCC determines it is warranted. The condition is imposed to control supervisory risk that arises from a significant deviation that may adversely affect the risk profile of a bank.

In 2001, the OCC began processing the first corporate reorganization applications authorized pursuant to the American Homeownership and Economic Opportunity Act of 2000 (AHEOA), permitting national banks to more readily reorganize into a BHC structure or merge with nonbank affiliates or subsidiaries. These parts of AHEOA became 12 USC 215a–2 and 215a–3. In 2002, the OCC received a steady influx of applicants seeking to effect corporate reorganizations under the OCC's less burdensome streamlined procedures for these transaction types. LP&S also instituted policies and provided guidelines for implementing 215a–2 and 215a–3.

LP&S issued guidance to establish policies and procedures that allow organizers of proposed national banks to raise capital prior to the OCC's decision on whether to grant preliminary conditional approval. Organizing groups are cautioned about the potential risks of raising capital earlier in the chartering process. The risks include the affects of any material changes to the registration statement that may delay the bank's ability to raise capital, increase organizational costs, and adversely impact the reputation risk of the proposed bank.

LP&S issued expanded guidance on the qualifications and experience for proposed executive officers and directors of new national banks. The guidance emphasizes that the OCC grants a charter only when a proposed senior management team is considered strong.

The division coordinated with other banking regulators to achieve effective licensing processes and support common interests resulting in the publication of the new "Interagency Charter and Insurance Application" and a revision to the "Interagency Bank Merger Act Application."

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

Systems

LP&S made significant progress during the first nine months of 2002 in developing and implementing key aspects of "e-Corp," the future electronic corporate application processing system that will replace OCC's current data and application systems. Progress in 2002 resulted in the initiation of pilot testing of the branch and relocation applications by a select group of banks.

LP&S provided licensing and structure information to respond to congressional and public inquiries. Additionally, LP&S continued to provide the OCC's Communications division with licensing and structure information to respond to requests made under the Freedom of Information Act.

Licensing Operations Division

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

Service Quality

Licensing Operations uses a survey to monitor the quality of service provided to banks filing licensing applications. The survey requests ratings for five service categories and a rating for overall service. The OCC sends a survey to each applicant, except for large banks and a few mid-size banks, which, due to application volume, are surveyed on a quarterly basis. Applicants are asked to rate the OCC's quality of service on a scale of 1 to 5, with 1 being outstanding and 5 being significantly deficient. For the first 9 months of 2002, 99 percent of the applicants responding to the licensing survey gave the OCC excellent overall marks (ratings of 1 or 2) for the way their applications were processed.

The average rating for each of six service categories follows, for the first nine months of 2002 (January 1–September 30, 2002):

Service category	Rating
Timeliness of decision	1.19
Appropriateness of filing location/contact person	1.27
Knowledge of OCC contact	1.21
Professionalism of OCC staff	1.15
Quality of written guidance (added in 2000)	1.33
Overall rating of service	1.20

These ratings are comparable to those for 2001.

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

Outreach Activities

The Licensing staff devoted a significant amount of time to outreach activities during the first nine months of 2002. This included meeting with applicants and applicant groups to discuss the application process, provide guidance, answer questions, and, when necessary, seek additional information on specific applications. Various groups heard presentations discussing the OCC's licensing process and providing an overview of licensing trends. Presentations included updates on changes in laws and regulations, discussions of the application process, the state of national banking system, and chartering activity.

Community Reinvestment Act

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

During the first nine months of 2002, the OCC received adverse comments from the public on one CRA-covered application. The OCC also reviewed and publicly addressed CRA issues raised in one other application.

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

Table 3—List of applications presenting Community Reinvestment Act issues decided in the nine months, ending September 30, 2002

Bank, city, state	Interpretations and Actions	Document number
Charter One Bank, NA, Cleveland, OH	April 2002	Corporate Decision No. 2002–06
First Union National Bank, Charlotte, NC	April 2002	CRA Decision No. 111

Change in Bank Control Act

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

The CBCA gives the OCC the authority to disapprove changes in control of national banks. The OCC's objective in its administration of the CBCA is to enhance and maintain public confidence in the national banking system by preventing identifiable, serious, adverse effects resulting from anti-competitive combinations or inadequate financial support and unsuitable management in national banks. The OCC reviews each notice to acquire control of a national bank and disapproves transactions that could have serious harmful effects. If the notice is disapproved, the disapproval letter contains a statement of the basis for disapproval. The OCC's CBCA activity is reflected in Table 4. As reflected in the table, the OCC received 10 change in bank control notices in the first nine months of 2002. During this period, the OCC acted on 10 notices (three which were received in 2001), one of which was disapproved. Three notices were pending decision at the end of the period.

Table 4—Change in Bank Control Act[1], 1988–September 30, 2002

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
1/1–9/30/02	10	10	9	1	0
2001	18	17	17	0	0
2000	16	9	8	1	3
1999	13	13	13	0	1
1998	17	12	11	1	5
1997	24	24	24	0	0
1996	17	15	13	0	2
1995	15	16	16	0	0
1994	15	16	15	1	0
1993	28	30	21	5	4
1992	30	29	21	4	4
1991	20	15	6	6	3
1990	31	42	32	5	5
1989	55	55	48	3	4
1988	45	42	34	4	4

[1]Notices processed with disposition

Source: Licensing Department, Comptroller of the Currency

Community Affairs Department

During 2002, the Community Affairs department (CA) implemented the six core services identified the previous year. CA's mission and core services are:

1. Mission: Community Affairs supports the OCC's mission to ensure a safe and sound banking system by helping national banks to be leaders in providing community development financing and retail services to underserved communities and consumers.

2. Core services: Community Affairs achieves this mission by providing the following core services:

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

A focus on delivering tools to examiners was maintained throughout the year. Staff developed tools for compliance examiners to use when conducting CRA examinations, including a database of investment funds approved under part 24 and a database of investment, lending, and service opportunities that provide extensive performance context information.

Staff organized 20 outreach meetings for the Comptroller and/or senior staff on issues such as community development, payday loans, predatory lending, and access to financial services. The department also organized a community development tour for the Comptroller and senior OCC officials in Kansas City, KS, hosted by the Neighborhood Reinvestment Corporation (NRC). The tour provided valuable information about partnerships between nonprofit community development corporations and national banks.

CA staff arranged for Comptroller John D. Hawke, Jr. to deliver the keynote address at OCC/ABA community development conference in March, and for First Senior Deputy Comptroller and Chief Counsel Julie L. Williams to deliver the keynote address at the Local Initiatives Support Corporation's annual staff conference in April.

The Minority Business Development Agency (MBDA) established a steering committee of representatives across government, non-profit and private enterprise for the purpose of developing recommended solutions to long-standing barriers for minority small businesses. CA staff supported these efforts by chairing a subcommittee of the group.

Community Development Division

The Community Development division (CDD) provides expert advice to senior management and OCC staff on community and economic development policies and procedures for national banks. In addition, the division develops guidance and publications that help banks increase the availability of financial services in underserved markets and profitable investments in those markets. CDD provides technical assistance and advice to national banks seeking to make CD investments or establish CD focus banks and also administers the Community Development Investment authority (12 CFR part 24). The Part 24 authority allows banks to make equity and debt investments that support affordable housing and commercial development, start-up and small business growth, activities that revitalize or stabilize a government-designated area, and other activities that supplement or enhance banks' traditional lending.

In 2002, the OCC approved 154 national bank investments under the Part 24 investment authority for a total of $890 million. These bank investments help to leverage funding from community partners for a total of $2.9 billion that supported affordable housing, small businesses, and redevelopment projects in low- and moderate-income and government-targeted areas. Also available on the OCC's Web site is the new Part 24/CD investments resource directory that provides articles from bankers and their CD partners on a variety of investment topics, including banks' use of the federal initiative on New Markets Tax Credits.

The division coordinated the production of two editions of the CD newsletter. The first focused on Community Development Financial Institutions and CD Banks. The second focused on Banks and Economic Development in Rural America. (http://www.occ.treas.gov/cdd/resource.htm) In addition a resource directory on CDFIs and CD Banks as well as one on Rural Development Banking were unveiled on the OCC's Web site at http://www.occ.treas.gov/cdd/cdresourcedir.htm and http://www.occ.treas.gov/cdd/Rural.htm.

The division also coordinated the activities of the OCC's interdepartmental working group on Native American issues and sponsored an interagency meeting with banks and tribal members to identify ways of improving the delivery of financial services in Indian Country. Division staff also led a workshop on Native American-owned national banks at the Tribal Economic Summit held in Phoenix in September.

District Community Affairs Division

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

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

During 2002 the CAOs provided bank consultation services, on more than 200 occasions, to national banks seeking guidance on issues ranging from community development lending and investment opportunities in small rural areas and affluent suburbs to the difference between investments made under 12 CFR 24 compared to those that meet the definition of a "qualified investment" under the Community Reinvestment Act regulation. The CAOs also provided consultation services, on more than 140 occasions, to examiners seeking performance context information for use in CRA examinations and guidance on community development issues. Additionally, the CAOs also participated in over 30 outreach meetings for bankers where they discussed community and economic development issues.

Outreach and Information Management Division

Outreach and Information Management (O&IM) staff coordinated the implementation and marketing of several conferences during 2002. Staff acted as the lead liaison for the American Bankers Association Conference, co-sponsored by the OCC, coordinating all aspects of the conference. The Conference was held March 17–19, 2002, in Baltimore, MD.

In addition, O&IM worked on the implementation of the OCC sponsored Hispanic Banking Forum in Chicago, IL, on July 31, 2002. The event provided bankers with an opportunity to learn more about the demographics and banking needs of the Hispanic population in the Chicago area. O&IM staff also coordinated OCC's participation at the National Bankers Association Conference.

O&IM staff made publication enhancements to CA's Community Developments newsletter, the *2002 Directory of National Bank Community Development Investments*, and the CA brochure. The staff continue to market CA's products and services to appropriate audiences. The staff developed state-of-the-art marketing materials and distributed the information through various media resources. In addition, O&IM began to implement compliance with Section 508 of the Rehabilitation Act of 1973, as amended, to ensure that the information deployed on their Internet pages was accessible to all Americans, regardless of disability.

2002 Significant Legal, Licensing, and Community Development Precedents

Permissible Activities

General Activities

Branching

- ***Riegle–Neal Act interstate merger.*** Affirming the court below, the U.S. Court of Appeals for the Eighth Circuit held that the OCC's determination that the merger of a Missouri bank with a Kansas bank complied with Riegle–Neal's "minimum age" provisions for the merging banks and was entitled to deference. Riegle–Neal allows states to prohibit mergers between in-state and out-of-state banks, which have been in existence for less than five years. Missouri adopted such a law. However, the court agreed with the OCC that the Missouri law did not apply because the surviving bank's main office was in Kansas. OCC filed an amicus brief. TeamBank, N.A. *v.* McClure, 279 F.3d 614 (8th Circuit 2002).

Consulting and Financial Advice

- ***Credit card registration and notification services.*** A national bank operating subsidiary may engage in credit card registration and notification services. The subsidiary would also provide other services including a price protection service, a referral service for customers to third parties who offer extended warranty programs for various products, a free credit report annually, a newsletter containing consumer credit suggestions, and reimbursement for locksmith services. Conditional Approval No. 535 (June 21, 2002).

- ***Employee benefit, compensation advisory and human resource services***. A national bank operating subsidiary may provide employee benefit, compensation advisory and related administrative services, and other human resources services to the bank's business customers and other businesses in the bank's market area. Corporate Decision No. 2002–2 (January 9, 2002).

- ***Loss notification and credit monitoring services***. A national bank may provide its customers with credit card loss notification services. This letter also approves, for the first time, providing credit scores, credit reports, and credit monitoring services to customers. It also approves providing customers with access to their Social Security, medical, and motor vehicle records as activities that are incidental to banking. Interpretive Letter No. 944 (August 12, 2002).

Corporate Governance

- ***Reverse stock split.*** Consistent with 12 CFR 7.2000(b) and 7.2023, a national bank in Alabama may elect the corporate governance provisions of Alabama law and complete a reverse stock split in accordance with those provisions. Conditional Approval No. 541 (July 30, 2002).

- ***Share exchange.*** A national bank may effect a share exchange to become a subsidiary of a bank holding company pursuant to 12 USC 215a–2 and 12 CFR 7.2000, by offering most shareholders holding company stock, but providing cash to out-of-state residents, to avoid costs associated with registering its stock under the Securities Act of 1933. Corporate Decision No. 2002–08 (May 15, 2002).

Finder Activities

- ***Automotive roadside assistance programs.*** A national bank may acquire operating subsidiaries that operate and administer automotive roadside assistance programs and that that provide credit card registration and notification services. The bank can administer and operate auto roadside assistance programs for third parties as permissible finder activities; and can administer and operate a separate roadside assistance program, made available to its credit card customers, as an incidental activity that is convenient and useful to the administration and operation of the programs for third parties. Conditional Approval No. 535 (June 21, 2002).

Leasing

- ***Purchase of off-lease equipment.*** National bank may purchase from lessors and resell, as principal, off-lease equipment. Alternatively, it may act as agent for such lessors in selling the equipment. The letter finds that these activities are part of the business of banking and authorized under 12 USC 24(Seventh), 12 USC 24(Tenth), and 12 CFR Part 23. Interpretive Letter No. 953 (December 4, 2002).

Lending

- ***Lending limit for bank premises.*** A national bank may make a loan to an unrelated borrower that exceeds the bank's lending limit when the borrower will use the proceeds to construct a new premises building for the bank. The limitations on loans and investments for bank premises contained in 12 USC 371d take precedence over the general lending limits in 12 USC 84. Interpretive Letter No. 950 (December 18, 2002).

- ***Lending limit pilot program.*** A loan to finance land development or construction, whether secured by the real property or not, does not qualify for the lending limit pilot program in 12 CFR 32.7. Interpretive Letter No. 942 (June 11, 2002).

- ***Offshore operating subsidiary.*** A national bank may establish an offshore operating subsidiary that will facilitate the funding of the bank's domestic mortgage lending operations. The subsidiary's books and records must be maintained in the United States and be accessible to the OCC. Conditional Approval No. 536 (June 21, 2002).

Other Activities

- ***Purchasing and selling transferable state tax credits.*** A national bank is authorized under 12 USC 24(Seventh) to purchase and resell, as principal, transferable state tax credits. This is a financial intermediary activity and therefore part of the business of banking. Interpretive Letter No. 948 (October 23, 2002).

Compliance

- ***Community Reinvestment Act.*** A national bank's contribution to the Louisiana National Guard's Job Challenge Program may be a qualified investment for Community Reinvestment Act (CRA) purposes. The contribution would sponsor a low- or moderate-income local student's participation in the program, a skill-training program that selected students may enter after successful completion of the National Guard's Youth Challenge Program. Such a contribution would have a primary purpose of community development under the CRA rules because it supports a community service targeted to low- and moderate-income individuals, and would benefit the bank's assessment area. OCC Letter (September 11, 2002).

- ***Unfair or deceptive acts or practices.*** In evaluating whether a national bank or its operating subsidiary has engaged in unfair or deceptive acts or practices, the OCC will utilize the legal standards that have been developed under the Federal Trade Commission Act. Potentially unfair or deceptive acts or practices also may raise issues under the Truth in Lending Act, the Equal Credit Opportunity Act, and other laws. National banks and their operating subsidiaries should take affirmative steps to avoid the legal and reputation risks that would ensue from engaging in unfair or deceptive acts or practices. OCC Advisory Letter 2002–3 (March 22, 2002).

Fiduciary Activities

- ***Collective investment trust withdrawals.*** A national bank, as trustee, may allow participant withdrawals from a collective investment fund solely at the bank's discretion, or when a participant becomes ineligible to continue as a participant in the fund. 12 CFR 9.18 does not mandate the frequency of admissions and withdrawals from collective investment funds. OCC Interpretive Letter No. 936 (May 22, 2002).

Preemption

- ***ATM fees.*** Two national banks and a savings and loan association brought suit challenging municipal ordinances prohibiting banks from charging ATM (automated teller machine) fees to non-depositors. After obtaining preliminary injunctive relief from the regulations, the banks obtained permanent injunctive relief from the district court. A panel of the U.S. Court of Appeals for the Ninth Circuit affirmed, holding that, as for national banks, the National Bank Act and the OCC's regulations preempted the ordinances. A rehearing petition filed by the City and County of San Francisco was denied. OCC filed an amicus brief with the Ninth Circuit. Bank of America, et al. *v.* City and County of San Francisco, 309 F. 3d 551 (9th Circuit 2002).

- ***Applicability of state laws to national bank operating subsidiaries.*** The OCC has issued a number of letters addressing the applicability of state laws with respect to activities conducted in national bank operating subsidiaries. These letters confirm that a particular subsidiary of a national bank is subject to the OCC's examination and supervision pursuant to 12 CFR 5.34(e)(3); explain that, under 12 CFR 7.4006, state laws apply to national bank operating subsidiaries to the same extent that those laws apply to the national bank itself; and conclude that state restrictions or conditions, including licensing requirements, do not apply to the national bank operating subsidiary. Letters were issued to appropriate state regulatory authorities (or to the bank or its counsel) with respect to laws in eight states and one city including: Pennsylvania, Michigan, New Hampshire, Connecticut, Rhode Island, Iowa, Louisiana, Maine, and the City of Las Vegas, Nevada.

- ***Contacts from state officials.*** Applicability of state laws to national banks and their operating subsidiaries—and the authority to enforce those laws—raise complex issues of both federal preemption and the statutory authority of the OCC as the supervisor and regulator of national banks. Because of the complexity of these issues, national banks should consult with the OCC if they are contacted by state officials seeking information that may constitute an attempt to exercise visitorial or enforcement powers over the bank. State officials are also encouraged to contact the OCC if they have information indicating that a national bank may be violating federal or applicable state law or if they seek information from a national bank. OCC Advisory Letter 2002–9 (November 25, 2002).

- ***Exportation of interest rates by national bank operating subsidiaries.*** The OCC issued a letter confirming that a national bank operating subsidiary may export interest rates pursuant to 12 USC 85 under the same terms and conditions applicable to its parent national bank. Letter from Julie L. Williams to Costas Avrakatos, Esq., Kirkpatrick & Lockhart. OCC Interpretive Letter 954 (December 16, 2002).

- ***Insurance law under the Gramm–Leach–Bliley Act, Massachusetts.*** The OCC published its opinion that certain provisions of the Massachusetts Consumer Protection Act Relative to the Sale of Insurance by Banks are preempted under insurance preemption standards established by section 104 of the Gramm–Leach–Bliley Act. Specifically, federal law preempts the provisions of Massachusetts law that purport to prohibit: (1) non-licensed bank personnel from referring a prospective customer to a licensed insurance agent or broker except upon an inquiry initiated by the customer; (2) a bank from compensating an employee for such a referral; and (3) a bank from telling a loan applicant that insurance products are available through the bank until the application is approved and, in the case of a loan secured by a mortgage on real property, until after the customer has accepted the bank's written commitment to extend credit. Preemption Determination, *Federal Register*, 67 *Fed. Reg*. 13405 (March 22, 2002). The Massachusetts Insurance Commissioner filed a petition in the First Circuit seeking review of that OCC preemption letter. The court dismissed the petition, holding that the dispute between the OCC and the commissioner was insufficient to create a justiciable case or controversy and should be deemed to fall outside the scope of the statutory provisions for judicial review. Bowler *v.* Hawke, 320 F.3d 59 (1st Circuit 2003).

- ***Insurance law under the Gramm–Leach–Bliley Act, West Virginia.*** The State of West Virginia and the State Insurance Commissioner filed a petition with the U.S. Court of Appeals for the Fourth Circuit seeking a review of an OCC Preemption Determination opining that certain provisions of the West Virginia Insurance Sales Consumer Protection Act are preempted by the National Bank Act. In an unpublished opinion, a majority of the panel held that the petitioners had standing to bring the suit, that the OCC had implicit authority under the Gramm–Leach–Bliley Act to issue its preemption opinion, and that the statutes were preempted by the National Bank Act. One of the judges dissented on the ground that the petition presented no justiciable case or controversy. Petitioners filed a petition for rehearing, which the OCC was ordered to answer, and which was ultimately denied. Cline *v.* Hawke, 51 Fed. Appx. 392 (4th Circuit 2002).

- ***Mandatory disclosures to credit card holders.*** A U.S. District Court held that the National Bank Act preempts California laws requiring compliance with certain combinations of warnings to credit card holders regarding the possible consequences of paying only the minimum amount each month. OCC filed an amicus brief. American Bankers Association *v.* Lockyer, 239 F. Supp.2d 1000, 2002 WL 31941511 (E.D. Cal. 2002).

- ***Not sufficient funds (NSF) fees.*** A national bank has authority, pursuant to 12 USC 24(Seventh) and 12 CFR 7.4002, to charge NSF fees where the fee resulted, in part, from the bank's policy of posting checks in order from the highest to the lowest amount. Letter from Julie L. Williams to John D. Wright, Vice President and Assistant General Counsel, Wells Fargo Bank (April 15, 2002).

- ***"On us" check cashing fees.*** A national banks has authority, pursuant to 12 USC 24(Seventh) and 12 CFR 7.4002, to charge fees for the service of cashing checks drawn the bank and payable to non-accountholders of the bank. Letter from Julie L. Williams to John H. Huffstutler, Esq., Associate General Counsel, Bank of America Legal Department (October 8, 2002); and Letter from Julie L. Williams to J. Thomas Cardwell, Esquire, Akerman, Senterfitt & Eidson, P.A. (April 4, 2002).

- ***"On us" check cashing fees.*** National banks may charge a non-accountholder a convenience fee for using a bank teller to cash an "on us" check. An "on us" check is a check drawn on the bank by one of the bank's customers. The fee is essentially compensating the bank for making cash immediately available to the payee; otherwise the payee would have to wait for the check to clear through the payment system. A U.S. District Court, with which the OCC filed an amicus brief, held that the National Bank Act, specifically 12 USC 24 (Seventh), preempts state law prohibiting the charging of fees for cashing on-us checks. Bank of America *v.* Sorrell, Case No. 1:02 CV 1518 (GET) (N.D. Ga.). Earlier, another U.S. District Court issued a similar ruling as to a Texas state law prohibition on these fees. Wells Fargo *v.* James, Case No. 01–CA–538–JRN (W.D. Tex.), aff'd 321 F.3d 488, 5th Circuit No. 01–51298 (2003). The OCC participated as amicus in that litigation as well.

Securities Activities

Derivatives

- ***Cash-settled options and forwards on equity securities.*** A national bank may engage in cash-settled options and forwards on equity securities if part of the bank's customer-driven, non-proprietary financial intermediation business and if the bank has in place an appropriate risk management and measurement process for its derivative and hedging activities. OCC Interpretive Letter No. 949 (September 19, 2002).

- ***Electricity derivative and hedging activities.*** A national bank may conduct customer-driven, cash-settled derivatives business based on electricity prices, and related hedging activities, as an extension of its existing energy-related commodities derivatives business, if the OCC is satisfied that it has an appropriate risk management process for its electricity derivative and hedging activities. OCC Interpretive Letter No. 937 (June 27, 2002).

- ***Edge Corporation's holding of equity securities for hedging.*** OCC's limit on a national bank's holding of equity securities for hedging purposes, to 5 percent of a class of stock of any one issuer, does not include securities held by the bank's Edge corporation subsidiary. OCC Interpretive Letter No. 924 (January 2, 2002).

- ***Foreign branch membership in the London Clearinghouse.*** A national bank, via its London branch, may join the London Clearinghouse as a SwapClear Member to clear interest derivative contracts. OCC Interpretive Letter No. 929 (February 11, 2002).

- ***Hedging risks from bank permissible, customer-driven derivative transactions.*** A national bank with an OCC-approved hedging program may execute cash- and physically settled equity derivative transactions, and use below investment grade bonds to hedge risks arising from permissible derivative transactions done in accordance with the program. A national bank may hedge risks arising from a hedge that remain when a counterparty terminates the underlying hedged transaction. In limited circumstances a national bank may cross-hedge its equity derivatives (i.e., use one security or a basket of securities to hedge the risk arising from a transaction with another, different security, with similar characteristics). OCC Interpretive Letter No. 935 (May 14, 2002).

Technology and Electronic Activities

- ***Advisory services regarding electronic transactional services.*** A national bank operating subsidiary may provide advisory and consulting services to customers who use the bank's electronic retail or wholesale transactional services; the advice would cover hardware, software, and other technologies necessary to use those services. The subsidiary may also provide advisory and consulting services to business customers on the hardware, software, and other technology necessary to enable those customers to process for themselves banking, economic, and financial information. Corporate Decision No. 2002–11 (June 28, 2002)

- ***Computer and telecommunication equipment leasing.*** A national bank operating subsidiary may conduct computer and telecommunication equipment leasing activities, including ancillary activities. The ancillary activities include the acquisition of equipment for lease, delivery and installation of leased equipment, sales of off-lease equipment, other occasional sales of equipment, arranging for maintenance contracts, and certain website development services. Corporate Decision No. 2002–13 (July 31, 2002).

Electronic Commerce

- ***Participation in a stored value payment system.*** A national bank operating subsidiary may invest in a joint venture that will develop and market a stored value system and pursue future opportunities involving stored value. The stored value program will initially focus on payroll distribution for employees without bank accounts, however, the joint venture will also develop and market stored value programs for merchants and others. Conditional Approval No. 568 (December 31, 2002)

- ***Provision of electronic payment initiation products.*** A national bank may expand the activities of a company in which it holds a non-controlling interest so that the bank could use the company's certification authority network system to provide electronic payment initiation products to commercial buyers and sellers. These electronic payment initiation products will allow trading parties with no previous trading relationship to complete on-line purchases or trades and simultaneously arrange for payments through their existing banking relationships. The proposed system is a business-to-bank payment initiation service, not an interbank payment system. Corporate Decision No. 2002–4 (February 18, 2002).

Investments[1]

- ***Acquisition of preferred stock of an unaffiliated company.*** A national bank has authority to acquire and hold the preferred stock of an unaffiliated company, pursuant to its authority to discount and negotiate evidences of debt, where the preferred stock is in substance a debt obligation of the issuer. The bank acquired the preferred stock as partial consideration for the disposition of a loan portfolio to the company. The bank's existing holdings represent less than 5 percent of the bank's capital and surplus and are within applicable prudential standards and regulatory limits. OCC Interpretive Letter No. 941 (June 11, 2002).

- ***Convertible bonds.*** A federal branch's purchases of bonds convertible into equity are permissible investments under Part 1 if the bonds are the credit equivalent of investment grade and marketable. A national bank may purchase bonds convertible into equity where it does not exercise the conversion feature. OCC Interpretive Letter No. 930 (March 11, 2002)

- ***Fannie Mae and Freddie Mac perpetual preferred stock.*** A national bank may invest in perpetual preferred stock issued by Fannie Mae and Freddie Mac without limit, subject to safety and soundness considerations. OCC Interpretive Letter No. 931 (March 15, 2002)

- ***Investments in partnership with Native American Nations.*** National bank's community development corporation (CDC) subsidiary may provide financial support and financial services to assist economic development efforts of Native American Nations directed toward low- and moderate-income communities. Specific proposed activities of the CDC include: (1) providing financial literacy services; (2) buying, selling, and leasing real estate, for example, in partnership with local housing authorities; and (3) providing, servicing, and maintaining ATMs and ATM and debit cards. Approval of Bank's Self-Certification (December 20, 2002), "National Bank Community Development Investments 2002 Directory."

- ***Limited interests in private investment funds.*** A national bank may acquire for limited periods of time, limited interests in private investment funds for which it serves as investment manager, as a way to structure its compensation. Because the bank's ownership of limited equity interests in the funds it advises is restricted to a context where the holding is integral to facilitating a recognized bank-permissible activity, such holdings are permissible as an incident to the bank-permissible investment management activities. OCC Interpretive Letter No. 940 (May 24, 2002)

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

- ***Purchase of shares in CDC subsidiary of affiliated national bank.*** Four affiliated national banks may each purchase shares in an existing community development corporation (CDC) subsidiary that previously had been formed and capitalized by a fifth affiliated national bank. As a result of the new investments, the CDC subsidiary expanded its products and services to the states that the new shareholders served. Approval of Banks' Self-Certifications (January 30, 2002; January 31, 2002; May 9, 2002; and May 9, 2002), "National Bank Community Development Investments 2002 Directory."

- ***Use of new markets tax credits.*** National bank may invest in wholly owned subsidiary that, in turn, makes an investment in a fund that is certified by the U.S. Department of the Treasury as a "community development entity." The fund will provide debt and equity financing for retail, office, commercial, distribution, industrial mixed-use, and community facility projects in targeted low- and moderate-income areas. The fund is anticipated to earn federal new markets tax credits that will be usable by the bank and other investors. Approval of Bank's Self-Certification (August 28, 2002), "National Bank Community Development Investments 2002 Directory."

- ***Various activities of CDC subsidiary.*** A national bank's community development corporation (CDC) subsidiary may conduct various community and economic development activities that primarily benefit low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted for redevelopment by local, state, federal, or tribal governments. The approved activities of the CDC include:

  1. providing financing to a corporation that owns and operates a charter school, funded by the state, that educates "at-risk" students, who are primarily low- and moderate-income and have exhibited behavioral or drug problems in other schools;

  2. providing financing at reduced rates to low- and moderate-income families that received subsidies under state and federal government programs for the purchase of their first homes;

  3. investing in an entity that renovated a commercial building leased to a state government agency that provides training to unemployed low- and moderate-income individuals and assists them in finding employment;

  4. financing the education of a medical student who had committed to work after graduation for a facility that provides medical services to low-income families;

  5. providing working capital for a convenience and hardware store in a low- and moderate-income community; and

6. investing in a fund that provides financing for developing and operating affordable housing and is anticipated to earn federal low-income housing tax credits that will be usable by the bank.

   Approval of Bank's Prior Approval Requests and Self-Certifications (April 16, 2002; May 3, 2002; May 3, 2002; July 18, 2002; September 23, 2002; and September 23, 2002), "National Bank Community Development Investments 2002 Directory."

Enforcement Actions

- ***Dismissal of Bivens suit for damages against OCC officials.*** A U.S. District Court dismissed a suit brought by the former owner and COB of a closed national bank against nine OCC officials, including the Comptroller, arising from the supervision and ultimate closure of a troubled national bank. The dismissal was based on the court's determination that OCC examiners enjoy absolute immunity from suit. On appeal, a panel of the U.S. Court of Appeals for the Eighth Circuit upheld the dismissal, but on the ground that Bivens actions cannot be brought in the first place against OCC employees performing bank regulatory and supervisory functions. Sinclair *v.* Hawke, __ F.3d __, 2003 WL 23150 (8th Circuit 2003)

- ***OCC and foreign bank regulator cooperate in investigation***. In January 2002, the OCC and the bank's home-country regulator assessed separate civil money penalties of $10 million each against the bank and its federal branches in New York City. After a lengthy investigation, the OCC, with the cooperation of the home-country regulator, uncovered a series of questionable transactions at the branch, extending back several years, that resulted in significant losses to the New York branch and included several that showed preferential treatment to certain customers of the New York branch who had personal relationships with some members of the New York branch's prior management. The OCC issued a cease and desist order, by consent, which required the bank's federal branches to: develop procedures to guard against fraud; provide for adequate customer due diligence, using an independent third party to verify compliance; and cease doing business with 34 specific individuals and companies, and affiliated entities. The consent order also requires the federal branches to take numerous other actions to strengthen the bank's internal anti-fraud protections. In August, September and October, the OCC issued enforcement actions against six individuals affiliated with the federal branch located in New York City. The individual enforcement actions included four prohibition actions, two personal cease-and-desist orders and four civil money penalties. In the Matter of Bank of China, and various, Enforcement Actions Nos. 2002–1 (January 17, 2002), 2002–122 (August 23, 2002), 2002–116 (September 3, 2002), 2002–117 (September 3, 2002), 2002–115 (September 23, 2002), 2002–118 (October 31, 2002), 2002–119 (October 31, 2002).

- ***Orderly resolution of a federal branch of an Argentinean bank.*** On March 11, 2002, the OCC issued a consent cease-and-desist order against the New York City branch of an Argentinean bank. The viability of this federal branch was threatened in early 2002 by the Argentinean financial crisis, during which the Argentine government had frozen all payments by banks doing business in Argentina. Although the New York branch of the bank was not directly affected by that order, its ability to receive funds transfers from its head office was severely impaired. The order issued by the OCC required the branch to marshal its assets, improve its liquidity and seek to restructure its third-party liabilities or, alternatively, to carry out a contingency plan to wind down its affairs and carry out an orderly liquidation. The branch and its head office complied with the order and engaged in successful negotiations to restructure its liabilities. The branch repaid its creditors or transferred liabilities to the head office, with the agreement of the creditors. The liquidation was subsequently completed and the federal branch closed on January 30, 2003. The OCC was able to achieve an orderly resolution of the branch and avert the possibility the branch may have been forced to default on it obligations as a result of the crisis in Argentina. In the Matter of Banco de Galicia y Buenos Aires, S.A., Enforcement Action No. 2002–24 (March 11, 2002).

- ***Payday lending.*** In October 2002, the OCC issued cease-and-desist orders and assessed civil money penalties of $325,000 by consent to a payday lending company and a national bank. The company agreed to terminate its payday lending activities through the bank and to cease providing services to any other national bank without the prior approval of the OCC. The OCC took the actions based on the company's failure to safeguard 641 customer loan files, in violation of several laws and regulations. Both the company and the bank engaged in numerous unsafe or unsound practices in their payday lending actives as well, including excessive credit exceptions. The bank agreed to terminate its business with the company, to conduct a thorough review of its loan files and contact any customer whose file was lost. In the Matter of ACE Cash Express, Inc., Enforcement Action 2002–92 (October 25, 2002). In the Matter of Goleta National Bank, Enforcement Actions Nos. 2002–93 (October 28, 2002), 2002–110 (October 30, 2002).

- ***Recapitalization and revamping strategic plan of failing bank.*** On September 4, 2002, the OCC issued a prompt corrective action directive to a bank that became critically undercapitalized as a result of the numerous loan losses. Among other things, the OCC's directive required immediate recapitalization of the bank, submission of viable strategic plans, and placed several restrictions on the bank's use of brokered deposits. The bank subsequently recapitalized and committed to address its deficiencies. In the Matter of First National Bank of Northern Kentucky, Enforcement Action No. 2002–90 (September 4, 2002).

- ***Unfair or deceptive acts and practices.*** A national bank signed a formal agreement that required the bank to correct certain credit card marketing practices that the OCC identified as deceptive in violation of section 5 of the Federal Trade Commission Act. The OCC charged that, among other deceptive practices, the bank failed to adequately disclose to consumers that they were highly likely to receive accounts with substantially less initial available credit than implied by the advertised range of credit lines, in violation of the Act. Agreement By and Between First National Bank, Fort Pierre, South Dakota, and the Office of the Comptroller of the Currency, Enforcement Action No. 2002–61 (July 18, 2002).

Regulations

- ***Capital equivalency deposits.*** On June 12, 2002, the OCC adopted a final rule that amended its regulation regarding the capital equivalency deposits (CED) that foreign banks with federal branches or agencies must establish and maintain. The rule revised certain requirements regarding CED deposit arrangements to increase flexibility for, and reduce burden on, certain federal branches and agencies, based on a supervisory assessment of the risks presented by the particular institution. 67 *Fed. Reg.* 41,619 (June 19, 2002).

- ***Capital; Leverage and Risk-Based Capital Guidelines Capital Maintenance: Nonfinancial Equity Investments (Merchant Banking).*** The OCC, FRB, and FDIC issued a joint final rule increasing the capital requirements for certain merchant banking investments. The new requirements affect national banks' investments in small business investment companies and investments authorized pursuant to the Federal Reserve Board's Regulation K. 67 *Fed. Reg.* 3784 (January 25, 2002).

- ***Debt cancellation contracts.*** The OCC issued a final rule establishing consumer protection and safety and soundness requirements for debt cancellation contracts and debt suspension agreements. The regulation clarifies that its provisions, and not the federal insurance regulations or state law, governs national banks that provide these products. 67 *Fed. Reg.* 58962 (September 19, 2002).

- ***Deposit production offices.*** The OCC, the Federal Reserve Board, and the FDIC issued a joint final rule updating their deposit production office regulations to conform with amendments to the statutory definition of "interstate branch" made by section 106 of the Gramm–Leach–Bliley Act. 67 *Fed. Reg.* 38844 (June 6, 2002).

- ***Electronic banking.*** The OCC issued a final rule revising its rules to facilitate national banks' use of new technologies to conduct business. The rule includes provisions addressing national banks' exercise of their federally authorized powers—including the power to act as finder—through electronic means; the location, for purposes of the national banking laws, of a national bank that engages in activities through electronic means; and the disclosures required when a national bank provides its customers with access to other service providers through hyperlinks in the bank's website or other shared, electronic "space." 67 *Fed. Reg.* 34992 (May 17, 2002).

- ***Risk-Based Capital Standards: Claims on Securities Firms.*** The OCC, the Federal Reserve Board, the FDIC, and the OTS issued a joint final rule revising the regulatory capital treatment of claims on securities firms. 67 *Fed. Reg*. 16971 (April 9, 2002).

International

- ***Parallel bank joint advisory.*** On April 23, 2002, the OCC issued a Joint Agency Statement on Parallel-Owned Banking Organizations. The statement, which was issued together with the Federal Reserve Board, the FDIC, and the OTS, discusses the characteristics of parallel-owned banking organizations, reviews potential risks associated with these banking organizations, and sets forth the agencies' approach to supervision of those risks. It also provides information on the licensing process for proposals involving parallel-owned banking organizations. *See* OCC Bulletin No. 2002–14 (April 23, 2002) (transmitting the Joint Agency Statement).

- ***Frequently Asked Questions About the CED Requirements for Federal Branches.*** In February 2002, the OCC issued a document responding to the Frequently Asked Questions About the Capital Equivalency Deposit (CED) Requirements for Federal Branches and provided this information to the foreign banks that operate federal branches and agencies in the United States. This document provides detailed information on the CED and how it should be computed and deposited. It also describes two changes that were made to ease the burden on federal branches agencies. First, the administrative burdens of maintaining the CED account were reduced for the low-risk branch and agency operations. Second, the OCC determined that the liabilities of a branch's international banking facility (IBF) should be excluded from the branch's liabilities for purposes of the CED on the basis that the IBF was the equivalent of a separate office of the foreign bank. In addition to sending letters to each foreign bank, the OCC announced these changes in a news release, *see* NR 2002–16 (March 4, 2002), and amended its rules as necessary to incorporate the new burden reduction initiatives, *see* 67 *Fed. Reg*. 41619 (June 19, 2002).

Chief National Bank Examiner Department

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

Core Policy Department

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

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

Core Policy Development Division

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

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

Office of the Chief Accountant

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

Credit Risk Department

The Credit Risk department is responsible for identifying and analyzing emerging issues and trends that affect bank lending activities and credit risk in the national banking system, as well as developing policy guidance to address these issues. The department sponsors the National Credit Committee and the Retail Credit Committee. The membership of these committees consists of field examiners directly involved in the supervision of community and large banks as well as economists and community development lending specialists. These committees assist the division in identifying emerging credit risks and supporting policy development initiatives. The department also conducts an annual survey of credit underwriting practices.

The Credit Risk department continued to be actively involved in advancing sound credit risk management principles both domestically and internationally. The department formulates industry advisories and policy guidance for bankers and examiners. During 2002, the department issued for comment interagency guidance on credit card account management and loss allowance practices. The Credit Risk department also contributed to the ongoing development of a new Basel Capital Accord and to the interagency efforts of U.S. regulators to develop implementation standards for the proposed Accord. The Credit Risk department identifies training needs for field staff and assisted with the development of a revised core credit curriculum.

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

Risk Evaluation Department

The deputy comptroller for Risk Evaluation chairs the OCC's National Risk Committee (NRC) and oversees the OCC's Risk Evaluation (REV) department as well as the Asset Management (AM) and Treasury and Market Risk (TMR) divisions.

National Risk Committee/Risk Evaluation Department

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

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

The Risk Evaluation department also assists in the NRC's regular briefings to inform the OCC's executive committee of material risks facing the national banking system. Some of the major issues addressed by the NRC during 2002 included the condition of the banking industry, the quality of credit underwriting and risk management practices, domestic and international macroeconomic trends, emerging technologies and data security risks, interest rate risks, securitization activities and residual valuation risks, and liquidity risks. The NRC also made recommendations on the appropriate supervisory actions to take in response to these issues, and monitored and reported on the OCC's supervisory efforts to respond to such risks.

As an accompaniment to the regular executive committee briefings, the REV department distributes periodic memos to examiners on key economic and systemic risk issues. Specific issues analyses and OCC responses are available to OCC examiners on the agency's intranet. For external audiences, REV established and maintains an extensive outreach program and public speaking schedule. Audiences included domestic and international commercial bankers, as well as domestic and international regulators.

National initiatives are coordinated with OCC district initiatives through REV's ongoing relationship with District Risk Committees. These efforts are undertaken to ensure consistent and efficient responses to emerging risk issues, to encourage the sharing of ideas throughout the OCC, and also to serve as a resource to district risk committees.

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

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

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

3) Predictive models will assist examiners in assessing the future effects of changing economic conditions that may affect the bank and help examiners to estimate a bank's credit risk, forecast future bank performance, and look for rising external risk that may affect bank earnings. The peer group risk model is designed to project the potential impact of different economic scenarios on a bank's loan portfolio and estimate future earnings for similar loan-based peer groups.

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

[1] The measures are calculated from call report data.

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

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

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

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

Asset Management Division

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

During the period January through September 2002 , the division worked on a variety of projects. The division completed and issued the "Custody Services" (January 2002) booklet and the "Personal Fiduciary Services" (August 2002) booklet of the *Comptroller's Handbook*. In addition, members of the division contributed to other booklets of the *Comptroller's Handbook* series including the "Insurance Activities" (June 2002) booklet and the "Community Bank Supervision" booklet. Asset Management staff spearheaded the effort to ensure appropriate minimum standards for new national trust banks. Staff also worked to develop asset management benchmarks, which are now included in the OCC's large bank Canary early warning tools.

Asset Management staff reviewed and commented on a number of new trust bank charter applications. In addition, staff supported the legal department with its responses to requests for interpretations dealing with asset management issues. Staff also responded to inquiries about the Gramm–Leach–Bliley Act and its impact on bank broker/dealer activities.

The Asset Management staff made presentations at industry meetings, programs, and seminars. Also, the division staff participated as instructors at OCC and FFIEC training programs. Through out the year, the division organized a number of topic-specific conference calls to share information with OCC field examiners and provided specialty training to asset management examiners. In September 2002, the division sponsored a meeting of 100 asset management examiners that featured both OCC and industry speakers.

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

Treasury and Market Risk Division

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

Highlights of the key accomplishments for TMR in 2002 include:

- *Direct supervision*. TMR staff actively participated in examinations involving securitization, interest rate risk, liquidity, and trading activities.

- *Interest rate risk and investment portfolio management*. TMR issued OCC 2002–19 Unsafe and Unsound Investment Portfolio Practices to alert banks to the potential risk to future earnings and capital from poor investment decisions. The guidance, which supplements OCC Bulleting 98–20, emphasizes the importance of maintaining prudent credit, interest rate, and liquidity risk management practices to control risk in the investment portfolio.

- *Capital Markets Examiner Specialty Skills Program on-the-job training (ESSP OJT).* TMR planned and coordinated the Capital Markets ESSP OJT program for 2002–2003. This program provides on-the-job training with an expert trainer for 10 examiners with the objective of building a pipeline of capital markets expertise. The program is designed to strengthen examiner skills in asset liability management by providing participants five to six exam opportunities at banks with increasing complexity.

- *Trading*. In 2002, TMR prepared the "Derivatives Fact Sheet," a comprehensive package of publicly distributed bank derivatives data and information each quarter. The distribution of this package of spreadsheets and narratives has proven to be a useful mechanism for increasing transparency with regard to bank derivatives and trading activities.

- *Securitization and mortgage banking*. Throughout 2002, TMR has participated in domestic and international efforts to address regulatory capital issues associated with securitization activities. TMR assisted other OCC divisions in developing and publishing four bulletins and attached guidance during the first half of 2002, including:

  — OCC Bulletin 2002–17, "Accrued Interest Receivable: Regulatory Capital and Accrued Interest Receivable Assets."
  — OCC Bulletin 2002–20, "Implicit Recourse in Asset Securitizations."
  — OCC Bulletin 2002–21, "Covenants Tied to Regulatory Actions."
  — OCC Bulletin 2002–22, "Interpretations of the Final Rule for Recourse, Direct Credit Substitutes and Residual Interests."

Throughout 2002, TMR continued efforts to monitor and evaluate the impact of asset securitization on bank safety and soundness. This effort included inter-agency on-the-job examiner training designed to develop and expand examiner technical skills in the area of securitization. TMR also sponsors a monthly inter-agency working group and internal securitization working group. Each group provides a forum to discuss supervisory issues and ensure consistent supervision. We also provide field examiners with various industry reports for the securitization market.

- *Training*. During 2002, TMR sponsored two training sessions for lead capital markets examiners responsible for supervising activities in national banks. These sessions enable us to share information with the capital market experts in the field and provide policy guidance as appropriate. TMR also provided specialized training in the areas of asset and liability management, interest rate risk modeling, and economic capital.

- *Outreach*. TMR staff represented the OCC at numerous external conferences on timely regulatory issues such as: derivatives trading, asset securitization, interest rate risk management, and liquidity risk management. Our participation in industry outreach activities provides us an effective mechanism to communicate directly with the banking industry on current capital markets issues. This helps us understand the issues and concerns of bankers and gives bankers the opportunity to learn about OCC hot topics.

Large Bank Supervision Department

The Large Bank Supervision department supervises all national bank subsidiaries of the following 24 companies: ABN AMRO North America, Inc; Bank of America Corporation; Bank One Corporation; Banknorth Group, Inc.; Barclays Global Investors; Charter One Financial, Inc.; Citigroup, Inc.; First Tennessee National Corporation; FleetBoston Financial Corporation; Hibernia Corporation; Huntington Bancshares, Inc.; J.P. Morgan Chase & Company; KeyCorp; MBNA Corporation; Mellon Financial Corporation; National City Corporation; National Commerce Financial Corporation; PNC Financial Services Group, Inc.; U.S. Bancorp; Union Bancal Corporation; Union Planters Corporation; Wachovia Corporation; Wells Fargo & Company; and Zions Bancorporation. As of September 30, 2001, these 22 holding companies held assets of $4.2 trillion. Under these companies are 119 national banks (including 21 national trust charters) with total assets of $2.9 trillion. These banks represent 82 percent of the total assets of the national banking system, but only 5 percent of the charters.

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

The department's philosophy of continuous supervision provides for assessing the condition and risk profile of the bank and taking appropriate supervisory and regulatory action when necessary. To implement this philosophy, supervisory strategies are developed annually for each large bank company and are updated quarterly. Strategies are continuous and relate closely to each company's condition, risk profile, economic factors, and marketplace developments. A major component of each strategy is the communication plan. This plan must maintain a strong, consistent, and frequent two-way dialogue with bank management and its board of directors. Areas of special supervisory emphasis in 2002 included supervisory initiatives in credit underwriting, allowance for loan and lease loss reserve adequacy, operational vulnerabilities, and management performance and board governance.

Committee on Bank Supervision

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

Compliance Department

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

Several important initiatives were completed during 2002. Compliance continued its efforts to fully integrate compliance risk supervision into the OCC's ongoing supervision activities at national banks. Risk-based compliance initiatives were implemented across the national bank population. Examiners reviewed institutions to determine their progress in achieving full compliance with the privacy provisions. In addition, compliance continued to emphasize BSA/anti-money-laundering risks, so that national banks and federal branches are appropriately focused on risk identification and controls in these areas. The signing of the USA Patriot Act into law gives the OCC, and other departments and federal agencies, enhanced authority to identify and deter international money laundering. USA Patriot Act/anti-money laundering teleconferences were delivered to bankers and examiners. Enhancements to the CRA were also implemented. Lastly, Compliance continued work on a process to better utilize consumer complaint data compiled by the OCC's Customer Assistance Group.

Technology Department

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

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

Bank Technology continued its efforts to integrate technology risk supervision into the OCC's ongoing activities at national banks by developing supervision policy guidance on information technology-related risks. As part of this effort, the Bank Technology division focuses on technology risks, including business continuity planning, electronic banking, technology outsourcing, information security, privacy, authentication, aggregation, Web-linking, and wireless. In 2002, the department worked collaboratively with other agencies on new guidance for bankers and examiners detailing GLBA 501(b) security expectations and internal enforcement guidelines and risks associated with third-party servicers. To raise industry awareness and to highlight the appropriate steps banks should take to effectively manage technology risk, the department's staff participated in numerous outreach activities.

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

Bank Technology chairs the Electronic Banking Working Group, an inter-departmental group responsible for providing guidance to the industry and examiners; monitoring and analyzing risks in e-banking activities; ensuring OCC examiners have the right tools and training; supporting the OCC's leadership role in industry, interagency, and international efforts; and planning and prioritizing projects that involve significant inter-unit work. In addition, Bank Technology actively participates in the OCC's national risk committee (NRC), provides updates analyzing technology-related risks facing the industry, and recommends changes to the NRC "radar screen". Bank Technology also participates in other committees such as the OCC's supervision policy committee and also reviews technology-related risks associated with corporate applications from national banks or organizers seeking a national bank charter. Members of the Bank Technology department also participate in field examinations of banks and service providers that have information technology-intensive operations. Further, Bank Technology works with other units to respond to inquiries from Congress, General Accounting Office, Treasury Department, White House, and other executive agency offices. Bank Technology supports the Comptroller as chairman of the Basel Electronic Banking Group (EBG).

Several important interagency initiatives were completed during 2002. The department represented the OCC on the Federal Financial Institutions Examination Council's (FFIEC's) Information Technology Subcommittee and worked closely with other federal banking agencies to develop industry guidance and examination procedures. In 2002, Bank Technology led subcommittee projects that included the update of the 1996 FFIEC *Information Systems Handbook* (in two volumes), the risk-based prioritization of interagency examinations of Technology Service Providers, and the development of an Interagency Technology Event Communications Coordination Plan. In addition, Bank Technology participated in the 2002 FFIEC Symposium focusing on Business Continuity Planning, and the 2002 Interagency Technology Conference. Further, the department participated in and interagency working group that is developing a small entity 501(b) compliance guide.

The Bank Technology department also represents the OCC on Treasury's Federal Banking Information Infrastructure Committee (FBIIC) by working closely with other financial regulators, Treasury, and the Office of Homeland Security to establish secure communication facilities for FBIIC agencies; review continuity of operations plans of regulatory agencies; evaluate financial sector vulnerabilities; and coordinate communications. The division was a major contributor to the Interagency White Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System and, in collaboration with the other federal financial institution regulators, developed and implemented a policy to sponsor national banks to secure Government Emergency Telecommunications Service (GETS) telephone priority cards for key staff members to communicate in case of an emergency.

Ombudsman

In 2002, the ombudsman was responsible for overseeing the national bank appeals process and the Customer Assistance Group (CAG). The CAG reviews and processes complaints received from customers of national banks. The ombudsman functions independently, outside of bank supervision, and reports directly to the Comptroller.

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

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

Mid-Size/Community Bank Supervision Department

The Mid-Size/Community Bank Supervision department is responsible for direct supervision of mid-size and community national banks, credit card banks, federal branches and agencies, national trust companies, bank data processing servicers and bank data software vendors. During 2002, the OCC conducted 1,609 examinations focusing on the overall safety and soundness of national banks, federal branches and agencies. The OCC also conducted 767 compliance examinations, 459 Community Reinvestment Act examinations, 381 asset management examinations, and 166 examinations of bank data processing servicers, bank data software vendors and bank information systems operations.

Supervision Operations Department

The Supervision Operations department provides support to the Mid-Size/Community Bank Supervision department and other departments by administering various OCC systems, developing/analyzing management information reports, coordinating several agency-wide programs and special projects, and coordinating the Mid-Size/Community Bank Supervision policy-making process. The department includes three divisions: Supervisory Information, Special Projects and Programs, and Mid-Size/Community Bank Policy Coordination.

The Supervisory Information division administers major bank supervisory systems used by examining staff and develops management information reports and analyses on bank supervision-related matters. Analysts are assigned to administer the Examiner View application, which assists bank examiners in preparing for and conducting examinations of financial institutions, and electronically stores examination reports, working papers, and financial and supervisory information. The division also supports other major supervisory systems and many automated tools and models used by examiners in their daily examination processes. This includes a new ad hoc query tool, the Financial Institution Data Retrieval System (FINDRS), to be launched in 2003. Other division analysts in headquarters and the districts produce and disseminate a myriad of reports, analyses, early warning screens and filters used to assist in risk identification as well as assess bank supervision operations and resource usage.

The Special Projects and Programs division administers various programs that support bank supervision functions, including the uniform commission examination (UCE) program, the national bank examination services (NBES) contract program, and the international examinations program. During 2002, the UCE program tested 79 examiners on their readiness to be certified as a "commissioned" national bank examiner. The NBES contract program, which provides external experts to perform bank examination-related tasks on a contractual basis, was expanded to increase the number of highly skilled contractors in the areas of general bank examination, credit analysis, compliance, and bank information technology. The international examinations program provided support to approximately 55 examiners participating in 37 overseas examinations in 14 countries. The division also coordinates various ongoing and special projects to support the mid-size/community and large bank populations. Projects in 2002 included coordinating the review of new and revised policies and procedures, coordinating the midsize/community bank department's budget activities, and supporting the implementation of the OCC's budget reporting and tracking system.

During 2002, Mid-Size Policy Coordination oversaw quality assurance efforts in community banks, coordinated the review of policy issuances, and participated on various special projects.

Special Supervision/Fraud Department

The Special Supervision/Fraud division consists of problem bank and fraud specialists. The problem bank specialists supervise those national banks in critical condition, monitor failing banks, coordinate bank closings, and help determine OCC policy for the examination and enforcement of problem banks. Fraud specialists are located in each district and are also assigned to Large Banks. An external fraud specialist is also assigned to headquarters. They provide support and expertise on a wide variety of fraud-related issues.

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

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

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

Mid-Size and Credit Card Bank Supervision Department

The Mid-Size and Credit Card Bank Supervision department was established at the end of 2002. Supervisory responsibility for these two groups of banks had previously been divided among the six districts, based on their geographic location. The department is headed by a deputy comptroller, who is supported by two assistant deputy comptrollers for Mid-Size Banks and two assistant deputy comptrollers for Credit Card Banks.

At year-end 2002, the Mid-Size banking program consisted of 25 bank holding companies and their 73 subsidiary national banks with assets totaling $210 billion. Each mid-size banking company is assigned to a senior examiner, who develops and implements a supervisory strategy, including the annual full-scope examination process, as well as specialty and targeted examination activities in each company's national banks. Having one examiner assigned overall responsibility for continuous supervisory oversight of the company promotes ongoing communication with bank management, thereby enhancing the OCC's ability to promptly identify and address emerging issues and risks.

The Credit Card bank group includes 25 national banks that generally limit their business to the issuance of unsecured revolving lines of credit and related activities such as securitization and servicing of receivables. Their aggregate assets total approximately $5–6 billion. In recognition of the unique risks associated with this business line, a team of examiners with extensive retail credit experience is assigned supervise this group of banks on a full-time basis.

International and Economic Affairs Department

The Senior Deputy Comptroller for International and Economic Affairs is responsible for managing the agency's economic research and analysis program; providing expert advice to examiners in the assessment of banks' risk measurement methods; providing model development and support for bank supervision work; providing policy advice based on economic analysis and research on the risks in the banking industry; maintaining and developing capital regulations and interpretations; assessing international banking risks; and formulating policies and procedures for the supervision and examination of federal branches and agencies of foreign banks. The Senior Deputy Comptroller is responsible for coordinating OCC participation on the Basel Committee on Banking Supervision. These activities are carried out through the International Banking and Finance, Financial Analysis, Capital Policy, Risk Analysis, and Policy Analysis divisions.

Global Banking and Financial Analysis Department

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

International Banking and Finance Division

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

IB&F supports OCC examiners and other staff engaged in domestic and international supervisory activities, as well as assists in the development and implementation of OCC banking supervisory and regulatory policies and procedures. IB&F completed an International Risk Identification Model in 2002 to assist examiners monitor international exposures and risk rank countries.

IB&F coordinates the Federal Branch program and OCC's participation on international working groups including the Basel Committee on Banking Supervision and the Joint Forum on Financial Conglomerates. The department also provides technical support to the Treasury Department on the G–7 summit process. IB&F coordinated OCC's participation on the Basel Electronic Banking Group and in 2002 this group issued sound practices guidance on cross-border E-Banking.

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

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

The IB&F staff acts as the secretariat to the OCC committee that considers requests from around the world to provide technical assistance including visits and training sessions, as well as, OCC staff participation on technical assistance missions in foreign countries.

Financial Analysis Division

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

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

The division provides economic, financial, and banking analysis to the assistant deputy comptrollers for community and midsize banks and the Large Bank EICs. The division produces regular reports on macroeconomic and regional economic trends, and reports on commercial real estate for use by examiners and national risk and national credit committees. The division staff provides extensive support to bank outreach meetings and to the special needs of the district and large bank staffs. The division is directly responsible for special in-depth industry studies in sectors with high bank-loan concentration and signs of weakness.

Capital Policy Division

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

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

In 2002, Capital Policy coordinated the OCC's contribution to the continuing efforts to revise the 1988 Basel Capital Accord and implemented changes in the OCC's risk-based capital regulations in coordination with the other banking agencies. The division also provided guidance and interpretations to examiners, banks, and the financial community with respect to innovative Tier 1 instruments, credit derivatives, securitizations and recourse issues, subprime and payday lending, and other risk-based capital issues.

The comprehensive revision of the 1988 Basel Capital Accord, the foundation for minimum capital requirements for international banks, is a global effort to align capital requirements more closely to credit, market, and operational risks. Capital Policy staff chaired or participated in several of the Basel Committee's capital working groups and task forces. In the second half of 2002, CAP provided staff support for the Quantitative Impact Study (QIS3) and significantly expanded the focus on domestic implementation of the pending Basel revisions.

The division was instrumental in finalizing two proposed interagency changes to the risk-based capital regulations. A final rule for non-financial equity investments published in January 2002 and a final rule on risk weights for securities firms was published in April 2002.

The OCC and the other banking agencies jointly issued several significant risk-based capital interpretations dealing with asset securitizations in May 2002. These issuances provided guidance and interpretations on implicit recourse, the new recourse and residual rule, and accrued interest receivable assets.

Policy Analysis Division

The Policy Analysis division conducts analysis and research that contribute to the development of OCC policy positions and to the understanding of the impact of policies on the performance of the banking industry.

The Policy Analysis Division work includes short-term analyses and longer-term research projects of public policy issues related to banking. The division prepared research papers, memorandum and briefing documents on the impact of technology on bank performance; the impact of predatory lending laws on credit availability, access to financial services by lower-income households, regulatory structure; deposit insurance reform; regulatory consolidation; and bank structure and charter choice. The division also provides statistical services to departments throughout the OCC, including survey design, sample selecting and data analysis. The Division supports the testimony process; prepares economic analyses of the effect of regulations on banks and other private sector entities; and analyzes and monitors OCC's Risk Analysis program. It also made contributions to the OCC's efforts to revise its assessment schedule and improve its forecasts of assessment revenue and continued work on alternative solutions to the inherent flaws in the current system for the funding of bank supervision.

Risk Analysis Division

The Risk Analysis division provides applied, sophisticated knowledge of quantitative economic modeling to bank examiners and policymakers in the OCC. The economists in the division provide direct support to examiners and policymakers on risk modeling, decision modeling, and modeling to detect compliance with fair lending laws. The outlet for this support is direct participation in exams, the construction of models and tools for use by examiners, consultation with examiners and policymakers, educational outreach and training of examiners, and written materials for use by examiners and policymakers. The provision of expertise by the division requires the pursuit of a research agenda that maintains and improves knowledge and skill in modeling. In 2002, the department spent a significant amount of time working on the Internal Ratings Based approach to be used under the proposed Basel Capital revision. The division comprises three units: Market Risk Modeling, Credit Risk Modeling, and Financial Access and Compliance.

Market Risk Modeling

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

Credit Risk Modeling

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

Financial Access and Compliance

The Financial Access and Compliance unit provides specialized technical and analytical expertise in economics and statistics to assist the OCC in identification, characterization, and analysis of fair lending compliance risk in the national banking system. Economists are assigned to OCC examination teams to assist with evaluating banks' compliance with fair lending rules. The unit also conducts research to refine the statistical techniques and analysis used to support OCC examinations and to address OCC policy questions related to access to financial services.

Office of Management and Chief Financial Officer

Workforce Effectiveness Department

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

Significant undertakings and accomplishments during 2002 included:

- In late 2001, the Comptroller announced OCC's inaugural Strategic Plan for Active Recruitment, Retention, and Career Development (SPARC). During 2002, the Employment and Diversity division played a key role in implementing SPARC. The division was instrumental in rolling out several initiatives including providing diversity awareness training to all managers; supporting the establishment of a new affinity group, the Hispanic Organization for Leadership and Advancement (HOLA); developing a strategic recruitment plan for entry-level bank examiners; piloting a mentoring program; and analyzing and presenting diversity data.

- Workforce Effectiveness provided resources to support the announcement by the Comptroller of the district-restructuring plan in September 2002. WFE staff members continue to engage in numerous activities such as serving on the district restructuring subcommittee and implementation team, managing preview trips and the relocation program for affected employees, arranging career transition assistance, developing a program to ensure that OCC employees are supported in making the personal decisions they must make relative to the restructure, responding to inquiries and providing on-going advice to managers and employees, analyzing employee preferences, planning and managing the buyout program, and conducting training.

- Resources were devoted to evaluating OCC's compensation and performance management programs. Compensation and Benefits and Employment Policy staff members assisted in planning and conducting focus groups with managers and employees throughout the organization for the purpose of receiving feedback on the programs. As a result, WFE recommended several modifications to the programs and staff members took steps to implement those approved by the Executive Committee. Compensation and Benefits continued to ensure comparability of OCC pay and benefits with the FIRREA community through the administration of the annual salary survey.

- The Employment Policy and Program Integrity division was instrumental in implementing enhancements to OCC's work-life programs. This included a new maxiflex program, which gives increased flexibility in scheduling work and allows for the accumulation of credit hours, and the creation of a leave bank. Responsibilities included writing updated policies and procedures; providing briefings to managers on aspects of the program; responding to questions and answers via the work life bulletin board; and developing tools to track and monitor credit hours.

- WFE, in collaboration with Continuing Education, prepared and presented to the Executive Committee a "State of Workforce" report. This report analyzed workforce demographics, expertise, efficiency, performance incentives, indicators of satisfaction, diversity, and costs to uncover the significant trends that will affect OCC's workforce in the coming years. It will serve as the foundation to develop a long-term human capital plan.

- In late 2002, OCC employees voted in favor of being represented by the National Treasury Employees Union. WFE began developing a labor relations program. Early steps included issuing guidance to managers and providing them with introductory labor relations training.

Financial Management Department

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

During 2002 Financial Management accomplished the following:

- Operated $MART, a Joint Financial Management Improvement Program–compliant financial management and acquisitions management information system, for fiscal year 2002 beginning on October 1, 2001. Post-implementation production support included refining the design and controls for all automated interfaces and continued customer training.

- Enhanced the $MART Executive Desktop to provide OCC executives and managers with online accurate, timely and reliable financial and staffing information and posting a system-wide summary of the Monthly Financial Status Report for all employees following the presentation to the executive committee.

- Re-engineered the planning, budgeting, and program evaluation processes into an integrated program for the development of OCC's FY2003 budget.

- Formalized the process of tracking all necessary steps that need to be performed to meet the Secretary of the Treasury's three-day close goal. OCC was one of the earliest Treasury bureaus to meet the three-day close target.

- Implemented a nationwide audit program of randomly sampled documents for both travel reimbursement and time and attendance entry to enhance internal controls.

- Performed financial management ongoing operations in an efficient, accurate, and effective manner in compliance with federal, Treasury, and OCC requirements, resulting in an unqualified audit opinion with no material weaknesses for fiscal year 2002.

Management Services Department

The Management Services department provides a wide range of administrative services essential to the OCC. These include acquisition management; real estate management (leasing design, and construction); facilities management and security; informational services and management systems; supply and warehousing; conference planning; mail and messenger services; and records and forms management. Management Services also coordinates the OCC's program of partnerships with high school academies of finance across the country and runs the headquarters school volunteer program.

In 2002, Management Services focused on developing a comprehensive emergency management program to ensure the safety of OCC employees and the continuation of the OCC's critical functions in the event of an emergency or disaster affecting the normal operations of the bureau. A key component of the program was the development and implementation of a Continuity of Operations Plan (COOP), which earned laudatory comments from the Treasury Department and other external reviewers. The National Archives and Records Administration also gave special recognition to OCC for its outstanding Vital Records Program, another key component of emergency management.

During 2002, Management Services' significant undertakings and accomplishments include:

- The Security Services staff provided continuous support to the OCC's Contingency Planning Oversight Committee (CPOC) in developing and implementing the OCC's Continuity of Operations Plan (COOP). Multiple communications tools were established for managers and employees to use in case of emergency; alternate operating facilities were identified and equipped; templates were developed for senior deputy comptrollers to document critical functions, decisions and resources during emergencies; COOP awareness training was provided for all managers and employees; and the Security Services staff provided on-going assistance to other agencies in developing their COOP plans.

- Records Management staff, provided training to numerous federal agencies on vital records programs, at the request of the National Archives and Records Administration. The Archives recognized OCC's outstanding vital records program and its assistance to the federal community by giving OCC the award for the outstanding federal records program at the Archives' annual meeting in Washington, DC.

- Real Estate and Capital Assets has begun implementation of the recommended policies and procedures of the Real Estate Strategic Study that was completed in 2001. The OCC developed a 15-year strategic plan of the OCC's real estate portfolio and realized a savings of $1.75 million on leases negotiated in the 2002 fiscal year.

- In addition to overseeing the modernization and integration of the OCC's internal management systems, the Informational Services and Management Systems (IS&MS) unit led the effort to improve the Office of Management's stewardship of sensitive information. The OM Data Security Group developed guidance for OM employees and performed follow-up to ensure that requirements are well understood.

- The asset management module of $MART, the OCC's integrated management system, was brought on line in August 2002. The module helps OCC manage its real and personal property and creates an electronic record of OCC assets from the time of acquisition through disposal. The module will also enable OCC to standardize its physical inventory policies and procedures.

- The Real Estate and Capital Assets division completed the leasing, planning, design and construction for new field offices in Boston, MA, Charleston, WV, Cincinnati, OH, Miami, FL, St. Louis, MO, and Dallas, TX. Renovation services were also provided to several field offices and two district offices. The relocation of the Washington, DC, field office into Independence Square resulted in significant savings for the OCC.

- In support of the OCC's district restructuring initiative, space was obtained in Denver for the new Western District Office and plans were made for expanding space in the Southern District Office in Dallas and renovating space in the Central District Office in Chicago.

- Informational Services and Management Systems' library staff provided comprehensive library services to OCC employees. In addition to responding to 15 percent more requests than in the previous year, library staff answered reference requests in less than 24 hours 98 percent of the time, thus saving agency staff valuable time in obtaining critical research and information. The library also reduced OCC costs by reducing its print subscription outlays by 10 percent.

- Records Management launched a records management audit program, linked to the agency's management accountability effort. The audit program will help ensure that OCC programs comply with OCC and federal records policies and procedures. It is an important addition to the OCC's tools for internal control of critical documents and information.

- Management Services continued to focus on controlling costs. The Acquisition Management division saved more than $1.6 million this year on procurements valued at a little over $34 million. The savings were achieved through a combination of negotiations and effective use of competition.

- In March, 2002, Treasury formally recognized the OCC's leadership in the implementation of the Central Contractor Registration System (CCR) and CitiDirect. The CCR automatically provides the information necessary for vendors to be paid electronically and to file payment information for income tax reporting. CitiDirect is the automated system for reconciling and closing purchase card statements. The OCC was the first bureau to implement these systems and the first agency government wide to develop an electronic interface with the CCR and the Financial and Acquisition systems.

- Management Services units continued to enhance customer service by meeting or exceeding 90 percent of its customer service standards.

Continuing Education Department

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

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

The Training Operations team, headed by the division director, is responsible for identifying training courses and tools that meet employees' training needs. The team includes all district training officers and their staff, the Washington office and large bank training officers, and a management analyst. The training officers serve as primary contact for their serviced employees. They provide advice and counsel on available training courses, both internal and external; manage the internal and external course registration process; and communicate training policies and procedures to their customers. The Training Operations team also manages the Career

Development Initiative, a program that encourages support staff to pursue training, education, and developmental assignments that can help them advance in their careers. In addition, Training Operations manages the budget and acquisition process for all of CE.

Continuing Education manages the Opportunities Board and the Resource Alternatives group. The Opportunities Board is an agency-wide bulletin board used to solicit nominations for special projects and rotational assignments. This forum is designed to promote awareness of and access to developmental opportunities for all OCC employees. The Resource Alternatives group provides expertise for OCC initiatives and projects.

Accomplishments for 2002 include increased use of technology in the delivery and evaluation of training to OCC employees; replaced the old training administrations system; established the benchmark for OCC training curriculum design; and implemented quality assurance and customer service measures in all CE functions.

Chief of Staff and Public Affairs Department

Along with his duties in direct support of the Comptroller, the chief of staff is responsible for overseeing the Web Content unit, Program and Management Accountability division, and the Workplace Fairness and Alternative Resolutions division.

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

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

Web Content Unit

The chief of staff established the Web Content unit in 2002 to be the focal point for the content development and management of the agency's Web sites, including the Internet site, National BankNet extranet site for national banks, and the OCCnet intranet site for agency employees. The unit interprets Web content policy, plans strategies for Web expansion, and monitors Web quality and branding.

Program and Management Accountability Division

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

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

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

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

Quality Management

- Ensure that management officials establish and maintain a set of product quality controls, management controls, and performance measures.

- Encourage organizational performance excellence through a regular program of quality management reviews, lesson learned reviews, and other continuous improvement activities and studies, as directed by the Comptroller.

Program Analysis

- Ensure OCC programs align with its strategic interests and priorities by analyzing OCC's budget and providing input into the strategic planning process.

- Evaluate the efficiency and effectiveness of programs and recommend alternatives or solutions.

OIG/GAO Liaison

- Serve as the liaison with the Department of the Treasury Office of the Inspector General (OIG) and the U.S. General Accounting Office (GAO).

- Provides authoritative and technical advice to senior management and OCC staff on audits and investigations.

Workplace Fairness and Alternative Resolutions Division

The Workplace Fairness and Alternative Resolutions (WFAR) director advises the Comptroller and executive committee members on overall EEO (equal employment opportunity) program objectives and plans. The WFAR division is responsible for assisting the Comptroller and the executive committee in establishing a workplace environment that capitalizes on fairness and encourages every employee to work towards her or his maximum potential. The WFAR manages four primary EEO components including (1) EEO/workplace fairness; (2) fair alternatives and innovative resolutions (FAIR) services; (3) EEO training and education; and (4) complaint management.

During fiscal year 2002, the WFAR division established some major program objectives, which were vital in forming a solid formation for EEO programs in the future. The WFAR director embarked on a marketing campaign, which promoted the new concept of workplace fairness and FAIR Services to OCC employees. Briefings to headquarters and district/field managers and employees on workplace fairness and FAIR Services were completed. The WFAR division distributed written information through articles, e-mails, brochures, pamphlets, open houses, and celebrations. The information communicated to employees through these various forums emphasized the importance of treating each other with respect, dignity, and removing barriers to equal opportunity.

EEO/Workplace Fairness

Major accomplishments included promoting a new EEO concept focusing on "workplace fairness" and the issuance a policy statement signed by the Comptroller encouraging managers and employees to support the new concept. WFAR continued to monitor and analyze the OCC's EEO program to ensure compliance with statutory, regulatory, and OCC policy requirements

FAIR (Fair Alternatives and Innovative Resolutions) Services

Another major program objective achieved was the launching of the FAIR services to address non-discrimination issues through alternative dispute resolution (ADR). The director, WFAR staff members, and the OCC's chief of staff conducted agency-wide briefings promoting the benefits of FAIR. Further, the WFAR division selected and trained OCC mediators to resolve EEO and workplace disputes.

EEO Training and Education

The division educated the workforce on how to use alternative dispute resolution (ADR) techniques to resolve workplace conflicts at the earliest stage, at the lowest possible level of management, and with the least cost in terms of time and money to the agency. The division is working closely with the Equal Employment Opportunity (EEO) Commission for the development of EEO training modules that will be implemented during the upcoming year.

Complaint Management

Through early preventive techniques, WFAR effectively reduced to the number of formal EEO complaints and increased the use of alternative dispute resolution (primarily mediation) to resolve EEO cases during the informal complaint stage. The WFAR director continued to provide quarterly status reports to the Comptroller, executive committee, and senior managers.

Public Affairs Department

Communications Division

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

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

Community Bank Activities Division

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

- Serving as a conduit and clearinghouse for information on community bank issues.
- Facilitating internal, multi-level sharing of information on community bank activities.
- Identifying and providing additional services that add value to nationally chartered community banks.

- Identifying and addressing opportunities to reduce regulatory burden for community banks. As appropriate, Community Bank Activities makes recommendations for regulatory and supervisory changes.

Executive Communications

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

Banking Relations

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

Among other activities, Banking Relations:

- Directs, coordinates, and monitors non-supervisory outreach events involving OCC headquarters or field staff. These events include participation in seminars, meetings, conventions, banker-specific education programs, and other outreach initiatives involving participants from the financial services industry, including support for annual banker association visits to Washington.

- Develops, directs, coordinates, or manages outreach materials and facilities including National BankNet (the OCC's extranet for national banks), and various audio-visual and text-based materials, such as the "Value of the National Bank Charter" outreach package.

- Coordinates and monitors requests for OCC participation in industry events such as seminars, meetings, conventions, and banker-specific education programs.

- Plans and organizes sessions that bring together OCC senior managers with industry and trade association leaders to discuss banking industry trends, emerging issues, and other matters of mutual concern. One major initiative in this area is the "Meet the Comptroller" roundtables sponsored by Banking Relations.

Press Relations Division

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

Information Technology Services and Chief Information Officer

In 2002, Information Technology Services (ITS) continued to partner with the OCC's other business units to offer new technology alternatives and strategic activities to improve and integrate internal processes in support of the agency's mission.

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

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

Chief Information Officer

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

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

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

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

2002 accomplishments include:

- *Computer security incident response*. As a result of an improved anti-virus program, improved intrusion detection capability and greater user awareness, there were no computer systems work interruptions in the agency because of malicious code or unauthorized access for all of fiscal year 2002. During fiscal year 2002, significant progress was made in overhauling and implementing a new three-tiered anti-virus program. Desktops, laptops, and file and print servers are now protected by Norton Anti-Virus.

- *Government Information Security Reform Act (GISRA) compliance and reporting*. All necessary reporting and compliance for GISRA for fiscal year 2002 to the Treasury Department CIO and OIG was completed fully and on time.

- *OCC Enterprise-Wide Information Security Program*. At the end of fiscal year 2002, a plan for implementing an OCC Enterprise-Wide Information Security Program was approved. A key element of the program is the naming of an information security administrator by each executive committee member to represent and act for them on matters of information security.

- *Security plans*. During fiscal year 2002 the Information Security staff completed security plans for all of OCC's major systems. There are three general support systems and nine major applications. The security plans included a technical certification statement and management accreditation statement for authorization to process.

- *Risk Assessment Program*. The Information Security staff developed a Risk Assessment Program for OCC's major systems to comply with OMB Circular A–130 and GISRA. Risk assessments were completed in fiscal year 2002 for the three general support systems. A statement of work for risk assessments for the nine major applications has been completed; those risk assessments are expected to be completed by July 31, 2003.

- *Information Security Awareness and Training Program*. The Information Security staff developed a Web-based Information Security Awareness and Training Program. It is a self-paced and self-certification program. All OCC employees and contractors are required to complete the computer security awareness and training annually.

Customer Services Division

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

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

2002 accomplishments include:

- Upgraded all OCC personal computers in use to the Windows 2000 operating system.
- Recommended, tested, purchased, distributed, and maintained OCC desktop hardware and software and installed over 300 new Dell Desktop PCs.
- Negotiated and completed the purchase of 317 new desktop and 1,363 new laptop PCs to replace the OCC's exiting D300 desktop and CP/CPia laptops.
- Migrated to a new OCC-Wide Asset Management System.
- Performed over 200 office visits in 2002 during which customer service representatives covered topics ranging from introductory training on new products to obtaining feedback on new and emerging technologies. These visits also included addressing technology questions and addressing identified issues.
- Resolved over 38,000 IT issues for OCC staff. This is an average of 11 IT issues resolved for every OCC employee in 2002. Each customer service representative is responsible for approximately 60 OCC customers.

Information Services Division

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

The technical achievements of the IS division are a broad-based collection of systems, spanning multiple platforms and utilizing numerous technologies.

2002 accomplishments include:

- *Application development*. Infrastructure Development server administration was brought under the control of the Research and Desktop team within IS. The initiative commenced in 2001, but continued into fiscal year 2002. It was designed to standardize and facilitate activities in the development environment, while insulating the rest of OCC's server network.

- *IS Web Developer Training Program*. This program was established this year as a "roadmap" to provide structure and direction to IS staff interested in pursuing training and developmental assignments using Web and ".NET" technologies.

- *".NET" pilot projects*. .NET technology was identified as the development technology of the future for the division. As a result, several .NET projects were undertaken during this period to identify best practices and provide benchmarks.

- *OCC agency repository.* A full-featured, Web-based agency repository that meets operational data store (ODS) data management, documentation, and reporting needs was developed during this period. The agency repository provides for tracking information about data and relationships between objects of interest to OCC.

- *Operational Data Store Initiative*. The bank structure and supervision components of an operational data store (ODS) were designed and deployed according to a project plan approved by the Data Advisory Board in November of 2001. This project developed and deployed an ODS for virtually all bank structure and supervision data of interest to application users and analysts.

- *Section 508*. A Section 508 Working Group was created to identify technologies and develop procedures for meeting the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended.

- *VISTA (Vision Strategies Technologies Array)*. The IS strategic planning program continued to expand its influence over the strategic direction of the division. IS team leaders and staff developed documents describing new strategies and technologies. The technology utilization matrix (TUM), which identifies all of the tools in the current IS technology portfolio, was piloted as part of the OCC repository initiative. Product evaluation documents (PEDs) were developed by IS staff to further define the technology baseline and provide a point of reference for future technology adoption decisions.

Network Services Division

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

2002 accomplishments include:

- *Windows 2000*. The Windows 2000 project was a two-year effort that modernized personal computer software for all OCC employees, improved workstation security, and revamped remote access services with a single-sign-on solution.

- *OCC electronic mail system*. Network Operations completed a major upgrade of the OCC electronic mail system from Exchange 5.5 to Exchange 2000. Implementation of Exchange 2000 has major benefits: it utilizes multiple message databases for faster recovery time and better performance; it has a store-and-forward capability to reduce lost/bounced messages; it implements a single unified directory (Active Directory) to simplify management of user registration; and it supports enhanced Outlook Web Access. This new Web front-end will make Webmail function almost like Outlook.

- *Remote access*. In coordination with the Windows 2000 project, Network Services implemented a new, single-sign-on dial-in solution that allows employees to use their Windows 2000 password for dial-in authentication.

- IT Resumption Plan Network Services completed several important initiatives to improve the ability of IT and OCC to continue performing critical functions during an emergency:

    - Expanded the IT Recovery Plan to address a Washington, DC, regional disaster scenario.

    - Deployed over 300 Government Emergency Telecommunications Service (GETS) cards to key personnel and managers.

    - Worked with MCI and Public Affairs to establish a toll-free emergency access number to be used by employees to gain information during an emergency.

    - Completed five disaster recovery tests including recovery of the mainframe, NT server recovery, Exchange/electronic mail recovery, recovery of a field office server, and recovery of a district office/headquarters server.

Other Infrastructure Upgrades and Improvements

- Completed a major upgrade to the data center electrical system. The upgrade involved installation of a new uninterruptible power supply (UPS), replacement of 186 batteries, and installation of a fourth power distribution unit (PDU).

- Upgraded 22 data circuits from fractional T–1 (256kb) to full T–1 (1.5mb) speeds. The upgrades were implemented to improve network performance for large offices that were experiencing congestion on the slower lines.

- Moved three additional SQL (structured query language) servers to the storage area network (SAN). The use of the SAN in lieu of individual servers has simplified server administration and improved input/output (I/O) performance by over 100 percent.

- Upgraded DB2 (a relational database management software) to release 7 to assure the continued viability of the mainframe platform. The implementation was completed three weeks early and with no impact to users or developers.

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

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

Gallery of Comptrollers—140 Years

Hugh McCulloch

First Comptroller of the Currency, 1863–1865

Hugh McCulloch, president of the State Bank of Indiana, was appointed the first Comptroller of the Currency by President Lincoln. McCulloch, once a foe of national banking legislation, organized the agency and launched the national banking system. During McCulloch's 22 months in office, 868 national banks were chartered and no failures occurred. The first Comptroller recommended major changes in the banking law. The resulting National Banking Act of 1864 remains the foundation of the national banking system. McCulloch resigned to become Lincoln's Secretary of Treasury. He also served as Secretary of Treasury under President Arthur.

Freeman Clarke

Comptroller of the Currency, 1865–1866

Freeman Clarke, a successful businessman and one-term congressman from New York, was appointed Comptroller by President Lincoln. During his 16-month tenure, the national banking system continued its steady growth, with over 1,000 banks joining. The system also recorded its first bank failure on April 14, 1865, the day President Lincoln was assassinated. Clarke returned to New York politics after his resignation and later served two terms in Congress.

Hiland R. Hulburd

Comptroller of the Currency, 1867–1872

A member of the bar from Ohio, Hiland R. Hulburd was appointed deputy comptroller in August 1865. President Andrew Johnson appointed him Comptroller 18 months later. With Hulburd's support, legislation was enacted which allowed Comptrollers to call for reports of condition from the national banks at least five times a year without warning. The element of surprise greatly enhanced the reliability of the call reports. After his term as Comptroller, Hulburd pursued interests in the oil industry.

John Jay Knox

Comptroller of the Currency, 1872–1884

John Jay Knox, a banker and Treasury Department official, served as deputy comptroller for five years before being appointed Comptroller by President Grant. During his 12-year term, the use of "national" in the title of any banking institution other than a national bank was prohibited, and the corporate existence of national banks was extended, so that banks could operate for an additional 20 years without being rechartered. Knox's term was marked by the short but acute panic of 1873. He resigned to accept the presidency of a national bank in New York City.

Henry W. Cannon

Comptroller of the Currency, 1884–1886

Henry W. Cannon, a Minnesota banker, was named Comptroller by President Arthur. After only a few months in office, he was confronted by the financial panic of 1884. A nationwide crisis was averted because the New York Clearing House Association quickly extended credit to threatened banks. After Grover Cleveland was elected President of the United States, Cannon resigned and joined the national bank where former Comptroller Knox served as president. Cannon was later elected president of the Chase National Bank of New York. He became chairman of the board in 1904, and was succeeded as president by A. Barton Hepburn, another former Comptroller of the Currency.

William L. Trenholm

Comptroller of the Currency, 1886–1889

William L. Trenholm, a Confederate Army veteran, was the first Democrat and first Southerner to be appointed Comptroller. Placed in office by President Cleveland, he was known for the large number of changes he recommended in the banking laws. Some, such as the provision that banks could change name and location without an act of Congress, were adopted. Other recommendations influenced later legislation, including the Federal Reserve Act of 1913. Trenholm resigned to become president of a large insurance company and later served as president of a trust company.

Edward S. Lacey

Comptroller of the Currency, 1889–1892

Edward S. Lacey had been a banker for 25 years and served two terms as a congressman from Michigan before being selected as Comptroller by President Benjamin Harrison. His term was marked by the "monetary stringency" of 1890, a crisis caused by a dramatic contraction of the money supply after a period of expansion. Although confidence was restored by the extension of credit by eastern clearing houses and the Treasury Department, the crisis foreshadowed the more serious panic of 1893. Lacey resigned to become president of a large national bank in Chicago that he had organized.

A. Barton Hepburn

Comptroller of the Currency, 1892–1893

Barton Hepburn served as Comptroller for less than a year. He came to office from a varied and distinguished career. Hepburn had been a professor of mathematics, lawyer, superintendent of banking of the state of New York, and five-term member of the New York State Assembly. He also served as national bank examiner for New York City for three years before being appointed Comptroller by President Benjamin Harrison. An internationally recognized authority on financial and economic questions, Hepburn returned to banking when President Cleveland took office. He later succeeded Henry W. Cannon as president of the Chase National Bank.

James H. Eckels

Comptroller of the Currency, 1893–1897

James H. Eckels' appointment broke the precedent that only those with previous banking experience could serve as Comptroller. Eckels, a 35-year-old lawyer, was named Comptroller by President Cleveland. He made up in perseverance and skill what he lacked in experience. A month after Eckels took office, the country plunged into a deep financial crisis, the panic of 1893. His tireless efforts to restore confidence in the national banking system played an important role in bringing back the economic health of the nation. Eckels became president of a national bank in Chicago in 1898.

Charles G. Dawes

Comptroller of the Currency, 1898–1901

Appointed by President McKinley, Charles G. Dawes was, at 33, the youngest Comptroller of the Currency. During his term, the amount of capital required to charter a bank in a town with a population under 3,000 was reduced, which resulted in a dramatic increase in the number of small banks. During World War I, Dawes coordinated the procurement of supplies for the American Army in Europe. He later served as vice president of the United States, ambassador to Great Britain, and director of the Reconstruction Finance Corporation. In 1925, he was awarded the Nobel Peace Prize for the Dawes Loan Plan to Germany.

William B. Ridgely

Comptroller of the Currency, 1901–1908

William B. Ridgely engaged in mining, manufacturing, and banking in Illinois before President Theodore Roosevelt named him Comptroller. During his term, Congress passed legislation extending the corporate existence of the national banks for the second time. Ridgely resigned as Comptroller to accept the presidency of a national bank in Missouri, which had failed the previous year and was reorganized under his leadership. In 1909 he returned to private business in the East.

Lawrence O. Murray

Comptroller of the Currency, 1908–1913

Attorney Lawrence O. Murray had extensive government service prior to his appointment as Comptroller by President Theodore Roosevelt. During Murray's tenure, the size of the national banking system prompted Congress to authorize appointment of a second deputy comptroller. In the interim before Murray's successor took office, the Federal Reserve Act was passed. The act created 12 Federal Reserve Districts, with the Comptroller designating a district chief national bank examiner for each district under whom a corps of examiners and assistants worked. Examiners were to be compensated by salary and expenses rather than fees levied on the banks they examined.

John S. Williams

Comptroller of the Currency, 1914–1921

John S. Williams was a leading southern financier. He was appointed Comptroller by President Wilson after serving as assistant secretary of the Treasury. Williams was Comptroller throughout World War I. Under his leadership, the agency worked closely with the War Finance Corporation, which was established in 1918 to provide credit to businesses, including banks, to promote the war effort. During William's term, legislation was passed allowing the consolidation of two or more banks.

Daniel R. Crissinger

Comptroller of the Currency, 1921–1923

Born in a log cabin in Ohio, Daniel R. Crissinger was a lawyer, banker, and longtime friend of President Harding before he was appointed Comptroller. Legislation enacted during Crissinger's incumbency provided for a third deputy comptroller, extended the charters of national banks for 99 years, and authorized the Comptroller to employ additional examiners and to establish a corps of examiners in Washington headquarters. In June 1922, there were over 8,000 national banks, the largest number in the history of the national banking system. Crissinger resigned to become chairman of the Federal Reserve Board.

Henry M. Dawes

Comptroller of the Currency, 1923–1924

Henry M. Dawes, younger brother of the 10th Comptroller, was an Illinois banker and businessman when President Harding named him Comptroller. Although he held office for only 19 months, Dawes carried out a nationwide effort to gather recommendations from national bank officials and other experts for changes in the banking laws. With the assistance of a volunteer committee of national bankers, Dawes drafted proposals that were submitted to Congress. The Dawes recommendations resulted in the McFadden Act, enacted under his successor. Dawes returned to the oil industry after his term.

Joseph W. McIntosh

Comptroller of the Currency, 1924–1928

Joseph W. McIntosh, appointed Comptroller by President Coolidge, was a banker who had served with distinction in World War I. The passage of the McFadden Act in 1927 brought major changes to the national banking system. National banks could consolidate with state banks under certain conditions. They could establish branches under specified limitations, but only within the limits of the city or town of the parent bank. National bank charters became perpetual unless terminated by voluntary liquidation or receivership. McIntosh became a banker and businessman after his term as Comptroller.

John W. Pole

Comptroller of the Currency, 1928–1932

John W. Pole was a native of England. He was appointed a national bank examiner in 1915 and subsequently chief examiner for the Sixth Federal Reserve District. Pole was serving a chief national bank examiner of the United States when President Coolidge appointed him Comptroller. His administration witnessed the financial boom that led up to 1929 and the crash that followed. Pole advocated allowing more liberal branch banking to reduce the number of small, weak banks and as an alternative to the formulation of holding companies that were being organized on a large scale. Pole resigned to enter private business.

J.F.T. O'Connor

Comptroller of the Currency, 1933–1938

J.F.T. O'Connor, an attorney, was appointed Comptroller by President Franklin Roosevelt during the worst financial crisis in U.S. history. To O'Connor fell the tremendous task of disposing of the assets of national banks that were not allowed to reopen after the banking holiday and terminating receiverships of national banks. During his tenure, the Federal Deposit Insurance Corporation was established. Beginning in 1935, national bank notes were withdrawn from circulation. O'Connor was appointed a U.S. district judge in 1940.

Preston Delano

Comptroller of the Currency, 1938–1953

Preston Delano held office for 14 years, the longest term of any Comptroller. Delano was a businessman and investment counselor and was serving as governor of the Home Loan Bank Board when he was appointed Comptroller by President Franklin Roosevelt. He was responsible for preserving and stabilizing the national banks during wartime, when there was a vast increase in the volume of money needed for war expenditures and government debt rose substantially. Delano entered retirement after his resignation.

Ray M. Gidney

Comptroller of the Currency, 1953–1961

Ray M. Gidney was named Comptroller by President Eisenhower after a long and distinguished career in banking. He served as president of the Federal Reserve Bank of Cleveland prior to his appointment. Gidney was known for the quiet and competent manner in which he ran the Office of the Comptroller of the Currency. He resigned to accept a position with a large bank in Jacksonville, Florida.

James J. Saxon

Comptroller of the Currency, 1961–1966

James J. Saxon, a former Treasury Department official with legal and banking experience, was appointed by President Kennedy. In his first years as Comptroller, Saxon substantially changed the agency by expanding its legal and economic fs, undertaking a program to expand bank powers, and welcoming new banks and branches into the national banking system in contrast to the more restrictive practices of his immediate predecessors. Saxon created a system of regional comptrollers, each of whom exercised significant authority and autonomy. After his resignation, he returned to the practice of law.

William B. Camp

Comptroller of the Currency, 1966–1973

William B. Camp, a career national bank examiner, was appointed Comptroller by President Lyndon Johnson. During his term, a rapidly growing economy led to a dramatic increase in the assets held by national banks. The agency's remaining responsibility in the issue of currency—redeeming Federal Reserve notes—was transferred to the Treasurer of the United States. Camp is unique among Comptrollers: he was nominated by a president from one political party and renominated by a president, Richard Nixon, from another.

James E. Smith

Comptroller of the Currency, 1973–1976

James E. Smith was deputy under secretary of the Treasury before being named Comptroller by President Nixon. The explosive growth of banking in the 1960s and 1970s was changing the face of banking. In response, Smith led a review of the agency's examination practices, which changed the way the agency did business: more emphasis was placed on assessment of a bank's own policies, procedures, decisionmaking, and management information system, and the importance of training and career development for national bank examiners was recognized. After his resignation, Smith became a financial consultant.

John G. Heimann

Comptroller of the Currency, 1977–1981

John G. Heimann, an investment banker and former New York state supervisor of banking and commissioner of housing and community development, was appointed by President Carter. During his term he also served as first chairman of the Federal Financial Institutions Examination Council and acting chairman of the Federal Deposit Insurance Corporation. Heimann was an active participant in the reform effort that lifted the limits on, and differentials between, the interest rates that different types of financial institutions could pay to attract deposits. He returned to investment banking in 1981.

C. Todd Conover

Comptroller of the Currency, 1981–1985

C. Todd Conover, a California banking and management consultant, was named Comptroller by President Reagan. He presided over the agency during a period of dramatic change in financial services as deregulation increased competition and the services offered by banks. Under his guidance, national banks began to offer discount brokerage services and investment advice and underwrite certain kinds of insurance. Conover reduced the number of regional offices to six, increasing their staffs and authority. After his resignation, he returned to his bank consulting practice.

Robert L. Clarke

Comptroller of the Currency, 1985–1992

Robert L. Clarke, a Texas banking attorney, was named Comptroller by President Reagan. His tenure coincided with an era of extraordinary turbulence in financial institutions and the financial marketplace in the United States. Under Clarke, the agency strengthened its managerial and supervisory capabilities to deal with changes and stresses in the national banking system. Clarke led the effort to expand the national bank powers in order to better meet the competition from nonbank providers of financial services. His leadership helped to reduce the costs of bank failures and to restore the safety and soundness of the national banking system. He returned to the practice of law after his term as Comptroller.

Eugene A. Ludwig

Comptroller of the Currency, 1993–1998

President Bill Clinton selected Eugene A. Ludwig to become 27th Comptroller of the Currency in 1993. Before becoming Comptroller, Ludwig was an attorney in ashington, DC, specializing in intellectual property law, banking, and international As Comptroller, Ludwig led the agency through a period of substantial change, both within the financial marketplace as well as in the supervisory and examination practices of the agency. He improved safety and soundness supervision through adoption of supervision by risk—an approach that has been emulated by virtually every other supervisory agency in the U.S. and abroad. He spearheaded the Clinton Administration's efforts to modernize the banking industry by allowing banks to engage in a wide variety of new activities and to operate under a less burdensome set of rules and regulations. And he led the government's efforts to reform the Community Reinvestment Act and more vigorously enforce the fair lending laws. Ludwig's activities led to a tremendous increase in lending to—and investment in—America's low- and moderate-income communities. After his term as Comptroller, Ludwig became a financial consultant.

John D. Hawke, Jr.

Comptroller of the Currency, 1998–present

John D. Hawke, Jr. was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving for 10 months under a recess appointment, he was sworn in for a full five-year term as Comptroller on October 13, 1999. The Comptroller of the Currency is the Administrator of National Banks. The Office of the Comptroller (OCC) supervises about 2,100 federally chartered commercial banks and about 51 federal branches and agencies of foreign banks in the United States comprising more than half of the assets of the commercial banking system. The Comptroller also serves as a director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Basel Committee on Banking Supervision.

Prior to his appointment as Comptroller, Hawke served for 3½ years as under secretary of the Treasury for Domestic Finance. In that capacity he oversaw the development of policy and legislation in the areas of financial institutions, debt management, and capital markets, and served as chairman of the Advanced Counterfeit Deterrence Steering Committee and as a member of the board of the Securities Investor Protection Corporation. Before joining Treasury, Hawke was a senior partner at the Washington, D.C., law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter he headed the Financial Institutions practice, and from 1987 to 1995 he served as chairman of the firm. In 1975 he left the firm to serve as general counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Hawke was graduated from Yale University in 1954 with a bachelor of arts degree 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*, Hawke was a law clerk for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962 he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987 Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation and serves as the chairman of the Board of Advisors of the Morin Center for Banking Law Studies at Boston University School of Law. In 1987 Hawke served as a member of a committee of inquiry appointed by the Chicago Mercantile Exchange to study the role of futures markets in connection with the stock market crash in October of that year.

Hawke has written extensively on matters relating to the regulation of financial institutions, and is the author of *Commentaries on Banking Regulation,* published in 1985. He was a founding member of the Shadow Financial Regulatory Committee, and served on the committee until joining Treasury in April 1995. Hawke is a member of the Cosmos Club, the Economic Club of Washington, and the Exchequer Club of Washington. Born in New York City on June 26, 1933, Hawke resides in Washington, DC. He was married in 1962 to the late Marie R. Hawke and has four adult children, Daniel, Caitlin, Anne, and Patrick, and two grandchildren, Spencer Patrick Hawke and Camerynn Marie Hawke.

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

No.	Name	Dates of tenure		State
1	Howard, Samuel T.	May 9, 1863	Aug. 1, 1865	New York
2	Hulburd, Hiland R.	Aug. 1, 1865	Jan. 31, 1867	Ohio
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S.	Aug. 8, 1872	Jan. 3, 1886	New York
5	Snyder, V.P.	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J.D.	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R.M.	Aug. 11, 1890	Mar. 16, 1893	Indiana
8	Tucker, Oliver P.	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9	Coffin, George M.	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10	Murray, Lawrence O.	Sept. 1, 1898	June 29, 1899	New York
11	Kane, Thomas P.	June 29, 1899	Mar. 2, 1923	District of Columbia
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana
13	McIntosh, Joseph W.	May 21, 1923	Dec. 19, 1924	Illinois
14	Collins, Charles W.	July 1, 1923	June 30, 1927	Illinois
15	Steams, E.W.	Jan. 6, 1925	Nov. 30, 1928	Virginia
16	Awalt, F.G.	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E.H.	July 6, 1927	Oct. 16, 1941	Indiana
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia
20	Prentiss, William, Jr.	Feb. 24, 1936	Jan. 15, 1938	Georgia
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas
22	Oppegard, G.J.	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C.B.	Oct. 1, 1938	Dec. 31, 1948	Iowa
24	Mulroney, A.J.	May 1, 1939	Aug. 31, 1941	Iowa
25	McCandless, R.B.	July 7, 1941	Mar. 1, 1951	Iowa
26	Sedlacek, L.H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska
27	Robertson, J.L.	Oct. 1, 1944	Feb. 17, 1952	Nebraska
28	Hudspeth, J.W.	Jan. 1, 1949	Aug. 31, 1950	Texas
29	Jennings, L.A.	Sept. 1, 1950	May 16, 1960	New York
30	Taylor, W.M.	Mar. 1, 1951	Apr. 1, 1962	Virginia
31	Garwood, G.W.	Feb. 18, 1952	Dec. 31, 1962	Colorado
32	Fleming, Chapman C.	Sept. 15, 1959	Aug. 31, 1962	Ohio
33	Haggard, Holis S.	May 16, 1960	Aug. 3, 1962	Missouri

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

34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas
35	Redman, Clarence B.	Aug. 4, 1962	Oct. 26, 1963	Connecticut
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio
37	Miller, Dean E.	Dec. 23, 1962	Oct. 22, 1990	Iowa
38	DeShazo, Thomas G.	Jan. 1, 1963	Mar. 3, 1978	Virginia
39	Egerston, R. Coleman	July 13, 1964	June 30, 1966	Iowa
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana
43	Motter, David C.	July 1, 1966	Sept. 20, 1981	Ohio
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi
45	Howland, W.A., Jr.	July 5, 1973	Mar. 27, 1978	Georgia
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas
54	Homan, Paul W.	Mar. 27, 1978	Jan. 21, 1983	Nebraska
55	Keefe, James T.	Mar. 27, 1978	Sept. 18, 1981	Massachusetts
56	Muckenfuss, Cantwell F., III	Mar. 27, 1978	Oct. 1, 1981	Alabama
57	Wood, Billy C.	Nov. 7, 1978	Jan. 16, 1988	Texas
58	Longbrake, William A.	Nov. 8, 1978	July 9, 1982	Wisconsin
59	Odom, Lewis G., Jr.	Mar. 21, 1979	Nov. 16, 1980	Alabama
60	Martin, William E.	May 22, 1979	Apr. 4, 1983	Texas
61	Barefoot, Jo Ann	July 13, 1979	Sept. 5, 1982	Connecticut
62	Downey, John	Aug. 10, 1980	Aug. 2, 1986	Massachusetts
63	Lord, Charles E.	Apr. 13, 1981	Mar. 31, 1982	Connecticut
64	Bench, Robert R.	Mar. 21, 1982	Sept. 25, 1987	Massachusetts
65	Klinzing, Robert R.	Mar. 21, 1982	Aug. 21, 1983	Connecticut
66	Robertson, William L.	Mar. 21, 1982	Sept. 26, 1986	Texas
67	Arnold, Doyle L.	May 2, 1982	May 12, 1984	California

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

68	Weiss, Steven J.	May 2, 1982	—	Pennsylvania
69	Stephens, Martha B.	June 1, 1982	Jan. 19, 1985	Georgia
70	Stirnweis, Craig M.	Sept. 19, 1982	May 1, 1986	Idaho
71	Hermann, Robert J.	Jan. 1, 1983	May 3, 1995	Illinois
72	Mancusi, Michael A.	Jan. 1, 1983	Feb. 17, 1986	Maryland
73	Marriott, Dean S.	Jan. 1, 1983	Jan. 3, 1997	Missouri
74	Poole, Clifton A., Jr.	Jan. 1, 1983	Oct. 3, 1994	North Carolina
75	Taylor, Thomas W.	Jan. 1, 1983	Jan. 16, 1990	Ohio
76	Boland, James E., Jr.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
77	Fisher, Jerry	Apr. 17, 1983	Apr. 4, 1992	Delaware
78	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
79	Wilson, Karen J.	July 17, 1983	July 3, 1997	New Jersey
80	Winstead, Bobby B.	Mar. 18, 1984	June 11, 1991	Texas
81	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
82	Walter, Judith A.	Apr. 24, 1985	Dec. 30, 1997	Indiana
83	Maguire, Francis E., Jr.	Jan. 9, 1986	Aug. 6, 1996	Virginia
84	Kraft, Peter C.	July 20, 1986	Sept. 15, 1991	California
85	Klinzing, Robert R.	Aug. 11, 1986	July 7, 1997	Connecticut
86	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
87	Norton, Gary W.	Sept. 3, 1986	Jan. 2, 1999	Missouri
88	Shepherd, J. Michael	Jan. 9, 1987	May 3, 1991	California
89	Rushton, Emory Wayne	Jan. 21, 1987	Sept. 20, 1989	Georgia
90	Fiechter, Jonathan	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
91	Stolte, William J.	Mar. 11, 1987	Mar. 21, 1992	New Jersey
92	Clock, Edwin H.	Feb. 29, 1988	Jan. 3, 1990	California
93	Krause, Susan F.	Mar. 30, 1988	Oct. 18, 1999	California
94	Coonley, Donald G.	June 29, 1988	May 31, 1996	Virginia
95	Blakely, Kevin M.	Oct. 12, 1988	Sept. 27, 1990	Illinois
96	Steinbrink, Stephen R.	Apr. 8, 1990	May 3, 1996	Nebraska
97	Lindhart, Ronald A.	Apr. 22, 1990	July 27, 1991	Florida
98	Hartzell, Jon K.	July 29, 1990	Dec. 5, 1995	California
99	Cross, Leonora S.	Nov. 4, 1990	Mar. 31, 1998	Utah
100	Finke, Fred D.	Nov. 4, 1990	—	Nebraska
101	Kamihachi, James D.	Nov. 6, 1990	Feb. 18, 2000	Washington

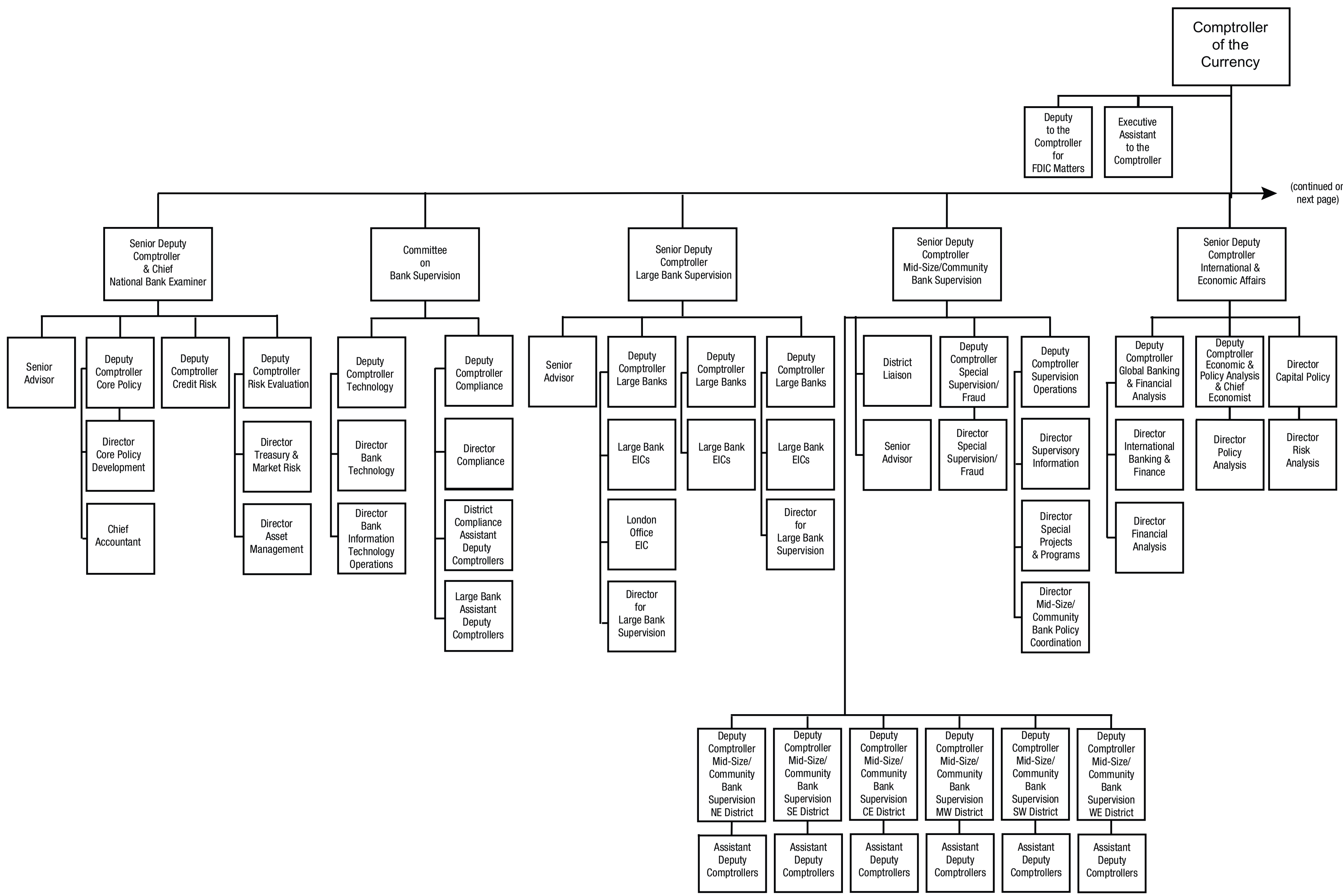
Table 2—Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present (continued)

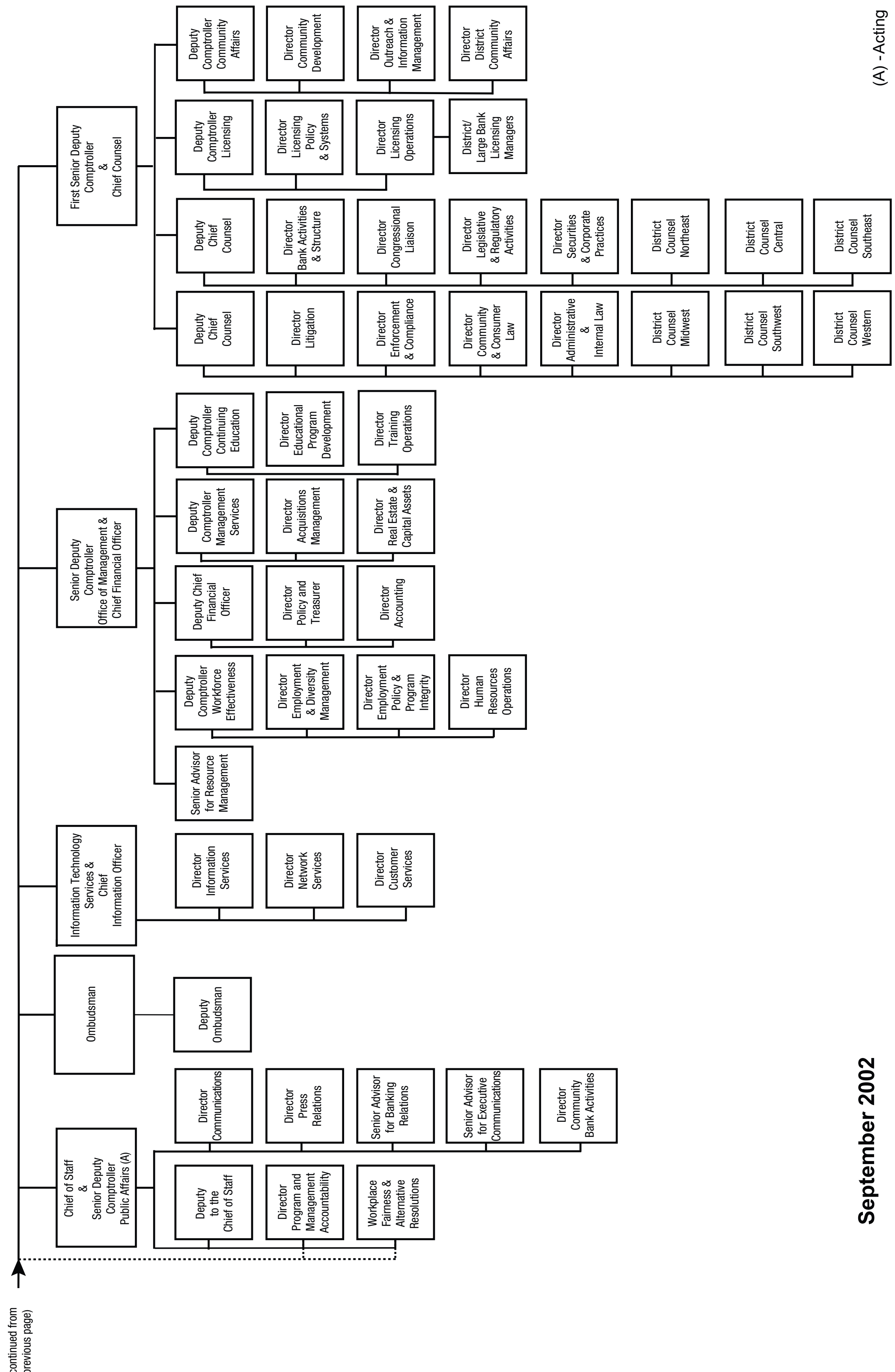
102	Barton, Jimmy F.	July 14, 1991	May 1, 1994	Texas
103	Cross, Stephen M.	July 28, 1991	June 4, 1999	Virginia
104	Guerrina, Allan B.	Apr. 19, 1992	June 23, 1996	Virginia
105	Powers, John R.	Aug. 9, 1992	July 2, 1994	Illinois
106	Alt, Konrad S.	Sept. 5, 1993	Oct. 4, 1996	California
107	Harris, Douglas E.	May 20, 1994	June 21, 1996	New York
108	Williams, Julie L.	July 24, 1994	—	District of Columbia
109	Bailey, Kevin J.	Oct. 30, 1994	—	Pennsylvania
110	Sharpe, Ralph E.	Oct. 30, 1994	July 6, 1997	Virginia
111	Jee, Delora Ng	May 28, 1995	—	California
112	Britton, Leann G.	Jan. 7, 1996	May 17, 2002	Minnesota
113	Golden, Samuel P.	Mar. 31, 1996	—	Texas
114	Abbott, John M.	Apr. 1, 1996	May 26, 2000	Texas
115	Healey, Barbara C.	June 9, 1996	Jan. 3, 1998	New Jersey
116	Calhoun, Scott G.	Sept. 29, 1996	Aug. 30, 1997	New York
117	Roberts, Matthew	Oct. 7, 1996	Oct. 18, 1997	District of Columbia
118	Nebhut, David H.	Oct. 27, 1996	Apr. 26, 1998	Pennsylvania
119	Rushton, Emory Wayne	May 5, 1997	—	Georgia
120	Reid, Leonard F., Jr.	May 19, 1997	Feb. 15, 1998	District of Columbia
121	Robinson, John F.	June 1, 1997	June 14, 2002	Missouri
122	Bodnar, John A.	July 6, 1997	Jan. 3, 2002	New Jersey
123	Bransford, Archie L., Jr.	July 6, 1997	—	Michigan
124	Gibbons, David D.	July 6, 1997	—	New York
125	Gilland, Jerilyn	July 6, 1997	—	Texas
126	Jaedicke, Ann F.	July 6, 1997	—	Texas
127	Long, Timothy W.	July 6, 1997	—	North Dakota
128	Nishan, Mark A.	July 6, 1997	—	New York
129	Otto, Bert A.	July 6, 1997	—	Indiana
130	Roeder, Douglas W.	July 6, 1997	—	Indiana
131	Yohai, Steven M.	Feb. 17, 1998	Sept. 21, 2001	New York
132	Finister, William	Mar. 1, 1998	July 3, 2000	Louisiana
133	Hanley, Edward J.	Mar. 1, 1998	—	New York
134	Brosnan, Michael L.	Apr. 26, 1998	Aug. 24, 2002	Florida
135	Brown, Jeffrey A.	June 7, 1998	Aug. 2, 1998	Iowa

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

136	Hammaker, David G.	June 7, 1998	—	Pennsylvania
137	McCue, Mary M.	July 20, 1998	Apr. 9, 1999	New Jersey
138	Sharpe, Ralph E.	Jan. 3, 1999	—	Michigan
139	Engel, Jeanne K.	Mar. 29, 1999	May 5, 2000	New Jersey
140	Wilcox, James A.	June 7, 1999	Aug. 10, 2001	New York
141	Kelly, Jennifer C.	Nov. 22, 1999	—	New York
142	O'Dell, Mark L.	Jan. 2, 2000	—	Colorado
143	Fiechter, Jonathan L.	Feb. 27, 2000	—	Pennsylvania
144	Alvarez Boyd, Anna	June 4, 2000	—	California
145	Stephens, Martha B.	July 30, 2000	—	Georgia
146	Wentzler, Nancy A.	Aug. 27, 2000	—	Pennsylvania
147	Natter, Raymond	Dec. 31, 2000	—	New York
148	Stipano, Daniel P.	Dec. 31, 2000	—	Virginia
149	Gentille, Paul R.	Jan. 14, 2001	—	California
150	Petitt, Cynthia T.	Jan. 14, 2001	—	South Dakota
151	Dailey, Grace E.	Dec. 16, 2001	—	Pennsylvania
152	Fletcher, Jackquelyn	Feb. 24, 2002	—	District of Columbia
153	Dick, Kathryn	Aug. 25, 2002	—	Minnesota
154	McPherson, James	Sep. 9, 2002	—	Georgia
155	Kolatch, Barry	Sep. 22, 2002	—	New York
156	Grunkemeyer, Barbara	Oct. 20, 2002	—	Massachusetts

Figure 1—Office of the Comptroller of the Currency organization chart




(continued from previous page)
Chief of Staff & Senior Deputy Comptroller Public Affairs (A)
Deputy to the Chief of Staff
Director Program and Management Accountability
Workplace Fairness & Alternative Resolutions
Director Communications
Director Press Relations
Senior Advisor for Banking Relations
Senior Advisor for Executive Communications
Director Community Bank Activities
Ombudsman
Deputy Ombudsman
Information Technology Services & Chief Information Officer
Director Information Services
Director Network Services
Director Customer Services
Senior Deputy Comptroller Office of Management & Chief Financial Officer
Senior Advisor for Resource Management
Deputy Comptroller Workforce Effectiveness
Director Employment & Diversity Management
Director Employment Policy & Program Integrity
Director Human Resources Operations
Deputy Chief Financial Officer
Director Policy and Treasurer
Director Accounting
Deputy Comptroller Management Services
Director Acquisitions Management
Director Real Estate & Capital Assets
Deputy Comptroller Continuing Education
Director Educational Program Development
Director Training Operations
First Senior Deputy Comptroller & Chief Counsel
Deputy Chief Counsel
Director Litigation
Director Enforcement & Compliance
Director Community & Consumer Law
Director Administrative & Internal Law
District Counsel Midwest
District Counsel Southwest
District Counsel Western
Deputy Chief Counsel
Director Bank Activities & Structure
Director Congressional Liaison
Director Legislative & Regulatory Activities
Director Securities & Corporate Practices
District Counsel Northeast
District Counsel Central
District Counsel Southeast
Deputy Comptroller Licensing
Director Licensing Policy & Systems
Director Licensing Operations
District/ Large Bank Licensing Managers
Deputy Comptroller Community Affairs
Director Community Development
Director Outreach & Information Management
Director District Community Affairs
September 2002
(A) -Acting

Recent Licensing Decisions

The OCC publishes monthly, in its publication *Interpretations and Actions,* corporate decisions that represent a new or changed policy or present issues of general interest to the public or the banking industry. In addition, summaries of selected corporate decisions appear in each issue of the *Quarterly Journal*. In the fourth quarter of 2002, the following corporate decisions were of particular importance because they were precedent setting or otherwise represented issues of importance. The OCC's decision documents for these decisions may be found in *Interpretations and Actions* using the decision number at the end of each summary.

CRA Decisions

On October 10, 2002, the OCC granted approval to U.S. Bank National Association, Cincinnati, Ohio, to purchase certain assets and assume certain liabilities of 57 branches of Bay View Bank, National Association, San Mateo, California. The OCC received letters from five commenters expressing concerns with the Community Reinvestment Act (CRA) performance of both banks. However, the OCC's investigation into these concerns disclosed no information that was inconsistent with approval under the CRA. [CRA Decision Letter No. 112]

On November 7, 2002, the OCC granted approval to Banknorth, National Association, Portland, Maine, to merge with Warren Five Cents Savings Bank, Peabody, Massachusetts. The OCC received two comment letters expressing concerns with the impact of this transaction on the level and quality of community reinvestment. However, the OCC's investigation into these concerns disclosed no information that was inconsistent with approval under the CRA. [CRA Decision Letter No. 114]

On October 28, 2002, the OCC granted approval to The Baraboo National Bank, Baraboo, Wisconsin, to merge with State Bank of Wonewoc, Wonewoc, Wisconsin. The OCC received two comment letters expressing concerns with the Community Reinvestment Act (CRA) performance of both banks. However, the OCC's investigation into these concerns disclosed no information that was inconsistent with approval under the CRA. [CRA Decision Letter No. 113]

Federal Branches

On December 23, 2002, the OCC granted conditional approval to a proposal by UBS AG, Zurich and Basel, Switzerland, to convert two New-York-state-licensed branches to federal branches; to convert a Florida state agency to a limited federal branch; to establish an additional limited federal branch in New York; and to exercise trust powers. In connection therewith, an administrative office was also relocated to a nonadjacent site. Approval was granted subject to conditions involving consent to jurisdiction, access to information, and a two-year requirement to provide notice to OCC for any significant deviation or change in the branches business plans. [Approvals with conditions enforceable under 12 USC 1818, Letter No. 565]

Operating Subsidiary

On December 31, 2002, the OCC granted conditional approval for Central National Bank and Trust Co. of Enid, Enid, Oklahoma, to establish two operating subsidiaries that engage in payments activities. The conditions generally require the subsidiaries to engage only in permissible banking activities and subject the subsidiaries to OCC regulation, supervision, and examination. [Approvals with conditions enforceable under 12 USC 1818, Letter No. 568]

Special Supervision and Enforcement Activities

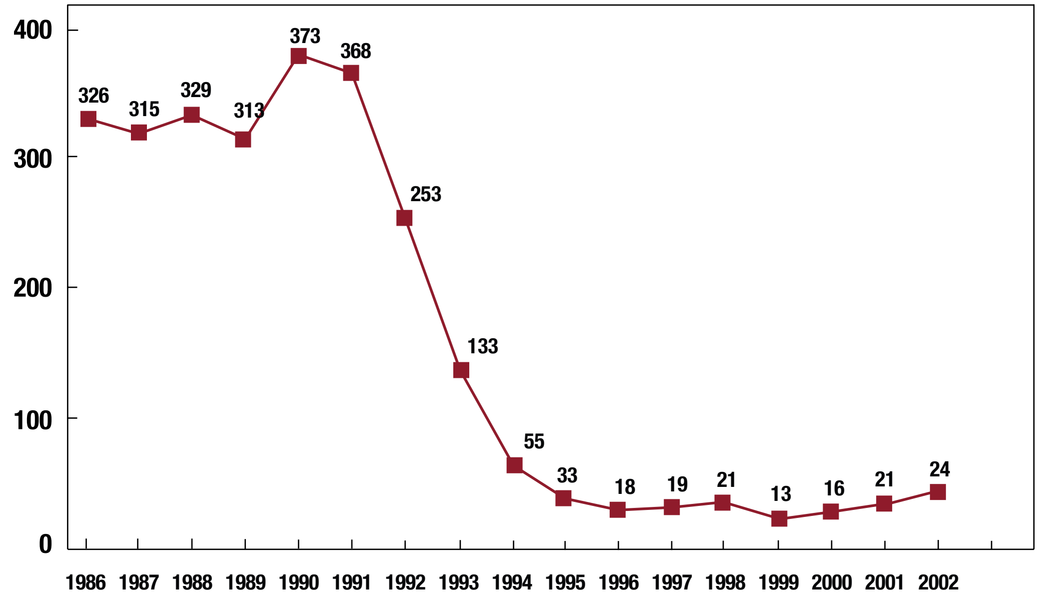
The Special Supervision/Fraud department of the Mid-Size/Community Bank Supervision department supervises the resolution of critical problem banks through rehabilitation or orderly failure management, monitors the supervision of nondelegated problem banks, coordinates fraud/white collar crime examinations,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

This section includes information on problem national banks, national bank failures, and enforcement actions. Data on problem banks and bank failures is provided by OCC's Special Supervision/Fraud department and the FDIC's Department of Resolutions 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

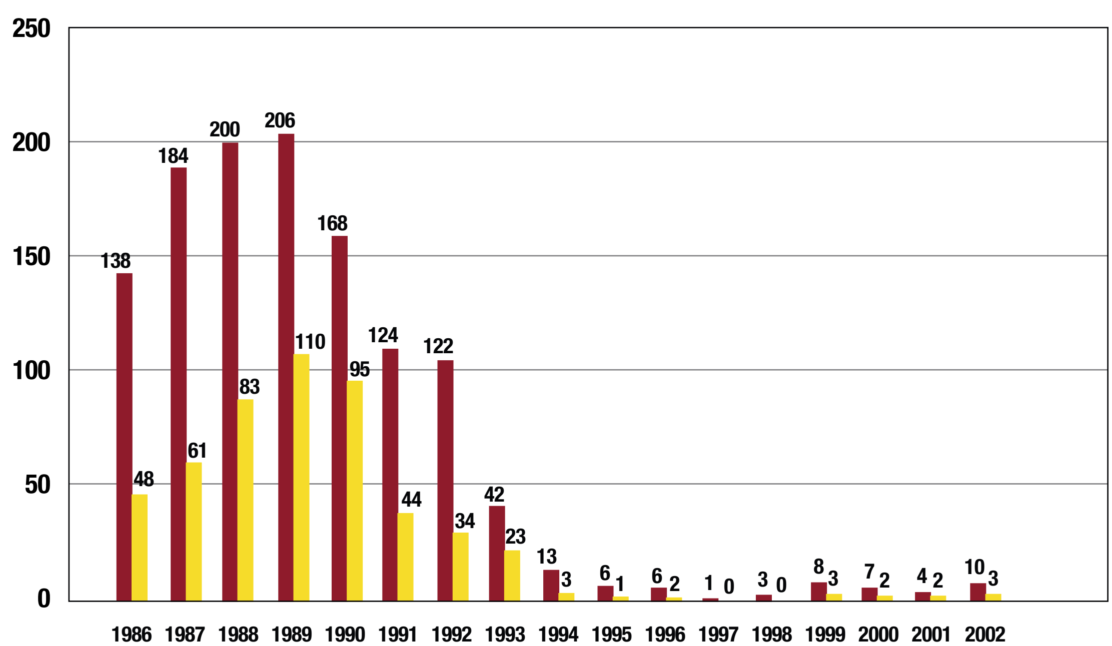
Problem banks represented approximately 1 percent of the national bank population as of December 31, 2002. The volume of problem banks, those with a CAMELS rating of 4 or 5, has been relatively stable for several years, although the last several years show modest increases. The CAMELS rating is the composite 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 24 at December 31, 2002, up from 21 at December 31, 2001. Three national bank failures occurred during 2002 out of 10 commercial bank failures.

Figure 1—Problem National Bank Historical Trend Line



Source: Special Supervision

Figure 2—Total Bank Failures Compared to OCC Failures



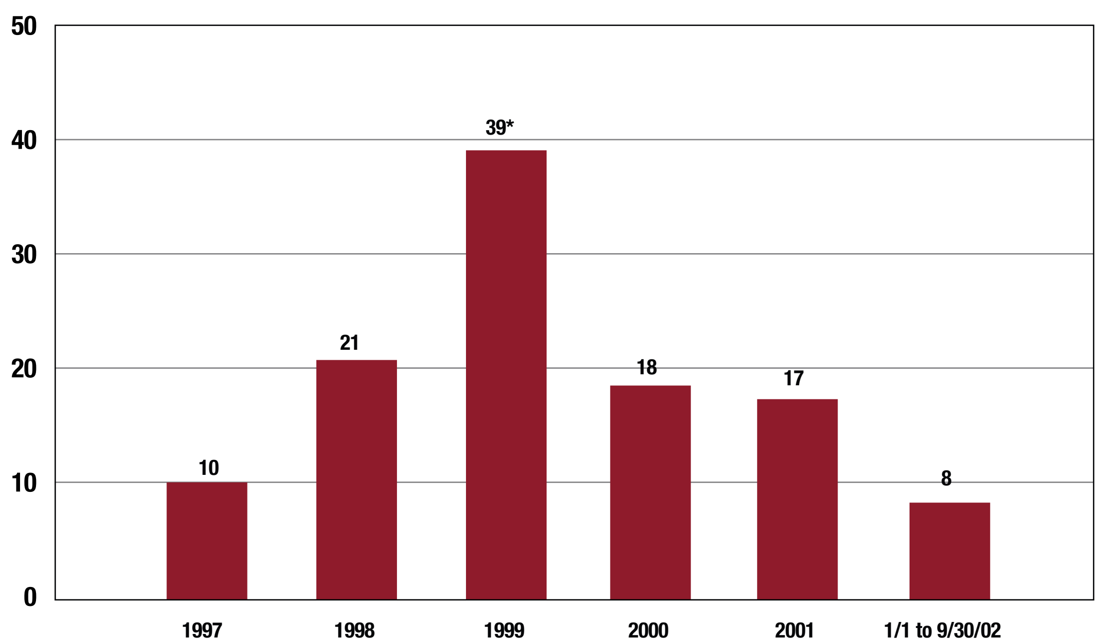
Source: Federal Deposit Insurance Corporation

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.)

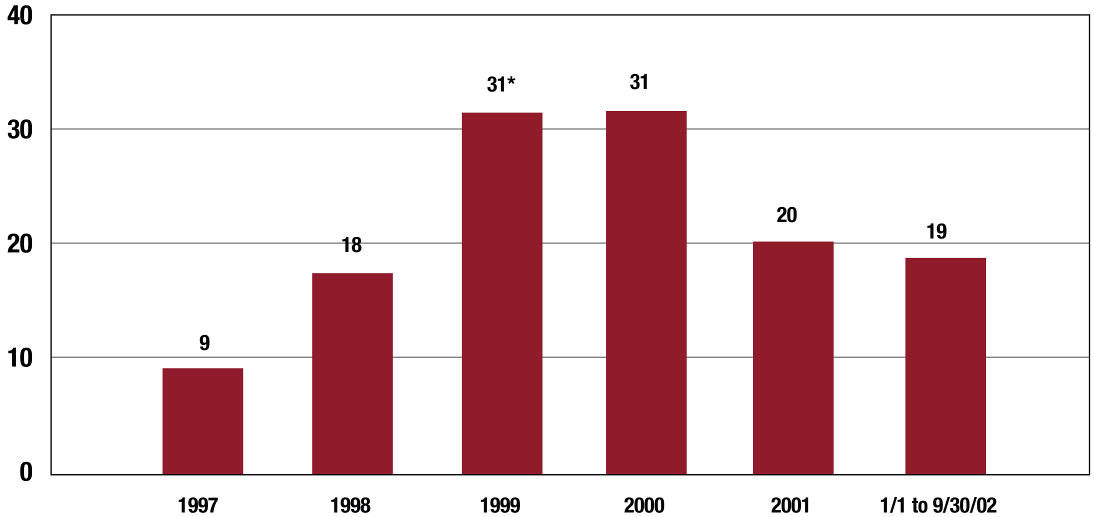
Figure 3—Commitment letters



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



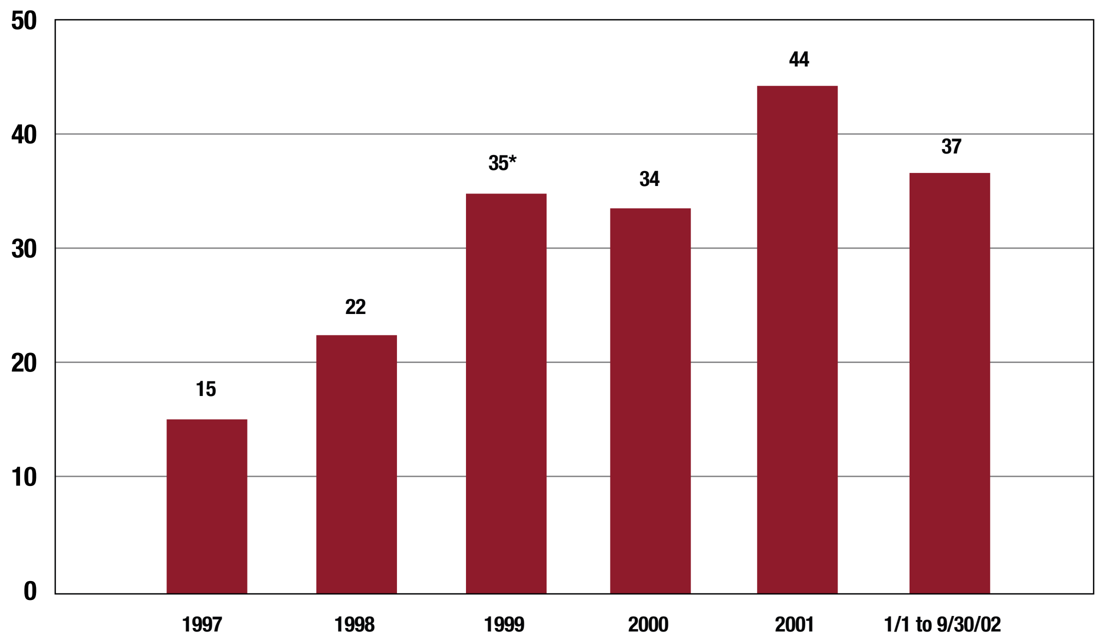
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

*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.

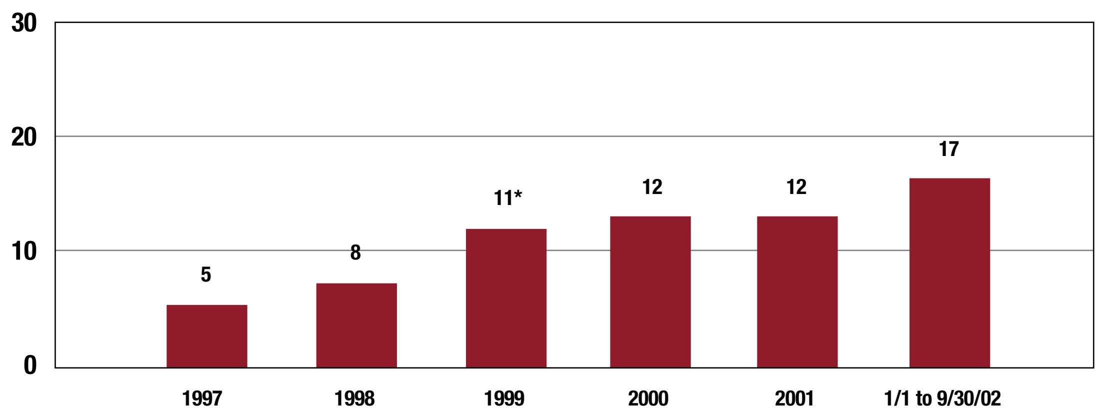
Figure 5—Formal agreements



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

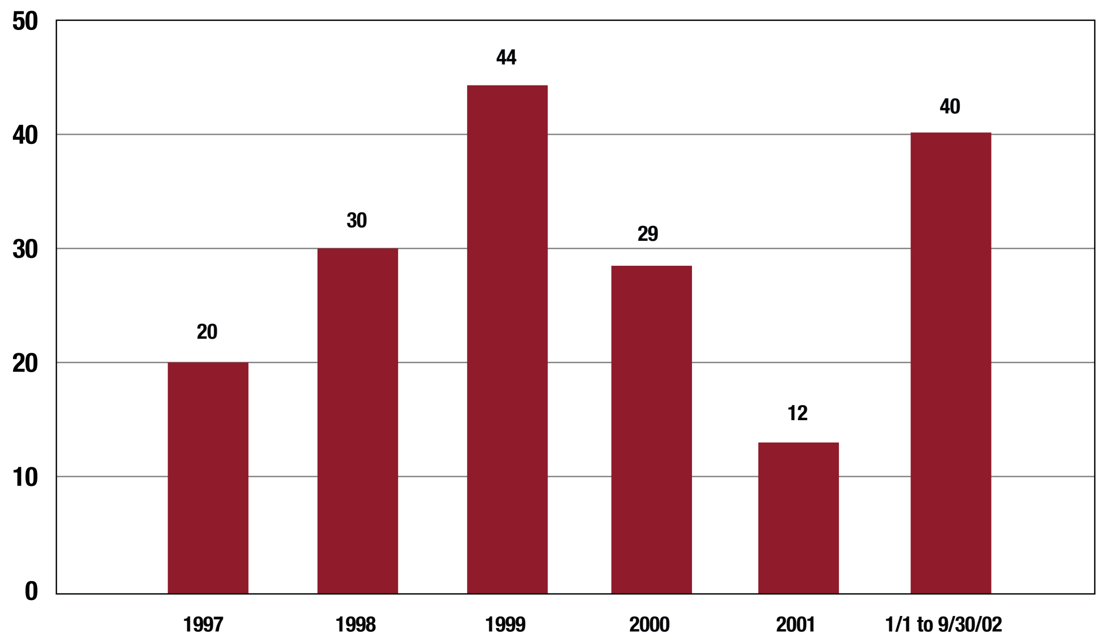


Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

*1 of which is for year-2000 problems

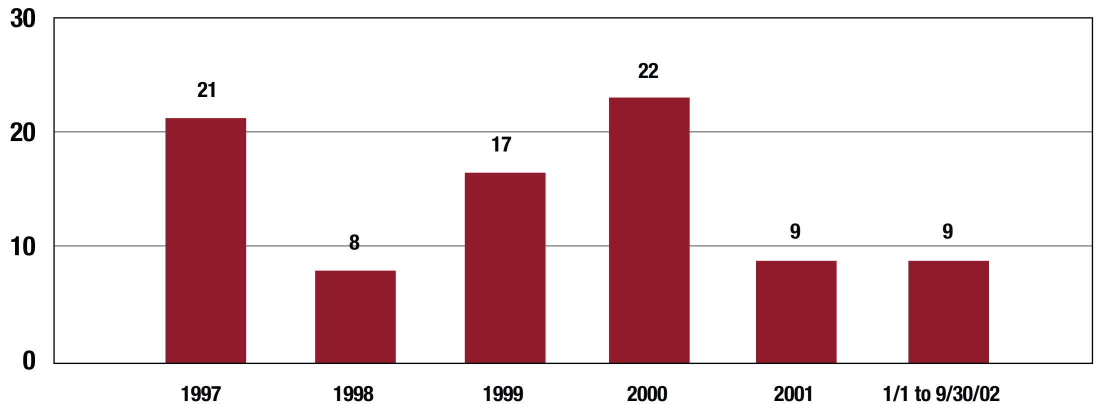
The most common enforcement actions against individuals are CMPs, personal C&Ds, and removal and prohibition orders. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and under certain circumstances, unsafe or unsound 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



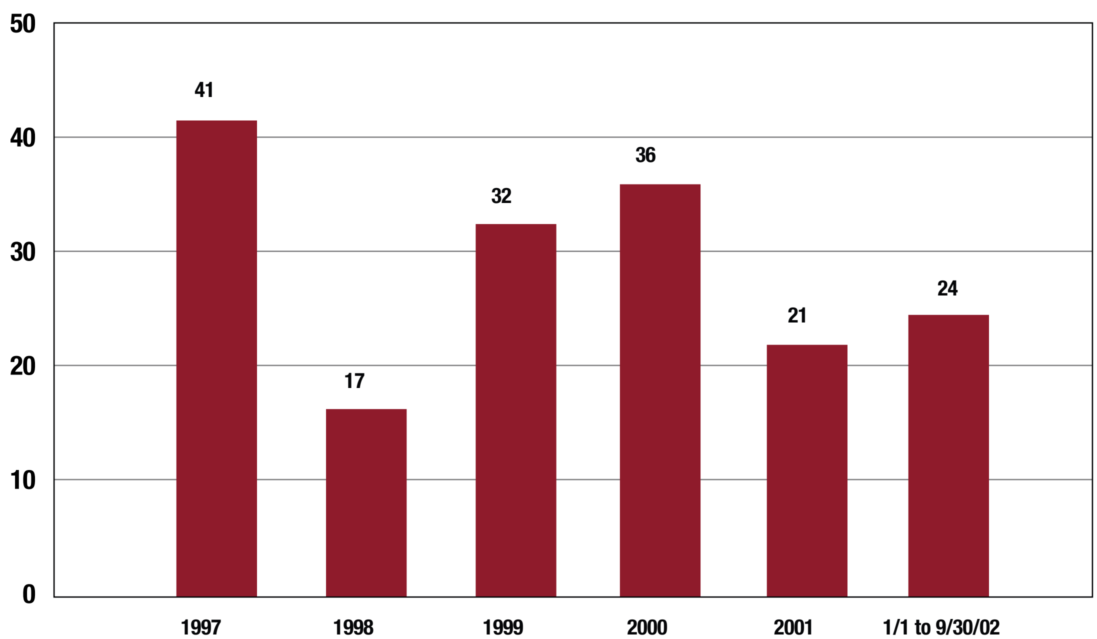
Source: SMS. Note that SMS totals for previous years' completed enforcement actions may be adjusted to reflect revised aggregates.

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

For a list of significant cases during the first half of 2002, see the *Quarterly Journal,* Vol. 21, No. 3, September 2002. Below are summaries of the significant cases completed from July 1, 2002, to September 30, 2002.

In July 2002, the OCC entered into a formal agreement with a community bank in South Dakota regarding its credit card marketing practices. The OCC determined that the bank's marketing ran afoul of the prohibition against unfair and deceptive practices in the Federal Trade Commission Act. The agreement requires the bank to correct its practices and establish monitoring systems to ensure its future compliance with the act.

In August 2002, the OCC issued a temporary cease-and-desist order against a national bank in Florida. The bank was engaged in numerous unsafe or unsound practices in connection with its origination of high loan-to-value ratio mortgage loans. The OCC's temporary order required the bank to stop the practices. At the same time, the OCC served the bank with a notice of charges seeking a permanent order. When the temporary order was later modified by the OCC, it required the bank to obtain prior OCC approval before engaging in any new lines of business.

In August, September, and October, the OCC issued enforcement actions against six individuals affiliated with the federal branch of the Bank of China located in New York City. The individual enforcement actions included four prohibition actions, two personal cease-and-desist orders and four civil money penalties. In January 2002, the OCC and the bank's home-country regulator, the People's Bank of China, assessed separate civil money penalties of $10 million each against the bank. After a lengthy investigation, the OCC, with the cooperation of the Peoples' Bank of China, uncovered a series of questionable transactions at the branch, extending back several years that resulted in significant losses to the New York branch and included several that showed preferential treatment to certain customers of the New York branch who had personal relationships with some members of the New York branch's prior management. The OCC issued a cease-and-desist order, by consent, which required Bank of China's federal branches to develop procedures to guard against fraud; provide for adequate customer due diligence, using an independent third party to verify compliance; and cease doing business with 34 specific individuals and companies, and affiliated entities. The consent order also requires Bank of China's federal branches to take numerous other actions to strengthen the bank's internal anti-fraud protections.

In September 2002, the OCC issued a prompt corrective action directive to a national bank in Kentucky. The bank became critically undercapitalized as a result of numerous loan losses. Among other things, the OCC's directive required immediate recapitalization of the bank and submission of viable strategic plans. It also placed several restrictions on the bank's use of brokered deposits. The bank subsequently recapitalized and committed to address its deficiencies.

In September, as part of the OCC's Fast Track program, the OCC issued a prohibition and restitution order against a teller at a national bank branch in Texas. The teller engaged in identity theft and used the stolen information to assist third parties in theft of funds from bank customer accounts. The teller agreed to make restitution of $20,000 as part of the order.

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 14 consent prohibition orders against institution-affiliated parties between January 1, 2002, and September 30, 2002. Two of these orders also incorporated restitution payments to the appropriate banks for losses incurred. During the same period, E&C sent out notifications to 147 former bank employees, who were convicted of crimes of dishonesty, that under federal law they are prohibited from working again in a federally insured depository institution.

Appeals Process

Appeal 1—Appeal of Memorandum of Understanding

Background

A bank appealed the OCC's decision not to terminate an informal enforcement action (action). The action was placed on the bank to address concerns regarding credit administration issues and a high level of criticized assets that were not being dealt with in a satisfactory manner. The appeal stated that each of the items in the action had been addressed with changes in policies and procedures made and implemented. The last report of examination stated that the bank was in full compliance with the MOU. In addition, a letter from the supervisory office absolved the bank from any reporting requirements under the action.

Discussion

While the supervisory office acknowledged that the bank was in compliance with all of the articles of the action and had been absolved from the reporting requirements, the decision to keep the under the action was primarily to:

- Make sure that it continued to address the existing asset quality problems, and
- Ensure that the initiatives implemented as a result of the action became an integral component of the credit culture.

Conclusion

Considering all of the dimensions of the action coupled with the current asset quality concerns, the ombudsman determined that the existing informal action was not the best vehicle to address the current concerns. Therefore, the supervisory office terminated the action and replaced it with a written commitment from the board of directors. The directorate committed to continue the same lending practices that brought the bank into compliance with the former action and dedicated their best efforts to reduce classified assets to an acceptable level. Each of the members of the board signed the new resolution.

Appeal 2—Appeal of OCC's Objection of a Director for a Bank-in-Organization

Background

The ombudsman received an appeal from an individual who the OCC objected to as serving as a director of a bank-in-organization.

The proposed director stated in his appeal that his character and integrity had been challenged based on erroneous assumptions and conclusions. He further stated that to allow the decision to stand without a challenge would imply acceptance of the fairness of the decision and the conclusions made in the licensing process.

The proposed director had pleaded guilty to a misdemeanor that was later expunged after a settled repayment of funds and community service. The proposed director's Interagency Biographical and Financial Report submitted with the charter application initially described the charge as a personal-property dispute. The Licensing department concluded that the individual was not forthright in the written application and disclosures regarding the background investigation, nor did he effectively address issues surrounding the conviction when asked to do so in writing or orally.

Discussion

Sections 12 CFR 5.20 (g)(3)(i) *Financial Resources* states that:

> Each organizer must have a history of responsibility, personal honesty, and integrity. Personal wealth is not a prerequisite to become an organizer or director of a national bank. However, director stock purchases, individually and in the aggregate, should reflect a financial commitment to the success of the national bank that is reasonable in relation to the individual and collective financial strength. A director should not have to depend on bank dividends, fees, or other compensation to satisfy financial obligations.

The statute, 12 CFR 5.20 (f)(2) ii) *Policy Considerations* further states that:

> The Office of the Comptroller may also consider additional factors listed in section 6 of the Federal Deposit Insurance Act, 12 USC 1816, including the risk to the Federal deposit insurance fund, and whether the proposed bank's corporate powers are consistent with the purposes of the Federal Deposit Insurance Act and the National Bank Act.

Conclusion

The ombudsman considered all aspects of the case, reviewing all documentation from the Licensing department, interviews with the individual as well as the supervisory office. The information obtained in the ombudsman's review was not inconsistent with the provisions of the statute. Therefore, the ombudsman did not reverse the decision to object to the individual serving as a director of the bank-in-organization.

Appeal Summary 3—Appeal of Nonaccrual Status

Background

Several banks appealed the nonaccrual decision reached during the Shared National Credit (SNC) review process. While the banks agreed with the assigned substandard classification, they did not agree with the nonaccrual decision. Each of the banks believed that their loans were well secured and in the process of collection.

Each bank's security interest included a perfected lien in the equity interest of the partnership with the exception of one, who had a direct interest in the underlying assets. During the year, the holding company and its operating subsidiaries and partnerships declared bankruptcy. Revelations of financial misrepresentation led to disruption and a change in external auditors for the year-end statement audit. Additionally, they failed to file timely year-end financial statements. A subsequent liquidity crisis ensued owing to a loss of access to the capital markets and the inability of the company to meet impending bond interest and other payments.

Since all of the facilities were similarly structured and the company co-mingled funds, the SNC team concluded that compelling support existed to view each facility on a substantively consolidated basis. Issues of well-secured and in the process of collection posed continuing uncertainties that remained unresolved, making accrual of interest and income recognition inappropriate.

Discussion

The decision on whether a bank places a loan on nonaccrual should be determined in accordance with the Federal Financial Interagency Examination Counsel (FFIEC) Call Report Instructions (call report). The general rule is that an asset should be placed on nonaccrual when principal or interest is 90 days or more past due or payment in full of principal or interest is not expected, unless the asset is well secured and in the process of collection. According to the *Comptroller's Handbook* booklet, "Rating Credit Risk" (April 2001), there is no requirement that a loan must be delinquent for 90 days before it is placed on nonaccrual. Once reasonable doubt exists about a loan's collectibility, the loan should be placed on nonaccrual. When payment performance depends on the drawing on lines of credit, the bank advancing additional loan funds, or the bank extending excessively lenient repayment terms, the loan should be considered for nonaccrual status. The key issues to consider are the collectibility of the loan and the concepts of well-secured and in the process of collection.

Well-Secured

According to the call report and the handbook booklet, a “well-secured” asset is secured by a lien or pledge of collateral that has a realizable value sufficient to discharge the debt fully (including accrued interest), or it is secured by the guarantee of a financially responsible party.

In determining if the debt was well secured, the ombudsman focused on the marketability and liquidity of the collateral. The bank’s support for these factors was limited to historical sales. In reviewing this and other information, there was cause for concern that estimated prices and the premium prices evident in recent years could be sustained based on the availability of future potential buyers and financing for these types of projects given the current market environment. Sales transactions indicated a finite and small number of investors largely trading among themselves. Some of the large companies in the industry have experienced declining financial performance and/or have publicly stated their intention to curtail further acquisitions. Additionally, collateral valuations provided posed other issues for uncertainty due to, ongoing capital expenditures needs, lack of free cash flow for debt payment and future financing support, and changing market dynamics. These issues are not insignificant, given the inability of the parent and its subsidiaries and partnerships to find successful business solutions to these issues outside of bankruptcy.

While buyers for the collateral might be ultimately found at some price over time, the ability to realize any value is encumbered by the bankruptcy court’s action. It was anticipated that the bankruptcy proceedings will be protracted, with up to a year or more necessary for the entity to submit a plan of reorganization. The uncertainty of these judicial proceedings imposes additional obstacles in applying the concept of liquidity for credit purposes, already fragile given the absence of a robust number of investors.

In Process of Collection

According to the call report and the handbook booklet, an asset is “in the process of collection” if collection of the asset is proceeding in due course through legal action (including the enforcement of a judgment), or through efforts not involving legal action that are reasonably expected to result in the loan’s repayment or in its restoration to a current status in the near future. A 30-day collection period has generally been applied to determining when a loan is “in the process of collection.” Customarily an asset can remain in that status more than 30 days only when it can be demonstrated that the timing and amount of repayment is reasonably certain.

The bankruptcy and subsequent imposition of the automatic stay poses substantial challenges to the concept of "in the process of collection." The bankruptcy proceedings are likely to be protracted whereas "in the process of collection" assumes speedy collection that is not obstructed. While the operating subsidiaries have a lien on the assets, without an approved reorganization plan there is uncertainty regarding the timing and source of repayment of the debt.

Financial Analysis

Historical and current financial information was unreliable. Year-end audit work was interrupted following the revelation of accounting irregularities. Lender presentations for post-petition financing are prefaced by comments indicating there is no warranty or representation that the historical financial statements are reliable. A new external auditing firm has been engaged, but has not completed their review. It is uncertain what additional impact this will produce on free cash flow and debt serviceability. It is also uncertain what additional impact this will have on the financial statements at the subsidiary or partnership level.

Notwithstanding the allegations of financial irregularities and the absence of reliable and audited financial information, in all but one of the facilities' year-end 2001 financial statements reflected earnings before interest, taxes, depreciation and amortization (EBITDA) insufficient to fund interest and capital expenditures (CAPEX). Net debt repayments increased this shortage. Capital contributions were required to fund these shortages and also additional WC demands. Consolidated EBITDA is inadequate to meet fixed charges (interest, principal, and CAPEX) and makes collection in full of principal or interest highly uncertain.

Conclusion

In summary, the nature of the collateral and the collateral control available to the senior lenders does not sufficiently meet the tests of well secured. The liquidity and marketability of the collateral pose uncertainties and do not preclude or adequately mitigate the absence of orderly principal reduction that the franchise's free cash flow is incapable of providing. The bankruptcy proceedings and the automatic stay imposed are unlikely to be lifted anytime soon and complicate asset sales. Lengthy reorganization appears unavoidable. Accordingly, the debts cannot be considered as in process of collection. Therefore, the ombudsman concluded that the basis for continuing interest accrual and income recognition is not warranted. The ombudsman advised the banks to closely monitor the status of these severely troubled entities and to independently update the asset classification as circumstances warranted.

Speeches and Congressional Testimony—October 1 to December 31, 2002

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Remarks by John D. Hawke, Jr., Comptroller of the Currency, before the American Bankers Association, Phoenix, Arizona, on corporate reform for banks, October 7, 2002

It would be a gross understatement to say that the past year has been a trial for our country. Yet I'm firmly convinced that we're stronger today than we were before the terrorists struck on September 11—and before the string of corporate collapses that have done such grave damage to public confidence in our markets. Around the world we're confronting our enemies. At home we're coming to terms with abuses of corporate power that have cost many Americans their jobs, their pensions, and their investments—and, worst of all, their faith in the fairness and rationality of our economic system.

Crisis has always been a powerful catalyst for reform, and that's no exception today. Major companies in every field are cleaning up their balance sheets, facing up to previous shortcomings, improving the quantity and quality of the information they disclose, and embracing a variety of other measures aimed at restoring public trust.

A notable example has been the growing number of corporations that have said that they would start accounting for stock options as an expense. Their competitors will almost certainly face pressure—from the marketplace if not eventually from those who enforce the securities laws—to follow suit.

Sometimes small things can make a difference, and I believe that this issue of the proper accounting for options may be one of those cases. For quite a few years I have been encouraging bankers to focus less on short-term performance and more on long-term value and the stability of their institutions. Similar concerns have been voiced by many of my colleagues throughout the regulatory community. But it's sometimes difficult to make that case when executive compensation is closely tied to current stock prices. I recently read of one large institution whose CEO said with some pride that his *sole* compensation came in the form of stock options. That does not seem to me to be a very wise approach. To be sure, when the market for the company's stock is booming, such a CEO may bask in the glow of great wealth, at least wealth on paper. But there may be perverse incentives when the stock price falls—such as the incentive to reach further out on the risk spectrum in order to bolster earnings, or to engage in questionable accounting practices for the same purpose rather than hunkering down and addressing fundamentals, or taking actions that may preserve value for the future even at the cost of short-run hits to earnings.

It's also difficult to take the long-term focus when stock analysts are preoccupied with quarterly earnings targets and the market exacts severe penalties when targets are missed by a few pennies a share. But history shows us that those institutions that have taken the long view—that have been willing, for example, to accept an impact on current earnings in order to build up prudent loan loss reserves—are the ones that come through periods of economic stress in the best condition.

The primary impetus for corporate reform, however, is not coming from individual corporations, but from government at various levels, as well as from leading industry organizations. On July 30, as you know, the President signed into law the Sarbanes–Oxley Act—perhaps the most important piece of corporate reform legislation since the Depression. It amounts to a sweeping new framework for corporate governance: requiring, for example, that CEOs and CFOs return incentive-based compensation and trading profits following accounting restatements; accelerated reporting of insider transactions, whistleblower protections, better disclosure of off-balance-sheet transactions, auditor independence and rotation, increased frequency of SEC review, and much more.

Couple that with President Bush's initiative to root out financial crimes and stiffen sentences for corporate criminals and the recent actions of the SEC—including the requirement that senior officials personally certify the accuracy of financial statements—and I think we've sent an unmistakable message that previous standards of corporate conduct need to be reexamined.

It's important to keep in mind, of course, that the objective here is not simply corporate morality, in the abstract. The primary purpose is to preserve the confidence of investors and the public generally in the integrity of our markets—markets whose depth and transparency have been envied around the world.

High on the list of current concerns—and properly so—is the role of boards of directors in the overall picture of corporate governance. In many cases there's a gap between what the board is supposed to do and the role it actually plays. In the past it was not uncommon for outside directorships to go to people having connections that might be useful to the company and who were not likely to rock the boat. And it's just as troublesome when companies appoint competent and experienced people to their boards and leave them there to languish—unheeded, unnoticed, and uninvolved. "In all the years I've spent on various boards," one frustrated and disillusioned corporate veteran has written, "I've never heard a single suggestion from a director that produced any result at all."

But attitudes have clearly been changing and that disillusioned directors' experience may not be typical today. The best corporate managers have come to realize how important a conscientious and knowledgeable outside director can be, and particularly in today's environment I believe there is a much higher level of awareness in corporate America of the significant contributions that first-rate directors can make. And there are heartening signs of responsiveness from standard setters—once again crisis has been the catalyst for action. One of the key recommendations in the package recently released by the New York Stock Exchange calls for listed companies to ensure that a majority of board members—instead of at least three, as mandated under present rules—are independent of the company. Furthermore, the Exchange recommends that the audit, compensation, and nominating committees should consist entirely of independent directors. And it calls for independent directors to meet at regularly scheduled executive sessions—without the presence of management.

Financial services firms, of course, are just as vulnerable as any to managerial misconduct—maybe more so, given the nature of their business. That's why bankers like you operate under the most stringent and comprehensive regulation of any industry in the country. That includes a host of very specific provisions defining and restricting the relationship between financial institutions and their insiders, including directors.

That's also why some industry leaders—including the leadership of the American Bankers Association (ABA)—have argued that some of the initial proposals of the New York Stock Exchange regarding the independence of directors should not apply in all cases to banks. The Exchange has already modified its proposed rules to reflect the peculiar circumstances of the banking industry and I commend the ABA for continuing its constructive involvement in this process.

The fact that the relationship between bank directors and the financial companies on whose boards they sit are already defined and circumscribed by law and regulation is not the only salient difference between financial institutions and non-financial companies. For most of corporate America, it generally doesn't matter how the members of a corporate family relate to one another—at least where they are wholly owned subsidiaries of a publicly owned parent and do not have their own debt obligations held by outsiders. Intercompany transactions wash out in consolidated financial statements, and investors in the parent have no reason to be concerned whether transactions wholly within the family are on an arm's-length basis or whether one sub is being taken advantage of by another.

But, as the ABA noted in its comments to the Stock Exchange, banking organizations are different. Banks are federally insured, they are supported by a federal safety net, and they play a critically important role in their communities and in our economy. That's why there is a host of laws and regulations governing such things as how banks may lend to, swap assets with, or engage in concerted transactions with their affiliates and insiders; when they may pay dividends to their owners; and what expectations they should have for support from their parent company.

As regulatory rulings and statutory enactments have broadened the range of activities that can be conducted in financial conglomerates owning banks, the opportunities for intra-family dealings have been significantly increased. In fact, one of the motivating forces behind the Gramm–Leach–Bliley Act was to provide financial companies with greater opportunities to realize the "synergies" that might flow from being financial supermarkets, and to offer "one-stop shopping" to customers.

Thus, today we see bank securities and insurance affiliates prospecting for new customers in the bank's customer lists or seeking to exploit the bank's relationships to market nonbank products and services. Indeed, the bank in a diversified financial holding company is very likely to have the most extensive and enduring roster of customer relationships in the family, thus making it the major focal point for joint marketing programs. In the ordinary world of nonfinancial corporate enterprise, such prospecting for customers among affiliates obviously makes good sense. But in the world of depository institutions things are different—or should be. There is another set of interests that has to be taken into account: the public interest, represented by the interests of the banking supervisors and the Federal Deposit Insurance Corporation as insurer of deposits. In this context it is important to assure that the interests of the bank are being properly regarded when affiliated companies seek to take advantage of their relationship with the bank.

This is not at all a new concern, and it arises in a multitude of circumstances. Let me give you a few examples of situations where caution is warranted:

- An individual controlling a bank causes the bank to maintain correspondent balances at another bank that agrees in return to make him a loan.
- A bank holding company that contributes operating loss deductions to a consolidated tax return causes the bank to pay upstream the amount of taxes the bank would have paid on a stand-alone return.
- A bank is charged fees by a holding company or controlling shareholder for providing various management services.
- Bank insiders operate an insurance agency that receives commissions on the sale of insurance to bank customers in connection with loans made by the bank.
- A bank shaves rates on a loan or agrees to less demanding covenants to please a customer of the bank's investment banking affiliate or in the hope of attracting new business for an affiliate.
- A bank relationship manager provides information and customer access to an insurance or securities affiliate to promote the sale of the affiliate's products.
- A bank contracts to buy a product or service from a third-party vendor in which a large shareholder or insider of the bank holds an ownership interest.
- A holding company under financial stress is being pressed by regulators to invest capital into a subsidiary bank, while bondholders threaten to sue if the holding company dissipates assets by plowing more funds into a bank that might fail anyway.

I don't mean to suggest for a moment that all of these situations are examples of impropriety. Indeed, a few of them are very common and, in principle, entirely appropriate. On the other hand, some may skirt the bounds of legality. But the common thread is that they all present an occasion for heightened concern about the interests of the bank—heightened because in each case the bank is dealing with a related party under circumstances in which the bank's interests could potentially be subordinated to the interests of that party.

In some cases the reason for concern may be the failure of insiders to recognize that intangible assets of the bank may be at risk of being transferred without appropriate compensation to the bank. A bank's customer relationships are assets of the bank, for example, and if the bank is going to give an affiliate a license to mine those assets it should be compensated. Certainly no bank would provide an unrelated third party with access to its customers without protecting its own interests—both its financial interest and its interest in maintaining a healthy relationship with its customers.

While this concept is occasionally overlooked, it is not rocket science. The notion that a company, and not its insiders, has the right to benefit from a variety of intangible assets that come into being simply because of its existence is grounded in a long history of legislative and judicial pronouncements. It underlies the requirement in the Securities Exchange Act of 1934 that insiders must turn over to their corporation any profit they make on short-swing transactions in the company's stock. And it underlies court decisions holding that corporate opportunities cannot be diverted to insiders and that premiums reaped on the sale of corporate control belong to the corporation.

Nonetheless, we are now being treated to a variety of lurid stories recounting, for example, how insiders were given lucrative opportunities by investment bankers to invest in IPOs (initial public offerings), in exchange for steering their company's business to that investment bank. The Attorney General of New York has, in my view, very properly asserted that such opportunities belong to the company, not to the insiders, and that they must account to their company for their unjust enrichment.

As I consider the relevance of today's corporate scandals to the world of insured depository institutions, I am reminded of a story I used to read to my kids, *The Lorax* [Random House, September 1971], by the late Theodor Seuss Geisel, better known as Dr. Seuss. The Lorax was the forest creature who defended the trees, the Truffula Trees, "the touch of whose tufts was much softer than silk." That made them irresistible to the rapacious Once-ler, who "built a small shop and chopped down the Truffula Trees with one chop." At intervals—and as the forest and all the creatures that depended on it slowly disappeared under the ax—the Lorax would angrily appear "with a sawdust sneeze," saying, "I am the Lorax, I speak for the trees." Alas, too late. That story probably did more to create a generation of environmentalists than anything else I know of.

And so, with apologies to Dr. Seuss, I ask this question: When an insured depository institution engages in transactions involving its parent or affiliate or insiders, "who speaks for the bank?" Who in the corporate family is looking at these situations solely from the perspective of the bank, with an independent view and with undivided loyalty to the bank? And how should we as regulators assure ourselves that the interests of the bank—and thus ultimately the interests protected by the federal safety net—are being properly regarded?

Some have suggested that we adopt a requirement that all insured banks have some number of truly independent directors—that is, directors who are not officers or employees of the bank and who do not sit on the board of the bank's holding company or some affiliate. This would clearly be a significant change from present practice for many banks. Yet what I perceive to be the currently prevailing patterns—either replicating all or part of the holding company board at the bank, or using bank officers, who may also be holding company officers, to comprise the bank board—does not assure the kind of independent view that I believe is needed.

Another approach might be to require that in situations in which a bank wants to enter into transactions with an affiliate, the bank's management engage some completely independent party—a special counsel or other outside advisor—to opine, from the bank's perspective, on the fairness of the transaction or on a procedure established for a series of such transactions. Still another approach might be to make clear to responsible bank officers and directors that in the absence of any independent review sanctions may be addressed to them personally if it is later determined that the bank's interests were not properly regarded.

I appreciate that any new approaches to corporate governance procedures such as these are not likely to be warmly embraced. Many bankers might—quite understandably—feel that they already have their banks' best interest at heart—and I believe that is most frequently the case. On the other hand, we have over the years seen enough situations in which the interest of a bank has been subordinated to other interests in the corporate family to give us concerns on this score. Moreover, the evolution of financial conglomerates, offering a variety of nonbanking products for which the bank's customers may be viewed as prime prospects causes me to want to be sure that the interests of our banks are being properly regarded.

This is another one of those situations—and we have seen many of them over the years—that cries out for an industry-generated solution. Time and time again we have seen legislative or regulatory initiatives adopted that might have been avoided or mitigated if the industry had had either some credible program of self-regulation or at least some standards of conduct expressing an industry consensus as to what is acceptable conduct. One need only recite the list of "compliance" laws enacted in the last 25 years—about which many bankers complain bitterly—to see the force of this point.

But where has the industry been in this time of turmoil in the field of corporate governance? If only out of enlightened self-interest, the industry could provide a useful service by expressing its own expectations and values, demonstrating that it recognizes—as I am confident it does—the importance of basic principles that have not been universally observed. Such an expression could have a material impact on investor confidence, among other things. At best it could have an impact on the need for even more legislation and regulation.

Consider this my challenge to you. But to be credible you've got to move quickly and with force. If you don't, the process of government policymaking will inevitably move forward, resulting in new requirements that will add to your costs and compliance burdens, and you will have passed up yet another opportunity. I don't mean to suggest that we will be sitting by waiting for you, for we have our own responsibilities to assure that the interests of the banks we supervise are properly protected. But what the industry itself can contribute could have a significant influence on what might emerge from the agencies or from Congress.

The kind of self-scrutiny we're going through today in so many areas of our economic life is never easy or comfortable. It exposes fallacies in some of our assumptions about the conduct of business and about human nature. It's teaching us things—about associations and about ourselves—many of us, given the choice, might prefer not to know.

But I believe there is no choice—not if we're to profit from our mistakes, restore confidence in our markets, and rebuild our productive capacity. Perhaps our greatest strength as a nation is the courage to confront our problems bravely and forthrightly and see them through to a solution. You have an enormously important role to play in the process.

Remarks by John D. Hawke, Jr., Comptroller of the Currency, before a session on banking supervision with the People's Bank of China, Beijing, China, October 14, 2002

I am honored to be with officials of the People's Bank of China (PBOC), and I am grateful for the many courtesies extended to me since my arrival in your country. I have come to the People's Republic not only to build on the excellent working relationship that has developed with the PBOC and Governor Dai, whom I admire and respect, but also to build on the many years of Sino-American cooperation. China and the United States have much to learn from one another, and I trust that I will take home with me at least as much of value as I leave behind with you. I hope that my visit extends and enriches the long and constructive dialogue between our two great peoples.

The kindnesses you have extended to me are not only gratifying on a personal level. China's eagerness to hear from foreign visitors like myself, I think, speaks to the vast promise of its future. We Americans sometimes flatter ourselves by thinking that our economic success stemmed entirely from domestic sources and from our particular genius for invention. But the truth is more complicated than that. Over the course of our history, America, like all successful countries, has borrowed liberally from other societies—adapting principles and practices to the unique circumstances of our own culture, geography, and institutions.

In other words, the ideas exchanged across international borders may be just as valuable as the more tangible trade in goods and services in which nations engage.

That has been true in many areas, including banking and bank supervision. Americans have always had conflicting views toward banking, and that too was part of our inheritance from Great Britain. In the Tunnage Act of 1694, authorizing the incorporation of the Bank of England, the British Parliament recognized that it must have an orderly means of raising loans to conduct the affairs of state, and particularly to wage war. Then 26 years later, when Parliament passed the so-called Bubble Act, it essentially shut the door to further banking corporations, declaring, in what appeared to be a spirit of regret for its earlier actions, that such institutions were dangerous instruments of privilege and speculation.

These contradictory attitudes were transplanted to American soil. Even during our colonial period, Americans recognized that banks were necessary to meet the financial needs of the modern state and a developing economy. At the same time, banks were viewed with deep suspicion, if not hostility. Thomas Jefferson, the primary author of our Declaration of Independence, believed that banks were "more dangerous than standing armies."

Yet even Jefferson did not believe that the country could afford to dispense with banks altogether. Indeed, America needed banks even more than Britain did, for ours was a young, undeveloped, and far-flung country noticeably lacking in the great private accumulations of liquid wealth with which England was blessed. In order to mobilize capital in such a place, banks were essential. In fact, Americans concluded that if we were to have any banks at all, we should have many of them—not only to serve potential customers for bank services, but also to discourage the rise of a small number of large and powerful institutions capable of exercising dangerous dominance over local economies.

From this reasoning flowed one of the most distinctive characteristics of the U.S. banking system. At its high water mark, in 1921, there were no fewer than 29,000 independent commercial banks in America. Even today, after decades of industry contraction, there are more than 8,000 U.S. banking companies, a number not equaled anywhere else in the world. (The slide in your package entitled "the banking industry is consolidating" reflects this.)

Viewed purely as an economic arrangement, this banking structure has probably never made much sense. Any system based on thousands of independent, mostly small, institutions might be viewed as a system inevitably lacking in stability and efficiency. But Americans were willing to sacrifice those qualities in a conscious trade off to preserve other values they cherished even more: competition, individual initiative, local responsiveness, and opportunity. Branch banking, despite its real economic benefits, was seen as a threat to those values—and as a step toward financial concentration and monopoly. That's why branching and bank consolidation were systematically suppressed by state and federal laws—some of which remained in effect until just a few years ago.

Americans did not depend entirely on the structure of their banking system to curb potential abuses of banking power. Government oversight and enforcement were also viewed as essential. But here too there have been inhibitions. Americans have always been uneasy with the idea of government intervention in the economy. Our experience as a colony left our people with deep suspicions of government authority—suspicions that linger to this day. The arrangements formalized in the U.S. Constitution, with its provisions for checks and balances and power sharing between the national government and the states, reflected these suspicions. Thus, in the same way—and for many of the same political reasons—that U.S. banks were encouraged to proliferate, a system of multiple bank chartering and regulatory authorities arose.

During the first half of the 19th century, the states dominated the field of banking. Each carried out its own program of bank chartering and supervision, reflecting wide variances in rigor and competence. The federal government's involvement was sporadic—and generally unwelcome. Not until the American Civil War, which redefined the relationship between the central government and the states, did a federal presence become a permanent part of the U.S. banking system in the form of the Office of the Comptroller of the Currency (OCC) and the national banking system, which our office supervises. I am proud to be the 28th person to hold the office of the Comptroller of the Currency since our founding in 1863.

It is significant that when the U.S. Congress created the national banking system, it did not choose to abolish state-chartered banking at the same time. Given the advantages they built into the national charter, some lawmakers felt that such an outcome—a system consisting exclusively of national banks—was assured. But the state banks proved equal to the competitive challenge, and, as your slide shows, the U.S. has ever since had a dual system of state and national banks, under which national banks operate under the primary supervision of the OCC and state banks under the primary supervision of the 50 state banking departments.

Dual banking made for a complicated regulatory system that would soon grow more complicated still. But Americans didn't necessarily see regulatory complexity as a bad thing. It was viewed instead as a safeguard against the dangers of regulatory hegemony and abuse—and as an incentive to regulatory responsiveness and efficiency. Dividing regulatory authority between the federal government and the states—and then dividing it again, over a period of years, among three separate federal agencies—ensured that no single agency would be able to gain meaningful dominance. And because regulatory authority was checked and balanced in this way, Congress felt safe in endowing the OCC with considerable independence, both from its own control as well as from that of the executive branch within which the OCC was positioned.

The decision to create the OCC as an independent agency was quite an extraordinary step, and it was one that reflected Congress's understanding of the importance of supervision in the nation's overall banking scheme. Although formally a "bureau" of the Treasury Department—indeed, until the 1970s, the Comptroller's offices were actually housed within the main Treasury building in Washington—the OCC has always enjoyed considerable operational autonomy. Although appointed by the President with Senate confirmation, the President cannot remove the Comptroller before the expiration of the statutory five-year term without providing to the Senate in writing a statement of his reasons for doing so.

Just within the past decade, Congress passed additional legislation reaffirming the OCC's ability to submit legislative recommendations and testimony to Congress without prior approval or review in the Executive Branch. Moreover, Congress has forbidden the Treasury Department from intervening in any matter or proceeding before us, or from delaying or preventing the issuance of any rule or regulation by the OCC. I speak from personal experience—as Under Secretary of the Treasury for Domestic Finance before moving to the OCC—when I say that these rules have been scrupulously respected.

These structural firewalls have made it possible to successfully insulate the OCC from occasional pressures to support particular fiscal or monetary policies or to appoint politically connected individuals to supervisory positions. One measure of that success lies in the fact that my staff in Washington consists of civil servants who work under the merit system; while national bank examiners, of which there are currently more than 1500, have been recruited from the nation's universities and financial institutions, and commissioned after passing through a rigorous program of classroom instruction, on-the-job training, and continuing education. I hope you will not accuse me of being immodest when I say that our peers at home and abroad regard the OCC as the premier bank regulatory agency. But it's true.

So far, I have just spoken of one phase of OCC independence—independence from the executive branch of the federal government. Our relationship with Congress is somewhat different. Of course, the OCC is subject to all laws that Congress may make, and the Comptroller is regularly called upon to provide testimony on subjects of interest to legislators. But a crucial element of this relationship is the fact that we—unlike virtually all other agencies of our government—do not depend upon Congress to provide the funds we depend upon to finance our activities.

That is in accordance with Congress's own plan. In creating the OCC and the national banking system, it chose to remove the OCC from the normal budget and appropriations process—to remove it, that is, from its own direct control. It recognized that the power to approve a budget may confer an ability to direct policy, and that subjecting bank supervisors to the give-and-take of budget negotiations would inevitably lead to pressures for supervisory compromises. Thus, in a historic act of self-denial, Congress chose to restrict its own influence and authority rather than compromising the ability of the OCC to conduct its operations objectively and with independence. Instead, in a system that has continued to operate without interruption since the 1860s, banks are subject to annual fee assessments by the OCC, which since 1914 have been asset-based. They also pay fees to cover the cost of processing corporate applications. Those two sources together account for nearly 97 percent of the OCC's $413 million annual budget.

Our ability to deliver independent and professional bank supervision owes in large measure to the wisdom and selflessness of those who created the national banking system as a self-supported, self-financing entity.

Our longstanding belief that independence is crucial to effective bank supervision has received repeated confirmation elsewhere in the world. Indeed, the absence of supervisory independence has been implicated in almost every national financial crisis the world has recently seen. In Argentina, South Korea, Thailand, Japan, Turkey, and Indonesia, bank supervisors were unable to operate with the independence their responsibilities demanded. In each case, supervisors became instruments of government or central bank policies that subordinated the safety and soundness of financial institutions to other goals. In each case, banks were permitted—or even encouraged—to make loans in defiance of good credit practices in order to promote certain policy objectives, such as protecting inefficient industries. Moreover, in each case, the result was the same: supervision was discredited; the condition of the banking system deteriorated; the national economy suffered; and the process of recovery was seriously impeded by a crippled banking system. Some countries are still struggling with the consequences of such ill-advised supervisory policies.

These experiences help explain why, when the Basel Committee on Banking Supervision adopted its core principles for effective supervision in 1997, "operational independence and adequate resources" headed the list. And the experiences of other countries remind us of the importance of vigilance in defending supervisory independence here at home.

On another crucial issue of supervisory structure, however, global practice is less conclusive. That is the role of central banks—and, to a lesser degree, the deposit insurance agencies—in the supervisory arena. In this area there have been a wide variety of experiences and results. Many of the world's countries have opted to separate monetary policy from bank supervision. Austria, Canada, Germany, Japan, Norway, Mexico, and, recently, the United Kingdom, among others, have taken the step of removing the central bank from the supervisory function. The rationale is that there are inherent conflicts of interest between the two roles—that the goals of monetary policy—and a solvent deposit insurance fund—may not coincide with the demands of a safe, sound, and competitive banking system. For example, a central bank may decide that its overall monetary and macroeconomic objectives are better served by infusing capital into an insolvent institution, whereas the pure supervisor might have opted to close the bank. Similarly, the deposit insurer, if also endowed with supervisory responsibilities, may take a supervisory position that is highly adverse to risk-taking—good for the loss-ratios of the insurance fund, but perhaps not so good for the competitiveness of banks and their customers.

In the United States, nonetheless, we entrust the Federal Reserve and the Federal Deposit Insurance Corporation with significant responsibilities for bank supervision. As your slides show, state-chartered banks in America, in addition to their state supervisors, each have one primary federal bank supervisor: the FDIC if it's a state-chartered bank that is not a member of the Federal Reserve system (membership is optional for all state banks and mandatory for OCC-supervised national banks), and the Federal Reserve if the state bank is a Fed member.

We are often asked to explain why this complicated regulatory structure arose—and why we have not attempted systematically to simplify it. The question of origins has a relatively straightforward answer. I have already spoken of Americans' enduring suspicion of concentrated political authority and their belief that establishing multiple and competing government bureaucracies would serve to check their ambitions and excesses. Thus, when the Federal Reserve System was created in 1914—becoming the second federal agency with a bank supervisory mission—Congress simply layered it on top of the existing supervisory structure and parceled supervisory authority between the new Fed and the OCC. The same pattern held in 1933, when the FDIC—the third of the federal banking agencies—was created.

So it was not political cowardice, as some have suggested, that led Congress to avoid trying to abolish one agency when creating another to perform essentially the same, or a complimentary, function—although as you well know, abolishing government bureaucracies is never an easy task. There is a positive rationale for multiple agencies: that competition can be as productive in the public sector as in the private. In the case of bank supervision, the assumption has been that the agencies would each do their jobs better with bureaucratic competitors in the mix, challenging them to excel. Whether or not this was Congress's rationale, most agree that it has been the happy result.

In the case of U.S. banking, regulatory competition can take on a particular edge, because U.S. banks have the extraordinary ability not only to choose their chartering agency, but also to switch charters if they grow dissatisfied with the manner in which they're supervised. It's in the direct self-interest of the primary supervisors that depend upon assessment funding—the states and the OCC—to provide high quality, cost-effective supervision. And by most accounts, we do just that.

The other main reason why this somewhat unwieldy structure arose was because both the Federal Reserve and the FDIC made compelling cases in favor of their receiving significant supervisory responsibilities. The Fed has argued that it needs a "window" into the banking system to assist it in carrying out monetary policy, and the FDIC has made a plausible argument that the insurer's interests—and the health of the deposit insurance funds—must be taken into account in supervisory decisions that are likely to affect them. Thus, in addition to their routine responsibilities for state-chartered banks—responsibilities that, as already noted, are shared with state authorities—both the Fed and the FDIC have back-up supervisory authority for national banks that can be exercised in problem bank situations.

Once the Federal Reserve and the FDIC became permanent parts of our supervisory structure, the complexion of the U.S. dual banking system changed. Laws passed by Congress that were meant to apply to state as well as national banks were increasingly entrusted for administration to the federal supervisors of state banks, whose compliance with Congress's wishes could be better monitored. Thus, as your chart shows, most of the supervisory activities concerning state-chartered banks are carried out not by the states, but by the Federal Reserve and the FDIC. So there is probably less "duality" today than there has ever been in the 140-year history of the U.S. dual banking system.

As to why our system has persisted despite its unwieldiness, there are a couple of points to consider. The first is that there has never been a clear and compelling consensus for change. The U.S. banking industry and other interest groups have learned to live with—and take advantage of—our existing system. For them, change would be unwelcome. But even those groups that might be expected to support supervisory rationalization—consumer and public interest groups, for example—have been not expressed that support in any consistent or unified way. And the regulatory agencies themselves have never been enthusiastic about proposals to simplify supervision—especially when simplification would occur at their expense.

A second reason why our structure has remained in place is that the U.S. regulatory agencies, through trial and error, have learned to work effectively within it. We have created formal mechanisms for coordinating our efforts and avoiding duplication and unnecessary burden on U.S. financial institutions, as well as informal avenues for information sharing and consultation. I believe that the relationships that exist among U.S. supervisors validate the concept that lies at the heart of our structure—that competition among regulatory agencies can enhance the quality of supervision and help prevent it from becoming unduly burdensome for financial institutions.

The final and perhaps most important reason why our regulatory structure works is that it is an authentic reflection of our country's habits of mind and practice. While international experience suggests certain core principles of effective bank supervision—independence being chief among them—every country must find its own way of implementing those principles, in a manner consistent with its own culture and institutions. That is what the United States has successfully done over a period of many years. And that is one of the great challenges that confront the People's Republic of China. We at the OCC are delighted to assist in any way in that effort.

Remarks by John D. Hawke, Jr., Comptroller of the Currency, before the North Carolina Bankers Association, Pinehurst, North Carolina, on reforming the system of funding bank supervision, October 22, 2002

Most people visit this lovely resort for a break from life's stresses and tribulations. But this is also a place for serious contemplation about the challenges that we face as a society. That's what has brought presidents and heads of state to Pinehurst for many years; it's what brought the North Carolina Bankers Association here for this year's management team conference, and it's what brings me here to join you today.

These are nothing if not challenging times—for our country, facing new and knotty threats from abroad; for our economy, which continues to struggle for positive momentum; and for the banking industry, whose health is inextricably linked to its operating environment—an environment that holds more than the usual brace of challenges.

Challenge is by no means synonymous with crisis, of course, and, indeed, the continued vitality of the U.S. banking system is often cited as a major reason why the national economy continues to holds its own—however precariously—rather than slipping back into a dreaded "double-dip" recession. Here in North Carolina, for example, the banking system can be characterized as generally stable or improving—much better than one would expect given the recent performance of the state's economy and a significant source of the state economy's underlying strength.

Preliminary second quarter 2002 data for all North Carolina commercial banks show a 10 percent increase in net income, compared to the same period in 2001. Assets are up, though by a lesser percentage. More than twice as many institutions reported earnings gains over the previous period; the percentage of unprofitable institutions dropped by nearly a third. Return on equity and return on assets were significantly up, as was capital; nonperforming assets were down.

As I've suggested, these performance data are especially noteworthy given the conspicuous, if no doubt transitory, weaknesses in the state's economy—an unemployment rate that has been averaging close to seven percent, above the national average; a slowdown in housing starts; and slow progress in narrowing the gap between the richest and poorest citizens of this great state. The latest Federal Reserve Beige Book pointed to signs of stress in the state's crucial farm economy, and rising vacancy rates in commercial real estate. And that was before the dismal September on Wall Street, which presumably did nothing to bolster the confidence of those in North Carolina responsible for purchasing and hiring.

Not all the challenges confronting North Carolina bankers—and U.S. bankers generally—relate to the current economic uncertainty. Some of those challenges have more to do with secular changes in the business of banking—changes that were already very much in evidence back in the innocent days when people were convinced that the business cycle had been repealed by the microchip revolution.

The consolidation of commercial banking in this country has been going on for a very long time and for a good many reasons. A certain percentage of the bank mergers of the past decade undoubtedly occurred for no other reason than that it became possible to do them. The Riegle–Neal Act of 1994 tore down the barriers to interstate branching, and bankers with interstate ambitions sometimes sought to achieve them on the quick. Since then, bank mergers have been driven by more fundamental considerations. Bankers have sought to capitalize on economies of scale, to leverage investments in technology, to diversify geographically, and to broaden product offerings to a more demanding and sophisticated financial consumer.

The results, as you know, have been mixed. While it is certainly true that not all of the promised benefits of this merger activity have materialized for banks, neither have most of the concerns of the critics. As the members of this audience can attest, our financial markets remain highly competitive; our citizens and our communities are, with few exceptions, exceedingly well served by depository institutions; commercial credit has remained widely available, to small businesses and large, on reasonable if not easy terms; employment in the banking industry has not declined appreciably, if at all; and there has been no shortage of new entrants to the banking business, despite the generally inhospitable economic environment.

Yet the structure of U.S. banking *has* changed in consequential ways, and that change is nowhere more plainly visible than here in North Carolina. Indeed, North Carolina may be *the* state whose fortunes—and whose very identity as a banking center—are most closely bound up with the trend toward financial consolidation. It's easy to forget how startling it would have seemed just 15 or 20 years ago to suggest that Charlotte would become one of the world's great banking centers. But it has become just that—thanks not only to the legal, economic, and technological developments I've already mentioned, but also to the vision and leadership of larger-than-life North Carolina bankers like Ed Crutchfield, Hugh McColl, and John Medlin, as well as to the equally hardworking but perhaps less heralded North Carolina bankers who lead this organization and those who make up its rank-and-file.

North Carolina's extraordinary rise to national and world prominence as a banking center—and as an economic power—is reflected in numbers that are at odds with national trends. In only five states of the union are there more commercial banks today than there were in 1984. North Carolina—which went from 68 in 1984 to 72 today—is one of them.

Yet when one focuses on the *distribution* of North Carolina banking assets, the picture comes into closer convergence with national trends. In 1984, the three largest North Carolina banks held 63 percent of total state assets. Today, the three largest control 95 percent. To slice it another way, where the 65 smallest North Carolina banks (out of a universe of 68) shared 37 percent of state banking assets in 1984, the 69 smallest share five percent today. Obviously the pie has grown tremendously over that period, with total assets increasing by about thirty-fold, but that simply highlights the vast dominance—statistically speaking, at least—of the very largest banking corporations—which, of course, carry on their business not only in North Carolina, but throughout the country.

If you happen to represent one of those big banks, chances are that you take enormous and justifiable pride in those numbers—numbers that affirm everything you have worked to achieve. But what if you're here at Pinehurst representing the Millennia Community Bank of Greenville, with $24 million in assets—the smallest commercial bank in the state? What do these numbers mean to you?

The answer may be, much less than one would expect. When we look back years from now, the performance of community banks in the era of banking consolidation will stand as one of the truly inspiring stories of our economic age. Against daunting odds, community bankers have succeeded in keeping their franchises relevant and profitable through judicious adoption of technology, strict controls over operating costs, and a fixed focus on customer service and local responsiveness. You would probably dismiss the suggestion than any of you are heroes, but by demonstrating that there's a place for individual initiative even on a landscape dominated by giants, heroes are what you are nevertheless.

The consolidation of the banking business has been almost as much of a challenge for bank supervisors as it's been for bankers themselves. It's forced us to modify an approach to bank supervision that has been in place at the Office of the Comptroller of the Currency (OCC)—and at the federal and state agencies that have modeled their supervision after ours—for many decades. That approach was founded on the notion that commercial banks big and small were banks at the core—more alike than different, vulnerable to the same environmental forces and human mistakes. But experience has taught us that banks at either end of the spectrum—and North Carolina is richly endowed with both types—present very different risks to themselves and to the public interest, and necessitate official oversight of a wholly different nature and degree. The noncomplex procedures we now use for most community banks and the continual onsite presence we maintain at banks in our large bank program reflect this bifurcation. For the OCC, it has involved a totally different way of doing business.

Banking consolidation has also exposed what I believe are serious flaws in the way we fund supervision. I should say, "additional serious flaws," because I have already expounded at considerable length about the unfairness of a system that requires national banks to bear the full cost of their own supervision *and* to subsidize a significant portion of the supervision of their state-chartered competitors. The OCC, as you may know, has proposed to deal with that inequity with a plan that would draw upon earnings from the Bank Insurance Fund to offset the costs of *all* supervision—state and national—and do away with the assessment-based system that was introduced back in the horse-and-buggy days. Such a change would place state and national banks on an equal footing, and end the discriminatory arrangement that delivers benefits to one favored class of financial institutions and forces national banks—and U.S. taxpayers—to foot the bill. I want to make very clear that our proposal would have significant benefits for state banks, because it would eliminate the need for state supervisors to impose any direct assessments on them.

Fairness aside, perhaps the most damning indictment of our current funding arrangement is that it undermines the very purposes for which it was established: the safety and soundness of all commercial banks and the health of our system of dual chartering options for those same banks.

It seems difficult to defend a funding system that, in times of economic stress, forces supervisors to turn to well-managed banks for the resources supervisors need to deal with problem institutions—another kind of unfair subsidy. But that's exactly what our current system does with regard to national banks.

It seems difficult to defend a system that has created a marketplace for charters—"bazaar" may be a better term—in which cost seems to be the principal thing that counts and qualitative factors—such as supervisory philosophy and responsiveness, examination quality, and the scope of permissible activities—are frequently disparaged or disregarded.

In fact, the subsidy renders meaningless any qualitative inferences that might otherwise be drawn from the fee disparity—about the relative efficiency of state and national supervisors, for example—because state assessments reflect only about 22 percent of the total costs of delivering supervision to state banks.

If I'm making widgets and some third party is generous enough to pick up 78 percent of my costs, I can probably afford not to worry too much about my efficiency and still sell my product for a lot less than the competition.

Maybe it's not so remarkable after all that this is a system that still has such vocal defenders.

The main reason why people defend such a system, I gather, despite these grievous and widely acknowledged defects, is that they're afraid that the alternative might be worse. They're afraid, especially, that under any fair and rational system of supervisory funding, some state banks might convert to the national charter, with potentially damaging institutional consequences for state supervisors and their federal counterparts involved in state bank supervision.

Here's where the trend toward industry concentration has cut uncomfortably close to the bone for bank supervisors. It's to be expected that we'd find the largest number of charter conversions among the largest pool of banks. Indeed, between 1990 and 2002, more than 90 percent of stand-alone flips out of the national charter—that is, those that occur in the absence of a merger or acquisition—involved community banks under $500 million in assets. Those are the institutions that tend to feel cost-cutting pressures most intensely and that are most likely to be attracted by the prospect of saving a few thousand dollars a year.

For the supervisory agency, the financial impact of such conversions is usually manageable. It can even be a positive if, as is the case at the OCC, the assessment structure is progressive, with community banks generally paying less than the pro rata share of their supervisory costs. Indeed, while we always regret it when a community bank decides to relinquish its national charter, the bank's action can often result in a net gain to our bottom line.

When a bank exceeds a certain size, however, its conversion can be damaging to the supervisory structure, for the departure of a well-managed larger bank may diminish resources that are needed to deal with more troubled institutions. And as large banks grow larger, the potential impact of a conversion gets disproportionately greater.

If that's true for the OCC, with its 2,200 national banks—the largest of which represents 16 percent of the total assets in the national banking system and 10 percent of total OCC assessment revenues—consider the vulnerability of half of the state banking departments, in which a single state bank accounts for more than 25 percent of the bank assets under state supervision. In eight states—including North Carolina—a single state bank accounts for more than 50 percent of the assets under state supervision. In any of those states, the loss of a large bank, to conversion, merger, or failure, could be devastating.

In that light, one can understand why some state supervisors might dig in their heels in opposition to the OCC's proposal to rationalize the supervisory fee structure—even though our proposal would clearly be beneficial for the banks they supervise. Over the years, a view has taken hold—a view that I believe is quite erroneous—that lower assessments are about all that the state charter has to offer, and that if the fee disparity were reduced or eliminated, state banks would flee en masse to the national charter.

But that needn't be the case, and I don't believe it would be. The state bank charter is not in such a state of decrepitude that it needs $1 billion a year in federal subsidies to shore it up—and I am surprised that the supervisors of state banks would implicitly take a contrary view.

For much more than a century, against far longer odds than it faces today, state banking has competed successfully through the application of grit, innovation, supervisory responsiveness, and other qualitative attributes that have unfortunately been cheapened in the current obsession with assessments. I am convinced that we can restore fairness of our system of supervisory funding, maintain the vitality of state supervision, and reinvigorate the system of dual chartering that contributed so significantly to the proud and productive history of commercial banking in our country.

Reforming our system of supervisory funding is no panacea. But I believe it's as good place as any to start.

Remarks by John D. Hawke, Jr., Comptroller of the Currency, before America's Community Bankers, San Francisco, California, on the viability of the thrift charter, November 5, 2002

I want to thank Diane Casey and the America's Community Bankers (ACB) leadership for inviting me to be with you today. While I know that ACB's membership includes commercial banks, this organization plays a tremendously important role as the leading representative of the thrift industry.

There. I've used the "T" word, in full understanding that it's a term that's largely been banished by the industry it once described. With your forgiveness, I will use it occasionally in my remarks, but only in order to make a couple of points: first, to distinguish the main body of ACB members from the financial institutions supervised by the OCC, and second, to aid in discussing the trend that has all but obliterated what were once key differences between the two types of institutions.

My involvement with your industry spans about 40 years. When I was a young associate at my old law firm, I cut my litigation teeth representing savings and loans (S&Ls) in branch office hearings before the old Federal Home Loan Bank Board. And in the late 1960s I spent endless hours working on S&L holding company legislation. I came to value the thrift charter, and the unitary thrift holding company, as highly flexible formats for carrying on the business of a depository institution, and I still feel that way, even though savings associations and banks have come to look much more alike.

In those days, the differences between commercial banks and savings institutions were still wide and fundamental. The two occupied very different niches within the financial services industry; they undoubtedly competed for some of the same customers, but generally not in ways that the other could have easily replicated. Regulation Q drew a significant line between banks and thrifts. Most people thought of the two as distant cousins rather than competitors. Bank and thrift regulators traveled in their own circles as did their respective trade associations—and our interests diverged as often than they coincided.

What is remarkable is the extent to which the two industries have converged over the last quarter century. Today the public views savings associations as virtually indistinguishable from banks. Indeed, most savings institutions now explicitly hold themselves out as "banks," and—for reasons we all understand—their old identification as "savings and loans" has virtually disappeared—as has the "benefit" they enjoyed under Reg Q of being able to pay higher rates than banks.

Over the past several years, both sectors have seen significant consolidation and restructuring, significant growth of assets and deposits, and, most importantly, significant prosperity. Just since 1994, the number of federally insured savings associations has dropped by approximately 30 percent, commercial banks by about 25 percent. Total assets held by savings associations are up by a little more than 30 percent since 1994, commercial bank assets by just over 50 percent. Both industries today operate from strong positions of equity capital.

The trend toward convergence between the two industries is also evident from an examination of their respective balance sheets. At one time, non-mortgage consumer loans were virtually the exclusive realm of commercial banks. Today, consumer loans account for 8 percent of the loans held by savings institutions. That compares to about 11 percent of all loans held by banks with under $1 billion in total assets.

In other words, the differences between savings associations and commercial banks—especially community banks—are increasingly hard to find.

The same trend can be viewed from another perspective. Commercial banks once held very few real estate-related loans, especially residential mortgage loans. Today, one- to four-family mortgages constitute 25 percent of loans held by banks, and many more mortgages are originated and then securitized.

Indeed, real estate lending is today a major pillar of the national banking system, and a significant source of its strength. Today, at a time when national banks are still making fewer non-real estate loans than they did a year ago, real estate lending is up nearly 10 percent. Today, real estate loans constitute around 45 percent of total national bank loans—5 percent higher than in 1994 and a whopping 20 percent higher than in 1984.

Moreover, the securitization of residential real estate loans plays a large and increasing role in the growth of noninterest income at national banks. As of the second quarter of 2002, residential real estate loans comprised nearly two-thirds of the total stock of securitized loans outstanding at national banks, and income from securitized loans rose by more than 30 percent—a big part of the reason why total noninterest income at national banks was up by more than 8 percent over the same period last year.

What all this means, of course, is that the operational concerns—and macroeconomic trends—that keep ACB members up at night are, increasingly, many of the same trends and concerns that preoccupy the average national bank. Indeed, the vast majority of the institutions supervised by the Office of the Comptroller of the Currency (OCC)—some 2,000 of the 2,200 banks that make up the national system—are community banks, with under $1 billion in assets. Of those 2,000, about half are under $100 million in assets. You can't get more "community"—or more like the typical ACB member—than that.

More than 1,300 OCC examiners—nearly two-thirds of our total examiner force—are dedicated to community bank supervision. The issues that our examiners focus on—and the perspective they bring to those issues—have also changed to reflect the changes that have taken place in the banks they supervise.

Two decades ago, for example, OCC examiners would almost certainly have criticized any national bank with the kind of concentration in residential real estate that is commonplace—and that usually passes without criticism—today.

Two decades ago, OCC examiners would probably have viewed the consumer debt load and the condition of residential real estate markets as relatively minor risk factors for the national banking system. Today these are among the most important issues our analysts and examiners face, precisely because they have become so important to the safety and soundness of the institutions we supervise.

It's become a cliché in our present economy that the consumer is king—or queen. We can go even further: consumer spending over the last two years prevented what is so far the mildest recession in recent history from becoming much more serious. The willingness of American consumers to continue spending despite the dismal performance of many of their investments represents a vote of confidence in the fundamental health of our economy.

The combined effect of tax cuts and the dramatic decline in interest rates has been significant for the economy. Successive cuts in short-term rates—the Fed implemented 11 such cuts in 2001 alone—helped to keep auto sales brisk and to sustain one of the best housing markets in history. Fixed mortgage rates hit all-time lows this summer, and they have largely stayed there. New housing starts, sales of existing homes, and mortgage refinancing have soared to record levels, and property values generally risen with them. One estimate places the rise in property values over the past two years at $2.5 trillion—making up for no less than half the total loss in equity wealth over the same period. And mortgage refinancing has generated savings of about $150 billion in the form of cash-outs and lowered monthly payments.

That's $150 billion extra in the pockets of American consumers—a windfall that has until now helped keep our shops busy, our factories humming, and our employment stable.

The big question is whether we can sustain this level of activity. Is the consumer in a position to continue supporting the economy until business investment has rebounded to the point where it can bear its share of the economic load?

These days, the evidence is inconclusive. If it's good news that you're looking for on this front, you probably won't have trouble finding it. Indeed, many retail indicators continue to reflect strength.

But bank supervisors are professional worriers. Something in their DNA seems to cause them to find glasses half empty and to see dark clouds on every horizon. Even after adjusting for this somewhat dour outlook, we think there's legitimate cause for concern about whether consumers have the wherewithal to carry the load for the economy through these uncertain times.

A telling signal on the retail side is the drop in key indicators of consumer confidence. Last month the University of Michigan's Consumer Sentiment Index dropped to a nine-year low—the fifth consecutive monthly decline in that index. This appears to be no aberration; the Conference Board's Consumer Confidence Index has declined for five straight months and is now at its lowest level since November 1993.

This trend has been in evidence in auto showrooms. Despite the renewal of below-market financing deals, auto sales pulled back 5.2 percent in September. Sales rose for durable goods, as consumers loaded up on appliances and furniture for all of those new houses, but not enough to offset losses in autos.

A particularly disconcerting fact is that despite rock-bottom interest rates, debt service as a percentage of disposable income is higher than it's been since the mid-1980s. That's partly a reflection of the rise of consumer credit outstanding and partly due to the decline in median household income. In 2001, household income fell by 2.2 percent after adjusting for inflation, and the poverty rate rose for the first time since 1993. And there's little evidence of an impending turnaround, given rising unemployment claims and continued weakness in the job market.

It may be, in other words, that the consumer has already given about all that the consumer has to give. Indeed, debt load statistics suggest that consumers may have given too much, and that retail customers could be especially vulnerable to an unexpected economic jolt—in the form, say, of a spike in interest rates or energy costs, or what some believe is a long-overdue softening of the housing market.

There's widespread concern that in some parts of the country the good times in housing amount to a bubble that cannot last. The implications for the issuers of high loan-to-value first mortgages and home equity loans—one of the fastest-growing categories of consumer loans by national banks—are obvious. Indeed, this summer, mortgage foreclosures rose to the highest levels on record.

What are the other implications of a weakening consumer sector for national banks and savings associations? More to the point, what is the OCC doing to help the institutions it supervises manage the special risks that this complex and sensitive situation present?

I say "sensitive," because, as I've emphasized, consumer spending—and borrowing—is crucial to the health of the banking system and the economy, present and future. Obviously, it's in our interest to preserve the ability of banks to continue making prudent loans to business and consumers alike.

Having said that, we know from experience that the best way to maintain credit availability and healthy economic development is to safeguard the safety and soundness of the institutions that supply it. And the way we do that as bank supervisors is to assist lending institutions to identify, control, and manage risk—both new and existing.

As a case in point, we and the other Federal Financial Institutions Examination Council agencies, including the Office of Thrift Supervision (OTS), recently issued proposed guidance on credit card lending. It was the outgrowth of recent examination findings of inappropriate or weak account management, risk management, and loss allowance practices at some institutions—practices that give us particular concern in today's uncertain retail banking environment.

For example, we found that some institutions have been extending credit, increasing existing credit lines, or issuing additional lines with insufficient regard to the borrowers' ability to repay. In some instances, issuers failed to evaluate and document the borrower's creditworthiness; in others, institutions lacked adequate management information systems to get their arms around borrowers' total exposure; and some issuers have clearly paid insufficient attention to their workout and collection arrangements.

We have been particularly concerned about subprime lenders, especially those that freely grant credit-limit increases to cardholders—or that implicitly grant such increases by honoring over-limit charges and carrying the excess forward month after month with substantial penalty charges. Too often that leads to negative amortization, a situation in which the minimum monthly payment is insufficient to amortize the debt, and finance charges pile up to increase the amount owed. Subprime borrowers frequently lack the financial capacity to service this additional debt and the high fees associated with being in an over-limit status. It's not uncommon for subprime borrowers to be current on their debt, and yet, when finance charges and over-limit fees are added in, to wind up owing their creditors more *after* making the minimum payment than they did before. This is obviously an untenable situation for borrowers, but it also exposes lenders to the possibility of large unsecured losses. The consequences for banks—and for the economy—could be serious.

As supervisors, we believe it is important to avoid such an unhappy outcome. The guidance put out for comment spells out our expectations for prudent risk management practices for credit card activities. We expect issuing institutions to manage credit lines prudently—to fully test, analyze, and justify credit line assignment and line increase criteria. We expect that over-limit authorizations for subprime borrowers will be carefully considered, and that workout policies will be properly managed.

And while we recognize that it will take some time for financial institutions fully to phase in the policy changes that our guidance contemplates, we want to see financial institutions making an early and industrious effort to address those areas in which corrective action is most needed. Much rides on the outcome for national banks, for ACB members, and for all financial institutions—as well as for our economy.

That's another facet of the convergence of banks and savings associations that I mentioned earlier in my remarks. During the early 1980s, while S&L losses multiplied, banks operated in relatively safety.

Those days, I suspect, are gone forever. Whatever happens tomorrow—good or bad—will undoubtedly affect ACB member institutions and commercial banks without distinction. Now we're in it together.

That's why it's so important that we share views and insights across industry lines—and why I so appreciate the opportunity to speak to you this morning.

Before closing, let me speak to an issue that I know is on your minds, and that is the future of the thrift charter and the Office of Thrift Supervision. If, as some suggest, thrifts and commercial banks have become increasingly difficult to distinguish from one another, then it's logical to ask whether we need both charters. And even if the answer is that we should retain both, then it's not unreasonable to ask whether we still should have two federal agencies to supervise the two industries.

As I said before, I am a strong believer in the charter you hold, and I want to see it preserved. Indeed, I had hoped that financial modernization legislation would use the thrift charter as the model for all depository institutions—a kind of highest common denominator—and I regret that did not happen.

Some people have suggested that there is a compelling logic to merging OCC and OTS. There is no question, of course, that the crazy quilt of U.S. financial supervisory agencies offends some people's rigid conception of bureaucratic orderliness. Contraction among savings associations and attrition at OTS have fanned the consolidation flames. Indeed, the most recently announced OTS staff reductions would bring that agency's workforce below 1,000 for the first time. By contrast, in 1994, the number of OTS staffers stood at over 1,700.

You have all heard the line attributed to Mark Twain: "the report of my death was an exaggeration." The same can be said of OTS. It's now going on 14 years that OTS has been said to be on the verge of extinction. Notwithstanding these predictions, OTS is fully discharging its responsibilities under the law in a highly professional manner and playing a very important role in the supervision of our financial institutions. After several years of budget deficits, OTS Director Jim Gilleran has not only balanced OTS's budget, but now projects a small operating surplus. OTS continues to have a critical mass of institutions to supervise, and I see no useful purpose to be served in merging the two agencies. While it is true that banks and savings associations are looking more alike than ever before, there continue to be significant differences in the charters, in their holding companies, and in the legal frameworks under which they operate. These differences also weigh strongly in favor of the continuation of strong and effective representation of this segment of the financial services industry in Washington, such as that provided by Diane Casey and ACB. Any effort to merge the regulatory agencies would not only be disruptive, but would have to come to grips with these differences. Perhaps that's why no significant public constituency seems to have developed in favor of an OCC–OTS merger.

So let's hope that the next time a Comptroller of the Currency is invited to address the ACB annual convention, it is as the supervisor of a vibrant national banking system, vigorously competing with an equally vibrant group of savings associations under the supervision of an independent OTS. Freedom of choice for financial institutions is a goal worth preserving; I assure you that the OCC is committed to working toward that end.

Statement of Douglas W. Roeder, Senior Deputy Comptroller for Large Bank Supervision, Office of the Comptroller of the Currency, before the U.S. Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, on how the OCC supervises large national banks in general and complex structured transactions such as those entered into by Enron, Washington, D.C., December 11, 2002

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 Levin, Ranking Member Collins, and members of the subcommittee, I am Douglas Roeder, senior deputy comptroller responsible for large bank supervision. Thank you for inviting the Office of the Comptroller of the Currency (OCC) to participate in this important hearing.

We share your concerns over the Enron debacle and commend you for holding this hearing. What happened to Enron employees, who lost their jobs and their retirement savings, is tragic. We also have a concern about the role national banks played in some transactions entered into by Enron. As I will discuss, both the banks themselves and the OCC are taking steps to try to guard against future occurrences of this type. It is important to keep in perspective, however, that the role of bank regulators is only one component of the challenge of preventing the repeat of an Enron-like disaster.

My testimony will address how the OCC supervises large national banks in general and complex structured transactions such as those entered into by Enron in particular. For clarity, when I refer to complex structured transactions, I mean highly customized financial transactions that often involve a derivative or off-balance-sheet component, such as a special purpose entity (SPE). I will discuss where we think we should broaden our supervisory focus and strengthen our processes and the steps we have taken to do so. I will also describe the OCC's coordination with the Securities and Exchange Commission (SEC), the Internal Revenue Service (IRS) and other agencies in cases where we believe there may have been violations of laws administered by those agencies. My testimony will close with comments on some of the steps the banks are taking to improve their own processes.

Large Bank Supervision

The OCC is responsible for supervising over 2,000 banks. Some of these banks are among the largest banks in the country, indeed the world; they offer a wide array of financial services and are engaged in millions of transactions every day. For maximum effect, the OCC has dedicated teams of examiners actually residing in our largest national banks. Nonetheless, given the volume and complexity of bank transactions, it simply is not feasible to review every transaction in each bank, or for that matter every single product line or bank activity. Accordingly, we focus on those products and services posing the greatest risk to the bank.

The first step in risk-based supervision is to identify the most significant risks and then to determine whether a bank has systems and controls to measure, monitor, manage, and control those risks affecting the institution. Next, we assess the integrity and effectiveness of risk management systems, with appropriate validation through transaction testing. If we have concerns, then we "drill down" to test additional transactions. If this reveals problems, we have a variety of tools with which to respond, ranging from informal supervisory actions directing corrective measures, to formal enforcement actions, to referrals to other regulators or law enforcement.

Resident examiners apply risk-based supervision to a broad array of risks, including reputation risk and transaction risk. Because historically it is credit risk that has posed the greatest threat to safety and soundness of banks and, indeed, the banking system, bank supervisors have devoted significant attention to the supervision of credit risk. The case of Enron demonstrates just how significant other types of risk can be to the operations of a large financial institution.

As a result of this experience, the OCC will refine its approach to supervising aspects of bank operations that may cause reputation, litigation, and other operational risks in the area of complex structured transactions. Banks have also learned from this experience. As a result, they have tightened their procedures and controls. I will discuss both of these developments in greater detail below.

OCC Policies and Procedures for Complex Structured Transactions

Complex structured transactions, such as those entered into by Enron, are generally offered at only a small number of large banking companies, although other companies may conduct isolated transactions. Our supervision of complex products focuses on a bank's ability to manage the relevant credit, market, and transactions risks. Within the context of our risk-based supervisory approach, we believe we can enhance our supervision of complex structured transactions to better assess the broader risks inherent in those activities. To understand these planned supervisory changes, it is useful to start with the OCC's policies for dealing with complex structured transactions and then describe how we intend to enhance them.

As I mentioned previously, the types of transactions engaged in by Enron generally involved some type of derivative or off-balance-sheet product, often a special purpose entity (SPE). While derivatives (and SPEs) serve many legitimate purposes and have resulted in more efficient markets and enhanced the safety and soundness of our financial system, they, like any other tool, can also be misused. The OCC's "Risk Management of Financial Derivatives" booklet (narrative: January 1997, procedures: February 1998), of the *Comptroller's Handbook,* explicitly addresses derivatives products and provides guidance for examiners to follow when evaluating a bank's risk management system for complex structured transactions. In the wake of Enron, we have asked ourselves how our current approach could be enhanced. We have identified several areas where we believe enhancements are warranted.

New product approval. OCC's evaluation of new product approval begins with an assessment of the bank's process. Our examiners evaluate the bank's system for ensuring that responsible senior managers approve new product offerings and that risk management reports adequately capture such products. We direct bankers to ensure that adequate technical knowledge and financial resources are in place before offering new products or services, and we emphasize the importance of a robust control environment that includes sign-off by all members of relevant areas, such as:

- risk control,
- operations,
- accounting,
- legal,
- audit, and
- senior line management.

Having a sound approval process for new products is essential; but equally important is the definition of new products. The reputation risk, including potential legal or regulatory action, to which a bank exposes itself, if it engages in questionable new products, can be significant. Our current policies provide that when bank management is deciding whether or not a product must be routed through the new product process, it should consider various factors:

- structure variations,
- pricing considerations,
- legal and regulatory compliance, and
- market characteristics.

When in doubt as to whether a product requires vetting through the new product approval process, we advise bank management to err on the side of conservatism and apply the process to the proposed product or activity.

Going forward, we will sample more extensively transactions going through the new products approval process. In particular, we will check on whether banks are following their own processes and whether proper review and authorization are received prior to engaging in complex structured transactions.

In addition, we are considering whether an amendment to our safety and soundness guidelines, which are part of our "Part 30" regulations, is in order. These interagency guidelines set out minimum safety and soundness standards for banking activities including:

- internal audit,
- credit underwriting,
- loan documentation, and
- internal controls.

Violation of a guideline can result in a bank having to prepare and submit a compliance plan, or it can result in a regulator taking an enforcement action. We are discussing with our sister banking agencies whether to revise these interagency guidelines to address more specifically board and senior management responsibilities for the approval and oversight of corporate strategies, business plans, and approval of new products that involve transactions such as complex structured products.

Customer appropriateness. While a given product may be approved through the new product approval process as an activity acceptable to the bank's board and senior management, the bank must also carefully consider the appropriateness of complex structured transactions for any particular client. In testing such controls, our focus has been on how well the bank assesses the sophistication of the customer. To that end, our examiners look at the bank's assessment of the nature of the customer's business and the purpose of the customer's derivatives activities. The examiners review the bank's evaluation of the possibility that a customer does not understand a transaction, or that the transaction is inconsistent with the customer's policies, thereby inhibiting the customer's ability to perform under the terms of the contract. To make this assessment, examiners review a sample of credit and marketing files to determine whether the files contain sufficient information to understand the risks the customer is attempting to manage, the types of derivatives expected to be used, and the overall impact on the customer's financial condition.

In testing a bank's controls on customer appropriateness, we will enhance our process and consider not only whether the bank has assessed the customer's ability to understand the transaction and to perform under the terms of the contract, but also if bank management understands the purpose and the customer's disclosure/accounting intent, so the bank does not become embroiled in questionable practices engaged in by its customers. We will test compliance with new policies and procedures, including policies regarding customer disclosures of material financings, and review audit's plans and performance.

Bank management involved in structured finance bears crucial responsibilities. Independent risk management personnel should be involved in the review of any transactions that appear to "push the envelope" and may expose the bank to undue risk. When in doubt, bank management should apply additional scrutiny, for example, obtaining opinions from bank counsel or accountants. While it is not realistic for banks to be responsible for how customers account for transactions on their own financial statements, when uncertainty continues to exist regarding business needs or whether a transaction meets required standards, it is incumbent on bank management to carefully consider their actions and the potential impact on the bank and to decline to participate in transactions that do not meet the standards of integrity that the bank has established.

Large relationships. We think it is important that bank management has established controls that encompass the total relationship the bank has with its large customers. We plan to sample large relationships (even if credit risk is low) and "flag" structured products during our credit work for potential further review. We expect that this will involve using a cross-functional team of examiners to assess credit, price, compliance, and reputation risk associated with approved complex structured transactions. Competitive pressures are a natural part of any business environment, but care must be taken to assure that line managers eager to retain or expand business with important customers don't cross the line and jeopardize the trust and credibility that form the foundation of a bank. The lost business, diminished market capitalization, and increased funding costs that a bank may suffer if financial market participants lose confidence in a bank's control structure can significantly outweigh actual financial losses arising from direct exposures to the customer in question.

Cooperation with Other Agencies

Enron and other corporate governance scandals have revealed some weaknesses in our nation's accounting rules and in the oversight of the accounting profession. The Sarbanes–Oxley Act is a crucial response to those shortcomings. The Securities and Exchange Commission is in the process of adopting and amending regulations to carry out the Sarbanes–Oxley Act and the new Public Company Accounting Oversight Board has vital new responsibilities to oversee accounting standards and the accounting industry. These changes should go a long way toward addressing the weaknesses in our accounting regime and corporate governance that allowed Enron to happen.

For our part, in addition to our direct supervisory responsibilities under the federal banking laws, we work cooperatively with many other federal agencies and law enforcement. These include the other federal banking agencies, the Securities and Exchange Commission (SEC), and the Internal Revenue Service, and also National Association of Securities Dealers, Federal Trade Commission, the Department of Labor, Department of Justice, the Federal Bureau of Investigation, and the Secret Service. When we become aware of information that indicates a national bank may have violated a law or regulation under the jurisdiction of another agency, we make referrals to that agency. We cooperate, as needed, if the agency determines to pursue the matter. The cooperation may entail providing documents, information, and expertise, and making OCC examiners available to serve as witnesses in criminal trials and enforcement proceedings. When other agencies refer to the OCC potential violations of banking law, the OCC will investigate and take enforcement action, as appropriate. In addition, pursuant to OCC regulations, national banks file tens of thousands of suspicious activity reports with federal law enforcement agencies each year.

Focusing on the SEC, for example, the OCC has referred violations of federal securities law to the SEC and cooperated in SEC investigations. Similarly, we have received referrals and information from the SEC concerning infractions of banking laws. Our agencies have shared information concerning potential violations of law from examinations or inspections and from investigations, and OCC examiners have served as witnesses in SEC enforcement actions. In appropriate situations, we have coordinated our enforcement efforts and brought simultaneous or joint enforcement actions. The OCC and SEC also participate together in working groups, such as the National Interagency Bank Fraud Working Group and the Interagency Working Group on Financial Markets, which provide opportunities to share concerns and discuss matters of mutual interest.

Actions Taken by the Banks

The recent series of corporate scandals at Enron and other large corporations have served as a wake-up call for the corporate world, including banks. Whether or not they were involved with Enron, the banks that offer complex structured transactions realize that they can suffer great harm if they become embroiled in questionable activities engaged in by their customers. As a result, all have taken steps to improve their internal controls of complex structured transactions and special purpose entities (SPEs).

Some banks have made changes to management, established new oversight committees, developed new policies and/or procedures, tightened controls, improved internal reporting to management and the board, and improved disclosures. Other banks have centralized the process for establishment, use, and management of SPEs and conducted separate audits to review SPE activities.

Banks also have strengthened their review and approval processes for complex structured transactions in several ways. First, they too have realized how critical the definition of new products is to the new product approval process, and as a result they have expanded the definition of nonstandard products that require approval. Second, they have enhanced the approval process to provide for a broader range of senior-level management review from various areas of the bank, including audit, compliance, and legal. Third, banks are putting a greater focus on assessing customer motivation and appropriateness. Fourth, banks are implementing broader review procedures, which include securing representations from customers regarding disclosures and accounting treatment, and defining strict reporting standards with which customers must comply in order to obtain a structured product.

We believe these are all positive steps toward strengthening internal processes. We will evaluate the changes banks have made and will continue to monitor and assess these reforms as they are implemented. In our assessments, we are reviewing committee structures, charters, minutes and, most importantly, actions taken by management under the new control structures. We continue to sample complex structured transactions to ensure they receive appropriate approval, and to review regulatory capital treatment of these products to ensure capital requirements are being applied appropriately. We have also reviewed special audit reports and board presentations on SPEs to assess uses, risk, control systems, and audit recommendations.

Progress has been made, but we believe that it is too early in the process to identify the full package of appropriate practices with respect to complex structured transactions. It takes some period of time to evaluate how well new policies and procedures will actually work in practice. To the extent that additional formal guidance from bank regulators is appropriate, we would expect to develop such guidance with our colleagues at the Federal Reserve Board and the Federal Deposit Insurance Corporation.

Conclusion

The Enron debacle has indeed been tragic. No one wants to see its circumstances repeated. While it is important to keep in perspective the role of bank regulators, we think there are steps we can take to improve our oversight of complex structured transactions. Similarly, the banking industry has recognized it can do a better job. We will continue to refine our processes for assuring that banks have, and follow, proper policies and procedures for dealing with all the risks involved in complex structured transactions.

Thank you once again for inviting the OCC to testify at this important hearing. I will be glad to answer any questions.

Interpretations—October 1 to December 31, 2002

Contents

Interpretive Letters

945—June 30, 2000

12 CFR 3

Dear [ ]:

This is in response to your presentation of June 6, 2000, requesting an opinion on the risk-based capital treatment for a proposed portfolio credit default swap transaction. In your presentation, you request approval to substitute a 20 percent risk weight for a 100 percent risk weight on a portfolio of reference assets because of the credit protection purchased from [state trust company] ([ ] or counterparty). Subject to the conditions described in this letter, the Office of the Comptroller of the Currency (OCC) approves this capital treatment for the first two and a half years of the proposed transaction. During the year preceding the repricing of the transaction, additional capital will be required as described below.

Background

In the proposed transaction, [NB1] and [NB2] (together, [NB1] or the bank) would purchase default protection via a credit default swap referencing a portfolio of the bank's ABS/MBS securities. The portfolio consists of approximately 107 reference assets with a minimum rating of Aaa by Moody's or AAA by S&P [Standard & Poor's]. The weighted average credit quality of the reference securities is AAA/Aaa and the expected weighted average maturity is 3.7 years. The maximum final maturity of the portfolio is 35 years. Over the term of the transaction the bank will have the ability to replace securities that have amortized or matured. The bank may, at its option, substitute or replace reference assets according to certain eligibility criteria and guidelines agreed to by the bank and its counterparty.

The credit default swap purchased by the bank would have a final maturity of 35 years. However, the bank has the right to terminate the transaction in one year and every six months from that date in the event of a regulatory capital change that would permit the bank to assign a risk weight of less than 100 percent to the underlying portfolio or a risk weight greater than 20 percent to the counterparty in the transaction. The bank may call the transaction for any reason after 18 months and every six months thereafter. If in three and a half years the bank has not exercised these options, the premium paid by the bank to its counterparty will be refixed based on then-prevailing market prices and the outstanding portfolio amount. If the bank experiences a credit loss on any of the reference assets, the counterparty will pay the bank an amount equal to the loss on the security at maturity or at the call date if the transaction is called by the bank.

Risks to the Bank

The transaction described above poses risks to the bank for which the OCC requires adequate risk-based capital. The reference assets for which the bank has purchased credit protection have various final maturities, the longest of which is 35 years. However, the bank has obtained protection against credit losses on the reference securities for effectively three and a half years. The refixing of the premium on the credit default swap in three and a half years is equivalent to entering into a new credit protection arrangement since the refixed premium will be based on then-prevailing market prices and condition of the underlying portfolio. Although the proposed transaction protects the bank from default events of any of the reference assets, it does not protect the bank from changes in value of the reference assets due to deteriorating credit quality of the issuers or changes in market conditions. The bank has purchased protection only on credit losses, i.e., a reduction in the principal of a reference asset or a failure to pay by the issuer. Although the counterparty has committed to continue to provide credit protection after three and a half years, the repricing feature leaves the bank exposed to the risk of credit deterioration in the reference assets.

Risk-Based Capital Treatment

The credit default swap enables the bank to transfer the credit risk of the portfolio of reference assets to the counterparty. Since the counterparty is obligated to reimburse the bank for any credit losses in the reference assets, the proposed credit derivative transaction is functionally equivalent to a standby letter of credit issued by the counterparty. During the period of effective credit protection, the bank's credit risk exposure under the proposed transaction is to the counterparty. Therefore, under 12 CFR Part 3 appendix A, the bank may substitute the risk weight of the counterparty, an OECD [Organization for Economic Cooperation and Development] bank (20 percent), for that of the reference assets. However, because the maturity of the proposed credit protection is effectively three and a half years (significantly shorter than the final maturity of some of the reference assets), the bank will be exposed to the credit risk of the reference assets in three and a half years. The OCC believes it is appropriate that the bank increase the regulatory capital held for the risks of the reference assets during the year prior to the effective maturity date of the transaction.

Starting with the end of the fourth quarter prior to the effective maturity date of the transaction (i.e., the repricing date), the bank should recognize only a portion of the credit protection provided by the counterparty. The portion of credit protection recognized would decrease over the last year, effectively increasing regulatory capital, so that at the end of the last quarter prior to the effective maturity date the full amount of regulatory capital for the unprotected reference assets is allocated for the portfolio. Specifically, when calculating risk weighted assets at the end of the fourth quarter prior to the effective maturity date, the bank would recognize the credit protection provided by the counterparty for only 75 percent of the underlying portfolio, i.e., 75 percent of the underlying portfolio would receive the risk weight of the counterparty and 25 percent would receive the risk weight appropriate for the reference assets. At the end of the third quarter prior to the effective maturity date, 50 percent of the reference assets would receive the risk weight of the counterparty and 50 percent would receive the risk weight of the reference assets. At the end of the second quarter prior to the effective maturity date, only 25 percent of the reference assets would receive the risk weight of the counterparty. At the end of the last quarter prior to the effective maturity date, 100 percent of the reference assets would be considered unprotected. Assuming the reference assets are otherwise subject to a 100 percent risk weight, the effective risk weight on the portfolio would be 40 percent at the end of the fourth quarter, 60 percent at the end of the next quarter, 80 percent at the end of the second to last quarter, and 100 percent at the end of the last quarter.

As part of this risk-based capital interpretation, the OCC carefully considered the high credit quality of both the reference assets and the counterparty. The OCC also considered the bank's ability to adequately manage and monitor the risks of the transaction. The bank must continue to manage and maintain adequate regulatory capital for the credit risk of its assets that has not been transferred as a result of this transaction. The proposed transaction does not confer any benefits to the bank for purposes of calculating its Tier 1 leverage ratio because the reference assets remain on the bank's balance sheet.

Additionally, under the substitution agreement between the bank and the counterparty the bank may substitute an asset with a higher rating than that of the asset it is replacing. However, such a substitution might raise questions concerning the actual transference of credit risk of the reference assets to the counterparty and could result in the OCC reconsidering the capital treatment outlined in this letter.

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

Tommy Snow
Director, Capital Policy

946—September 27, 2001

12 CFR 3

Dear [ ]:

This letter is in response to your April 30, 2001, letter to Jennifer Burns and Morris Morgan requesting a risk-based capital interpretation for a series of credit derivative structures. In addition, your letter poses a number of questions concerning the application of 12 CFR 3, appendix B; 12 CFR 208, appendix E; and 12 CFR 225, appendix E ("market risk rules") and the proposal "Risk Based Capital Standards; Recourse and Direct Credit Substitutes" [1] ("proposed rules") to credit derivatives. This letter provides views as to the appropriate risk-based capital treatment for all but one of the structures described. On the fifth structure, the variable funding credit-linked note, we are unable to provide a risk-based capital interpretation until more details are provided concerning the structure. The capital treatment set forth below for individual scenarios may not apply when the individual elements are combined together in one transaction. As a result, both the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (FRB) will continue to follow a case-by-case approach to risk-based capital interpretations for synthetic securitizations and credit derivatives transactions.

Background

[ ] (the "bank") is considering providing second loss protection to a foreign OECD [Organization for Economic Cooperation and Development] bank ("the counterparty") on a portfolio of margin loans ("reference portfolio") originated in individual brokerage accounts in the U.S. The size of the pool will vary over time and is expected to be very diverse (over 1,000 borrowers). For illustrative purposes you have assumed a notional amount for the portfolio of $5 billion. The counterparty will retain a first loss position of 2 percent per year and the third loss position. The bank will assume the second loss position, not to exceed 10 percent of the portfolio over the life of the transaction. The second loss position is expected to be rated BBB. The maturity of the loans in the portfolio is not well defined, but the credit protection provided by the bank will have a final maturity of 3 years and a call option exercisable by the counterparty after 2.5 years.

In your letter, you describe five possible transaction structures by which the bank could assume the second loss position on the reference portfolio: (1) cash securitization, (2) credit linked note (CLN), (3) credit default swap (CDS) referencing a CLN held by the counterparty, (4) CDS directly on the reference portfolio, and (5) variable funding credit linked note (VFCLN).

[1] 65 *Fed. Reg*. 12320 (March 8, 2000)

Bank's Questions

Structure 1: Cash Securitization

In your letter you describe the banking book and trading book risk-based capital calculation for a cash securitization. As part of your description of the trading book calculation, you indicate that "there would also be the applicable Counterparty Risk charge." Please note that a counterparty credit risk charge is not required for a cash security held by the bank in its trading book because under the market risk rules, such a charge applies only to over-the-counter derivatives and foreign exchange contracts.

Question 1: Were the Proposed Rules intended to apply only to banking book treatment, or would they affect the trading book treatment as well?

For banking organizations that do not apply the market risk rules, the proposed rules are intended to apply to positions in both the banking book and trading book. For banking organizations that comply with the market risk rules, the proposed rules, if adopted, would apply only to positions in the banking book and the market risk rules would apply to positions in the trading book (including those arising out of securitizations).

Structure 2: Credit Linked Note

Question 2: We are under the impression that OCC 99–43, FRB SR 99–32 was intended to apply only to the banking book. This is based primarily on the reliance on risk-weights when determining the capital charge for a bank investing in the notes of the synthetic CLO and the fact that no specific mention was made of the trading book. Are we correct in this assumption? If so, would the trading book treatment be identical to that described in Structure 1: Cash Securitization?

The capital treatment articulated in OCC 99–43 and FRB SR99–32 applies to the agencies' current leverage and risk-based capital guidelines. Although not explicitly stated, the OCC and FRB intended the capital treatment articulated in OCC 99–43 and FRB SR 99–32 to apply to CLNs held in the banking book. Banks investing in CLNs are required to use the higher of the risk weight applicable for the underlying reference asset or the issuer of the CLNs. If the bank holds a CLN in its trading book and it complies with the market risk rules, it must calculate the general market risk and specific risk capital charges for its investment in the CLN. The bank should use its own internal value-at-risk (VAR) model to calculate the capital charge for general market risk. A bank may use its VAR model to calculate its specific risk charge, if accepted by its supervisor, or the standard approach described in the market risk rules. If a bank uses the standard approach for specific risk, it may use the rating on the CLNs to determine the appropriate charge.

Question 3: Generally, what would be the appropriate notional amount to which the risk-weight should be applied under OCC 99–43, FRB SR 99–32—the notional amount of the note purchased or the notional amount of the underlying portfolio? For example, if a synthetic CLO had a $100 million BBB tranche referencing a $10 billion portfolio and SCP ("Structured Credit Products Group") purchased $20 million of that tranche, to what notional should the risk-weight be applied to calculate the capital charge against the $20 million position?

The risk weight should be applied to the maximum amount the bank could lose from its investment. For example, if a bank purchased rated CLNs with a face amount of $20 MM and the maximum amount the bank could lose is $20 MM, the appropriate risk weight would be applied to $20 MM.

Question 4: Was it the intention of the Proposed Rules to give synthetic securitizations and cash securitizations the same capital treatment?

The proposed rules generally are intended to treat recourse obligations and direct credit substitutes more consistently than under the current risk-based capital standards, as well as to better match capital requirements to credit risk exposure. To the extent that synthetic securitizations and cash securitizations pose the same economic risk to a bank, the proposed rules, if adopted, should result in similar risk-based capital requirements.

Structure 3: Credit Default Swap Referencing a CLN Held by the Counterparty

Question 5: Would the notional amount of the CLN on which the default protection is written be the correct notional to use in the calculation of the Specific Risk capital charge and the Counterparty Risk capital charge?

In this structure, the bank has entered into a derivative contract with its counterparty. The market risk rules require that in determining the standard specific risk charge "for debt positions that are derivatives, a bank must risk weight . . . the market value of the effective notional amount of the underlying debt instrument." (Section 5(c)(1)(i)(A) of 12 CFR 3, appendix B, and 12 CFR 225, appendix E). The CLN is the debt instrument underlying the CDS. The standard specific risk charge for the bank should be calculated based on the market value of the underlying CLN and the rating of the CLN.

In the described transaction the bank has sold credit protection to the counterparty in return for a premium. The bank's only credit exposure to the counterparty is future premiums, which, if discontinued, eliminate the bank's obligation to provide protection. Therefore, a counterparty risk capital charge is not necessary.

Question 6: Is a literal reading of FRB SR 97–18 appropriate for the calculation of capital in this case?

We assume that you are referring to the treatment for specific risk of credit derivatives described in FRB SR 97–18, "Application of Market Risk Capital Requirements to Credit Derivatives." The SR letter states that "standard specific risk charges for credit derivatives may be calculated using the specific risk weighting factors that apply to the referenced asset." In the case of a CDS referencing a rated CLN, the referenced asset is a rated CLN. For the transaction described, the bank should calculate the standard specific risk charge by applying the risk weight appropriate for a debt instrument with the same rating and maturity as the CLN to the market value of the CLN.

Structure 4: Credit Default Swap

Question 7: Would the CDS notional be the correct notional against which to apply the risk-weight in this scenario? [Banking book treatment]

Under the current banking book rules, the CDS would be treated as a direct credit substitute. The CDS is equivalent to a guarantee type standby letter of credit on third-party assets. To calculate the risk-based capital requirement for a standby letter of credit, the bank would apply the appropriate risk weight to the face amount of the letter of credit. In the transaction described in your letter, the bank would apply a 100 percent risk weight to the size of its second loss position, which is 10 percent of the underlying reference portfolio. If the CDS is structured in such a way that the bank could lose more than the notional amount of the CDS, that larger amount should be risk weighted.

However, if the proposed rules are adopted, the risk-based capital requirement could be significantly different. The bank's position would be treated as a non-traded and unrated position. The bank's risk-based capital charge would be the appropriate risk weight, 100 percent, applied to its second loss position plus the senior risk positions that it supports, subject to low-level recourse rules.

Question 8: What would be the appropriate notional on which the capital charge should be calculated for the Specific Risk charge and the Counterparty Risk charge? [Trading book treatment]

The market risk rules require a bank to apply the specific risk weight factor to the "effective notional amount" of the underlying reference asset. However, the rules do not explicitly define "effective notional amount." In the transaction described, the bank is providing second loss credit protection on the reference portfolio. The bank's potential credit losses are limited to 10 percent of the reference portfolio. Based on the specific facts of the transaction described in your letter, we believe the term "effective notional amount" should be interpreted to mean the bank's loss exposure under the CDS. The bank may apply the specific risk weight factor to the maximum amount the bank could lose on the CDS.

In the described transaction the bank has sold credit protection to the counterparty in return for a premium. The bank's only credit exposure to the counterparty is future premiums. Therefore, a counterparty risk capital charge is not necessary.

Question 9: If the swap itself were rated investment grade, could the Specific Risk charge be calculated as 1.6% x $500 million = $8 million rather than $40 million? In other words, although this does not follow from a literal reading of FRB SR 97–18, given that this structure is economically identical to Structure 3 above,[2] should it be treated differently under the capital rules?

FRB SR 97–18, which addresses trading book capital requirements, was issued four years ago when credit derivatives were relatively new instruments and CDS's were not rated. Since then, the market for credit derivatives has evolved and rated CDS's are increasingly common. We believe that an investment grade rating on a CDS provides information on the credit quality of both the underlying reference portfolio and the level of prior enhancement. A case can be made that the rating of a CDS should be used to determine the specific risk weighting factor in the calculation of the standard specific risk capital charge. The specific risk capital charge would be $8 MM.

Question 10: Was it the intention of the Proposed Rules that a rated CDS such as the one described would be treated the same as a cash and/or synthetic securitization?

The proposed rules are intended to treat recourse obligations and direct credit substitutes more consistently than under the current risk-based capital standards and better match capital requirements to credit risk exposure. The proposed definition of direct credit substitute includes credit derivative contracts under which a bank assumes more than its *pro rata* share of credit risk on a third-party asset. To the extent that a rated CDS poses the same risks to the bank as cash securitizations, the proposed rules, if adopted, should result in similar risk-based capital requirements.

Structure 5: Variable Funding Credit Linked Note

Question 11: Would the capital treatment of the VFCLN be any different from the standard CLN or the cash securitization discussed above?

As described in your letter, the VFCLN appears similar to a CDS. As in a CDS, the bank has a cash outflow only when a loss on the reference portfolio occurs, and is unlikely to recover that cash payment from recoveries on the underlying reference portfolio. With CLNs or cash

[2] The two would be economically identical provided that the terms of the CDS in Structure 4 and the CDS and CLN in Structure 3 were specified appropriately. All cashflows would be identical both in timing and amount.

securitization, the credit protection seller "purchases" the instrument via a cash outflow and receives a return of that investment less any losses. Since the VFCLN structure is new, we are hesitant to opine on a risk-based capital treatment until we review the specific terms of the note.

Conclusion

This letter outlines our views on a variety of credit derivative structures. The risk-based capital treatments outlined in this letter apply only to transactions described in your letter. The treatment of other transactions will depend on the structure and terms of those transactions. The OCC and FRB continue to review and issue risk-based capital interpretations on credit derivative transactions on a case-by-case basis. If you have further questions, please do not hesitate to contact the resident OCC examiners, Margot Schwadron in the Capital Policy Division on (202) 874–6022, or Kurt Wilhelm in the Treasury and Market Risk Division on (202) 874–4479, or Tom Boemio in the Supervisory and Risk Policy Division of the FRB at (202) 452–2982.

Tommy Snow
Director, Capital Policy
Office of the Comptroller of the Currency

Barbara Bouchard
Assistant Director
Board of Governors of the Federal Reserve System

947—May 28, 2002

12 CFR 3

Subject: Risk-Based Capital Treatment for Purchase of Interests in Master Trust

Dear [ ]:

This letter is in response to a request regarding the appropriate risk-based capital treatment stemming from the February 5, 2002, purchase by [ ] ("the bank") of a portfolio of credit card accounts and receivables from [bank 2]. Outstanding receivables, securitized in the [bank 2] master trust, were approximately $7.6 billion. The purchase included approximately $1.3 billion of seller's interest; approximately $6.3 billion of investor interests are outstanding. The purchase also included a combination of subordinated interests, cash collateral, and other residual interests valued at approximately $600 million.[1] Under generally accepted accounting principles, the bank cannot initially avail itself of the nonconsolidation guidance of Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," because the bank was not the original transferor of the assets held in the master trust. Consequently, the bank must initially consolidate the master trust and account for the previously sold receivables as a financing.

Sales treatment will apply to new receivable balances transferred into the trust to replenish those that are paid down. It will take an estimated 14 months for substantially all the receivables existing at the acquisition date to completely turn over, resulting in full sales treatment.

Issues

Under the recently published final rule, "Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations,"[2] unrated residual interests in securitized assets attract a dollar-for-dollar capital charge. Sellers' interests (i.e., pro rata claims) are generally risk weighted in accordance with the underlying receivables. Therefore, if the bank received sales treatment on the above transaction, it would hold a minimum of $704 million risk-based capital, as calculated below:

Residual interests (dollar-for-dollar)	$600
Seller's interest ($1.3 billion X 100 percent risk weight x 8 percent) (not certificated; unrated; shares losses pro rata with investors' interests)	104
	$704

[1] This is a simplified summary of our understanding of the transaction, based on our discussions with bank staff. Additional assets and reserves included in the purchase are ignored for simplicity in this discussion.

[2] *See* 66 *Fed. Reg*. 59614 (November 29, 2001).

The bank has expressed concern that, under the new residual interest rule, as soon as the transaction qualifies for partial sales treatment, the entire residual interest will be subject to a dollar-for-dollar capital charge, and the remaining on-balance receivables backing the investor interests will be risk weighted at 100 percent. This would result in a capital charge of as much as $1.2 billion (dollar-for-dollar on $600 million in residual interests, plus 8 percent of the $7.6 billion on-balance-sheet receivables). Because the dollar-for-dollar capital charge on the residual interests captures credit-enhancement on the "sold" receivables that continue to be accounted for as a financing, you believe this would result in capital being double-charged for the same credit risk. The Office of the Comptroller of the Currency (OCC) agrees that this potential double-charging was not intended under the new rule.

Regulatory Provisions

The new recourse/residual interest rule contemplated the potential for double-charging when a residual interest supports transferred assets that are subject to other contractual recourse provisions as well. *See* 12 CFR Part 3, appendix A, section 4(f)(4).[3] However, it does not appear that the unique accounting provisions encountered in this acquisition were contemplated in the new regulation; there are no similar provisions to directly address potential double-charging when a residual interest supports *on*-balance-sheet receivables.[4]

The rule also expanded the OCC's reservation of authority provisions found at 12 CFR 3.4(b). These provisions permit the OCC to determine a different risk weight than otherwise required by the risk-based capital regulations.

OCC Determination

We have determined that the bank's minimum risk-based capital requirement should be based on the higher of (1) the booked residual interest (i.e., up to $600 million—dollar-for-dollar) *plus* 8 percent of the risk-weighted seller's interest; or (2) 8 percent of on-balance-sheet risk-weighted assets (as well as any off-balance-sheet receivables sold subject to recourse other than the residual), but not both. Thus, the initial charge would be $704 million, which represents the dollar-for-dollar charge on the $600 million residual, plus 8 percent of the $1.3 billion seller's

[3] Section 4(f)(4) provides: "*Residual interests and other recourse obligations*. Where the aggregate capital requirements for residual interests (including credit-enhancing interest-only strips) and recourse obligations arising from the same transfer of assets exceed the full risk-based capital requirements for those assets, a bank must maintain risk-based capital equal to the greater of the risk-based capital requirement for the residual interest as calculated under sections 4(f)(1) through (3) of this appendix A or the full risk-based capital requirement for the assets transferred."

[4] Twelve CFR Part 3, appendix A, section 4(h)(2) provides that if an asset is included in the calculation of the risk-based capital requirement under the recourse/residual interest provisions (section 4) and also appears as an asset on a bank's balance sheet, the asset is generally risk-weighted only under section 4. This ensures that on-balance-sheet residual interests that are subject to a dollar-for-dollar capital requirement are not also risk weighted. It does not appear to address the situation where the underlying loans supported by the residual interest are also on-balance-sheet.

interest ($104 million). This amount must be compared to the $656 million risk-based capital charge on the on-balance-sheet assets (8 percent of $7.6 billion on-balance-sheet receivables plus $600 million residual interest, all assumed to be risk weighted at 100 percent), and the higher of the two applies. The result will be a risk-based capital charge that is consistent with either full sales treatment or full financing treatment, but that avoids double-charging for the blended accounting treatment applicable to this transaction. We believe this approach to be generally consistent with the methodology used in 12 CFR Part 3, appendix A, section 4(f)(4), as well as the underlying purpose of that regulatory provision—preventing the double-counting of both recourse obligations and residual interests. However, because the current capital regulations do not explicitly provide an exception to risk-weighting the entire on-balance-sheet receivables, in addition to the charge on the residual interests, we rely on our reservation of authority pursuant to 12 CFR 3.4(b) to determine the appropriate risk weight in light of the specific features of the transaction you have described.

This determination is made specifically under the facts presented in this particular transaction, and may not be relied on for determining the risk-based capital treatment of any other transaction, or for determining the risk-based capital treatment of any components of this transaction other than the residual interests, the seller's interest, and the related on-balance-sheet receivables. This determination does not affect the bank's calculation of its leverage ratio, which will continue to be based on adjusted total assets as defined in 12 CFR 3.2(a).

If you have questions or need additional information, please contact me or Amrit Sekhon at (202) 874–5070.

Tommy Snow
Director, Capital Policy

948—October 23, 2002

12 USC 24(7)

Ann Johnson
Counsel
Federal Deposit Insurance Corporation
550 17th Street, N.W., 3rd Floor
Washington, DC 20429

Dear Ms. Johnson:

This is in response to your query whether a national bank, pursuant to 12 USC 24(Seventh), may purchase and sell transferable state tax credits. For the reasons discussed below, we conclude that a national bank may engage in such activity.

Background

In several telephone conversations with Office of the Comptroller of the Currency (OCC) staff, you asked whether a national bank ("bank") may purchase and sell transferable Missouri state tax credits.[1] The bank would purchase the tax credits and then would either use the tax credits to reduce its own tax liability or sell the tax credits to individuals and businesses able to use the credits to reduce their tax liabilities. In most cases where the bank purchases tax credits for resale, the bank would do so with written purchase commitments in place from potential buyers. Moreover, you indicated that demand for these tax credits typically exceeds their supply during tax season and that, in the event that a purchaser fails to honor his commitment to purchase or the bank purchases tax credits without having identified a buyer, bank management believes the bank would have no difficulty in finding a third party to complete a sale.

You further indicated that the purchase and transfer of Missouri state tax credits is a noncomplex and fairly rapid process. After the bank and a third party execute a tax credit transfer agreement, the parties complete and execute the Missouri transfer request application and file the application, a copy of the purchase agreement, and the existing tax credit certificate with the State of Missouri. Once the transfer is approved, the State of Missouri issues a certificate to the new owner evidencing the purchaser's right to claim the tax credits.

[1] Some state tax credits can be transferred from one taxpayer to another once they have been awarded ("transferable" credits), while others can only be used by a taxpayer who retains an equity or ownership interest in the qualified project. The bank proposes to purchase and re-sell only transferable credits.

Discussion

The courts and the OCC have recognized that, when reduced to their essence, national banks serve as financial intermediaries for the public. In other words, the public looks to national banks to facilitate the flow of money and credit among different parts of the economy. *Auten* v. *U.S. Nat'l Bank of New York,* 174 U.S. 125 (1899); Interpretive Letter No. 929, *reprinted in* [Current Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,454 (February 11, 2002); Interpretive Letter No. 494, *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,083 (December 20, 1989). Indeed, it has been long recognized that "[t]he very object of banking is to aid the operation of the laws of commerce by serving as a channel for carrying money from place to place, as the rise and fall of supply and demand require." *Auten*, 174 U.S. at 143.[2]

Moreover, the evolutionary nature of the business of banking and the necessity of national banks' developing new products and services to keep up with the changing financial needs of the economy are now well established in case law. *See, e.g., M & M Leasing Corp*. v. *Seattle First National Bank*, 563 F.2d 1377, 1382 (9th Cir. 1977) (confirming the authority of national banks to lease motor vehicles stating: "we believe the powers of national banks must be construed so as to permit the use of new ways of conducting the very old business of banking") *cert. denied*, 436 U.S. 956 (1978); *American Insurance Association* v. *Clarke*, 865 F.2d 278, 281 (rejecting "a narrow and artificially rigid view of both the business of banking and the [National Bank Act]" which would have prevented national banks from providing municipal bond insurance as a new form of a traditional banking product). The purchase and sale of transferable state tax credits fits within the powers of national banks because it is simply a new way of tailoring traditional financial intermediation services to meet the needs of bank customers.

The role of a bank intermediary takes many forms: borrowing from savers and lending to users, 12 USC 24(Seventh); buying and selling tax lien certificates, Interpretive Letter No. 725, *reprinted in* [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–040 (May 10, 1996); and brokering financial instruments, Interpretive Letter No. 717, *reprinted in* [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–032 (March 26, 1996). As the recognized intermediaries between other, non-bank participants in the financial markets, banks possess the expertise to effect transactions between parties and to manage their own intermediation position. Interpretive Letter No. 929, *supra*.

The traditional manner for national banks to carry out the function of channeling available funds from points of surplus to points of demand is to receive funds from one source and make them available to another source—as is the case when deposits are received and loans originated. The

[2] *Accord* No-Objection Letter No. 90–1, *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,095 (February 16, 1990); Interpretive Letter No. 387, *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,602 (March 24, 1987).

purchase and sale of transferable state tax credits moves funds from sources of supply to sources of demand. Tax credits offset a tax liability, dollar-for-dollar, and therefore are the functional equivalent of money. By purchasing and selling tax credits, a national bank is engaging in both a permissible role—that of financial intermediary—and a permissible activity—facilitating the flow of money. Therefore, purchasing, holding, and subsequently reselling transferable state tax credits is a permissible activity for national banks under Section 24(Seventh).

Conclusion

For the reasons stated above we conclude that, pursuant to 12 USC 24(Seventh), a national bank would have the legal authority to purchase and sell transferable state tax credits. If you have any questions, please contact Senior Attorney Steven Key at (202) 874–5300.

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

Corporate Structure of the National Banking System

Contents

Changes in the corporate structure of the national banking system, by state, July 1 to December 31, 2002

	In operation July 1, 2002	Organized and open for business	Merged	Voluntary liquidations	Payouts	12 USC 214 Converted to non-national institutions	12 USC 214 Merged with non-national institutions	In operation December 31, 2002
Alabama	22	0	1	0	0	0	0	20
Alaska	4	0	0	0	0	0	0	4
Arizona	16	1	0	0	0	0	0	17
Arkansas	43	1	0	0	0	0	0	44
California	89	5	4	0	0	0	1	89
Colorado	53	0	2	0	0	1	1	49
Connecticut	11	0	0	0	0	0	0	11
Delaware	20	0	2	1	0	0	0	16
District of Columbia	5	0	0	0	0	0	0	5
Florida	76	0	0	0	0	0	1	75
Georgia	63	0	0	0	0	0	1	63
Hawaii	1	0	0	0	0	0	0	1
Idaho	2	0	0	0	0	0	0	2
Illinois	182	0	2	0	0	1	0	179
Indiana	35	0	1	0	0	0	0	34
Iowa	51	2	0	0	0	0	0	53
Kansas	105	1	0	2	0	1	1	102
Kentucky	54	1	0	0	0	1	0	54
Louisiana	17	0	0	0	0	0	0	17
Maine	7	0	0	0	0	0	0	7
Maryland	12	0	0	0	0	1	0	11
Massachusetts	24	0	0	0	0	0	0	24
Michigan	29	0	0	0	0	0	0	29
Minnesota	128	2	3	0	0	0	2	125
Mississippi	20	0	0	0	0	0	0	20
Missouri	48	1	0	0	0	1	0	48
Montana	16	0	0	0	0	0	0	16
Nebraska	77	1	1	0	0	0	2	75
Nevada	8	0	1	0	0	0	0	7
New Hampshire	6	0	0	0	0	0	0	6
New Jersey	26	0	0	0	0	0	1	25
New Mexico	15	0	0	0	0	0	0	15
New York	59	1	0	0	0	1	1	59
North Carolina	7	0	0	0	0	0	0	7
North Dakota	15	0	0	0	0	0	0	15
Ohio	91	0	1	0	0	0	0	90
Oklahoma	96	0	2	0	0	1	0	93
Oregon	4	0	0	0	0	0	0	4
Pennsylvania	84	0	0	0	0	0	0	85
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	25	1	0	0	0	0	0	26
South Dakota	21	0	1	0	0	0	0	20
Tennessee	28	0	0	0	0	0	0	28
Texas	340	2	2	1	0	0	3	336
Utah	7	0	0	0	0	0	0	7
Vermont	8	0	0	0	0	0	0	8
Virginia	36	3	0	0	0	0	0	39
Washington	16	1	1	0	0	0	1	14

Changes in the corporate structure of the national banking system, by state, July 1 to December 31, 2002 (continued)

	In operation July 1, 2002	Organized and open for business	Merged	Voluntary liquidations	Payouts	12 USC 214 Converted to non-national institutions	12 USC 214 Merged with non-national institutions	In operation December 31, 2002
West Virginia	22	0	0	0	0	0	0	22
Wisconsin	51	0	2	0	0	0	0	49
Wyoming	20	1	0	0	0	0	0	21
	2,200	24	26	4	0	8	15	2,171

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

Applications for new, full-service national bank charters, approved and denied, by state, July 1 to December 31, 2002

Title and location	Approved	Denied
California		
Harris Bank California National Association, San Francisco	October 29	
Legacy Bank, National Association, Campbell	September 30	
Legacy Bank, National Association, San Diego (La Jolla)	August 22	
Florida		
Commerce National Bank of Florida, Winter Park	September 13	
Iowa		
Bankers Trust Company, National Association, Cedar Rapids	September 4	
Liberty National Bank, Sioux City	December 19	
Minnesota		
Merchants Bank, National Association, La Crescent	October 21	
Tennessee		
Community National Bank of the Lakeway Area, Morristown	October 3	
Texas		
Texas Community Bank, National Association, The Woodlands	July 16	
Washington		
Harris Bank Washington National Association, Seattle	October 29	

Applications for new, limited-purpose national bank charters, approved and denied, by state, July 1 to December 31, 2002

Title and location	Type of bank	Approved	Denied
Indiana			
Merchants Trust Company, National Assocation, Muncie	Trust (non-deposit)	December 23	

New, full-service national bank charters issued, July 1 to December 31, 2002

Title and location	Charter number	Date opened
California		
Harris Bank California National Association, San Francisco	024382	December 2
Legacy Bank, National Association, San Diego (La Jolla)	024361	December 12
Pacific Commerce Bank, National Association, Los Angeles	024318	October 10
Landmark National Bank, Solana Beach	024296	August 26
Orange County Business Bank, National Association, Newport Beach	024292	December 26
Iowa		
Bankers Trust Company, National Association, Cedar Rapids	024374	December 16
Kansas		
First Commerce Bank, National Association, Marysville	024269	August 21
Kentucky		
First National Bank of Lexington, Lexington	024349	October 1
Missouri		
Community National Bank, Monett	024347	September 5
New York		
Community Bank of Orange, National Association, Town of Wallkill (Middletown)	024177	October 15
South Carolina		
Carolina National Bank and Trust Company, Columbia	024332	July 15
Texas		
Texas Community Bank, National Association, The Woodlands	024357	September 10
Worthington National Bank, Arlington	024343	November 21
Virginia		
Bank of Goochland, National Association, Manakin Sabot	024288	November 25
Franklin Community Bank, National Association, Rocky Mount	024260	September 16
Washington		
Harris Bank Washington National Association, Seattle	024381	December 2

New, limited-purpose national bank charters issued, July 1 to December 31, 2002

Title and location	Charter number	Date opened
Nebraska		
Nebraska Bankers' Bank, National Association, Lincoln	024300	October 1

State-chartered banks converted to full-service national banks, July 1 to December 31, 2002

Title and location (charter number)	Effective date	Total assets
Arkansas		
First National Bank of Stuttgart (024360)		
conversion of Bank of Lockesburg, Stuttgart	October 1	4,000,000
Iowa		
American Bank and Trust Company, National Association (024369)		
conversion of American Bank and Trust Company, Davenport	September 5	313,078,000
Minnesota		
F&M Community Bank, National Association (024356)		
conversion of F & M Community Bank, Preston	July 1	47,349,000
Northwestern Bank, National Association (024372)		
conversion of The Northwestern State Bank of Ulen, Ulen	August 16	76,661,000
Virginia		
First Citizens Bank, National Association (024344)		
conversion of First-Citizens Bank, A Virginia Corporation, Roanoke	October 1	181,200,000

State-chartered banks converted to limited-purpose national banks, July 1 to December 31, 2002

Title and location (charter number)	Effective date	Total assets
Arizona		
The Harris Bank National Association (024380)		
conversion of Harris Trust Bank of Arizona, Scottsdale	November 25	278,916,000

Nonbanking institutions converted to full-service national banks, July 1 to December 31, 2002

Title and location (charter number)	Effective date	Total assets
Wyoming		
Tri-County National Bank (024376)		
conversion of Tri-County Bank, Cheyenne	September 30	21,242,000

Applications for national bank charters, by state and charter type, July 1 to December 31, 2002

	Received	Approved	Denied	Charters issued: New, full-service national bank charters issued	New, limited-purpose national bank charters issued	Full-service national charters issued to converting state-chartered banks	Limited-purpose national charters issued to converting state-chartered banks	Full-service national charters issued to converting nonbanking institutions	Limited-purpose national charters issued to converting nonbanking institutions
Alabama	0	0	0	0	0	0	0	0	0
Alaska	0	0	0	0	0	0	0	0	0
Arizona	0	0	0	0	0	0	1	0	0
Arkansas	0	0	0	0	0	1	0	0	0
California	1	3	0	5	0	0	0	0	0
Colorado	0	0	0	0	0	0	0	0	0
Connecticut	0	0	0	0	0	0	0	0	0
Delaware	1	0	0	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	0	0	0	0
Florida	0	1	0	0	0	0	0	0	0
Georgia	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0
Indiana	1	1	0	0	0	0	0	0	0
Iowa	2	2	0	1	0	1	0	0	0
Kansas	0	0	0	1	0	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	0	0	0	0	0	0	0	0
Massachusetts	1	0	0	0	0	0	0	0	0
Michigan	0	0	0	0	0	0	0	0	0
Minnesota	1	1	0	0	0	2	0	0	0
Mississippi	0	0	0	0	0	0	0	0	0
Missouri	0	0	0	1	0	0	0	0	0
Montana	0	0	0	0	0	0	0	0	0
Nebraska	0	0	0	0	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	0	0	0	0	0	0	0	0	0
New Mexico	0	0	0	0	0	0	0	0	0
New York	0	0	0	1	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	0	0	0	0	0	0	0	0	0
Oklahoma	0	0	0	0	0	0	0	0	0
Oregon	0	0	0	0	0	0	0	0	0
Pennsylvania	0	0	0	0	0	0	0	0	0
Rhode Island	0	0	0	0	0	0	0	0	0
South Carolina	0	0	0	1	0	0	0	0	0
South Dakota	0	0	0	0	0	0	0	0	0
Tennessee	0	1	0	0	0	0	0	0	0
Texas	1	1	0	2	0	0	0	0	0
Utah	1	0	0	0	0	0	0	0	0

Applications for national bank charters, by state and charter type, July 1 to December 31, 2002 (continued)

				Charters issued					
	Received	Approved	Denied	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
Vermont	0	0	0	0	0	0	0	0	0
Virginia	0	0	0	2	0	1	0	0	0
Washington	0	1	0	1	0	0	0	0	0
West Virginia	0	0	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0	0	1	0
Total	9	11	0	16	1	5	1	1	0

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

Voluntary liquidations of national banks, July 1 to December 31, 2002

Title and location (charter number)	Effective date	Total assets
Delaware		
Transamerica Bank, National Association, New Castle (022696)	October 31	21,605,000
Kansas		
First National Bank of Onaga, Onaga (020998)	November 8	0
First Trust Company of Onaga, National Association, Onaga (023914)	November 8	0
Texas		
CompuBank, National Association, Houston (023187)	June 29	0

National banks merged out of the national banking system, July 1 to December 31, 2002

Title and location	Charter number	Effective date
California		
Western Security Bank, National Association, Burbank	021472	June 28
Colorado		
The First National Bank of Otis, Otis	010852	September 30
Florida		
Palm Beach National Bank & Trust Company, Palm Beach	016116	October 17
Georgia		
First National Bank of Johns Creek, Suwanee	023820	December 11
Kansas		
The Citizens National Bank & Trust Co., Anthony	006752	October 31
Minnesota		
Century Bank, National Association, Eden Prairie	022135	June 1
The Midway National Bank of St. Paul, St. Paul	013131	September 13
Nebraska		
The Beatrice National Bank and Trust Company, Beatrice	003081	July 8
Heritage Bank, National Association, Doniphan	024155	October 4
New Jersey		
Vista Bank, National Association, Phillipsburg	001239	August 23
New York		
Trustco Bank, National Association, Town of Glenville (Scotia)	022844	November 15
Texas		
First National Bank of Bay City, Bay City	023223	November 1
Brookhollow National Bank, Dallas	015929	July 12
Eagle National Bank, Dallas	022971	September 13
Washington		
Harbor Bank, National Association, Gig Harbor	023218	October 1

National banks converted out of the national banking system, July 1 to December 31, 2002

Title and location (charter number)	Effective date	Total assets
Colorado		
Community Banks of the Rockies, National Association, La Jara (009840)	July 1	163,808,000
Illinois		
The Grundy County National Bank, Morris (000531)	June 28	142,715,000
Kansas		
Heartland Bank, National Association, Jewell (022956)	December 4	35,700,000
Kentucky		
First National Bank of Clinton, Clinton (014259)	December 31	54,269,000
Maryland		
Old Line National Bank, Waldorf (021700)	June 28	61,944,000
Missouri		
People’s National Bank, Seneca (022892)	October 24	32,673,000
New York		
Sleepy Hollow National Bank, Sleepy Hollow (012515)	July 8	114,146,000
Oklahoma		
First Commercial Bank, National Association, Edmond (022957)	June 27	126,500,000

Federal branches and agencies of foreign banks in operation, July 1 to December 31, 2002

	In operation July 1, 2002	Opened July 1–December 31, 2002	Closed July 1–December 31, 2002	In operation December 31, 2002
Federal branches				
California	1	0	0	1
Connecticut	1	0	0	1
District of Columbia	1	0	0	1
New York	36	0	0	36
Washington	1	0	0	1
Limited federal branches				
California	7	0	0	7
District of Columbia	1	0	0	1
Florida	0	0	0	0
New York	3	0	1	2
Federal agency				
Illinois	1	0	0	1
Total United States	52	0	1	51

Financial Performance of National Banks

Contents

Assets, liabilities, and capital accounts of national banks
December 31, 2001 and December 31, 2002

(Dollar figures in millions)

	December 31, 2001	December 31, 2002	Change December 31, 2001–December 31, 2002 Fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	**2,137**	**2,078**	**(59)**	**(2.76)**
Total assets	**$3,635,292**	**$3,908,098**	**$272,806**	**7.50**
Cash and balances due from depositories	**220,281**	**212,650**	**(7,631)**	**(3.46)**
Noninterest-bearing balances, currency and coin	163,335	161,234	(2,100)	(1.29)
Interest bearing balances	56,946	51,416	(5,530)	(9.71)
Securities	**575,933**	**653,162**	**77,229**	**13.41**
Held-to-maturity securities, amortized cost	26,804	24,667	(2,137)	(7.97)
Available-for-sale securities, fair value	549,129	628,495	79,366	14.45
Federal funds sold and securities purchased	**145,210**	**129,481**	**(15,730)**	**(10.83)**
Net loans and leases	**2,227,259**	**2,399,510**	**172,251**	**7.73**
Total loans and leases	2,272,839	2,447,866	175,028	7.70
Loans and leases, gross	2,274,770	2,450,314	175,544	7.72
Less: Unearned income	1,931	2,447	516	26.71
Less: Reserve for losses	45,580	48,357	2,777	6.09
Assets held in trading account	**120,740**	**164,399**	**43,658**	**36.16**
Other real estate owned	**1,794**	**2,073**	**279**	**15.54**
Intangible assets	**87,688**	**88,163**	**475**	**0.54**
All other assets	**256,387**	**258,661**	**2,274**	**0.89**
Total liabilities and equity capital	**3,635,292**	**3,908,098**	**272,806**	**7.50**
Deposits in domestic offices	2,001,253	2,168,905	167,652	8.38
Deposits in foreign offices	383,161	396,890	13,730	3.58
Total deposits	**2,384,413**	**2,565,795**	**181,381**	**7.61**
Noninterest-bearing deposits	523,419	569,005	45,585	8.71
Interest-bearing deposits	1,860,994	1,996,790	135,796	7.30
Federal funds purchased and securities sold	**267,740**	**268,320**	**580**	**0.22**
Other borrowed money	**352,094**	**380,679**	**28,585**	**8.12**
Trading liabilities less revaluation losses	**21,658**	**24,558**	**2,900**	**13.39**
Subordinated notes and debentures	**68,227**	**68,387**	**160**	**0.23**
All other liabilities	**200,425**	**228,656**	**28,231**	**14.09**
Trading liabilities revaluation losses	58,703	84,850	26,147	44.54
Other	141,723	143,807	2,084	1.47
Total equity capital	**340,735**	**371,702**	**30,968**	**9.09**
Perpetual preferred stock	1,252	2,682	1,430	NM
Common stock	12,856	12,700	(156)	(1.21)
Surplus	190,121	198,172	8,051	4.23
Retained earnings and other comprehensive income	138,712	166,816	28,104	20.26
Other equity capital components	(35)	(38)	(3)	NM

NM indicates calculated percent change is not meaningful.

Quarterly income and expenses of national banks
Fourth quarter 2001 and fourth quarter 2002

(Dollar figures in millions)

	Fourth quarter 2001	Fourth quarter 2002	Change Fourth quarter 2001–Fourth quarter 2002 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	**2,137**	**2,078**	**(59)**	**(2.76)**
New income	**$12,530**	**$13,512**	**$982**	**7.83**
Net interest income	**34,850**	**36,033**	**1,183**	**3.40**
Total interest income	53,612	50,986	(2,626)	(4.90)
On loans	41,598	39,675	(1,923)	(4.62)
From lease financing receivables	1,950	1,648	(302)	(15.48)
On balances due from depositories	526	444	(82)	(15.58)
On securities	7,537	7,500	(37)	(0.49)
From assets held in trading account	778	762	(16)	(2.02)
On federal funds sold and securities repurchased	948	626	(322)	(33.98)
Less: Interest expense	18,762	14,952	(3,809)	(20.30)
On deposits	12,881	9,917	(2,963)	(23.01)
Of federal funds purchased and securities sold	1,791	1,145	(646)	(36.05)
On demand notes and other borrowed money*	3,241	3,097	(144)	(4.43)
On subordinated notes and debentures	850	793	(57)	(6.68)
Less: Provision for losses	**9,579**	**8,605**	**(974)**	**(10.17)**
Noninterest income	**26,341**	**27,724**	**1,383**	**5.25**
From fiduciary activities	2,333	2,070	(262)	(11.24)
Service charges on deposits	4,712	5,061	349	7.41
Trading revenue	1,806	1,191	(615)	(34.07)
From interest rate exposures	741	364	(377)	(50.92)
From foreign exchange exposures	678	851	173	25.46
From equity security and index exposures	388	(22)	(410)	NM
From commodity and other exposures	12	(6)	(18)	NM
Investment banking brokerage fees	1,144	1,191	47	4.09
Venture capital revenue	(55)	1	56	NM
Net servicing fees	2,342	2,095	(246)	(10.52)
Net securitization income	3,763	3,734	(29)	(0.77)
Insurance commissions and fees	427	519	92	21.68
Net gains on asset sales	1,277	1,939	662	51.88
Sales of loans and leases	1,084	1,554	470	43.40
Sales of other real estate owned	32	(17)	(50)	NM
Sales of other assets(excluding securities)	161	402	242	NM
Other noninterest income	8,733	9,927	1,194	13.68
Gains/losses on securities	**585**	**1,092**	**507**	**86.63**
Less: Noninterest expense	**34,372**	**36,252**	**1,881**	**5.47**
Salaries and employee benefits	13,358	14,440	1,082	8.10
Of premises and fixed assets	3,943	4,218	275	6.97
Other noninterest expense	15,539	16,617	1,078	6.94
Less: Taxes on income before extraordinary items	**5,288**	**6,476**	**1,188**	**22.47**
Income/loss from extraordinary items, net of income taxes	**(8)**	**(5)**	**3**	**(43.06)**
Memoranda:				
Net operating income	12,124	12,768	644	5.31
Income before taxes and extraordinary items	17,826	19,992	2,166	12.15
Income net of taxes before extraordinary items	12,538	13,516	978	7.80
Cash dividends declared	6,770	10,864	4,095	60.49
Net charge-offs to loan and lease reserve	8,566	7,720	(845)	(9.87)
Charge-offs to loan and lease reserve	9,781	9,004	(777)	(7.95)
Less: Recoveries credited to loan and lease reserve	1,216	1,283	68	5.56

* Includes mortgage indebtedness
NM indicates calculated percent change is not meaningful.

Year-to-date income and expenses of national banks
Through December 31, 2001 and through December 31, 2002

(Dollar figures in millions)

	December 31, 2001	December 31, 2002	Change December 31, 2001–December 31, 2002 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	**2,137**	**2,078**	**(59)**	**(2.76)**
Net income	**$44,284**	**$56,699**	**$12,414**	**28.03**
Net interest income	**125,653**	**141,572**	**15,920**	**12.67**
Total interest income	227,219	206,662	(20,558)	(9.05)
On loans	175,691	159,140	(16,551)	(9.42)
From lease financing receivables	7,732	7,107	(626)	(8.09)
On balances due from depositories	2,631	1,829	(802)	(30.49)
On securities	30,793	31,078	285	0.93
From assets held in trading account	3,662	3,382	(280)	(7.65)
On federal funds sold and securities repurchased	5,635	2,767	(2,868)	(50.90)
Less: Interest expense	101,567	65,089	(36,478)	(35.91)
On deposits	68,455	43,561	(24,894)	(36.37)
Of federal funds purchased and securities sold	10,035	5,032	(5,003)	(49.86)
On demand notes and other borrowed money*	19,302	13,288	(6,014)	(31.16)
On subordinated notes and debentures	3,775	3,209	(566)	(15.00)
Less: Provision for losses	**29,007**	**32,621**	**3,614**	**12.46**
Noninterest income	**99,458**	**109,077**	**9,619**	**9.67**
From fiduciary activities	8,833	8,658	(175)	(1.98)
Service charges on deposits	17,230	19,472	2,242	13.01
Trading revenue	7,309	6,842	(466)	(6.38)
From interest rate exposures	3,308	2,789	(519)	(15.70)
From foreign exchange exposures	3,144	3,219	75	2.37
From equity security and index exposures	718	491	(227)	(31.62)
From commodity and other exposures	181	345	164	90.36
Investment banking brokerage fees	4,722	4,665	(57)	(1.20)
Venture capital revenue	(629)	(165)	465	(73.83)
Net servicing fees	9,962	9,406	(555)	(5.57)
Net securitization income	12,342	15,261	2,919	23.65
Insurance commissions and fees	1,584	2,154	570	36.02
Net gains on asset sales	4,860	5,908	1,048	21.56
Sales of loans and leases	3,078	5,153	2,075	67.41
Sales of other real estate owned	13	(45)	(58)	NM
Sales of other assets(excluding securities)	1,768	799	(969)	(54.81)
Other noninterest income	33,248	36,875	3,627	10.91
Gains/losses on securities	**2,390**	**3,185**	**795**	**33.29**
Less: Noninterest expense	**131,152**	**136,266**	**5,115**	**3.90**
Salaries and employee benefits	51,235	55,785	4,550	8.88
Of premises and fixed assets	15,557	16,074	518	3.33
Other noninterest expense	58,793	60,448	1,655	2.82
Less: Taxes on income before extraordinary items	**22,679**	**28,283**	**5,604**	**24.71**
Income/loss from extraordinary items, net of income taxes	**(378)**	**34**	**412**	**NM**
Memoranda:				
Net operating income	43,055	54,506	11,451	26.60
Income before taxes and extraordinary items	67,341	84,947	17,606	26.14
Income net of taxes before extraordinary items	44,663	56,664	12,002	26.87
Cash dividends declared	27,739	41,744	14,004	50.48
Net charge-offs to loan and lease reserve	25,184	31,412	6,228	24.73
Charge-offs to loan and lease reserve	29,470	36,508	7,037	23.88
Less: Recoveries credited to loan and lease reserve	4,286	5,096	810	18.89

* Includes mortgage indebtedness
NM indicates calculated percent change is not meaningful.

Assets of national banks by asset size
December 31, 2002

(Dollar figures in millions)

	National banks					
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion 10 $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Total assets	**$3,908,098**	**$50,273**	**$261,150**	**$394,724**	**$3,201,951**	**$7,075,212**
Cash and balances due from	**212,650**	**3,265**	**12,967**	**28,685**	**167,734**	**383,876**
Securities	**653,162**	**12,471**	**65,051**	**83,579**	**492,061**	**1,333,888**
Federal funds sold and securities purchased	**129,481**	**3,012**	**9,578**	**19,858**	**97,032**	**312,066**
Net loans and leases	**2,399,510**	**29,190**	**159,939**	**236,049**	**1,974,332**	**4,083,045**
Total loans and leases	2,447,866	29,606	162,261	240,036	2,015,964	4,160,001
Loans and leases, gross	2,450,314	29,646	162,455	240,132	2,018,081	4,163,400
Less: Unearned income	2,447	40	194	96	2,118	3,399
Less: Reserve for losses	48,357	416	2,322	3,987	41,631	76,957
Assets held in trading account	**164,399**	**0**	**77**	**339**	**163,982**	**396,879**
Other real estate owned	**2,073**	**79**	**279**	**216**	**1,499**	**4,158**
Intangible assets	**88,163**	**131**	**1,797**	**6,273**	**79,962**	**124,830**
All other assets	**258,661**	**2,125**	**11,462**	**19,724**	**225,350**	**436,470**
Gross loans and leases by type:						
Loans secured by real estate	**1,139,562**	**17,683**	**107,018**	**130,475**	**884,386**	**2,067,999**
1-4 family residential mortgages	573,982	7,544	39,874	58,075	468,489	945,866
Home equity loans	140,999	479	5,369	9,089	126,062	214,647
Multifamily residential mortgages	33,988	479	3,914	5,057	24,539	71,934
Commercial RE loans	253,409	5,383	41,445	40,846	165,735	555,801
Construction RE loans	95,404	1,709	11,509	15,279	66,907	207,437
Farmland loans	13,225	2,089	4,907	1,699	4,529	38,034
RE loans from foreign offices	28,556	0	1	431	28,124	34,280
Commercial and industrial loans	**546,005**	**4,841**	**27,562**	**45,371**	**468,230**	**912,022**
Loans to individuals	**450,594**	**3,674**	**18,106**	**45,452**	**383,362**	**703,576**
Credit cards*	209,936	204	2,696	16,954	190,082	275,753
Other revolving credit plans	33,514	61	370	2,726	30,357	38,483
Installment loans	207,145	3,409	15,041	25,771	162,924	389,340
All other loans and leases	**314,153**	**3,448**	**9,768**	**18,834**	**282,103**	**479,802**
Securities by type:						
U.S. Treasury securities	**23,532**	**642**	**2,505**	**3,586**	**16,800**	**63,898**
Mortgage-backed securities	**392,032**	**3,526**	**24,127**	**44,578**	**319,802**	**702,134**
Pass-through securities	283,676	2,615	15,396	25,996	239,668	458,010
Collateralized mortgage obligations	108,356	910	8,730	18,582	80,134	244,124
Other securities	**184,966**	**8,284**	**37,988**	**34,432**	**104,262**	**463,185**
Other U.S. government securities	67,094	5,707	21,569	17,507	22,311	234,124
State and local government securities	47,280	2,041	11,552	8,034	25,653	102,590
Other debt securities	61,084	384	3,509	7,583	49,608	103,933
Equity securities	9,507	151	1,359	1,308	6,689	22,538
Memoranda:						
Agricultural production loans	19,788	2,919	5,451	2,951	8,468	46,830
Pledged securities	318,728	4,714	29,220	40,752	244,042	677,522
Book value of securities	640,309	12,232	63,716	81,836	482,525	1,307,556
Available-for-sale securities	615,641	10,236	54,914	73,872	476,621	1,210,065
Held-to-maturity securities	24,667	1,996	8,802	7,964	5,905	97,491
Market value of securities	653,866	12,525	65,327	83,786	492,228	1,336,523
Available-for-sale securities	628,495	10,475	56,249	75,615	486,156	1,236,397
Held-to-maturity securities	25,372	2,050	9,079	8,171	6,072	100,126

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

Past-due and nonaccrual loans and leases of national banks by asset size
December 31, 2002
(Dollar figures in millions)

		National banks				
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Loans and leases past due 30-89 days	**$27,834**	**$452**	**$1,837**	**$2,807**	**$22,738**	**$48,886**
Loans secured by real estate	**12,209**	**244**	**1,050**	**1,325**	**9,590**	**22,257**
1-4 family residential mortgages	8,317	140	582	851	6,744	14,045
Home equity loans	877	4	24	46	803	1,280
Multifamily residential mortgages	135	2	18	19	96	322
Commercial RE loans	1,466	57	266	223	921	3,772
Construction RE loans	883	20	121	165	576	1,854
Farmland loans	116	20	39	21	35	375
RE loans from foreign offices	416	0	0	0	416	610
Commercial and industrial loans	**4,154**	**74**	**314**	**534**	**3,232**	**8,162**
Loans to individuals	**9,712**	**99**	**401**	**858**	**8,355**	**15,655**
Credit cards	5,395	4	103	327	4,960	7,517
Installment loans and other plans	4,318	95	298	530	3,395	8,138
All other loans and leases	**1,758**	**35**	**72**	**90**	**1,561**	**2,812**
Loans and leases past due 90+ days	**9,355**	**90**	**381**	**723**	**8,161**	**14,300**
Loans secured by real estate	**3,116**	**48**	**206**	**167**	**2,695**	**4,753**
1-4 family residential mortgages	2,502	23	105	113	2,261	3,425
Home equity loans	110	1	4	6	99	180
Multifamily residential mortgages	11	1	2	0	8	38
Commercial RE loans	316	14	61	29	212	691
Construction RE loans	108	4	23	17	64	261
Farmland loans	24	5	11	2	6	100
RE loans from foreign offices	45	0	0	0	45	59
Commercial and industrial loans	**630**	**14**	**75**	**104**	**437**	**1,367**
Loans to individuals	**5,303**	**18**	**86**	**442**	**4,757**	**7,728**
Credit cards	4,142	3	43	268	3,827	5,447
Installment loans and other plans	1,161	15	43	174	930	2,281
All other loans and leases	**305**	**10**	**14**	**10**	**272**	**452**
Nonaccrual loans and leases	**28,709**	**235**	**1,204**	**1,609**	**25,662**	**46,072**
Loans secured by real estate	**7,954**	**127**	**684**	**957**	**6,186**	**13,714**
1-4 family residential mortgages	3,333	38	208	427	2,659	5,344
Home equity loans	353	1	6	21	325	476
Multifamily residential mortgages	138	3	20	13	102	225
Commercial RE loans	2,350	48	331	349	1,622	4,561
Construction RE loans	875	15	67	110	684	1,777
Farmland loans	205	23	52	36	94	462
RE loans from foreign offices	700	0	0	0	700	870
Commercial and industrial loans	**15,763**	**61**	**357**	**511**	**14,834**	**25,278**
Loans to individuals	**1,938**	**14**	**91**	**74**	**1,760**	**2,896**
Credit cards	400	0	53	26	320	737
Installment loans and other plans	1,538	14	38	47	1,440	2,159
All other loans and leases	**3,150**	**33**	**71**	**75**	**2,971**	**4,344**

Liabilities of national banks by asset size
December 31, 2002
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Total liabilities and equity capital	**3,908,098**	**50,273**	**261,150**	**394,724**	**3,201,951**	**7,075,212**
Deposits in domestic offices	2,168,905	42,212	210,761	255,302	1,660,630	4,031,486
Deposits in foreign offices	396,890	0	103	2,662	394,126	658,033
Total deposits	**2,565,795**	**42,212**	**210,864**	**257,963**	**2,054,756**	**4,689,519**
Noninterest bearing	569,005	7,065	33,088	48,129	480,723	936,556
Interest bearing	1,996,790	35,147	177,776	209,834	1,574,032	3,752,963
Federal funds purchased and securities sold	**268,320**	**512**	**6,707**	**41,139**	**219,962**	**571,296**
Other borrowed funds	**380,679**	**1,303**	**13,236**	**41,245**	**324,896**	**598,231**
Trading liabilities less revaluation losses	**24,558**	**0**	**0**	**21**	**24,536**	**79,264**
Subordinated notes and debentures	**68,387**	**6**	**188**	**3,364**	**64,829**	**94,734**
All other liabilities	**228,656**	**449**	**3,105**	**8,261**	**216,841**	**394,244**
Equity capital	**371,702**	**5,791**	**27,051**	**42,730**	**296,130**	**647,924**
Total deposits by depositor:						
Individuals and corporations	1,986,879	26,220	146,184	203,268	1,611,208	3,617,111
U.S., state, and local governments	123,343	3,568	16,180	17,647	85,948	229,393
Depositories in the U.S.	68,920	788	2,426	4,165	61,541	101,188
Foreign banks and governments	68842.687	4	96	1,715	67,028	137,186
Domestic deposits by depositor:						
Individuals and corporations	1691460.504	26,220	146,176	201,385	1,317,679	3,133,046
U.S., state, and local governments	123,343	3,568	16,180	17,647	85,948	229,393
Depositories in the U.S.	32,192	788	2,395	4,165	24,844	54,032
Foreign banks and governments	4,669	4	32	946	3,686	11,045
Foreign deposits by depositor:						
Individuals and corporations	295418.563	0	7	1,883	293,529	484,065
Depositories in the U.S.	36728.546	0	32	0	36,697	47,155
Foreign banks and governments	64,174	0	64	768	63,342	126,142
Deposits in domestic offices by type:						
Transaction deposits	**378,527**	**13,139**	**52,150**	**39,070**	**274,169**	**710,737**
Demand deposits	302,897	6,946	29,328	30,386	236,238	531,468
Savings deposits	**1,189,393**	**9,527**	**68,500**	**134,330**	**977,037**	**2,030,352**
Money market deposit accounts	868901.307	5,400	40,676	94,006	728,819	1,453,084
Other savings deposits	320492.011	4,127	27,824	40,323	248,218	577,268
Time deposits	**600,984**	**19,547**	**90,111**	**81,902**	**409,424**	**1,290,397**
Small time deposits	336,879	13,093	57,029	47,362	219,396	703,440
Large time deposits	264,105	6,454	33,082	34,540	190,029	586,956

Off-balance-sheet items of national banks by asset size
December 31, 2002

(Dollar figures in millions)

	National banks					
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Unused commitments	**$3,892,832**	**$78,755**	**$496,756**	**$373,357**	**$2,943,964**	**$5,314,990**
Home equity lines	178,207	346	4,590	9,247	164,024	253,384
Credit card lines	2,645,378	74,709	467,593	311,699	1,791,378	3,352,605
Commercial RE, construction and land	80,987	997	7,702	12,700	59,588	162,331
All other unused commitments	988,260	2,703	16,871	39,711	928,974	1,546,670
Letters of credit:						
Standby letters of credit	**161,614**	**116**	**1,602**	**4,647**	**155,250**	**268,785**
Financial letters of credit	132,239	75	993	3,430	127,742	224,916
Performance letters of credit	29,375	41	609	1,217	27,508	43,869
Commercial letters of credit	**14,990**	**24**	**398**	**490**	**14,077**	**22,300**
Securities lent	**123,912**	**32**	**79**	**8,068**	**115,733**	**582,322**
Spot foreign exchange contracts	**147,685**	**0**	**1**	**203**	**147,481**	**195,883**
Credit derivatives (notional value)						
Reporting bank is the guarantor	110,910	0	27	0	110,883	291,346
Reporting bank is the beneficiary	145,087	0	50	0	145,037	350,174
Derivative contracts (notional value)	**25,953,414**	**25**	**3,192**	**28,548**	**25,921,649**	**56,077,643**
Futures and forward contracts	6,464,788	23	562	1,906	6,462,296	11,375,352
Interest rate contracts	4,194,333	23	542	1,703	4,192,065	7,379,513
Foreign exchange contracts	2,211,652	0	20	204	2,211,429	3,865,675
All other futures and forwards	58,802	0	0	0	58,802	130,165
Option contracts	5,312,543	1	1,569	9,053	5,301,921	11,454,158
Interest rate contracts	4,617,448	0	1,544	8,606	4,607,297	9,782,223
Foreign exchange contracts	536,303	0	0	300	536,003	910,932
All other options	158,792	1	24	146	158,621	761,002
Swaps	13,920,086	0	985	17,589	13,901,512	32,606,613
Interest rate contracts	13,320,120	0	971	12,631	13,306,518	31,189,546
Foreign exchange contracts	541,373	0	2	4,261	537,110	1,299,048
All other swaps	58,593	0	12	697	57,884	118,019
Memoranda: Derivatives by purpose						
Contracts held for trading	24,024,477	0	15	8,207	24,016,255	53,330,497
Contracts not held for trading	1,672,940	25	3,101	20,341	1,649,474	2,105,626
Memoranda: Derivatives by position						
Held for trading--positive fair value	484,368	0	0	146	484,223	1,134,845
Held for trading--negative fair value	478,681	0	1	131	478,549	1,118,470
Not for trading--positive fair value	28,473	0	32	460	27,981	36,208
Not for trading--negative fair value	19,959	0	42	88	19,828	25,550

Quarterly income and expenses of national banks by asset size
Fourth quarter 2002

(Dollar figures in millions)

	National banks					
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Net income	**$13,512**	**$125**	**$794**	**$1,735**	**$10,858**	**$21,657**
Net interest income	**36,033**	**492**	**2,554**	**3,618**	**29,370**	**60,539**
Total interest income	50,986	720	3,764	5,189	41,313	88,495
On loans	39,675	561	2,941	4,064	32,110	66,644
From lease financing receivables	1,648	3	21	60	1,564	2,456
On balances due from depositories	444	7	15	27	396	832
On securities	7,500	135	726	910	5,730	14,528
From assets held in trading account	762	0	1	3	758	1,842
On fed. funds sold & securities repurchased	626	12	42	100	471	1,498
Less: Interest expense	14,952	228	1,210	1,572	11,942	27,957
On deposits	9,917	213	1,036	1,020	7,649	18,923
Of federal funds purchased & securities sold	1,145	2	26	159	958	2,544
On demand notes & other borrowed money*	3,097	14	145	353	2,586	5,355
On subordinated notes and debentures	793	0	3	40	750	1,134
Less: Provision for losses	**8,605**	**46**	**265**	**510**	**7,784**	**12,871**
Noninterest income	**27,724**	**226**	**1,581**	**3,140**	**22,777**	**43,870**
From fiduciary activities	2,070	10	158	342	1,560	4,928
Service charges on deposits	5,061	62	316	415	4,268	7,751
Trading revenue	1,191	0	6	8	1,176	1,879
From interest rate exposures	364	0	2	(1)	363	754
From foreign exchange exposures	851	0	0	1	850	1,139
From equity security and index exposures	(22)	0	0	7	(29)	(64)
From commodity and other exposures	(6)	0	0	1	(7)	30
Investment banking brokerage fees	1,191	1	16	44	1,129	2,240
Venture capital revenue	1	(0)	(0)	(0)	2	31
Net servicing fees	2,095	52	81	278	1,684	2,251
Net securitization income	3,734	2	95	295	3,342	4,751
Insurance commissions and fees	519	7	21	39	452	815
Net gains on asset sales	1,939	11	114	501	1,312	3,780
Sales of loans and leases	1,554	10	114	511	919	2,907
Sales of other real estate owned	(17)	(0)	1	(4)	(14)	(22)
Sales of other assets(excluding securities)	402	1	(1)	(5)	408	895
Other noninterest income	9,927	81	774	1,221	7,851	15,448
Gains/losses on securities	**1,092**	**6**	**13**	**54**	**1,020**	**2,356**
Less: Noninterest expense	**36,252**	**511**	**2,869**	**3,669**	**29,203**	**61,863**
Salaries and employee benefits	14,440	255	1,171	1,368	11,645	26,083
Of premises and fixed assets	4,218	60	343	350	3,465	7,650
Other noninterest expense	16,617	194	1,324	1,867	13,232	26,939
Less: Taxes on income before extraord. items	**6,476**	**41**	**220**	**906**	**5,309**	**10,313**
Income/loss from extraord. items, net of taxes	**34**	**(0)**	**(23)**	**9**	**49**	**(63)**
Memoranda:						
Net operating income	12,768	120	781	1,689	10,177	20,125
Income before taxes and extraordinary items	19,992	166	1,014	2,632	16,181	32,031
Income net of taxes before extraordinary items	13,516	125	794	1,726	10,871	21,719
Cash dividends declared	10,864	143	831	1,184	8,707	18,333
Net loan and lease losses	7,720	35	212	525	6,948	11,280
Charge-offs to loan and lease reserve	9,004	43	258	621	8,082	13,117
Less: Recoveries credited to loan & lease resv.	1,283	8	46	96	1,133	1,837

* Includes mortgage indebtedness

Year-to-date income and expenses of national banks by asset size
Through December 31, 2002

(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Net income	**$56,699**	**$527**	**$3,274**	**$6,774**	**$46,124**	**$90,110**
Net interest income	**141,572**	**1,909**	**9,986**	**14,707**	**114,971**	**237,006**
Total interest income	206,662	2,877	15,125	21,423	167,237	357,776
On loans	159,140	2,201	11,647	16,771	128,522	266,404
From lease financing receivables	7,107	12	90	239	6,766	10,297
On balances due from depositories	1,829	27	61	92	1,648	3,566
On securities	31,078	575	3,083	3,799	23,621	60,164
From assets held in trading account	3,382	0	3	13	3,366	8,540
On fed. funds sold & securities repurchased	2,767	49	174	346	2,198	6,193
Less: Interest expense	65,089	968	5,139	6,716	52,266	120,770
On deposits	43,561	906	4,456	4,438	33,760	82,351
Of federal funds purchased & securities sold	5,032	9	114	662	4,248	10,456
On demand notes & other borrowed money*	13,288	53	554	1,478	11,203	23,496
On subordinated notes and debentures	3,209	0	15	138	3,055	4,466
Less: Provision for losses	**32,621**	**137**	**884**	**2,201**	**29,398**	**48,054**
Noninterest income	**109,077**	**812**	**5,705**	**11,828**	**90,732**	**171,475**
From fiduciary activities	8,658	39	621	1,425	6,572	20,620
Service charges on deposits	19,472	233	1,177	1,567	16,495	29,749
Trading revenue	6,842	0	2	41	6,799	10,784
From interest rate exposures	2,789	0	7	8	2,774	5,044
From foreign exchange exposures	3,219	0	0	3	3,216	4,730
From equity security and index exposures	491	0	0	25	466	660
From commodity and other exposures	345	0	0	1	344	305
Investment banking brokerage fees	4,665	4	72	174	4,416	8,994
Venture capital revenue	(165)	(0)	(1)	(1)	(162)	(476)
Net servicing fees	9,406	192	311	1,181	7,722	11,687
Net securitization income	15,261	8	352	1,204	13,697	19,616
Insurance commissions and fees	2,154	27	81	162	1,884	3,373
Net gains on asset sales	5,908	30	372	1,722	3,783	9,899
Sales of loans and leases	5,153	29	364	1,699	3,062	8,513
Sales of other real estate owned	(45)	(1)	6	(2)	(48)	(39)
Sales of other assets(excluding securities)	799	2	2	25	770	1,424
Other noninterest income	36,875	280	2,717	4,353	29,525	57,230
Gains/losses on securities	**3,185**	**18**	**78**	**241**	**2,847**	**6,518**
Less: Noninterest expense	**136,266**	**1,897**	**10,284**	**14,315**	**109,770**	**232,619**
Salaries and employee benefits	55,785	927	4,446	5,244	45,169	100,402
Of premises and fixed assets	16,074	226	1,275	1,378	13,195	29,428
Other noninterest expense	60,448	735	4,462	7,319	47,932	97,819
Less: Taxes on income before extraord. items	**28,283**	**178**	**1,304**	**3,494**	**23,307**	**44,153**
Income/loss from extraord. items, net of taxes	**34**	**(0)**	**(23)**	**9**	**49**	**(63)**
Memoranda:						
Net operating income	54,506	512	3,234	6,599	44,160	85,761
Income before taxes and extraordinary items	84,947	706	4,601	10,259	69,382	134,326
Income net of taxes before extraordinary items	56,664	527	3,297	6,765	46,075	90,173
Cash dividends declared	41,744	378	1,905	3,451	36,009	67,504
Net loan and lease losses	31,412	92	677	2,302	28,340	44,481
Charge-offs to loan and lease reserve	36,508	123	850	2,743	32,793	51,697
Less: Recoveries credited to loan & lease resv.	5,096	30	172	441	4,452	7,216

* Includes mortgage indebtedness

Quarterly net loan and lease losses of national banks by asset size
Fourth quarter 2002
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Net charge-offs to loan and lease reserve	**$7,720**	**$35**	**$212**	**$525**	**$6,948**	**$11,280**
Loans secured by real estate	**561**	**7**	**32**	**53**	**469**	**888**
1-4 family residential mortgages	236	3	12	27	194	345
Home equity loans	77	0	1	2	74	100
Multifamily residential mortgages	13	0	1	1	11	19
Commercial RE loans	133	2	9	21	100	256
Construction RE loans	50	1	5	1	43	111
Farmland loans	10	0	4	1	5	16
RE loans from foreign offices	0	0	0	0	0	0
Commercial and industrial loans	**2,512**	**13**	**69**	**119**	**2,311**	**4,007**
Loans to individuals	**4,026**	**12**	**98**	**325**	**3,592**	**5,464**
Credit cards	2,776	2	48	237	2,488	3,750
Installment loans and other plans	1,251	10	50	88	1,103	1,714
All other loans and leases	**621**	**4**	**13**	**28**	**577**	**922**
Charge-offs to loan and lease reserve	**9,004**	**43**	**258**	**621**	**8,082**	**13,117**
Loans secured by real estate	**667**	**7**	**39**	**63**	**557**	**1,057**
1-4 family residential mortgages	285	3	15	31	236	417
Home equity loans	91	0	2	3	86	118
Multifamily residential mortgages	15	0	1	2	12	21
Commercial RE loans	158	3	12	26	118	307
Construction RE loans	55	1	5	2	48	123
Farmland loans	11	0	4	1	6	19
RE loans from foreign offices	52	0	0	0	52	52
Commercial and industrial loans	**2,906**	**15**	**84**	**143**	**2,663**	**4,581**
Loans to individuals	**4,698**	**15**	**119**	**382**	**4,181**	**6,405**
Credit cards	3,130	2	55	266	2,806	4,233
Installment loans and other plans	1,568	13	64	116	1,375	2,172
All other loans and leases	**733**	**5**	**16**	**32**	**680**	**1,074**
Recoveries credited to loan and lease reserve	**1,283**	**8**	**46**	**96**	**1,133**	**1,837**
Loans secured by real estate	**106**	**1**	**7**	**10**	**88**	**169**
1-4 family residential mortgages	49	0	3	4	43	72
Home equity loans	14	0	0	1	12	17
Multifamily residential mortgages	2	0	0	0	1	2
Commercial RE loans	25	0	3	4	17	52
Construction RE loans	5	0	0	1	4	12
Farmland loans	1	0	0	0	0	3
RE loans from foreign offices	10	0	0	0	10	11
Commercial and industrial loans	**394**	**2**	**15**	**25**	**352**	**575**
Loans to individuals	**672**	**3**	**22**	**57**	**590**	**941**
Credit cards	355	0	7	29	318	483
Installment loans and other plans	317	3	14	28	272	458
All other loans and leases	**111**	**1**	**3**	**4**	**103**	**152**

Year-to-date net loan and lease losses of national banks by asset size
Through December 31, 2002

(Dollar figures in millions)

		National banks				
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Net charge-offs to loan and lease reserve	**31,412**	**92**	**677**	**2,302**	**28,340**	**44,481**
Loans secured by real estate	**1,964**	**15**	**93**	**186**	**1,670**	**2,923**
1-4 family residential mortgages	879	6	39	88	746	1,231
Home equity loans	286	0	4	10	271	352
Multifamily residential mortgages	35	0	2	7	26	51
Commercial RE loans	424	6	34	53	331	771
Construction RE loans	181	1	9	24	147	340
Farmland loans	20	0	5	3	12	35
RE loans from foreign offices	138	0	0	1	137	143
Commercial and industrial loans	**10,354**	**33**	**205**	**452**	**9,664**	**16,523**
Loans to individuals	**17,105**	**37**	**334**	**1,597**	**15,138**	**22,233**
Credit cards	12,636	7	179	1,295	11,155	16,221
Installment loans and other plans	4,469	29	155	302	3,983	6,011
All other loans and leases	**1,989**	**8**	**45**	**67**	**1,868**	**2,802**
Charge-offs to loan and lease reserve	**36,508**	**123**	**850**	**2,743**	**32,793**	**51,697**
Loans secured by real estate	**2,326**	**18**	**115**	**239**	**1,954**	**3,517**
1-4 family residential mortgages	1,029	8	48	103	870	1,461
Home equity loans	327	0	5	14	308	409
Multifamily residential mortgages	39	0	2	8	29	60
Commercial RE loans	515	7	43	72	393	958
Construction RE loans	220	1	10	37	172	402
Farmland loans	26	1	6	4	14	49
RE loans from foreign offices	169	0	0	1	168	179
Commercial and industrial loans	**11,987**	**41**	**252**	**557**	**11,138**	**18,783**
Loans to individuals	**19,829**	**50**	**426**	**1,862**	**17,491**	**26,049**
Credit cards	14,098	8	211	1,439	12,440	18,213
Installment loans and other plans	5,731	42	215	423	5,051	7,835
All other loans and leases	**2,365**	**13**	**58**	**85**	**2,210**	**3,348**
Recoveries credited to loan and lease reserve	**5,096**	**30**	**172**	**441**	**4,452**	**7,216**
Loans secured by real estate	**362**	**3**	**22**	**53**	**284**	**595**
1-4 family residential mortgages	150	1	9	15	124	230
Home equity loans	41	0	1	3	36	57
Multifamily residential mortgages	5	0	0	1	3	9
Commercial RE loans	91	1	9	19	62	187
Construction RE loans	39	0	1	13	24	61
Farmland loans	6	1	1	1	2	14
RE loans from foreign offices	31	0	0	0	31	37
Commercial and industrial loans	**1,633**	**8**	**47**	**105**	**1,474**	**2,260**
Loans to individuals	**2,724**	**14**	**92**	**266**	**2,353**	**3,816**
Credit cards	1,462	1	32	144	1,285	1,992
Installment loans and other plans	1,263	13	60	122	1,068	1,824
All other loans and leases	**377**	**5**	**12**	**18**	**342**	**546**

Number of national banks by state and asset size
December 31, 2002

	National banks					
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
All institutions	**2,078**	**941**	**968**	**126**	**43**	**7,887**
Alabama	20	11	8	1	0	151
Alaska	3	1	0	2	0	6
Arizona	17	6	6	3	2	43
Arkansas	42	12	29	1	0	169
California	83	37	35	8	3	286
Colorado	48	23	22	2	1	169
Connecticut	8	1	7	0	0	26
Delaware	12	2	5	2	3	28
District of Columbia	4	2	2	0	0	4
Florida	71	22	41	8	0	260
Georgia	62	29	30	3	0	319
Hawaii	1	0	1	0	0	7
Idaho	1	0	1	0	0	17
Illinois	174	68	96	7	3	677
Indiana	30	8	14	7	1	151
Iowa	50	25	23	2	0	410
Kansas	101	71	27	3	0	363
Kentucky	52	23	26	3	0	221
Louisiana	15	6	7	1	1	140
Maine	6	1	4	0	1	15
Maryland	11	3	8	0	0	73
Massachusetts	13	5	7	1	0	39
Michigan	26	9	16	0	1	160
Minnesota	121	72	45	2	2	465
Mississippi	20	8	10	2	0	97
Missouri	46	22	20	3	1	349
Montana	16	13	2	1	0	80
Nebraska	75	51	22	2	0	268
Nevada	7	1	3	3	0	33
New Hampshire	5	2	2	0	1	15
New Jersey	23	2	14	6	1	82
New Mexico	15	6	6	3	0	51
New York	56	11	38	6	1	136
North Carolina	6	0	4	0	2	70
North Dakota	15	6	6	3	0	104
Ohio	86	34	38	7	7	199
Oklahoma	92	50	38	4	0	274
Oregon	3	0	2	1	0	32
Pennsylvania	80	21	49	7	3	173
Rhode Island	4	2	0	1	1	7
South Carolina	26	12	13	1	0	77
South Dakota	19	8	8	2	1	93
Tennessee	28	6	19	0	3	192
Texas	332	194	127	10	1	669
Utah	7	2	3	0	2	56
Vermont	8	2	6	0	0	15
Virginia	37	7	27	3	0	130
Washington	14	10	4	0	0	80
West Virginia	21	9	10	2	0	69
Wisconsin	45	15	27	2	1	273
Wyoming	21	10	10	1	0	47
U.S. territories	0	0	0	0	0	17

Total assets of national banks by state and asset size
December 31, 2002

(Dollar figures in millions)

		National banks				
	All national banks	Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
All institutions	**$3,908,098**	**$50,273**	**$261,150**	**$394,724**	**$3,201,951**	**$7,075,212**
Alabama	3,875	680	1,911	1,284	0	201,391
Alaska	5,686	71	0	5,615	0	6,844
Arizona	45,903	220	2,638	5,467	37,578	48,366
Arkansas	8,738	676	7,039	1,024	0	31,878
California	267,468	2,027	11,765	18,525	235,150	428,722
Colorado	25,732	1,134	5,389	2,229	16,980	47,763
Connecticut	1,628	99	1,529	0	0	3,778
Delaware	105,657	168	1,182	3,686	100,622	150,872
District of Columbia	499	115	383	0	0	499
Florida	30,797	1,606	10,312	18,879	0	72,074
Georgia	19,005	1,757	6,292	10,956	0	184,551
Hawaii	385	0	385	0	0	23,337
Idaho	275	0	275	0	0	3,302
Illinois	339,891	3,621	24,782	16,604	294,884	486,403
Indiana	73,853	471	5,655	20,396	47,332	114,362
Iowa	17,236	1,257	5,737	10,242	0	49,808
Kansas	16,618	3,642	8,228	4,748	0	39,217
Kentucky	23,575	1,507	5,244	16,824	0	52,073
Louisiana	26,390	362	1,557	7,128	17,343	45,117
Maine	25,530	29	2,121	0	23,380	27,755
Maryland	2,656	215	2,442	0	0	50,031
Massachusetts	3,613	334	1,798	1,481	0	131,375
Michigan	50,817	387	4,548	0	45,882	153,155
Minnesota	82,106	3,632	9,711	3,611	65,151	107,868
Mississippi	10,753	449	2,245	8,059	0	37,249
Missouri	28,221	1,186	5,140	10,745	11,151	74,775
Montana	2,769	612	550	1,607	0	13,781
Nebraska	16,854	2,414	5,202	9,238	0	31,925
Nevada	23,987	45	1,273	22,669	0	39,150
New Hampshire	15,336	66	471	0	14,799	18,005
New Jersey	38,028	172	4,462	23,246	10,148	84,562
New Mexico	11,333	388	2,174	8,771	0	16,468
New York	528,139	705	12,606	16,153	498,676	1,489,150
North Carolina	885,749	0	1,497	0	884,252	1,000,238
North Dakota	11,829	276	1,835	9,717	0	18,558
Ohio	460,703	1,746	10,834	19,870	428,252	552,784
Oklahoma	27,896	2,576	7,853	17,467	0	47,319
Oregon	9,318	0	435	8,884	0	17,950
Pennsylvania	134,736	1,335	16,447	15,595	101,359	177,616
Rhode Island	186,153	33	0	6,758	179,362	198,513
South Carolina	6,550	665	3,366	2,520	0	29,232
South Dakota	63,628	261	3,042	13,147	47,178	73,142
Tennessee	85,878	456	6,973	0	78,449	110,026
Texas	95,308	10,080	31,703	28,084	25,441	157,409
Utah	29,369	72	737	0	28,559	136,549
Vermont	1,426	112	1,314	0	0	6,069
Virginia	21,349	304	7,830	13,215	0	84,156
Washington	1,937	558	1,380	0	0	24,499
West Virginia	6,892	513	2,180	4,200	0	19,247
Wisconsin	21,539	786	6,871	3,860	10,022	81,086
Wyoming	4,483	456	1,807	2,220	0	7,073
U.S. territories	0	0	0	0	0	68,137

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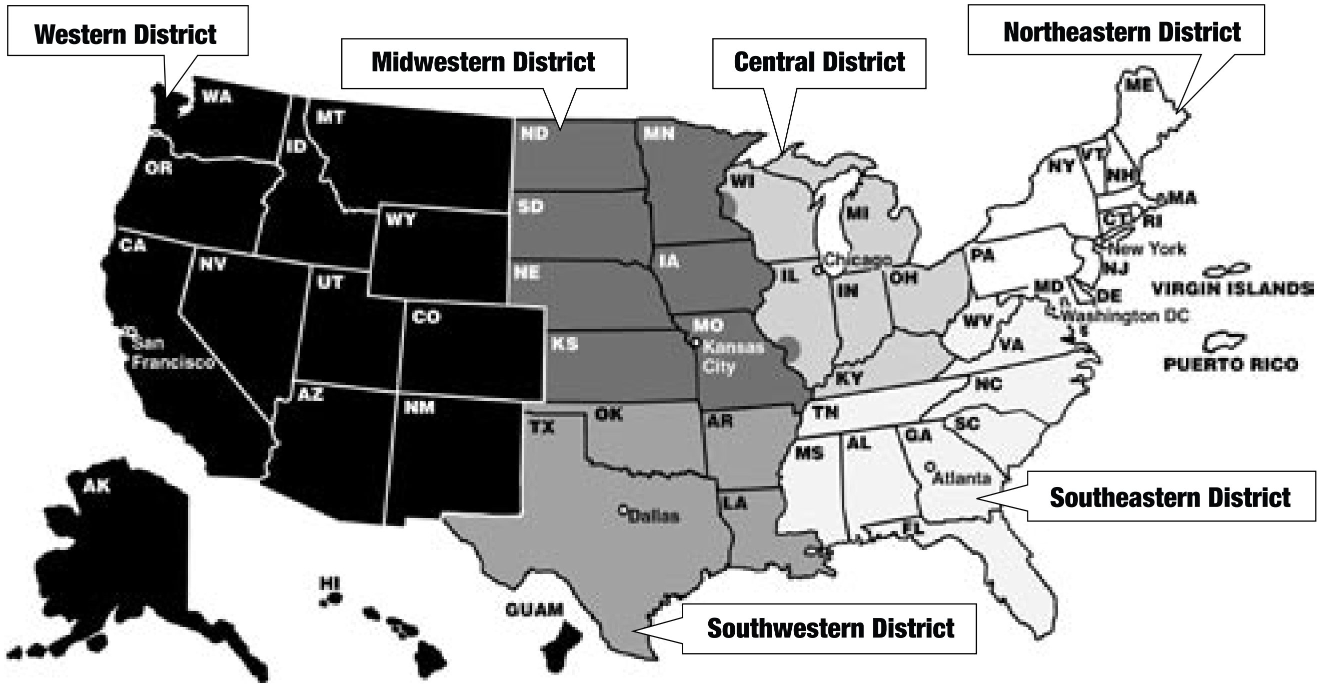

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