
Comptroller of the Currency
Administrator of National Banks
Quarterly Journal
4
VOLUME NINETEEN

# Office of the Comptroller of the Currency
# December 2000

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

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## Background

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

The OCC regulates national banks by its power to:

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

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

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

## The Comptroller

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

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

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

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and congressional testimony, material released in the interpretive letters series, statistical data, and other information of interest to the administration of national banks. Send suggestions or questions to Rebecca Miller, Senior Writer-Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for $100 a year by writing to Publications—QJ, Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673–0004. The *Quarterly Journal* is on the Web at http://www.occ.treas.gov/qj/qj.htm.

# Quarterly Journal

# Office of the Comptroller of the Currency

John D. Hawke Jr.

Comptroller of the Currency

The Administrator of National Banks

Volume 19, Number 4
December 2000

# Contents

# Condition and Performance of Commercial Banks

Pressure on the profitability of the commercial banking industry continued in the third quarter of 2000. Net income, return on assets (ROA), return on equity (ROE), and the percent of banks with earnings gains all declined compared to the third quarter of 1999, as shown in Table 1 (for commercial banks in the top panel, and for national banks in the bottom panel). The decline in profitability was due to slower growth in noninterest income, higher realized security losses, and higher provisions for loan losses spurred by slippage in credit quality for commercial and industrial (C&I) loans. Relative to the second quarter, net income and profitability rebounded from levels that were depressed by restructuring charges at a few large institutions.

Even with their profitability under pressure, banks improved their capital ratios over the last year. The equity capital ratio of the banking industry improved to 8.59 percent, and the share of commercial banks categorized as well capitalized by regulatory risk-based capital standards rose to 97.5 percent.

Assets of all commercial banks grew 10.0 percent from the third quarter of 1999 while the number of banks fell by 246. For national banks, assets increased by 4.2 percent while the number of national banks declined by 140.

**Table 1**

| All commercial banks | | |
|---|---|---|
| *(Quarterly data)* | *3rd quarter 1999* | *3rd quarter 2000* |
| Net Income | $19.4 billion | $19.3 billion |
| ROA | 1.41 % | 1.28 % |
| ROE | 16.6 % | 15.1 % |
| Banks with earnings gains | 61 % | 69 % |
| Equity capital to assets | 8.51% | 8.59% |
| Banks well capitalized | 97.2% | 97.5% |
| **All national banks** | | |
| *(Quarterly data)* | *3rd quarter 1999* | *3rd quarter 2000* |
| Net Income | $11.4 billion | $11.1 billion |
| ROA | 1.42 % | 1.32 % |
| ROE | 16.5 % | 15.4 % |
| Banks with earnings gains | 62 % | 60 % |
| Equity capital to assets | 8.58% | 8.70% |
| Banks well capitalized | 97.8% | 98.8% |

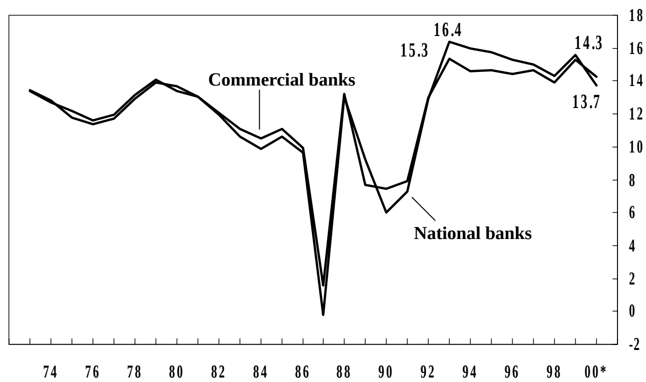
## Key Trends

Banks are finding it increasingly difficult to sustain the unprecedented level of profitability that occurred in the mid to late 1990s. That was an extraordinary time for banks: annual ROE averaged 14.5 percent from 1992 to 1999, peaking in 1993 at 15.3 percent (as shown in Figure 1). In 2000, however, earnings growth and profitability have slipped as noninterest income growth—the primary engine of recent revenue growth—slowed, while realized security losses and loan loss provisions increased. For the first three quarters of 2000, ROE declined to 14.3 percent for all banks and 13.7 for all national banks. The greater slide in national bank ROE reflects that the slowdown in noninterest income growth and rise in provisioning are currently centered in large banks, and a high proportion of these large banks are national banks.

**Figure 1-Bank profitability under pressure**

Commercial and national bank ROE

Percent



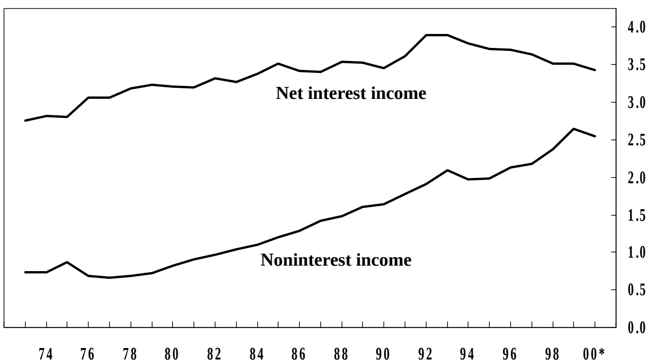

*2000 data are annualized year-to-date data as of September 30, 2000. All other data as of year-end.
Source: Integrated Banking Information System

Revenue growth. Noninterest income growth accelerated in the late 1990s as banks sought alternative sources of revenue to offset the compression in net interest margin, as shown in Figure 2. Noninterest income grew by 17 percent in 1999, about three times the pace of net interest income growth. Net interest margins continued to narrow in the first three-quarters of 2000, but noninterest income growth slowed to 7 percent and the noninterest income to assets ratio declined for the first time since 1994.

**Figure 2- Noninterest income growth was an offset to decline in net interest margin in 1990s**

Commercial banks

Percent of average assets



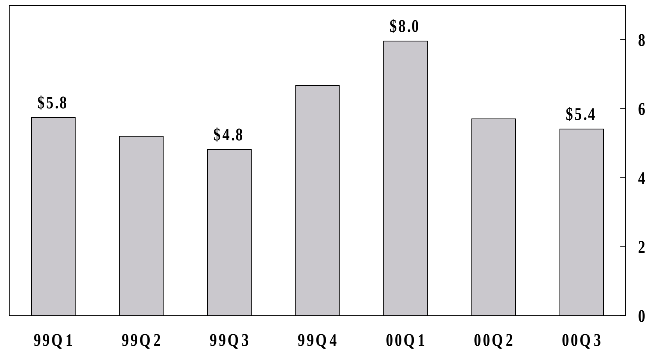

*2000 data are annualized year-to-date data as of September 30, 2000. All other data as of year-end.
Source: Integrated Banking Information System

A significant portion of the growth in noninterest income in the 1990s came from the strategic movement by large banks into ‘market-sensitive’ sources of revenue such as brokerage and trading activities and investment banking.[1] Although potentially highly profitable, these activities also have the potential for greater volatility caused by fluctuations in interest rates and equity markets. Total market-sensitive revenues of 12 large bank holding companies ranged from $4.8 to $8 billion over the last seven quarters,[2] as shown in Figure 3, and generally moved in conjunction with swings in financial markets. The decline in market-sensitive revenues at large banks over the last two quarters is one of the principal causes of the slowdown in noninterest income growth in 2000.

**Figure 3- Market-sensitive revenues will be volatile**

Market-sensitive revenues of 12 large bank holding companies

$ billions




Source: Quarterly earnings announcements for 12 large bank holding companies.

Security losses. Rising interest rates in 1999 and the first half of 2000 led to a reduction in the value of securities held by banks and transformed security sales from a source of earnings to a drain on earnings. Consequently, banks reported realized losses on security sales for five consecutive quarters. Realized losses on security sales totaled $2.5 billion for the first nine months of 2000, as shown in Figure 4.

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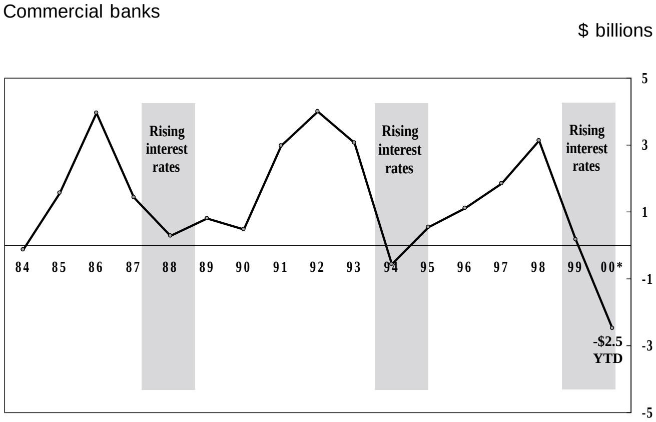
[1] For a more detailed analysis of the growing reliance on noninterest income and its implications, see the ‘Condition and Performance of Commercial Banks’ article in OCC *Quarterly Journal*, Vol. 19, No. 2, June 2000.

[2] The 12 bank holding companies analyzed were (in asset size order); Bank of America, Chase, Bank One, J.P. Morgan, First Union, Wells Fargo, FleetBoston, SunTrust, National City, KeyCorp, U.S. Bancorp, and PNC.

## Figure 4- Realized securities losses a drain on earnings in a rising interest rate environment

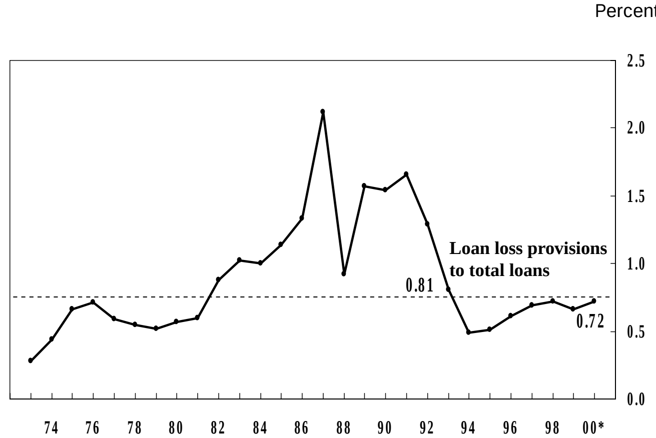
Commercial banks




*2000 data as of September 30, 2000. All other data as of year-end.
Source: Integrated Banking Information System

## Figure 5- Loan loss provisioning on the rise

Commercial banks




*2000 data are annualized year-to-date data as of September 30, 2000. All other data as of year-end.
Source: Integrated Banking Information System

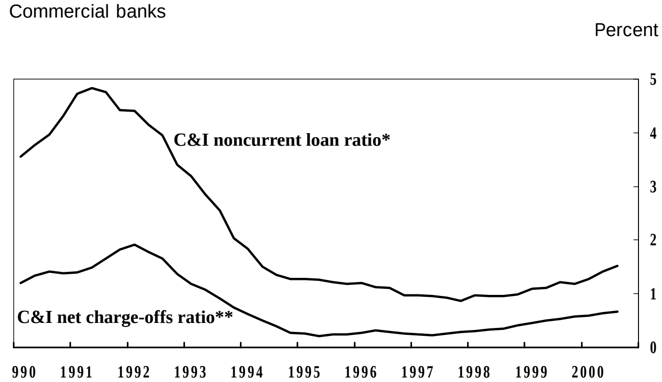
Security losses are likely to remain a drain on future earnings in the absence of a significant decrease in interest rates. As of the third quarter, banks had unrealized losses on their security holdings equal to 1.4 percent of the par value of those securities. This is a significant improvement from the second quarter, when banks had unrealized security losses equal to 2.3 percent of the par value of their security holdings.

Provisioning and asset quality. Strong and stable asset quality was a critical element in maintaining high commercial bank profitability in the second half of the 1990s. Provisioning for loan losses remained relatively low during this period, rising modestly between 1994 and 1998, then declining in 1999, as shown in Figure 5. Provisioning is again on the rise in 2000, primarily reflecting the deterioration in C&I loan quality. Through September, provisioning in 2000 is at its highest rate since 1993, and loss provisions in the third quarter were 26 percent higher than a year ago.

Over the last three years, credit quality indicators for C&I loans have deteriorated. Noncurrent and charge-off rates for C&I loans have increased steadily from historical lows since 1998, as shown in Figure 6, and are at their highest rates in over seven years.

## Figure 6- Noncurrent and charge-off ratios on the rise for C&I loans

Commercial banks



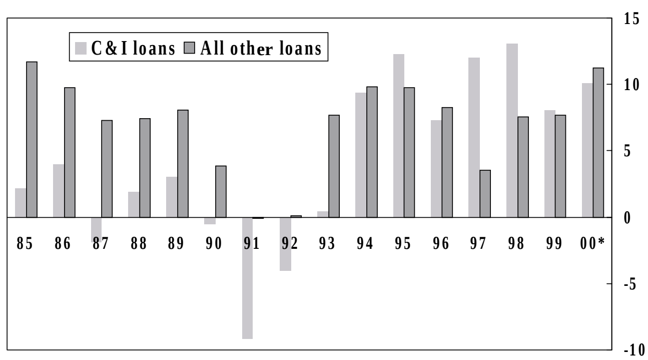

*Quarter-end data
**Four-quarter moving average of annualized quarterly data
Source: Integrated Banking Information System

The deterioration in C&I loan losses and noncurrents comes on the heels of strong C&I loan growth in the second half of the 1990s and concern by regulators about loosening underwriting standards for commercial loans during that period. In contrast to the 1980s, C&I loan growth outpaced total loan growth during most of the 1990s, as shown in Figure 7. C&I loan growth averaged 11 percent in the second half of the 1990s compared with 7 percent growth for the rest of the loan portfolio. This is in stark contrast to the second half of the 1980s, when C&I loan growth averaged about one-fifth the growth in the rest of the loan portfolio.

**Figure 7- C&I loan growth in 1990s historically high**

Commercial banks

Percent




*Annualized change in 2000 through September 30
Source: Integrated Banking Information System

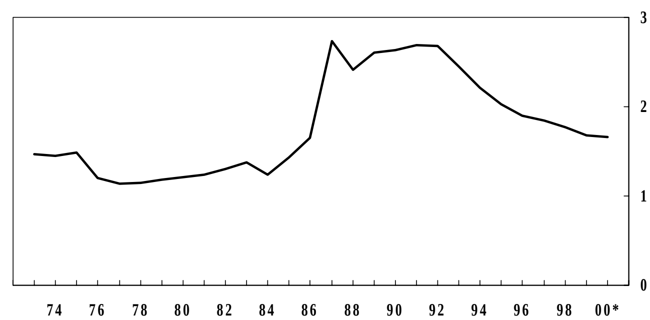
The weakening in C&I credit quality occurred in an environment of relatively strong though moderating growth in the U.S. economy. This raises concern about the possible impact on credit quality if the U.S economy were to slow further. Banks have responded to the slippage in C&I credit quality by adjusting their lending standards and loan pricing. According to the Fed's survey of loan officers,[3] more banks have tightened loan standards than eased standards for nine consecutive quarters; previously, more banks reported easing standards for 19 of the last 22 quarters. Additionally, the credit spread on C&I loans[4] widened by more than 30 basis points over the last two years.

Reserves and capital. The weakening in C&I credit quality increases the likelihood that banks will have to increase provisioning even further to replenish their loss reserve ratios. The ratio of loan loss reserves to total loans for commercial banks peaked at 2.7 percent following the 1990-1991 recession. The industry-wide loss reserve ratio declined to 1.7 percent as of the third quarter 2000, as shown in Figure 8.

**Figure 8- Reserves to loans ratio declining**

Commercial banks

Percent




*2000 data as of September 30, 2000. All other data as of year-end.
Source: Integrated Banking Information System

Although reserve coverage has declined, the capitalization of the banking system remains high. The equity capital to loans ratio for all commercial banks was 13.8 percent as of the third quarter 2000 and has varied within a narrow band of that level (plus or minus 50 basis points) since 1993. Moreover, only 2.5 percent of all banks are less than well capitalized by regulatory risk-based capital standards.

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[3] Percent of banks reporting tightening standards less the percent of banks easing standards for commercial and industrial loans to large and medium sized firms. Data from Board of Governors of the Federal Reserve System's quarterly Senior Loan Officer Opinion Survey of large domestic commercial banks, 1990Q2–2000Q4.

[4] Measured as the difference between the interest rate on C&I loans and the Federal Funds Rate, as reported by the Board of Governors of the Federal Reserve System, H8 Release, 1999Q1–2000Q3.

## Conclusions

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

Strong and stable asset quality is a critical element in maintaining high commercial bank profitability. Credit quality problems can be both a potential drain on earnings and a distraction to bank management for an extended period of time. With the expected continued pressure on earnings, bank management will be responsible for maintaining high quality loan review and stress testing, while adhering to lending standards that are appropriate to the changing developments in key economic and financial markets.

## Key indicators, FDIC-insured national banks
### Annual 1996–1999, year-to-date through September 30, 2000, third quarter 1999, and third quarter 2000
(Dollar figures in millions)

| | 1966 | 1997 | 1998 | 1999 | Preliminary 2000YTD | 1993Q3 | Preliminary 2000Q3 |
|---|---|---|---|---|---|---|---|
| Number of institutions reporting | 2,726 | 2,597 | 2,456 | 2,364 | 2,242 | 2,382 | 2,242 |
| Total employees (FTEs) | 850,737 | 912,463 | 974,871 | 983,186 | 945,413 | 972,208 | 945,413 |
| **Selected income data ($)** | | | | | | | |
| Net income | $30,497 | $35,782 | $37,607 | $42,592 | $29,105 | $11,430 | $11,101 |
| Net interest income | 94,564 | 106,639 | 110,985 | 114,535 | 87,019 | 29,375 | 29,156 |
| Provision for loan losses | 9,598 | 13,065 | 15,242 | 15,548 | 13,584 | 3,767 | 4,492 |
| Noninterest income | 56,100 | 65,429 | 81,344 | 92,671 | 71,492 | 23,370 | 25,484 |
| Noninterest expense | 93,690 | 104,682 | 122,606 | 125,811 | 96,702 | 30,978 | 32,346 |
| Net operating income | 30,095 | 34,993 | 35,548 | 42,416 | 30,857 | 11,547 | 11,593 |
| Cash dividends declared | 25,279 | 28,587 | 25,414 | 29,876 | 20,639 | 7,396 | 7,131 |
| Net charge-offs to loan and lease reserve | 9,968 | 12,661 | 14,492 | 14,175 | 11,020 | 3,388 | 3,807 |
| **Selected condition data ($)** | | | | | | | |
| Total assets | 2,528,057 | 2,893,910 | 3,183,384 | 3,271,263 | 3,363,543 | 3,227,072 | 3,363,543 |
| Total loans and leases | 1,641,464 | 1,840,485 | 2,015,585 | 2,127,880 | 2,227,044 | 2,066,107 | 2,227,044 |
| Reserve for losses | 31,992 | 34,865 | 36,810 | 37,687 | 39,243 | 37,870 | 39,243 |
| Securities | 380,615 | 452,118 | 516,117 | 537,185 | 509,327 | 559,411 | 509,327 |
| Other real estate owned | 2,761 | 2,112 | 1,833 | 1,572 | 1,527 | 1,680 | 1,527 |
| Noncurrent loans and leases | 17,223 | 17,878 | 19,513 | 20,814 | 24,301 | 20,468 | 24,301 |
| Total deposits | 1,801,043 | 2,004,867 | 2,137,946 | 2,154,276 | 2,194,953 | 2,141,412 | 2,194,953 |
| Domestic deposits | 1,525,565 | 1,685,316 | 1,785,856 | 1,776,129 | 1,768,496 | 1,764,998 | 1,768,496 |
| Equity capital | 207,166 | 244,794 | 274,192 | 278,014 | 292,769 | 276,750 | 292,769 |
| Off-balance-sheet derivatives | 7,488,663 | 8,704,481 | 10,953,514 | 12,077,568 | 14,418,153 | 12,157,812 | 14,418,153 |
| **Performance ratios (annualized %)** | | | | | | | |
| Return on equity | 15.28 | 15.00 | 14.29 | 15.57 | 13.74 | 16.52 | 15.40 |
| Return on assets | 1.25 | 1.29 | 1.24 | 1.35 | 1.18 | 1.42 | 1.32 |
| Net interest income to assets | 3.88 | 3.83 | 3.67 | 3.63 | 3.52 | 3.66 | 3.48 |
| Loss provision to assets | 0.39 | 0.47 | 0.50 | 0.49 | 0.55 | 0.47 | 0.54 |
| Net operating income to assets | 1.24 | 1.26 | 1.18 | 1.35 | 1.25 | 1.44 | 1.38 |
| Noninterest income to assets | 2.30 | 2.35 | 2.69 | 2.94 | 2.89 | 2.91 | 3.04 |
| Noninterest expense to assets | 3.85 | 3.76 | 4.05 | 3.99 | 3.91 | 3.86 | 3.86 |
| Loss provision to loans and leases | 0.61 | 0.73 | 0.79 | 0.76 | 0.84 | 0.73 | 0.81 |
| Net charge-offs to loans and leases | 0.63 | 0.71 | 0.75 | 0.70 | 0.68 | 0.66 | 0.69 |
| Loss provision to net charge-offs | 96.29 | 103.19 | 105.12 | 109.68 | 123.27 | 111.22 | 117.99 |
| **Performance ratios (%)** | | | | | | | |
| Percent of institutions unprofitable | 4.77 | 4.89 | 5.94 7.06 | 5.98 | 6.30 | 6.51 | |
| Percent of institutions with earnings gains | 67.83 | 67.96 | 61.60 | 62.18 | 67.40 | 61.59 | 59.72 |
| Nonint. income to net operating revenue | 37.24 | 38.02 | 42.29 | 44.72 | 45.10 | 44.31 | 46.64 |
| Nonint. expense to net operating revenue | 62.18 | 60.84 | 63.75 | 60.72 | 61.01 | 58.73 | 59.20 |
| **Condition ratios (%)** | | | | | | | |
| Nonperforming assets to assets | 0.80 | 0.70 | 0.68 | 0.70 | 0.78 | 0.70 | 0.78 |
| Noncurrent loans to loans | 1.05 | 0.97 | 0.97 | 0.98 | 1.09 | 0.99 | 1.09 |
| Loss reserve to noncurrent loans | 185.75 | 195.01 | 188.65 | 181.06 | 161.49 | 185.02 | 161.49 |
| Loss reserve to loans | 1.95 | 1.89 | 1.83 | 1.77 | 1.76 | 1.83 | 1.76 |
| Equity capital to assets | 8.19 | 8.46 | 8.61 | 8.50 | 8.70 | 8.58 | 8.70 |
| Leverage ratio | 7.40 | 7.42 | 7.43 | 7.49 | 7.60 | 7.53 | 7.60 |
| Risk-based capital ratio | 11.95 | 11.84 | 11.79 | 11.72 | 11.99 | 11.92 | 11.99 |
| Net loans and leases to assets | 63.66 | 62.39 | 62.16 | 63.90 | 65.04 | 62.85 | 65.04 |
| Securities to assets | 15.06 | 15.62 | 16.21 | 16.42 | 15.14 | 17.33 | 15.14 |
| Appreciation in securities (% of par) | 0.50 | 1.11 | 0.82 | −2.45 | −1.52 | −1.74 | −1.52 |
| Residential mortgage assets to assets | −19.81 | 20.10 | 20.41 | 20.60 | 20.24 | 20.42 | 20.24 |
| Total deposits to assets | 71.24 | 69.28 | 67.16 | 65.85 | 65.26 | 66.36 | 65.26 |
| Core deposits to assets | 54.08 | 51.59 | 49.72 | 47.01 | 44.81 | 47.76 | 44.81 |
| Volatile liabilities to assets | 29.83 | 31.42 | 31.77 | 34.81 | 35.97 | 33.78 | 35.97 |

**Loan performance, FDIC-insured national banks**
**Annual 1996–1999, year-to-date through September 30, 2000, third quarter 1999, and third quarter 2000**
(Dollar figures in millions)

| | 1966 | 1997 | 1998 | 1999 | Preliminary 2000YTD | 1993Q3 | Preliminary 2000Q3 |
|---|---|---|---|---|---|---|---|
| **Percent of loans past due 30–89 days** | | | | | | | |
| Total loans and leases | 1.39 | 1.32 | 1.27 | 1.16 | 1.14 | 1.17 | 1.14 |
| Loans secured by real estate (RE) | 1.45 | 1.39 | 1.33 | 1.22 | 1.21 | 1.20 | 1.21 |
| 1–4 family residential mortgages | 1.63 | 1.65 | 1.50 | 1.61 | 1.60 | 1.63 | 1.60 |
| Home equity loans | 1.04 | 0.93 | 0.97 | 0.77 | 0.93 | 0.75 | 0.93 |
| Multifamily residential mortgages | 1.28 | 1.33 | 0.94 | 0.69 | 0.58 | 0.39 | 0.58 |
| Commercial RE loans | 1.25 | 0.95 | 1.02 | 0.70 | 0.64 | 0.67 | 0.64 |
| Construction RE loans | 1.63 | 1.63 | 1.82 | 1.07 | 1.07 | 0.98 | 1.07 |
| Commercial and industrial loans* | 0.89 | 0.76 | 0.81 | 0.71 | 0.70 | 0.73 | 0.70 |
| Loans to individuals | 2.46 | 2.52 | 2.44 | 2.36 | 2.28 | 2.31 | 2.28 |
| Credit cards | 2.70 | 2.75 | 2.52 | 2.53 | 2.49 | 2.62 | 2.49 |
| Installment loans | 2.26 | 2.34 | 2.37 | 2.24 | 2.10 | 2.09 | 2.10 |
| All other loans and leases | 0.41 | 0.46 | 0.46 | 0.50 | 0.58 | 0.71 | 0.58 |
| **Percent of loans noncurrent** | | | | | | | |
| Total loans and leases | 1.05 | 0.97 | 0.97 | 0.98 | 1.09 | 0.99 | 1.09 |
| Loans secured by real estate (RE) | 1.27 | 1.07 | 0.98 | 0.87 | 0.86 | 0.96 | 0.86 |
| 1–4 family residential mortgages | 1.10 | 1.01 | 0.95 | 0.91 | 0.92 | 1.01 | 0.92 |
| Home equity loans | 0.47 | 0.43 | 0.41 | 0.32 | 0.39 | 0.33 | 0.39 |
| Multifamily residential mortgages | 1.47 | 1.01 | 0.88 | 0.43 | 0.40 | 0.53 | 0.40 |
| Commercial RE loans | 1.71 | 1.27 | 1.01 | 0.84 | 0.81 | 0.98 | 0.81 |
| Construction RE loans | 1.31 | 1.00 | 0.80 | 0.63 | 0.74 | 0.57 | 0.74 |
| Commercial and industrial loans* | 0.87 | 0.78 | 0.86 | 1.11 | 1.50 | 1.06 | 1.50 |
| Loans to individuals | 1.34 | 1.49 | 1.59 | 1.52 | 1.44 | 1.41 | 1.44 |
| Credit cards | 1.70 | 2.03 | 2.06 | 2.00 | 1.89 | 1.88 | 1.89 |
| Installment loans | 1.04 | 1.04 | 1.19 | 1.16 | 1.05 | 1.10 | 1.05 |
| All other loans and leases | 0.25 | 0.27 | 0.31 | 0.40 | 0.53 | 0.46 | 0.53 |
| **Percent of loans charged-off, net** | | | | | | | |
| Total loans and leases | 0.63 | 0.71 | 0.75 | 0.70 | 0.68 | 0.66 | 0.69 |
| Loans secured by real estate (RE) | 0.09 | 0.06 | 0.05 | 0.10 | 0.11 | 0.13 | 0.13 |
| 1–4 family residential mortgages | 0.08 | 0.08 | 0.07 | 0.14 | 0.13 | 0.19 | 0.13 |
| Home equity loans | 0.24 | 0.18 | 0.16 | 0.19 | 0.21 | 0.17 | 0.27 |
| Multifamily residential mortgages | 0.09 | 0.01 | 0.07 | 0.02 | 0.03 | 0.02 | 0.07 |
| Commercial RE loans | 0.02 | −0.01 | −0.02 | 0.03 | 0.06 | 0.05 | 0.08 |
| Construction RE loans | 0.16 | −0.10 | −0.01 | 0.03 | 0.03 | 0.01 | 0.08 |
| Commercial and industrial loans* | 0.22 | 0.27 | 0.38 | 0.54 | 0.67 | 0.44 | 0.70 |
| Loans to individuals | 2.45 | 2.86 | 2.92 | 2.65 | 2.57 | 2.66 | 2.54 |
| Credit cards | 4.25 | 4.95 | 5.03 | 4.51 | 4.36 | 4.55 | 4.23 |
| Installment loans | 1.04 | 1.20 | 1.23 | 1.27 | 1.16 | 1.38 | 1.14 |
| All other loans and leases | 0.11 | 0.10 | 0.53 | 0.31 | 0.20 | 0.20 | 0.21 |
| **Loans outstanding ($)** | | | | | | | |
| Total loans and leases | $1,641,464 | $1,840,485 | $2,015,585 | $2,127,880 | $2,227,044 | $2,066,107 | $2,227,044 |
| Loans secured by real estate (RE) | 646,570 | 725,305 | 764,944 | 853,141 | 900,900 | 807,076 | 900,900 |
| 1–4 family residential mortgages | 329,031 | 363,329 | 381,597 | 433,807 | 456,723 | 399,255 | 456,723 |
| Home equity loans | 55,022 | 67,669 | 66,091 | 67,267 | 80,373 | 64,486 | 80,373 |
| Multifamily residential mortgages | 20,480 | 23,346 | 23,201 | 26,561 | 28,149 | 27,074 | 28,149 |
| Commercial RE loans | 170,350 | 190,067 | 200,469 | 214,145 | 219,915 | 209,026 | 219,915 |
| Construction RE loans | 38,848 | 47,410 | 56,261 | 71,578 | 75,879 | 67,860 | 75,879 |
| Farmland loans | 9,046 | 10,178 | 10,930 | 11,957 | 12,342 | 11,704 | 12,342 |
| RE loans from foreign offices | 23,794 | 23,306 | 26,396 | 27,825 | 27,519 | 27,672 | 27,519 |
| Commercial and industrial loans | 425,148 | 508,589 | 583,903 | 622,006 | 649,901 | 616,327 | 649,901 |
| Loans to individuals | 356,067 | 371,477 | 386,410 | 348,581 | 353,893 | 337,740 | 353,893 |
| Credit cards | 161,104 | 168,236 | 176,408 | 147,126 | 162,237 | 135,562 | 162,237 |
| Installment loans | 194,963 | 203,241 | 210,003 | 201,455 | 191,656 | 202,179 | 191,656 |
| All other loans and leases | 216,194 | 237,326 | 282,367 | 306,042 | 323,866 | 306,830 | 323,866 |
| Less: Unearned income | 2,515 | 2,212 | 2,039 | 1,890 | 1,516 | 1,867 | 1,516 |

*Includes ‘All other loans’ for institutions under $1 billion in asset size.

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

| | Less than $100M | | $100M to $1B | | $1B to $10B | | Greater than $10B | |
|---|---|---|---|---|---|---|---|---|
| | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 |
| Number of institutions reporting | 1,212 | 1,125 | 993 | 941 | 130 | 132 | 47 | 44 |
| Total employees (FTEs) | 31,601 | 27,638 | 107,387 | 95,618 | 123,536 | 116,543 | 709,684 | 705,614 |
| Selected income data ($) | | | | | | | | |
| Net income | $180 | $160 | $866 | $758 | $1,723 | $1,724 | $8,661 | $8,459 |
| Net interest income | 626 | 600 | 2,754 | 2,507 | 3,923 | 3,823 | 22,072 | 22,225 |
| Provision for loan losses | 33 | 34 | 299 | 283 | 452 | 573 | ″2,983 | 3,602 |
| Noninterest income | 426 | 275 | 1,469 | 1,296 | 3,085 | 3,594 | 18,390 | 20,319 |
| Noninterest expense | 770 | 619 | 2,642 | 2,391 | 3,874 | 4,031 | 23,692 | 25,305 |
| Net operating income | 180 | 161 | 868 | 773 | 1,734 | 1,776 | 8,765 | 8,884 |
| Cash dividends declared | 68 | 76 | 338 | 358 | 538 | 784 | 6,453 | 5,912 |
| Net charge-offs to loan and lease reserve | 21 | 22 | 189 | 183 | 531 | 439 | 2,647 | 3,163 |
| Selected condition data ($) | | | | | | | | |
| Total assets | 60,487 | 57,078 | 264,300 | 245,200 | 388,998 | 401,927 | 2,513,287 | 2,659,339 |
| Total loans and leases | 35,215 | 34,279 | 163,991 | 156,776 | 246,406 | 253,165 | 1,620,495 | 1,782,824 |
| Reserve for losses | 469 | 455 | 2,529 | 2,149 | 5,211 | 4,514 | 29,662 | 32,126 |
| Securities | 16,801 | 15,198 | 70,598 | 61,815 | 90,467 | 91,362 | 381,545 | 340,954 |
| Other real estate owned | 64 | 66 | 206 | 189 | 159 | 160 | 1,250 | 1,113 |
| Noncurrent loans and leases | 357 | 324 | 1,460 | 1,305 | 2,131 | 2,185 | 16,520 | 20,487 |
| Total deposits | 51,102 | 47,970 | 212,617 | 197,892 | 250,293 | 264,628 | 1,627,401 | 1,684,464 |
| Domestic deposits | 51,102 | 47,959 | 212,138 | 197,435 | 247,665 | 261,312 | 1,254,094 | 1,261,790 |
| Equity capital | 6,668 | 6,360 | 24,595 | 23,970 | 38,301 | 37,254 | 207,186 | 225,186 |
| Off-balance-sheet derivatives | 46 | 22 | 3,556 | 1,367 | 40,521 | 32,030 | 12,437,392 | 14,659,322 |
| Performance ratios (annualized %) | | | | | | | | |
| Return on equity | 10.20 | 10.23 | 14.24 | 12.90 | 18.29 | 19.00 | 16.68 | 15.23 |
| Return on assets | 1.15 | 1.14 | 1.32 | 1.25 | 1.79 | 1.73 | 1.38 | 1.28 |
| Net interest income to assets | 4.01 | 4.26 | 4.21 | 4.13 | 4.08 | 3.83 | 3.53 | 3.35 |
| Loss provision to assets | 0.21 | 0.24 | 0.46 | 0.47 | 0.47 | 0.57 | 0.48 | 0.54 |
| Net operating income to assets | 1.15 | 1.14 | 1.33 | 1.27 | 1.80 | 1.78 | 1.40 | 1.34 |
| Noninterest income to assets | 2.73 | 1.95 | 2.25 | 2.13 | 3.21 | 3.60 | 2.94 | 3.06 |
| Noninterest expense to assets | 4.93 | 4.39 | 4.04 | 3.94 | 4.03 | 4.04 | 3.79 | 3.82 |
| Loss provision to loans and leases | 0.35 | 0.41 | 0.74 | 0.73 | 0.74 | 0.92 | 0.74 | 0.81 |
| Net charge-offs to loans and leases | 0.22 | 0.26 | 0.47 | 0.47 | 0.87 | 0.70 | 0.66 | 0.72 |
| Loss provision to net charge-offs | 157.98 | 157.88 | 158.21 | 154.64 | 85.12 | 130.43 | 112.73 | 113.87 |
| Performance ratios (%) | | | | | | | | |
| Percent of institutions unprofitable | 9.65 | 9.78 | 2.92 | 2.44 | 2.31 | 6.82 | 2.13 | 9.09 |
| Percent of institutions with earnings gains | 54.54 | 58.84 | 67.77 | 62.06 | 77.69 | 54.55 | 68.09 | 47.73 |
| Nonint. income to net operating revenue | 40.49 | 31.40 | 34.79 | 34.08 | 44.02 | 48.45 | 45.45 | 47.76 |
| Nonint. expense to net operating revenue | 73.25 | 70.74 | 62.56 | 62.87 | 55.27 | 54.34 | 58.55 | 59.48 |
| Condition ratios (%) | | | | | | | | |
| Nonperforming assets to assets | 0.70 | 0.68 | 0.64 | 0.61 | 0.60 | 0.60 | 0.72 | 0.83 |
| Noncurrent loans to loans | 1.01 | 0.94 | 0.89 | 0.83 | 0.86 | 0.86 | 1.02 | 1.15 |
| Loss reserve to noncurrent loans | 131.40 | 140.35 | 173.18 | 164.69 | 244.52 | 206.56 | 179.55 | 156.81 |
| Loss reserve to loans | 1.33 | 1.33 | 1.54 | 1.37 | 2.11 | 1.78 | 1.83 | 1.80 |
| Equity capital to assets | 11.02 | 11.14 | 9.31 | 9.78 | 9.85 | 9.27 | 8.24 | 8.47 |
| Leverage ratio | 10.94 | 11.23 | 9.12 | 9.66 | 8.74 | 8.41 | 7.09 | 7.20 |
| Risk-based capital ratio | 18.19 | 17.97 | 14.56 | 14.93 | 13.47 | 13.36 | 11.39 | 11.51 |
| Net loans and leases to assets | 57.44 | 59.26 | 61.09 | 63.06 | 62.00 | 61.86 | 63.30 | 65.83 |
| Securities to assets | 27.78 | 26.63 | 26.71 | 25.21 | 23.26 | 22.73 | 15.18 | 12.82 |
| Appreciation in securities (% of par) | −1.36 | −1.39 | −1.53 | −1.51 | −1.65 | −1.45 | −1.82 | −1.55 |
| Residential mortgage assets to assets | 21.57 | 21.43 | 25.34 | 24.60 | 27.06 | 26.95 | 18.84 | 18.80 |
| Total deposits to assets | 84.48 | 84.04 | 80.45 | 80.71 | 64.34 | 65.84 | 64.75 | 63.34 |
| Core deposits to assets | 72.79 | 71.44 | 68.76 | 67.73 | 55.97 | 55.14 | 43.68 | 40.56 |
| Volatile liabilities to assets | 13.90 | 15.19 | 18.28 | 18.84 | 26.74 | 28.00 | 36.97 | 39.20 |

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

| | Less than $100M | | $100M to $1B | | $1B to $10B | | Greater than $10B | |
|---|---|---|---|---|---|---|---|---|
| | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 |
| Percent of loans past due 30–89 days | | | | | | | | |
| Total loans and leases | 1.25 | 1.23 | 1.17 | 1.11 | 1.24 | 1.24 | 1.15 | 1.13 |
| Loans secured by real estate (RE) | 1.05 | 1.05 | 0.85 | 0.87 | 0.88 | 0.90 | 1.33 | 1.33 |
| 1–4 family residential mortgages | 1.38 | 1.40 | 1.07 | 1.08 | 1.03 | 0.97 | 1.85 | 1.79 |
| Home equity loans | 0.70 | 0.76 | 0.79 | 0.70 | 0.87 | 0.88 | 0.73 | 0.96 |
| Multifamily residential mortgages | 0.73 | 0.54 | 0.61 | 0.42 | 0.26 | 1.01 | 0.38 | 0.49 |
| Commercial RE loans | 0.70 | 0.72 | 0.64 | 0.65 | 0.64 | 0.79 | 0.68 | 0.58 |
| Construction RE loans | 1.03 | 1.16 | 0.77 | 1.04 | 1.07 | 0.91 | 0.99 | 1.12 |
| Commercial and industrial loans* | 2.19 | 2.03 | 1.60 | 1.52 | 0.93 | 1.14 | 0.64 | 0.61 |
| Loans to individuals | 1.94 | 1.97 | 2.17 | 1.91 | 2.21 | 2.37 | 2.35 | 2.30 |
| Credit cards | 2.34 | 2.04 | 3.87 | 2.83 | 2.50 | 2.72 | 2.59 | 2.44 |
| Installment loans | 1.92 | 1.97 | 1.70 | 1.69 | 1.94 | 2.14 | 2.19 | 2.16 |
| All other loans and leases | | | | | 1.28 | 0.94 | 0.70 | 0.58 |
| Percent of loans noncurrent | | | | | | | | |
| Total loans and leases | 1.01 | 0.94 | 0.89 | 0.83 | 0.86 | 0.86 | 1.02 | 1.15 |
| Loans secured by real estate (RE) | 0.80 | 0.74 | 0.67 | 0.66 | 0.69 | 0.62 | 1.07 | 0.94 |
| 1–4 family residential mortgages | 0.67 | 0.63 | 0.62 | 0.60 | 0.71 | 0.56 | 1.15 | 1.03 |
| Home equity loans | 0.30 | 0.21 | 0.32 | 0.40 | 0.35 | 0.33 | 0.32 | 0.40 |
| Multifamily residential mortgages | 0.54 | 0.43 | 0.47 | 0.27 | 0.31 | 0.40 | 0.59 | 0.42 |
| Commercial RE loans | 0.75 | 0.76 | 0.76 | 0.77 | 0.82 | 0.75 | 1.08 | 0.84 |
| Construction RE loans | 0.43 | 0.68 | 0.52 | 0.54 | 0.50 | 0.69 | 0.61 | 0.79 |
| Commercial and industrial loans* | 2.66 | 2.51 | 1.64 | 1.60 | 0.93 | 1.25 | 1.03 | 1.51 |
| Loans to individuals | 0.72 | 0.65 | 1.01 | 0.81 | 1.22 | 1.29 | 1.52 | 1.53 |
| Credit cards | 1.46 | 1.09 | 2.86 | 2.22 | 1.90 | 2.24 | 1.83 | 1.83 |
| Installment loans | 0.68 | 0.63 | 0.50 | 0.48 | 0.60 | 0.67 | 1.31 | 1.23 |
| All other loans and leases | | | | | 0.61 | 0.33 | 0.45 | 0.55 |
| Percent of loans charged-off, net | | | | | | | | |
| Total loans and leases | 0.22 | 0.26 | 0.47 | 0.47 | 0.87 | 0.70 | 0.66 | 0.72 |
| Loans secured by real estate (RE) | 0.03 | 0.04 | 0.04 | 0.05 | 0.10 | 0.13 | 0.16 | 0.14 |
| 1–4 family residential mortgages | 0.05 | 0.02 | 0.05 | 0.06 | 0.13 | 0.15 | 0.24 | 0.14 |
| Home equity loans | 0.14 | 0.05 | 0.04 | 0.02 | 0.19 | 0.17 | 0.18 | 0.29 |
| Multifamily residential mortgages | −0.03 | −0.01 | −0.01 | 0.07 | 0.05 | 0.05 | 0.01 | 0.08 |
| Commercial RE loans | 0.01 | 0.07 | 0.03 | 0.03 | 0.07 | 0.11 | 0.06 | 0.08 |
| Construction RE loans | 0.02 | 0.07 | 0.03 | 0.04 | 0.00 | 0.07 | 0.02 | 0.09 |
| Commercial and industrial loans* | 0.74 | 0.84 | 0.46 | 0.64 | 0.54 | 0.72 | 0.43 | 0.70 |
| Loans to individuals | 0.46 | 0.65 | 2.27 | 2.15 | 2.84 | 2.35 | 2.72 | 2.64 |
| Credit cards | 0.27 | −3.06 | 8.86 | 8.49 | 5.09 | 5.16 | 4.27 | 3.96 |
| Installment loans | 0.55 | 0.79 | 0.54 | 0.63 | 0.80 | 0.47 | 1.64 | 1.37 |
| All other loans and leases | | | | | 0.26 | 0.26 | 0.20 | 0.21 |
| Loans outstanding ($) | | | | | | | | |
| Total loans and leases | $35,215 | $34,279 | $163,991 | $156,776 | $246,406 | $253,165 | $1,620,495 | $1,782,824 |
| Loans secured by real estate (RE) | 19,916 | 19,875 | 98,299 | 96,686 | 119,044 | 136,593 | 569,816 | 647,746 |
| 1–4 family residential mortgages | 9,433 | 9,264 | 44,610 | 42,541 | 58,473 | 64,412 | 286,738 | 340,505 |
| Home equity loans | 403 | 452 | 4,183 | 4,023 | 7,353 | 9,767 | 52,547 | 66,131 |
| Multifamily residential mortgages | 439 | 440 | 3,316 | 3,337 | 4,437 | 4,936 | 18,883 | 19,437 |
| Commercial RE loans | 5,797 | 5,745 | 33,734 | 34,012 | 35,408 | 41,600 | 134,087 | 138,558 |
| Construction RE loans | 1,520 | 1,670 | 8,373 | 8,790 | 11,815 | 13,898 | 46,151 | 51,521 |
| Farmland loans | 2,325 | 2,304 | 4,060 | 3,977 | 1,360 | 1,809 | 3,959 | 4,252 |
| RE loans from foreign offices | 0 | 0 | 23 | 6 | 197 | 172 | 27,452 | 27,342 |
| Commercial and industrial loans | 6,008 | 5,759 | 28,860 | 27,895 | 49,882 | 49,921 | 531,576 | 566,326 |
| Loans to individuals | 5,039 | 4,749 | 26,564 | 22,673 | 60,562 | 50,481 | 245,576 | 275,990 |
| Credit cards | 250 | 179 | 5,757 | 4,315 | 28,942 | 20,075 | 100,613 | 137,669 |
| Installment loans | 4,789 | 4,570 | 20,807 | 18,358 | 31,620 | 30,406 | 144,962 | 138,322 |
| All other loans and leases | 4,352 | 3,972 | 10,568 | 9,790 | 16,995 | 16,263 | 274,915 | 293,841 |
| Less: Unearned income | 101 | 76 | 301 | 268 | 77 | 92 | 1,388 | 1,080 |

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

## Key indicators, FDIC-insured national banks by region
## Third quarter 2000
(Dollar figures in millions)

| | Northeast | Southeast | Central | Midwest | Southwest | West | All institutions |
|---|---|---|---|---|---|---|---|
| Number of institutions reporting | 263 | 313 | 451 | 444 | 539 | 232 | 2,242 |
| Total employees (FTEs) | 280,751 | 268,606 | 164,863 | 75,239 | 61,131 | 94,823 | 945,413 |
| Selected income data ($) | | | | | | | |
| Net income | $3,605 | $3,665 | $1,340 | $1,002 | $413 | $1,075 | $11,101 |
| Net interest income | 7,591 | 8,370 | 4,954 | 2,681 | 1,824 | 3,737 | 29,156 |
| Provision for loan losses | 1,407 | 900 | 687 | 494 | 159 | 845 | 4,492 |
| Noninterest income | 9,222 | 7,102 | 2,638 | 2,187 | 647 | 3,688 | 25,484 |
| Noninterest expense | 10,053 | 8,483 | 4,887 | 2,772 | 1,643 | 4,509 | 32,346 |
| Net operating income | 3,361 | 4,173 | 1,387 | 1,020 | 460 | 1,193 | 11,593 |
| Cash dividends declared | 1,734 | 2,709 | 1,238 | 369 | 254 | 827 | 7,131 |
| Net charge-offs to loan and lease reserve | 1,328 | 838 | 483 | 406 | 114 | 639 | 3,807 |
| Selected condition data ($) | | | | | | | |
| Total assets | 885,840 | 1,066,390 | 622,652 | 271,761 | 186,168 | 330,731 | 3,363,543 |
| Total loans and leases | 577,634 | 683,489 | 435,649 | 189,931 | 115,734 | 224,607 | 2,227,044 |
| Reserve for losses | 12,236 | 10,736 | 6,411 | 3,047 | 1,560 | 5,253 | 39,243 |
| Securities | 130,818 | 166,782 | 98,080 | 35,187 | 42,101 | 36,359 | 509,327 |
| Other real estate owned | 473 | 516 | 194 | 91 | 110 | 144 | 1,527 |
| Noncurrent loans and leases | 8,063 | 7,337 | 4,233 | 1,481 | 1,118 | 2,069 | 24,301 |
| Total deposits | 602,331 | 672,147 | 401,434 | 172,981 | 144,133 | 201,927 | 2,194,953 |
| Domestic deposits | 351,278 | 575,410 | 348,568 | 159,048 | 142,504 | 191,689 | 1,768,496 |
| Equity capital | 76,019 | 89,697 | 50,053 | 25,512 | 16,537 | 34,951 | 292,769 |
| Off-balance-sheet derivatives | 5,415,042 | 7,669,736 | 1,040,206 | 34,141 | 8,906 | 250,122 | 14,418,153 |
| Performance ratios (annualized %) | | | | | | | |
| Return on equity | 19.39 | 16.52 | 10.83 | 15.99 | 10.16 | 12.52 | 15.40 |
| Return on assets | 1.64 | 1.37 | 0.86 | 1.48 | 0.89 | 1.32 | 1.32 |
| Net interest income to assets | 3.44 | 3.13 | 3.19 | 3.96 | 3.94 | 4.59 | 3.48 |
| Loss provision to assets | 0.64 | 0.34 | 0.44 | 0.73 | 0.34 | 1.04 | 0.54 |
| Net operating income to assets | 1.52 | 1.56 | 0.89 | 1.51 | 0.99 | 1.47 | 1.38 |
| Noninterest income to assets | 4.18 | 2.66 | 1.70 | 3.23 | 1.40 | 4.53 | 3.04 |
| Noninterest expense to assets | 4.56 | 3.18 | 3.15 | 4.10 | 3.55 | 5.54 | 3.86 |
| Loss provision to loans and leases | 0.99 | 0.53 | 0.64 | 1.06 | 0.55 | 1.53 | 0.81 |
| Net charge-offs to loans and leases | 0.93 | 0.49 | 0.45 | 0.87 | 0.40 | 1.15 | 0.69 |
| Loss provision to net charge-offs | 106.01 | 107.39 | 142.15 | 121.68 | 139.30 | 132.38 | 117.99 |
| Performance ratios (%) | | | | | | | |
| Percent of institutions unprofitable | 3.04 | 13.74 | 4.21 | 4.05 | 5.57 | 12.07 | 6.51 |
| Percent of institutions with earnings gains | 61.98 | 61.66 | 56.76 | 59.01 | 59.93 | 61.21 | 59.72 |
| Nonint. income to net operating revenue | 54.85 | 45.90 | 34.75 | 44.93 | 26.18 | 49.67 | 46.64 |
| Nonint. expense to net operating revenue | 59.79 | 54.83 | 64.37 | 56.94 | 66.48 | 60.73 | 59.20 |
| Condition ratios (%) | | | | | | | |
| Nonperforming assets to assets | 0.99 | 0.74 | 0.73 | 0.58 | 0.66 | 0.71 | 0.78 |
| Noncurrent loans to loans | 1.40 | 1.07 | 0.97 | 0.78 | 0.97 | 0.92 | 1.09 |
| Loss reserve to noncurrent loans | 151.77 | 146.33 | 151.43 | 205.80 | 139.49 | 253.83 | 161.49 |
| Loss reserve to loans | 2.12 | 1.57 | 1.47 | 1.60 | 1.35 | 2.34 | 1.76 |
| Equity capital to assets | 8.58 | 8.41 | 8.04 | 9.39 | 8.88 | 10.57 | 8.70 |
| Leverage ratio | 7.78 | 7.23 | 7.47 | 7.61 | 7.98 | 8.31 | 7.60 |
| Risk-based capital ratio | 12.40 | 11.62 | 11.47 | 11.97 | 12.95 | 12.61 | 11.99 |
| Net loans and leases to assets | 63.83 | 63.09 | 68.94 | 68.77 | 61.33 | 66.32 | 65.04 |
| Securities to assets | 14.77 | 15.64 | 15.75 | 12.95 | 22.61 | 10.99 | 15.14 |
| Appreciation in securities (% of par) | −1.02 | −2.51 | −1.22 | −1.00 | −1.24 | −0.35 | −1.52 |
| Residential mortgage assets to assets | 13.11 | 26.55 | 21.04 | 19.78 | 21.48 | 17.15 | 20.24 |
| Total deposits to assets | 68.00 | 63.03 | 64.47 | 63.65 | 77.42 | 61.05 | 65.26 |
| Core deposits to assets | 32.19 | 46.70 | 47.06 | 52.27 | 65.36 | 50.52 | 44.81 |
| Volatile liabilities to assets | 46.41 | 34.49 | 36.03 | 27.43 | 22.56 | 27.22 | 35.97 |

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

| | Northeast | Southeast | Central | Midwest | Southwest | West | All institutions |
|---|---|---|---|---|---|---|---|
| Percent of loans past due 30–89 days | | | | | | | |
| Total loans and leases | 1.16 | 1.00 | 1.34 | 1.26 | 1.05 | 1.12 | 1.14 |
| Loans secured by real estate (RE) | 1.26 | 1.33 | 1.40 | 0.88 | 0.94 | 0.79 | 1.21 |
| 1–4 family residential mortgages | 1.63 | 1.86 | 1.75 | 0.79 | 1.07 | 0.99 | 1.60 |
| Home equity loans | 0.73 | 0.64 | 1.69 | 0.72 | 0.61 | 0.52 | 0.93 |
| Multifamily residential mortgages | 0.44 | 0.45 | 0.47 | 1.09 | 0.50 | 0.89 | 0.58 |
| Commercial RE loans | 0.64 | 0.44 | 0.83 | 0.70 | 0.81 | 0.61 | 0.64 |
| Construction RE loans | 0.69 | 0.76 | 1.55 | 1.68 | 1.09 | 0.84 | 1.07 |
| Commercial and industrial loans* | 0.52 | 0.40 | 0.97 | 1.52 | 1.10 | 0.87 | 0.70 |
| Loans to individuals | 2.60 | 2.09 | 2.30 | 1.96 | 1.49 | 2.30 | 2.28 |
| Credit cards | 2.91 | 2.13 | 2.10 | 1.81 | 1.02 | 2.30 | 2.49 |
| Installment loans | 2.09 | 2.08 | 2.33 | 2.20 | 1.51 | 2.30 | 2.10 |
| All other loans and leases | 0.47 | 0.34 | 1.08 | 0.79 | 0.39 | 0.49 | 0.58 |
| Percent of loans noncurrent | | | | | | | |
| Total loans and leases | 1.40 | 1.07 | 0.97 | 0.78 | 0.97 | 0.92 | 1.09 |
| Loans secured by real estate (RE) | 1.09 | 0.93 | 0.92 | 0.54 | 0.76 | 0.46 | 0.86 |
| 1–4 family residential mortgages | 0.97 | 1.10 | 0.99 | 0.39 | 0.57 | 0.44 | 0.92 |
| Home equity loans | 0.29 | 0.26 | 0.73 | 0.27 | 0.26 | 0.23 | 0.39 |
| Multifamily residential mortgages | 0.43 | 0.30 | 0.34 | 0.25 | 0.74 | 0.67 | 0.40 |
| Commercial RE loans | 0.84 | 0.83 | 0.95 | 0.73 | 0.98 | 0.43 | 0.81 |
| Construction RE loans | 0.42 | 0.83 | 0.81 | 0.75 | 0.64 | 0.67 | 0.74 |
| Commercial and industrial loans* | 1.54 | 1.66 | 1.28 | 1.09 | 1.75 | 1.51 | 1.50 |
| Loans to individuals | 2.46 | 0.63 | 0.78 | 0.99 | 0.45 | 1.40 | 1.44 |
| Credit cards | 2.42 | 1.15 | 1.10 | 1.25 | 0.43 | 1.70 | 1.89 |
| Installment loans | 2.53 | 0.45 | 0.73 | 0.59 | 0.45 | 0.54 | 1.05 |
| All other loans and leases | 0.40 | 0.52 | 0.70 | 0.60 | 0.85 | 0.50 | 0.53 |
| Percent of loans charged-off, net | | | | | | | |
| Total loans and leases | 0.93 | 0.49 | 0.45 | 0.87 | 0.40 | 1.15 | 0.69 |
| Loans secured by real estate (RE) | 0.10 | 0.12 | 0.19 | 0.17 | 0.05 | 0.08 | 0.13 |
| 1–4 family residential mortgages | 0.07 | 0.15 | 0.12 | 0.25 | 0.09 | 0.09 | 0.13 |
| Home equity loans | 0.08 | 0.21 | 0.57 | 0.19 | 0.25 | 0.06 | 0.27 |
| Multifamily residential mortgages | 0.09 | 0.02 | 0.03 | −0.02 | −0.01 | 0.35 | 0.07 |
| Commercial RE loans | 0.03 | 0.04 | 0.24 | 0.02 | 0.00 | 0.02 | 0.08 |
| Construction RE loans | 0.02 | 0.07 | 0.04 | 0.24 | 0.07 | 0.08 | 0.08 |
| Commercial and industrial loans* | 0.62 | 0.74 | 0.56 | 0.72 | 0.66 | 1.13 | 0.70 |
| Loans to individuals | 3.26 | 1.89 | 1.26 | 2.66 | 1.01 | 3.65 | 2.54 |
| Credit cards | 4.30 | 3.73 | 3.55 | 4.04 | 5.41 | 4.56 | 4.23 |
| Installment loans | 1.63 | 1.21 | 0.91 | 0.56 | 0.85 | 1.18 | 1.14 |
| All other loans and leases | 0.08 | 0.24 | 0.30 | 0.41 | −0.02 | 0.43 | 0.21 |
| Loans outstanding ($) | | | | | | | |
| Total loans and leases | $577,634 | $683,489 | $435,649 | $189,931 | $115,734 | $224,607 | $2,227,044 |
| Loans secured by real estate (RE) | 153,583 | 328,102 | 189,339 | 78,305 | 53,435 | 98,136 | 900,900 |
| 1–4 family residential mortgages | 72,269 | 196,140 | 88,084 | 38,090 | 21,419 | 40,720 | 456,723 |
| Home equity loans | 14,471 | 26,644 | 22,040 | 5,886 | 1,733 | 9,599 | 80,373 |
| Multifamily residential mortgages | 2,989 | 9,454 | 7,539 | 2,545 | 1,755 | 3,867 | 28,149 |
| Commercial RE loans | 31,439 | 66,038 | 51,345 | 20,537 | 19,820 | 30,735 | 219,915 |
| Construction RE loans | 7,225 | 24,378 | 16,978 | 8,193 | 7,055 | 12,048 | 75,879 |
| Farmland loans | 499 | 2,634 | 3,339 | 3,053 | 1,652 | 1,165 | 12,342 |
| RE loans from foreign offices | 24,690 | 2,814 | 13 | 0 | 0 | 2 | 27,519 |
| Commercial and industrial loans | 184,954 | 207,201 | 127,798 | 46,968 | 30,061 | 52,920 | 649,901 |
| Loans to individuals | 124,791 | 62,827 | 52,792 | 40,349 | 22,948 | 50,185 | 353,893 |
| Credit cards | 77,467 | 15,900 | 6,719 | 24,270 | 815 | 37,065 | 162,237 |
| Installment loans | 47,324 | 46,928 | 46,073 | 16,079 | 22,133 | 13,119 | 191,656 |
| All other loans and leases | 115,052 | 85,688 | 65,848 | 24,327 | 9,421 | 23,530 | 323,866 |
| Less: Unearned income | 746 | 329 | 128 | 17 | 131 | 164 | 1,516 |

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

**Key indicators, FDIC-insured commercial banks**
**Annual 1996–1999, year-to-date through September 30, 2000, third quarter 1999, and third quarter 2000**
(Dollar figures in millions)

| | 1966 | 1997 | 1998 | 1999 | Preliminary 2000YTD | 1993Q3 | Preliminary 2000Q3 |
|---|---|---|---|---|---|---|---|
| Number of institutions reporting | 9,527 | 9,142 | 8,774 | 8,580 | 8,375 | 8,621 | 8,375 |
| Total employees (FTEs) | 1,489,186 | 1,538,408 | 1,627,073 | 1,657,530 | 1,654,862 | 1,633,280 | 1,654,862 |
| Selected income data ($) | | | | | | | |
| Net income | $52,350 | $59,156 | $61,785 | $71,559 | $53,438 | $19,378 | $19,272 |
| Net interest income | 162,754 | 174,502 | 182,754 | 192,193 | 152,310 | 48,921 | 51,312 |
| Provision for loan losses | 16,285 | 19,851 | 22,215 | 21,814 | 19,772 | 5,372 | 6,671 |
| Noninterest income | 93,569 | 104,499 | 123,698 | 144,399 | 113,212 | 36,972 | 39,265 |
| Noninterest expense | 160,698 | 169,983 | 194,143 | 204,193 | 160,622 | 50,011 | 53,651 |
| Net operating income | 51,509 | 57,928 | 59,228 | 71,324 | 55,482 | 19,532 | 19,994 |
| Cash dividends declared | 38,791 | 42,541 | 41,004 | 51,938 | 35,227 | 12,848 | 12,452 |
| Net charge-offs to loan and lease reserve | 15,500 | 18,318 | 20,740 | 20,361 | 15,973 | 4,864 | 5,666 |
| Selected condition data ($) | | | | | | | |
| Total assets | 4,578,314 | 5,014,942 | 5,442,588 | 5,734,767 | 6,064,084 | 5,512,519 | 6,064,084 |
| Total loans and leases | 2,811,279 | 2,970,746 | 3,238,342 | 3,491,288 | 3,777,210 | 3,362,084 | 3,777,210 |
| Reserve for losses | 53,457 | 54,685 | 57,261 | 58,770 | 62,533 | 58,433 | 62,533 |
| Securities | 800,647 | 871,868 | 979,854 | 1,046,343 | 1,061,160 | 1,035,658 | 1,061,160 |
| Other real estate owned | 4,780 | 3,795 | 3,150 | 2,795 | 2,817 | 2,920 | 2,817 |
| Noncurrent loans and leases | 29,130 | 28,542 | 31,253 | 33,015 | 38,851 | 32,972 | 38,851 |
| Total deposits | 3,197,136 | 3,421,726 | 3,681,443 | 3,830,826 | 4,019,581 | 3,707,504 | 4,019,581 |
| Domestic deposits | 2,723,556 | 2,895,531 | 3,109,409 | 3,175,237 | 3,325,374 | 3,104,726 | 3,325,374 |
| Equity capital | 375,269 | 417,773 | 462,150 | 479,728 | 521,195 | 468,893 | 521,195 |
| Off-balance-sheet derivatives | 20,035,444 | 25,063,799 | 33,005,561 | 34,817,457 | 38,312,818 | 35,659,598 | 38,312,818 |
| Performance ratios (annualized %) | | | | | | | |
| Return on equity | 14.45 | 14.68 | 13.93 | 15.31 | 14.25 | 16.58 | 15.05 |
| Return on assets | 1.19 | 1.23 | 1.19 | 1.31 | 1.20 | 1.41 | 1.28 |
| Net interest income to assets | 3.70 | 3.64 | 3.51 | 3.51 | 3.43 | 3.56 | 3.41 |
| Loss provision to assets | 0.37 | 0.41 | 0.43 | 0.40 | 0.45 | 0.39 | 0.45 |
| Net operating income to assets | 1.17 | 1.21 | 1.14 | 1.30 | 1.25 | 1.42 | 1.33 |
| Noninterest income to assets | 2.13 | 2.18 | 2.37 | 2.64 | 2.55 | 2.69 | 2.61 |
| Noninterest expense to assets | 3.65 | 3.54 | 3.73 | 3.73 | 3.62 | 3.64 | 3.56 |
| Loss provision to loans and leases | 0.61 | 0.69 | 0.72 | 0.66 | 0.72 | 0.64 | 0.72 |
| Net charge-offs to loans and leases | 0.58 | 0.64 | 0.67 | 0.61 | 0.59 | 0.58 | 0.61 |
| Loss provision to net charge-offs | 105.06 | 108.37 | 104.81 | 107.13 | 123.78 | 110.48 | 119.33 |
| Performance ratios (%) | | | | | | | |
| Percent of institutions unprofitable | 4.28 | 4.85 | 6.11 | 7.47 | 6.61 | 6.87 | 6.76 |
| Percent of institutions with earnings gains | 70.78 | 68.35 | 61.24 | 62.84 | 68.21 | 61.29 | 58.97 |
| Nonint. income to net operating revenue | 36.50 | 37.45 | 40.36 | 42.90 | 42.64 | 43.04 | 43.35 |
| Nonint. expense to net operating revenue | 62.69 | 60.93 | 63.35 | 60.66 | 60.49 | 58.22 | 59.23 |
| Condition ratios (%) | | | | | | | |
| Nonperforming assets to assets | 0.75 | 0.66 | 0.65 | 0.64 | 0.70 | 0.67 | 0.70 |
| Noncurrent loans to loans | 1.04 | 0.96 | 0.97 | 0.95 | 1.03 | 0.98 | 1.03 |
| Loss reserve to noncurrent loans | 183.51 | 191.59 | 183.22 | 178.01 | 160.96 | 177.22 | 160.96 |
| Loss reserve to loans | 1.90 | 1.84 | 1.77 | 1.68 | 1.66 | 1.74 | 1.66 |
| Equity capital to assets | 8.20 | 8.33 | 8.49 | 8.37 | 8.59 | 8.51 | 8.59 |
| Leverage ratio | 7.64 | 7.56 | 7.54 | 7.79 | 7.84 | 7.81 | 7.84 |
| Risk-based capital ratio | 12.53 | 12.23 | 12.23 | 12.16 | 12.27 | 12.32 | 12.27 |
| Net loans and leases to assets | 60.24 | 58.15 | 58.45 | 59.85 | 61.26 | 59.93 | 61.26 |
| Securities to assets | 17.49 | 17.39 | 18.00 | 18.25 | 17.50 | 18.79 | 17.50 |
| Appreciation in securities (% of par) | 0.51 | 1.10 | 1.07 | −2.31 | −1.37 | −1.61 | −1.37 |
| Residential mortgage assets to assets | 19.79 | 20.03 | 20.93 | 20.77 | 20.56 | 20.81 | 20.56 |
| Total deposits to assets | 69.83 | 68.23 | 67.64 | 66.80 | 66.29 | 67.26 | 66.29 |
| Core deposits to assets | 52.45 | 50.06 | 49.39 | 46.96 | 45.75 | 48.18 | 45.75 |
| Volatile liabilities to assets | 30.71 | 31.92 | 31.68 | 34.94 | 35.72 | 33.36 | 35.72 |

## Loan performance, FDIC-insured commercial banks
## Annual 1996–1999, year-to-date through September 30, 2000, third quarter 1999, and third quarter 2000
(Dollar figures in millions)

| | 1966 | 1997 | 1998 | 1999 | Preliminary 2000YTD | 1993Q3 | Preliminary 2000Q3 |
|---|---|---|---|---|---|---|---|
| Percent of loans past due 30–89 days | | | | | | | |
| Total loans and leases | 1.37 | 1.31 | 1.26 | 1.14 | 1.14 | 1.17 | 1.14 |
| Loans secured by real estate (RE) | 1.41 | 1.33 | 1.26 | 1.09 | 1.09 | 1.09 | 1.09 |
| 1–4 family residential mortgages | 1.57 | 1.59 | 1.44 | 1.43 | 1.42 | 1.43 | 1.42 |
| Home equity loans | 1.06 | 0.96 | 0.98 | 0.75 | 0.85 | 0.74 | 0.85 |
| Multifamily residential mortgages | 1.19 | 1.11 | 0.86 | 0.58 | 0.55 | 0.43 | 0.55 |
| Commercial RE loans | 1.24 | 0.97 | 0.99 | 0.69 | 0.66 | 0.70 | 0.66 |
| Construction RE loans | 1.58 | 1.42 | 1.50 | 0.98 | 1.04 | 1.01 | 1.04 |
| Commercial and industrial loans* | 0.95 | 0.83 | 0.88 | 0.80 | 0.83 | 0.87 | 0.83 |
| Loans to individuals | 2.50 | 2.50 | 2.43 | 2.33 | 2.29 | 2.28 | 2.29 |
| Credit cards | 2.76 | 2.73 | 2.58 | 2.59 | 2.61 | 2.69 | 2.61 |
| Installment loans | 2.31 | 2.33 | 2.33 | 2.18 | 2.08 | 2.05 | 2.08 |
| All other loans and leases | 0.37 | 0.51 | 0.51 | 0.55 | 0.64 | 0.75 | 0.64 |
| Percent of loans noncurrent | | | | | | | |
| Total loans and leases | 1.04 | 0.96 | 0.97 | 0.95 | 1.03 | 0.98 | 1.03 |
| Loans secured by real estate (RE) | 1.20 | 1.01 | 0.91 | 0.79 | 0.77 | 0.86 | 0.77 |
| 1–4 family residential mortgages | 0.99 | 0.94 | 0.88 | 0.82 | 0.81 | 0.90 | 0.81 |
| Home equity loans | 0.48 | 0.44 | 0.42 | 0.33 | 0.35 | 0.34 | 0.35 |
| Multifamily residential mortgages | 1.35 | 0.95 | 0.83 | 0.41 | 0.34 | 0.50 | 0.34 |
| Commercial RE loans | 1.61 | 1.21 | 0.95 | 0.77 | 0.75 | 0.86 | 0.75 |
| Construction RE loans | 1.38 | 0.97 | 0.81 | 0.67 | 0.74 | 0.66 | 0.74 |
| Commercial and industrial loans* | 0.98 | 0.86 | 0.99 | 1.18 | 1.52 | 1.21 | 1.52 |
| Loans to individuals | 1.36 | 1.47 | 1.52 | 1.42 | 1.35 | 1.36 | 1.35 |
| Credit cards | 1.91 | 2.18 | 2.22 | 2.05 | 1.97 | 1.99 | 1.97 |
| Installment loans | 0.97 | 0.98 | 1.06 | 1.04 | 0.95 | 1.01 | 0.95 |
| All other loans and leases | 0.22 | 0.25 | 0.34 | 0.39 | 0.47 | 0.43 | 0.47 |
| Percent of loans charged-off, net | | | | | | | |
| Total loans and leases | 0.58 | 0.64 | 0.67 | 0.61 | 0.59 | 0.58 | 0.61 |
| Loans secured by real estate (RE) | 0.10 | 0.06 | 0.05 | 0.08 | 0.08 | 0.10 | 0.09 |
| 1–4 family residential mortgages | 0.08 | 0.08 | 0.07 | 0.11 | 0.10 | 0.14 | 0.10 |
| Home equity loans | 0.20 | 0.16 | 0.14 | 0.15 | 0.16 | 0.14 | 0.20 |
| Multifamily residential mortgages | 0.15 | 0.04 | 0.05 | 0.02 | 0.02 | −0.02 | 0.04 |
| Commercial RE loans | 0.09 | 0.01 | 0.00 | 0.03 | 0.04 | 0.04 | 0.05 |
| Construction RE loans | 0.19 | −0.02 | 0.01 | 0.04 | 0.04 | 0.03 | 0.06 |
| Commercial and industrial loans* | 0.26 | 0.28 | 0.42 | 0.58 | 0.64 | 0.53 | 0.69 |
| Loans to individuals | 2.28 | 2.70 | 2.69 | 2.32 | 2.23 | 2.29 | 2.23 |
| Credit cards | 4.35 | 5.11 | 5.19 | 4.46 | 4.31 | 4.44 | 4.27 |
| Installment loans | 0.89 | 1.04 | 1.04 | 1.04 | 0.94 | 1.09 | 0.94 |
| All other loans and leases | 0.08 | 0.11 | 0.52 | 0.34 | 0.20 | 0.19 | 0.22 |
| Loans outstanding ($) | | | | | | | |
| Total loans and leases | $2,811,279 | $2,970,746 | $3,238,342 | $3,491,288 | $3,777,210 | $3,362,084 | $3,777,210 |
| Loans secured by real estate (RE) | 1,139,018 | 1,244,985 | 1,345,644 | 1,510,025 | 1,659,400 | 1,431,550 | 1,659,400 |
| 1–4 family residential mortgages | 570,122 | 620,599 | 668,752 | 736,860 | 797,685 | 691,954 | 797,685 |
| Home equity loans | 85,300 | 98,163 | 96,647 | 102,336 | 122,866 | 97,363 | 122,866 |
| Multifamily residential mortgages | 38,162 | 41,231 | 43,242 | 53,135 | 60,059 | 50,314 | 60,059 |
| Commercial RE loans | 315,989 | 341,522 | 370,544 | 417,612 | 456,113 | 401,579 | 456,113 |
| Construction RE loans | 76,399 | 88,242 | 106,729 | 135,622 | 157,267 | 127,486 | 157,267 |
| Farmland loans | 24,964 | 27,072 | 29,096 | 31,902 | 33,944 | 31,380 | 33,944 |
| RE loans from foreign offices | 28,083 | 28,157 | 30,635 | 32,558 | 31,465 | 31,474 | 31,465 |
| Commercial and industrial loans | 709,600 | 794,998 | 898,556 | 970,994 | 1,044,323 | 947,834 | 1,044,323 |
| Loans to individuals | 562,291 | 561,325 | 570,863 | 558,355 | 584,412 | 530,585 | 584,412 |
| Credit cards | 231,664 | 231,092 | 228,781 | 211,999 | 228,747 | 189,319 | 228,747 |
| Installment loans | 330,626 | 330,233 | 342,081 | 346,356 | 355,665 | 341,265 | 355,665 |
| All other loans and leases | 405,679 | 373,907 | 427,397 | 455,585 | 492,121 | 455,774 | 492,121 |
| Less: Unearned income | 5,308 | 4,469 | 4,117 | 3,672 | 3,046 | 3,659 | 3,046 |

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

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

| | Less than $100M | | $100M to $1B | | $1B to $10B | | Greater than $10B | |
|---|---|---|---|---|---|---|---|---|
| | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 |
| Number of institutions reporting | 5,241 | 4,922 | 2,988 | 3,070 | 315 | 301 | 77 | 82 |
| Total employees (FTEs) | 112,235 | 101,710 | 301,941 | 293,687 | 280,328 | 248,794 | 938,776 | 1,010,671 |
| Selected income data ($) | | | | | | | | |
| Net income | $679 | $648 | $2,427 | $2,437 | $3,417 | $3,205 | $12,855 | $12,982 |
| Net interest income | 2,528 | 2,424 | 7,852 | 7,941 | 8,832 | 8,311 | 29,708 | 32,636 |
| Provision for loan losses | 151 | 147 | 668 | 751 | 1,025 | 1,153 | 3,528 | 4,710 |
| Noninterest income | 794 | 615 | 3,073 | 3,113 | 5,883 | 5,739 | 27,222 | 29,799 |
| Noninterest expense | 2,249 | 2,026 | 6,725 | 6,754 | 8,353 | 7,765 | 32,684 | 37,105 |
| Net operating income | 682 | 653 | 2,437 | 2,475 | 3,454 | 3,316 | 12,959 | 13,549 |
| Cash dividends declared | 275 | 932 | 960 | 1,113 | 1,597 | 1,611 | 10,016 | 8,796 |
| Net charge-offs to loan and lease reserve | 86 | 85 | 398 | 463 | 961 | 918 | 3,419 | 4,201 |
| Selected condition data ($) | | | | | | | | |
| Total assets | 245,434 | 233,156 | 743,023 | 770,539 | 881,785 | 868,084 | 3,642,278 | 4,192,305 |
| Total loans and leases | 147,742 | 144,445 | 470,227 | 504,930 | 562,307 | 554,764 | 2,181,808 | 2,573,070 |
| Reserve for losses | 2,106 | 2,008 | 7,050 | 7,132 | 10,420 | 9,471 | 38,857 | 43,922 |
| Securities | 66,904 | 60,333 | 193,162 | 184,793 | 210,385 | 199,681 | 565,207 | 616,353 |
| Other real estate owned | 273 | 267 | 692 | 659 | 454 | 398 | 1,500 | 1,494 |
| Noncurrent loans and leases | 1,492 | 1,348 | 3,969 | 4,062 | 4,919 | 4,857 | 22,593 | 28,584 |
| Total deposits | 207,945 | 195,803 | 604,351 | 626,430 | 603,285 | 602,202 | 2,291,922 | 2,595,147 |
| Domestic deposits | 207,941 | 195,776 | 602,297 | 624,185 | 592,062 | 587,883 | 1,702,426 | 1,917,529 |
| Equity capital | 26,799 | 25,843 | 69,861 | 72,751 | 81,774 | 78,020 | 290,460 | 344,581 |
| Off-balance-sheet derivatives | 221 | 196 | 9,504 | 6,266 | 91,146 | 74,771 | 36,151,457 | 38,669,343 |
| Performance ratios (annualized %) | | | | | | | | |
| Return on equity | 10.04 | 10.18 | 14.07 | 13.69 | 16.94 | 16.80 | 17.68 | 15.30 |
| Return on assets | 1.11 | 1.13 | 1.32 | 1.28 | 1.57 | 1.49 | 1.41 | 1.24 |
| Net interest income to assets | 4.12 | 4.21 | 4.28 | 4.17 | 4.05 | 3.86 | 3.26 | 3.13 |
| Loss provision to assets | 0.25 | 0.26 | 0.36 | 0.39 | 0.47 | 0.54 | 0.39 | 0.45 |
| Net operating income to assets | 1.11 | 1.13 | 1.33 | 1.30 | 1.59 | 1.54 | 1.42 | 1.30 |
| Noninterest income to assets | 1.30 | 1.07 | 1.68 | 1.64 | 2.70 | 2.66 | 2.99 | 2.86 |
| Noninterest expense to assets | 3.67 | 3.52 | 3.67 | 3.55 | 3.84 | 3.61 | 3.59 | 3.56 |
| Loss provision to loans and leases | 0.41 | 0.42 | 0.58 | 0.60 | 0.74 | 0.84 | 0.65 | 0.74 |
| Net charge-offs to loans and leases | 0.23 | 0.24 | 0.35 | 0.37 | 0.70 | 0.67 | 0.63 | 0.66 |
| Loss provision to net charge-offs | 177.81 | 174.07 | 167.80 | 162.33 | 106.74 | 125.61 | 103.19 | 112.12 |
| Performance ratios (%) | | | | | | | | |
| Percent of institutions unprofitable | 9.64 | 9.61 | 2.74 | 2.35 | 1.27 | 5.32 | 1.30 | 6.10 |
| Percent of institutions with earnings gains | 55.70 | 56.36 | 69.58 | 63.06 | 72.70 | 60.80 | 74.03 | 56.10 |
| Nonint. income to net operating revenue | 23.91 | 20.23 | 28.13 | 28.16 | 39.98 | 40.85 | 47.82 | 47.73 |
| Nonint. expense to net operating revenue | 67.68 | 66.67 | 61.55 | 61.10 | 56.77 | 55.27 | 57.41 | 59.43 |
| Condition ratios (%) | | | | | | | | |
| Nonperforming assets to assets | 0.72 | 0.69 | 0.63 | 0.61 | 0.62 | 0.61 | 0.69 | 0.73 |
| Noncurrent loans to loans | 1.01 | 0.93 | 0.84 | 0.80 | 0.87 | 0.88 | 1.04 | 1.11 |
| Loss reserve to noncurrent loans | 141.17 | 148.93 | 177.64 | 175.57 | 211.83 | 195.01 | 171.99 | 153.66 |
| Loss reserve to loans | 1.43 | 1.39 | 1.50 | 1.41 | 1.85 | 1.71 | 1.78 | 1.71 |
| Equity capital to assets | 10.92 | 11.08 | 9.40 | 9.44 | 9.27 | 8.99 | 7.97 | 8.22 |
| Leverage ratio | 10.98 | 11.18 | 9.29 | 9.34 | 8.54 | 8.43 | 7.10 | 7.25 |
| Risk-based capital ratio | 17.86 | 17.61 | 14.54 | 14.21 | 13.14 | 12.99 | 11.48 | 11.60 |
| Net loans and leases to assets | 59.34 | 61.09 | 62.34 | 64.60 | 62.59 | 62.82 | 58.84 | 60.33 |
| Securities to assets | 27.26 | 25.88 | 26.00 | 23.98 | 23.86 | 23.00 | 15.52 | 14.70 |
| Appreciation in securities (% of par) | −1.43 | −1.42 | −1.45 | −1.46 | −1.69 | −1.49 | −1.66 | −1.30 |
| Residential mortgage assets to assets | 21.08 | 20.97 | 24.02 | 23.49 | 27.41 | 25.69 | 18.54 | 18.93 |
| Total deposits to assets | 84.73 | 83.98 | 81.34 | 81.30 | 68.42 | 69.37 | 62.93 | 61.90 |
| Core deposits to assets | 73.15 | 71.25 | 69.30 | 67.90 | 56.93 | 55.50 | 40.06 | 38.25 |
| Volatile liabilities to assets | 13.65 | 15.29 | 17.65 | 18.94 | 26.48 | 28.42 | 39.56 | 41.45 |

## Loan performance, FDIC-insured commercial banks by asset size
## Third quarter 1999 and third quarter 2000
(Dollar figures in millions)

| | Less than $100M | | $100M to $1B | | $1B to $10B | | Greater than $10B | |
|---|---|---|---|---|---|---|---|---|
| | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 | 1999Q3 | 2000Q3 |
| **Percent of loans past due 30–89 days** | | | | | | | | |
| Total loans and leases | 1.36 | 1.40 | 1.16 | 1.16 | 1.22 | 1.22 | 1.15 | 1.11 |
| Loans secured by real estate (RE) | 1.14 | 1.22 | 0.89 | 0.92 | 0.89 | 0.89 | 1.25 | 1.19 |
| 1–4 family residential mortgages | 1.51 | 1.59 | 1.15 | 1.18 | 1.06 | 1.04 | 1.64 | 1.57 |
| Home equity loans | 0.71 | 0.78 | 0.74 | 0.69 | 0.79 | 0.85 | 0.73 | 0.87 |
| Multifamily residential mortgages | 0.74 | 0.57 | 0.58 | 0.66 | 0.32 | 0.69 | 0.39 | 0.46 |
| Commercial RE loans | 0.85 | 0.96 | 0.66 | 0.67 | 0.68 | 0.74 | 0.71 | 0.58 |
| Construction RE loans | 0.94 | 1.15 | 0.83 | 1.07 | 1.01 | 0.88 | 1.11 | 1.09 |
| Commercial and industrial loans* | 1.32 | 1.34 | 1.29 | 1.28 | 1.12 | 1.23 | 0.69 | 0.64 |
| Loans to individuals | 2.25 | 2.27 | 2.15 | 2.13 | 2.23 | 2.31 | 2.32 | 2.31 |
| Credit cards | 2.72 | 1.96 | 3.64 | 3.88 | 2.79 | 2.78 | 2.57 | 2.51 |
| Installment loans | 2.23 | 2.28 | 1.82 | 1.81 | 1.85 | 2.07 | 2.16 | 2.13 |
| All other loans and leases | | | | | 1.08 | 1.01 | 0.78 | 0.66 |
| **Percent of loans noncurrent** | | | | | | | | |
| Total loans and leases | 1.01 | 0.93 | 0.84 | 0.80 | 0.87 | 0.88 | 1.04 | 1.11 |
| Loans secured by real estate (RE) | 0.80 | 0.76 | 0.66 | 0.64 | 0.74 | 0.70 | 0.98 | 0.84 |
| 1–4 family residential mortgages | 0.73 | 0.69 | 0.66 | 0.60 | 0.77 | 0.70 | 1.03 | 0.90 |
| Home equity loans | 0.36 | 0.30 | 0.34 | 0.32 | 0.36 | 0.33 | 0.33 | 0.36 |
| Multifamily residential mortgages | 0.59 | 0.48 | 0.52 | 0.38 | 0.50 | 0.37 | 0.49 | 0.31 |
| Commercial RE loans | 0.79 | 0.80 | 0.68 | 0.64 | 0.78 | 0.76 | 1.02 | 0.80 |
| Construction RE loans | 0.52 | 0.56 | 0.61 | 0.72 | 0.71 | 0.77 | 0.68 | 0.76 |
| Commercial and industrial loans* | 1.46 | 1.32 | 1.29 | 1.25 | 1.10 | 1.28 | 1.15 | 1.54 |
| Loans to individuals | 0.86 | 0.81 | 0.88 | 0.83 | 1.06 | 1.04 | 1.59 | 1.53 |
| Credit cards | 1.88 | 1.06 | 2.29 | 2.37 | 1.84 | 1.87 | 2.02 | 1.98 |
| Installment loans | 0.82 | 0.80 | 0.57 | 0.54 | 0.55 | 0.60 | 1.31 | 1.16 |
| All other loans and leases | 0.58 | 0.52 | 0.43 | 0.48 | | | | |
| **Percent of loans charged-off, net** | | | | | | | | |
| Total loans and leases | 0.23 | 0.24 | 0.35 | 0.37 | 0.70 | 0.67 | 0.63 | 0.66 |
| Loans secured by real estate (RE) | 0.04 | 0.05 | 0.04 | 0.04 | 0.07 | 0.09 | 0.13 | 0.11 |
| 1–4 family residential mortgages | 0.05 | 0.03 | 0.05 | 0.05 | 0.10 | 0.13 | 0.19 | 0.11 |
| Home equity loans | 0.10 | 0.06 | 0.04 | 0.04 | 0.16 | 0.13 | 0.16 | 0.24 |
| Multifamily residential mortgages | 0.06 | 0.00 | −0.01 | 0.05 | −0.10 | 0.03 | 0.01 | 0.04 |
| Commercial RE loans | 0.02 | 0.07 | 0.03 | 0.03 | 0.05 | 0.04 | 0.04 | 0.06 |
| Construction RE loans | 0.09 | 0.18 | 0.02 | 0.03 | 0.04 | 0.09 | 0.02 | 0.06 |
| Commercial and industrial loans* | 0.40 | 0.40 | 0.39 | 0.54 | 0.72 | 0.90 | 0.50 | 0.67 |
| Loans to individuals | 0.60 | 0.66 | 1.65 | 1.70 | 2.42 | 2.33 | 2.49 | 2.37 |
| Credit cards | 0.85 | 0.78 | 6.31 | 7.28 | 4.85 | 5.17 | 4.23 | 3.96 |
| Installment loans | 0.56 | 0.65 | 0.68 | 0.67 | 0.83 | 0.84 | 1.34 | 1.06 |
| All other loans and leases | | | | | 0.27 | 0.30 | 0.20 | 0.22 |
| **Loans outstanding ($)** | | | | | | | | |
| Total loans and leases | $147,742 | $144,445 | $470,227 | $504,930 | $562,307 | $554,764 | $2,181,808 | $2,573,070 |
| Loans secured by real estate (RE) | 83,384 | 82,671 | 294,790 | 323,581 | 291,532 | 304,386 | 761,844 | 948,761 |
| 1–4 family residential mortgages | 38,993 | 38,227 | 124,124 | 131,861 | 134,014 | 129,975 | 394,824 | 497,621 |
| Home equity loans | 1,835 | 1,995 | 12,516 | 13,710 | 17,604 | 19,754 | 65,408 | 87,408 |
| Multifamily residential mortgages | 1,752 | 1,791 | 9,964 | 10,914 | 10,962 | 12,389 | 27,638 | 34,965 |
| Commercial RE loans | 23,373 | 23,088 | 106,108 | 118,517 | 95,074 | 102,908 | 177,024 | 211,601 |
| Construction RE loans | 6,540 | 6,942 | 29,760 | 35,172 | 30,235 | 35,037 | 60,951 | 80,117 |
| Farmland loans | 10,892 | 10,628 | 12,265 | 13,365 | 3,272 | 3,975 | 4,950 | 5,976 |
| RE loans from foreign offices | 0 | 0 | 54 | 42 | 371 | 350 | 31,049 | 31,073 |
| Commercial and industrial loans | 24,851 | 24,614 | 84,062 | 90,896 | 122,175 | 122,214 | 716,747 | 806,600 |
| Loans to individuals | 20,791 | 19,691 | 65,464 | 64,162 | 112,500 | 95,982 | 331,830 | 404,577 |
| Credit cards | 832 | 730 | 11,680 | 9,985 | 44,680 | 33,141 | 132,128 | 184,891 |
| Installment loans | 19,959 | 18,961 | 53,783 | 54,176 | 67,821 | 62,841 | 199,702 | 219,686 |
| All other loans and leases | 19,065 | 17,698 | 26,786 | 27,083 | 36,735 | 32,795 | 373,188 | 414,545 |
| Less: Unearned income | 348 | 229 | 875 | 792 | 635 | 612 | 1,802 | 1,413 |

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

## Key indicators, FDIC-insured commercial banks by region
## Third quarter 2000
(Dollar figures in millions)

| | Northeast | Southeast | Central | Midwest | Southwest | West | All institutions |
|---|---|---|---|---|---|---|---|
| Number of institutions reporting | 668 | 1,429 | 1,808 | 2,151 | 1,406 | 913 | 8,375 |
| Total employees (FTEs) | 505,525 | 462,852 | 284,196 | 125,313 | 107,373 | 169,603 | 1,654,862 |
| Selected income data ($) | | | | | | | |
| Net income | $7,067 | $5,256 | $2,638 | $1,436 | $777 | $2,098 | $19,272 |
| Net interest income | 15,348 | 13,497 | 8,468 | 4,042 | 2,960 | 6,998 | 51,312 |
| Provision for loan losses | 2,055 | 1,475 | 900 | 641 | 236 | 1,454 | 6,761 |
| Noninterest income | 16,519 | 9,897 | 4,277 | 2,542 | 966 | 5,064 | 39,265 |
| Noninterest expense | 19,253 | 13,260 | 7,919 | 3,749 | 2,529 | 6,941 | 53,651 |
| Net operating income | 6,759 | 5,997 | 2,721 | 1,456 | 827 | 2,234 | 19,994 |
| Cash dividends declared | 3,867 | 3,743 | 1,969 | 1,265 | 370 | 1,237 | 12,452 |
| Net charge-offs to loan and lease reserve | 2,053 | 1,222 | 666 | 499 | 165 | 1,062 | 5,666 |
| Selected condition data ($) | | | | | | | |
| Total assets | 2,092,372 | 1,611,141 | 1,041,862 | 406,526 | 294,105 | 618,077 | 6,064,084 |
| Total loans and leases | 1,125,856 | 1,061,778 | 716,726 | 281,734 | 179,684 | 411,431 | 3,777,210 |
| Reserve for losses | 20,946 | 15,934 | 10,105 | 4,463 | 2,430 | 8,655 | 62,533 |
| Securities | 350,685 | 277,588 | 187,965 | 66,428 | 73,586 | 104,907 | 1,061,160 |
| Other real estate owned | 759 | 905 | 394 | 201 | 238 | 320 | 2,817 |
| Noncurrent loans and leases | 14,226 | 10,362 | 6,453 | 2,237 | 1,693 | 3,881 | 38,851 |
| Total deposits | 1,309,571 | 1,068,584 | 700,440 | 282,900 | 233,370 | 424,716 | 4,019,581 |
| Domestic deposits | 833,796 | 951,929 | 631,746 | 268,967 | 231,741 | 407,195 | 3,325,374 |
| Equity capital | 171,675 | 136,348 | 84,791 | 38,652 | 26,672 | 63,059 | 521,195 |
| Off-balance-sheet derivatives | 29,139,656 | 7,729,529 | 1,109,078 | 35,872 | 9,481 | 289,201 | 38,312,818 |
| Performance ratios (annualized %) | | | | | | | |
| Return on equity | 16.77 | 15.62 | 12.62 | 15.13 | 11.88 | 13.67 | 15.05 |
| Return on assets | 1.36 | 1.31 | 1.02 | 1.42 | 1.06 | 1.40 | 1.28 |
| Net interest income to assets | 2.95 | 3.35 | 3.27 | 4.00 | 4.05 | 4.66 | 3.41 |
| Loss provision to assets | 0.40 | 0.37 | 0.35 | 0.64 | 0.32 | 0.97 | 0.45 |
| Net operating income to assets | 1.30 | 1.49 | 1.05 | 1.44 | 1.13 | 1.49 | 1.33 |
| Noninterest income to assets | 3.18 | 2.46 | 1.65 | 2.52 | 1.32 | 3.37 | 2.61 |
| Noninterest expense to assets | 3.70 | 3.30 | 3.06 | 3.71 | 3.46 | 4.62 | 3.56 |
| Loss provision to loans and leases | 0.74 | 0.56 | 0.51 | 0.93 | 0.53 | 1.44 | 0.72 |
| Net charge-offs to loans and leases | 0.74 | 0.46 | 0.38 | 0.72 | 0.37 | 1.05 | 0.61 |
| Loss provision to net charge-offs | 100.13 | 120.67 | 135.19 | 128.72 | 142.52 | 136.96 | 119.33 |
| Performance ratios (%) | | | | | | | |
| Percent of institutions unprofitable | 8.83 | 10.50 | 5.75 | 3.86 | 6.26 | 8.98 | 6.76 |
| Percent of institutions with earnings gains | 63.17 | 59.20 | 56.64 | 55.93 | 58.46 | 68.13 | 58.97 |
| Nonint. income to net operating revenue | 51.84 | 42.31 | 33.56 | 38.61 | 24.62 | 41.98 | 43.35 |
| Nonint. expense to net operating revenue | 60.42 | 56.68 | 62.13 | 56.94 | 64.42 | 57.54 | 59.23 |
| Condition ratios (%) | | | | | | | |
| Nonperforming assets to assets | 0.73 | 0.70 | 0.67 | 0.60 | 0.66 | 0.70 | 0.70 |
| Noncurrent loans to loans | 1.26 | 0.98 | 0.90 | 0.79 | 0.94 | 0.94 | 1.03 |
| Loss reserve to noncurrent loans | 147.24 | 153.78 | 156.60 | 199.52 | 143.47 | 223.04 | 160.96 |
| Loss reserve to loans | 1.86 | 1.50 | 1.41 | 1.58 | 1.35 | 2.10 | 1.66 |
| Equity capital to assets | 8.20 | 8.46 | 8.14 | 9.51 | 9.07 | 10.20 | 8.59 |
| Leverage ratio | 7.65 | 7.55 | 7.75 | 8.28 | 8.44 | 8.85 | 7.84 |
| Risk-based capital ratio | 12.60 | 11.74 | 11.74 | 12.68 | 13.67 | 12.68 | 12.27 |
| Net loans and leases to assets | 52.81 | 64.91 | 67.82 | 68.21 | 60.27 | 65.17 | 61.26 |
| Securities to assets | 16.76 | 17.23 | 18.04 | 16.34 | 25.02 | 16.97 | 17.50 |
| Appreciation in securities (% of par) | −1.47 | −1.68 | −1.22 | −1.10 | −1.46 | −0.56 | −1.37 |
| Residential mortgage assets to assets | 16.29 | 26.04 | 22.27 | 19.57 | 22.15 | 17.75 | 20.56 |
| Total deposits to assets | 62.59 | 66.32 | 67.23 | 69.59 | 79.35 | 68.72 | 66.29 |
| Core deposits to assets | 31.71 | 50.25 | 50.70 | 58.59 | 66.09 | 55.11 | 45.75 |
| Volatile liabilities to assets | 47.09 | 31.63 | 33.33 | 23.43 | 21.94 | 26.57 | 35.72 |

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

| | Northeast | Southeast | Central | Midwest | Southwest | West | All institutions |
|---|---|---|---|---|---|---|---|
| Percent of loans past due 30–89 days | | | | | | | |
| Total loans and leases | 1.12 | 1.07 | 1.29 | 1.26 | 1.11 | 1.06 | 1.14 |
| Loans secured by real estate (RE) | 1.08 | 1.18 | 1.22 | 0.91 | 0.98 | 0.75 | 1.09 |
| 1–4 family residential mortgages | 1.34 | 1.68 | 1.46 | 0.94 | 1.21 | 0.99 | 1.42 |
| Home equity loans | 0.67 | 0.66 | 1.38 | 0.73 | 0.65 | 0.58 | 0.85 |
| Multifamily residential mortgages | 0.35 | 0.46 | 0.76 | 0.89 | 0.76 | 0.56 | 0.55 |
| Commercial RE loans | 0.68 | 0.58 | 0.79 | 0.75 | 0.77 | 0.51 | 0.66 |
| Construction RE loans | 0.76 | 0.81 | 1.56 | 1.47 | 1.06 | 0.89 | 1.04 |
| Commercial and industrial loans* | 0.57 | 0.60 | 1.13 | 1.63 | 1.25 | 1.04 | 0.83 |
| Loans to individuals | 2.54 | 2.27 | 2.21 | 2.17 | 1.62 | 2.07 | 2.29 |
| Credit cards | 2.91 | 2.93 | 2.20 | 2.26 | 1.24 | 2.13 | 2.61 |
| Installment loans | 2.19 | 2.05 | 2.21 | 2.07 | 1.63 | 1.94 | 2.08 |
| All other loans and leases | 0.63 | 0.39 | 1.10 | 0.57 | 0.32 | 0.45 | 0.64 |
| Percent of loans noncurrent | | | | | | | |
| Total loans and leases | 1.26 | 0.98 | 0.90 | 0.79 | 0.94 | 0.94 | 1.03 |
| Loans secured by real estate (RE) | 0.86 | 0.80 | 0.80 | 0.58 | 0.79 | 0.59 | 0.77 |
| 1–4 family residential mortgages | 0.80 | 0.96 | 0.83 | 0.44 | 0.65 | 0.55 | 0.81 |
| Home equity loans | 0.31 | 0.24 | 0.59 | 0.28 | 0.27 | 0.25 | 0.35 |
| Multifamily residential mortgages | 0.17 | 0.31 | 0.45 | 0.23 | 0.65 | 0.48 | 0.34 |
| Commercial RE loans | 0.81 | 0.70 | 0.82 | 0.69 | 0.89 | 0.65 | 0.75 |
| Construction RE loans | 0.76 | 0.75 | 0.77 | 0.77 | 0.85 | 0.62 | 0.74 |
| Commercial and industrial loans* | 1.68 | 1.53 | 1.27 | 1.26 | 1.68 | 1.54 | 1.52 |
| Loans to individuals | 2.07 | 0.92 | 0.72 | 1.03 | 0.51 | 1.22 | 1.35 |
| Credit cards | 2.40 | 1.89 | 1.16 | 1.44 | 0.70 | 1.62 | 1.97 |
| Installment loans | 1.76 | 0.60 | 0.67 | 0.59 | 0.50 | 0.45 | 0.95 |
| All other loans and leases | 0.39 | 0.47 | 0.60 | 0.43 | 0.62 | 0.54 | 0.47 |
| Percent of loans charged-off, net | | | | | | | |
| Total loans and leases | 0.74 | 0.46 | 0.38 | 0.72 | 0.37 | 1.05 | 0.61 |
| Loans secured by real estate (RE) | 0.06 | 0.10 | 0.13 | 0.11 | 0.06 | 0.07 | 0.09 |
| 1–4 family residential mortgages | 0.05 | 0.12 | 0.09 | 0.17 | 0.09 | 0.11 | 0.10 |
| Home equity loans | 0.06 | 0.17 | 0.42 | 0.17 | 0.20 | 0.05 | 0.20 |
| Multifamily residential mortgages | 0.02 | 0.02 | 0.04 | −0.02 | 0.00 | 0.16 | 0.04 |
| Commercial RE loans | 0.00 | 0.05 | 0.13 | 0.02 | 0.02 | 0.01 | 0.05 |
| Construction RE loans | 0.02 | 0.04 | 0.06 | 0.16 | 0.12 | 0.07 | 0.06 |
| Commercial and industrial loans* | 0.63 | 0.67 | 0.53 | 0.68 | 0.69 | 1.32 | 0.69 |
| Loans to individuals | 2.64 | 1.77 | 1.08 | 2.58 | 0.93 | 3.29 | 2.23 |
| Credit cards | 4.33 | 4.05 | 3.33 | 4.46 | 4.57 | 4.34 | 4.27 |
| Installment loans | 1.04 | 0.99 | 0.79 | 0.52 | 0.80 | 1.30 | 0.94 |
| All other loans and leases | 0.12 | 0.26 | 0.33 | 0.28 | 0.00 | 0.44 | 0.22 |
| Loans outstanding ($) | | | | | | | |
| Total loans and leases | $1,125,856 | $1,061,778 | $716,726 | $281,734 | $179,684 | $411,431 | 3,777,210 |
| Loans secured by real estate (RE) | 356,410 | 552,817 | 338,307 | 128,813 | 89,725 | 193,329 | 1,659,400 |
| 1–4 family residential mortgages | 189,241 | 290,181 | 156,139 | 58,281 | 35,640 | 68,203 | 797,685 |
| Home equity loans | 26,255 | 41,334 | 32,434 | 7,192 | 1,988 | 13,663 | 122,866 |
| Multifamily residential mortgages | 15,484 | 16,090 | 12,748 | 3,878 | 2,699 | 9,160 | 60,059 |
| Commercial RE loans | 79,690 | 137,323 | 97,527 | 35,416 | 33,723 | 72,434 | 456,113 |
| Construction RE loans | 16,506 | 58,219 | 30,902 | 13,554 | 12,003 | 26,083 | 157,267 |
| Farmland loans | 1,311 | 6,856 | 8,523 | 10,493 | 3,672 | 3,089 | 33,944 |
| RE loans from foreign offices | 27,921 | 2,815 | 33 | 0 | 0 | 697 | 31,465 |
| Commercial and industrial loans | 348,566 | 281,493 | 208,555 | 63,691 | 43,351 | 98,666 | 1,044,323 |
| Loans to individuals | 216,670 | 122,173 | 77,733 | 51,537 | 32,948 | 83,352 | 584,412 |
| Credit cards | 106,782 | 29,936 | 8,683 | 26,833 | 1,212 | 55,301 | 228,747 |
| Installment loans | 109,888 | 92,237 | 69,049 | 24,704 | 31,736 | 28,051 | 355,665 |
| All other loans and leases | 205,490 | 105,949 | 92,430 | 37,744 | 13,911 | 36,595 | 492,121 |
| Less: Unearned income | 1,280 | 653 | 299 | 51 | 251 | 511 | 3,046 |

*Includes ‘All other loans’ for institutions under $1 billion in asset size.

# Glossary

## Data Sources

Data are from several sources: (1) the Federal Financial Institutions Examination Council (FFIEC) Reports of Condition and Income (Call Reports) submitted by all FDIC-insured, national-chartered and state-chartered commercial banks and trust companies in the United States and its territories. Uninsured banks, savings banks, savings associations, and U.S. branches and agencies of foreign banks are excluded from these tables. All data are collected and presented based on the location of each reporting institution's main office. Reported data may include assets and liabilities located outside of the reporting institution's home state, (2) Federal Reserve Board (Y–9C) Consolidated Financial Statements for Bank Holding Companies, and (3) Haver Analytics economic data.

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

## Computation Methodology

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

## Definitions

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

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

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

IBIS—OCC's Integrated Banking Information System.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

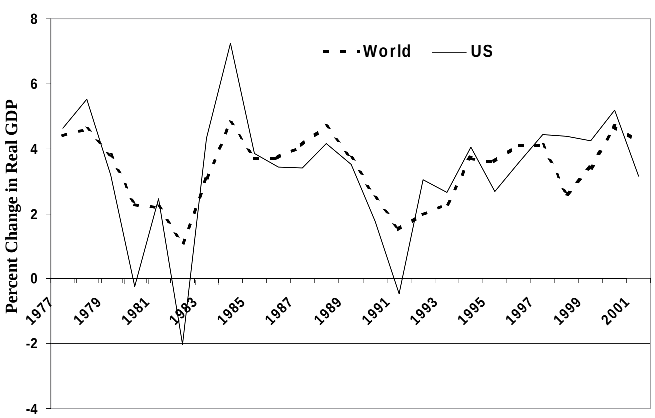
Volatile liabilities—the sum of large-denomination time deposits plus foreign-office deposits plus federal funds purchased plus securities sold under agreements to repurchase plus other borrowings. Beginning March 31, 1994, new reporting detail permits the exclusion of other borrowed money with original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

# Global Economic Report

## Where We are Heading

Recent domestic and foreign data indicate that the rate of global expansion has peaked and that a slowing has begun. [Figure 1] At this point, the consensus view remains that the deceleration will be gradual and a hard landing' will be avoided. *There is a clear risk, however, that the drop-off in activity could be sharper than currently anticipated.*

**Figure 1-World economy in 2000 strongest in some time**



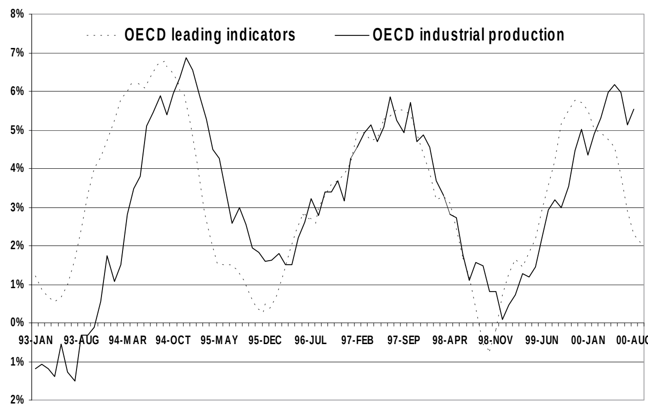

Projections for 2000 and 2001 from International Monetary Fund, *World Economic Outlook, October 2000*

## Signs of the Shift in Activity

The indicators that over time have proved reasonable predictors of future activity are pointing down. Analysts are carefully watching the OECD index of leading indicators, which reflects signals from countries that account for a very large share of the global economy. Those indicators have been declining throughout this year and changes in the index have fairly consistently foreshadowed movement in industrial production. [Figure 2] Similarly, the most widely followed comparable U.S. series, the index of leading indicators has also been registering declines. It has yet, however, to broach the threshold (a drop of 2 percent or more in the overall index combined with declines in the majority of the components) that is viewed as signaling a possible recession ahead. [Figure 3]

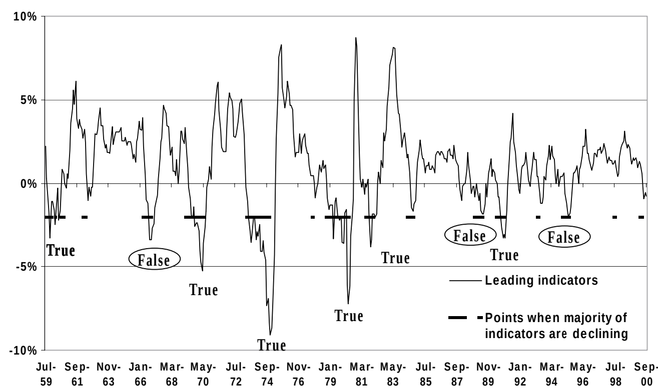
Participants in financial markets appear to believe that the slowdown could be significant. Short-term interest rates

**Figure 2-Leading indicators suggest slowing**




Leading indicators year-over-year change
OECD—Organization for Economic Cooperation and Development

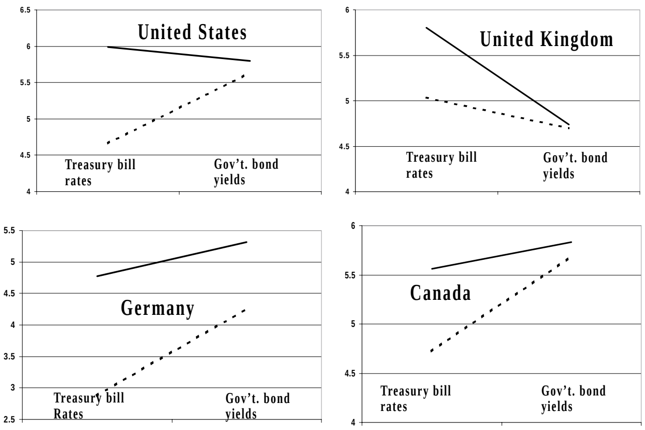
**Figure 3-U.S. leading indicators**




Leading indicators 6 month changes annualized
Source: The Conference Board

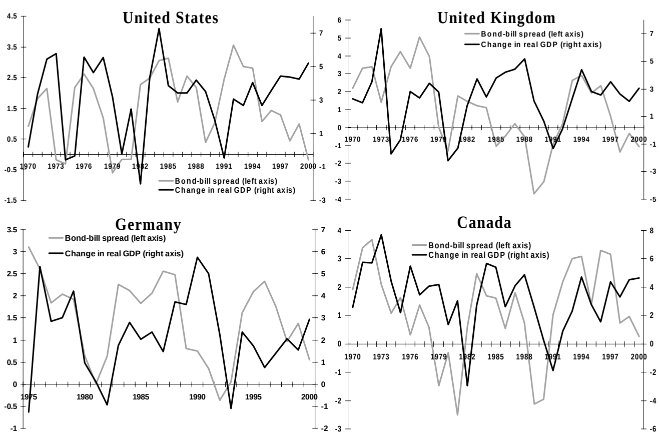
have moved up sharply relative to longer-term rates this year in a number of countries. [Figure 4] This typically is a sign that investors anticipate that economic activity will weaken significantly in the future. Moreover, movement in the long /short-term interest rate differential has frequently preceded changes in the pace of economic expansion. [Figure 5] The spread between funding costs for more highly rated and weaker credits, which tend to be most vulnerable when the business environment deteriorates, has risen substantially. Also reflecting anticipation of less robust corporate profits, almost all important equity markets are down for the year, with U.S. and foreign high tech stocks being especially affected.

**Figure 4- Short-term interest rate moves shift yield curves**




1999 rates—average for year; 2000 rates—average for September
- - - - - - represents 1999; ——— represents 2000

**Figure 5- In the past, declining spreads were followed by slowing economy**




Spreads—2000 September average; other years, average for year;
GDP—2000 IMF projection

## The U.S. Economy

As suggested by the leading indicators, the steam appears to be coming out of the U.S. economy, which remains critical to the rest of the world. As of mid December, the majority of analysts were continuing to forecast a moderate downshifting in the pace of expansion in 2001. However, there is now heightened concern about the possibility of a sharp fall-off in activity. A moderate deceleration would discomfort those businesses and investors that have made decisions based on anticipation of a continuation of this year's pace of expansion, but the impact on the broader economy (for example, unemployment) would likely be limited. A more substantial slowdown could create considerably more pain for households and businesses.

Consumer spending has been outpacing personal income growth, as rising real wealth and the best employment prospects in a generation have boosted confidence. [Figure 6] Since this sector is by far the largest component of the U.S. economy, containing weakness here is critical to prospects for a 'soft landing.' Consumer confidence has receded sharply during the fourth quarter, but most analysts are counting on continued job growth and higher wages to prevent personal consumption from stalling. However, there is clearly a risk of a pause. Individuals have been covering part of their spending by increasing their credit outstanding, by realizing some of the appreciation in the value of their assets, and by cutting back on savings. Debt servicing obligations have risen to their highest level in a decade. [Figure 7] So far, appreciation in underlying real wealth has acted to offset some of the burden. There is a risk of a more substantial drop-off in consumption if individuals believe they can no longer count on steady asset appreciation and seek to rebuild their personal financial positions through reductions in spending. This would have significant implications on the

**Figure 6- Moderate tempering of consumption is key to soft landing**

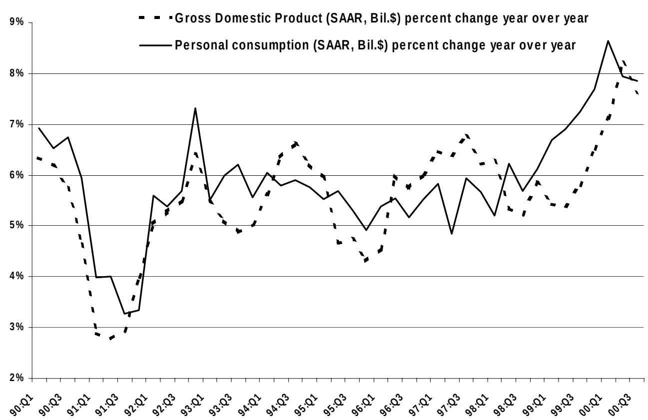
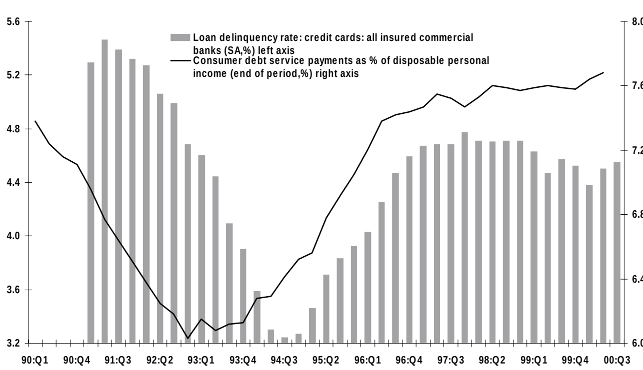



**Figure 7- Debt service requirements positively related to delinquencies**

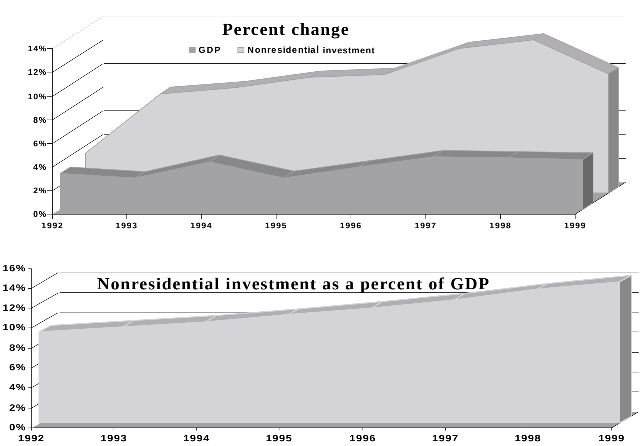



Quarterly data through 2000 Q3
Source: Haver Analytics

overall economy. Purchases of durable goods tend to be particularly affected by shifts in consumer wealth, income, or confidence. For the last several years, the environment has been especially favorable for manufacturers of durables and sales have been quite strong. As a result, consumers have built up their stock of such goods and the sector is vulnerable to a slowdown. We are already seeing some signs of stress showing up in the sector and durable goods purchases are growing much less rapidly.

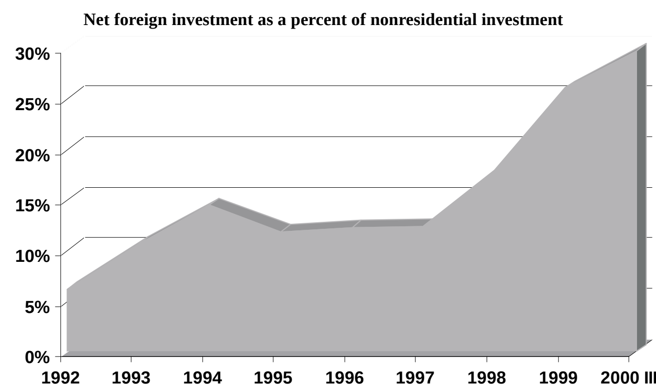
Spending on new plant and equipment by business has also been robust throughout the current U.S. expansion. The increase in investment has outstripped the rate of growth in Gross Domestic Product throughout the current recovery. As a result, the relative importance of plant and equipment expenditures in the overall economy has risen by about 50 percent since 1992. [Figure 8] Large swings in investment are often associated with changes in macro economic conditions and a sizable drop-off in the sector would amplify a contraction. Very rapid improvement in productivity has been an important part of the investment story over the last few years, enabling corporations to build profits. In addition, labor costs have been surprisingly restrained despite the decline in the unemployment rate contributing to the improvement in the corporate sector's bottom line. However, both wages and benefits have started to rise more sharply recently. Moreover, one of the normal implications of a slowing in the overall economy is a drop off in gains on worker productivity, as other factors of production are not fully utilized. If some of those gains evaporate, profits could well be squeezed by demands for more substantial wage increases without sufficient offsetting efficiency gains. It is widely expected that the pace of investment will slow in 2001 and investor concern about the sustainability of corporate earnings growth in this environment is contributing to the weakness in U.S. equity markets. This concern could intensify if productivity gains fade as a result of an economic slowdown.

**Figure 8– Investment has been a key driver of the economy**




Another important issue for this sector is the continued willingness of foreigners to provide finance, especially if the prospects for returns are dimmed by a weaker economy. [Figure 9] Domestic corporate issuers of securities have benefited in recent years from a dramatic increase in the size of foreign investment in the United States and by a portfolio shift in the composition of such inflows. Treasury issues have become relatively less attractive to overseas investors and more of the capital inflows have been going directly to the United States corporate sector. This of course reflects the relative attractiveness of U.S. stocks and bonds, whose returns have generally outstripped those available in other industrial countries. In addition, foreign investors have had the opportunity to benefit from the strength of the dollar, which has appreciated by approximately 25 percent over the last five years. Any blunting of the foreign appetite for U.S. corporate issues could raise financing costs for U.S. businesses and could dilute some of the impact of an expected easing in monetary policy by the Federal Reserve.

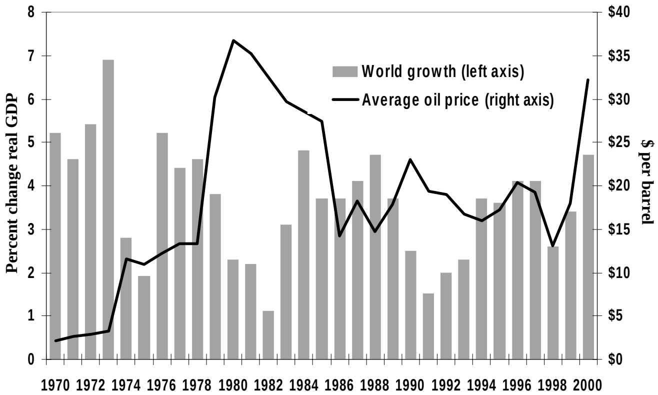
**Figure 9– United States becoming increasingly dependent on foreign financing of investment**




## Energy Prices

A key factor in the deceleration in the pace of business activity has been the higher cost of oil, which has put upward pressure on overall price levels and drained purchasing power in importing countries. Over the last 30 years, sharp rises in the price of petroleum have been followed by a weakening global economy. [Figure 10] Analysts anticipate that a softening in the global economy and recent increases in petroleum production will take the steam out of energy prices next year. Most forecasts for economic activity in 2001 build in assumptions of such a decline. However the world appears vulnerable to a supply shock, because inventories are down from previous years and in most exporting countries production levels are closer to short-term capacity. If a disruption of supply does occur, or if the winter is particular severe, the cost of oil could move significantly higher and the slowing of ac-

**Figure 10- Higher oil prices have been negative for world growth**




Source: International Monetary Fund

tivity in industrial countries is likely to be more pronounced than currently anticipated.

## The Dollar and U.S. Competitiveness

The impact of the appreciation of the dollar over the last few years on U.S. international competitiveness is also likely to be felt more significantly in a downturn. Although the external sector has nominally been a drag on U.S. economic growth for some time, up to this point it has produced little pain. The increase in imports in recent years could largely be seen as complementary to domestic production. With U.S. factors of production essentially unable to fulfill burgeoning domestic demand at current prices, overseas goods acted as an important safety value and helped hold back inflationary pressures. In an environment of slower growth, however, domestic resources may not be as fully employed and inroads by foreign producers will have more of an impact on profits and possibly wages. Moreover, at current exchange rates, the United States cannot count on getting a significant boost from the foreign sector to offset slowing domestic demand. European activity is also expected to be less robust next year and the weakness in the United States will quickly feed back into Asia and Latin America depressing demand there for U.S. goods. Given the large imbalances in U.S. trade, there remains a significant risk of a sharp cutback in demand for the dollar, if foreigners reassess investment prospects.

## Financial Markets

Reflecting the changing perspectives on the economic environment, volatility in financial markets has been increasing. A number of factors could act to intensify that volatility in the near term, especially if the probability of a 'hard landing' is seen as rising. The U.S. current account deficit continues to be at a record high and to require large-scale inflows of foreign capital. A shift in sentiment by foreign investors would have important implications for exchange rates, stock markets, and interest rates and, in the short run, could exacerbate the slowdown of the U.S. economy. Such a development would likely quickly spill over into the financial markets in other countries, where conditions would also deteriorate. The environment for all banks would be affected by such a development, although money center banks would likely feel the greatest impact.

## Non-Energy Commodities

As noted above, prices for energy commodities have moved to higher levels. For many other commodities, however, the robust world economy has failed to translate into the sharp appreciation of prices that some analysts were expecting. For agricultural products, bumper crops increased the supply on world markets. Similarly, copper and steel prices have also been weak. The strong dollar is a factor in holding down these prices. For many foreign producers the weakness in world prices for their products is more than offset by the enhanced value of the dollar in terms of their local currencies.

# Recent Corporate Decisions

The OCC publishes monthly, in its publication *Interpretations and Actions*, corporate decisions that represent a new or changed policy, or present issues of general interest to the public or the banking industry. In addition, summaries of selected corporate decisions appear in each issue of the *Quarterly Journal*. In the third quarter of 2000, the following corporate decisions were of particular importance because they were precedent-setting or otherwise represented issues of importance. The OCC's decision documents for these decisions may be found in *Interpretations and Actions* using the decision number at the end of each summary.

## Operating Subsidiaries

On August 10, 2000, the OCC granted conditional approval for Wilber National Bank, Oneonta, New York, to establish a wholly owned operating subsidiary to provide Internet access to customers in its service area. The service will be offered as an incidental activity to the bank's provision of Internet banking services. As a condition of approval, the bank must develop a risk assessment plan and appropriate risk mitigation controls, intrusion response policies and procedures, and testing processes consistent with OCC's supervisory guidance on Internet banking prior to commencing the proposed Internet access service and implement these measures on an ongoing basis. [Conditional Approval No. 409]

On August 29, 2000, the OCC granted approval for Frontier National Bank, Sylacauga, Alabama, to establish an operating subsidiary to reinsure credit life, accident, disability, and health insurance in connection with loans to customers made by the banks and its affiliates. In this approval, the OCC provides a legal analysis of the ability of national banks and their subsidiaries to provide the credit-related reinsurance activities as proposed by Frontier National Bank, pursuant to the Gramm-Leach-Bliley Act. [Corporate Decision No. 2000-16]

On September 22, 2000, the OCC granted conditional approval for Wells Fargo Bank, National Association, San Francisco, California, to establish a second-tier operating subsidiary that will engage in certain internal financing transactions already conducted by another bank subsidiary. While this subsidiary will be incorporated under the laws of the Cayman Islands, it will be a domestic subsidiary since all of its business activities will be conducted in the United States. The OCC's approval requires, among other things, that the books and records of the subsidiary will be located in the United States and that the subsidiary will be subject to OCC examination, supervision, and regulation. [Conditional Approval No. 413]

## Financial Subsidiary

On August 16, 2000, the OCC granted approval for Amboy National Bank, Old Bridge, New Jersey, to make an investment in a financial subsidiary that will offer title insurance in the State of New Jersey. New Jersey law prohibits banks from being licensed or permitted to act as an insurance producer for a title insurance company. In this approval, the OCC provides a legal analysis of national banks' authority to sell title insurance through financial subsidiaries, pursuant to the Gramm-Leach-Bliley Act. [Corporate Decision No. 2000-14]

## Mergers

On August 28, 2000, the OCC granted conditional approval for NBT Bank National Association, Norwich, New York, to acquire BSB Bank & Trust, Binghamton, New York. The approval requires that NBT Bank comply with a branch divestiture agreement it signed with the Department of Justice. [Corporate Decision No. 2000-15]

On September 1, 2000, the OCC granted approval of a multi-step corporate reorganization involving three affiliated banks: First National Bank in Garretson, Garretson, South Dakota; First National Bank in Brookings, Brookings, South Dakota; and First National Bank and Trust, Pipestone, Minnesota. The reorganization, among other things, results in the interstate relocation of the main office of First National Bank in Garretson to Luverne, Minnesota, from Garretson, South Dakota. [Corporate Decision No. 2000-18]

On September 20, 2000, the OCC granted approval to consolidate Gateway National Interim Bank, St. Louis, Missouri, with Gateway National Bank of St. Louis, St. Louis, Missouri. The application was filed by a group of investors interested in acquiring Gateway National Bank of St. Louis from its shareholders. The OCC received comments from two individuals asserting that the sale of the bank, a minority-owned bank, would not be in the interest of the African-American community in St. Louis. The OCC determined that the impact of the consolidation on the convenience and needs of the community to be served was consistent with approval of the application. [Corporate Decision No. 2000–17]

## Branches

August 15, 2000, the OCC granted approval for First Bethany Bank and Trust, National Association, Oklahoma City, Oklahoma, to establish a messenger service branch to be housed at the bank's main office. The messenger service will engage in branching activities only upon real property owned or leased by the bank, in order to comply with Oklahoma law. [Corporate Decision No. 2000–12]

On August 16, 2000, the OCC granted approval for National Bank of Middlebury, Middlebury, Vermont, to relocate its 'Bristol Branch' to 28 Main Street from 5 Main Street, Bristol, Vermont. In relocating the branch, the bank will demolish a building that is listed on the National Register of Historic Places, which constitutes an adverse effect to the historic property. A memorandum of agreement was developed to mitigate the adverse effects, and OCC's approval requires implementation of the stipulations contained in the agreement. [Corporate Decision No. 2000–13]

On September 29, 2000, the OCC granted conditional approval for Commerce Bank, National Association, Cherry Hill, New Jersey, to establish a branch in Haddon Heights, New Jersey. While the branch site is outside, but adjacent to the White Horse Pike Historic District, which is listed on the National Register of Historic Places, the state historic preservation officer determined that the bank's plans would have an adverse effect on the historic district. A memorandum of agreement was developed to mitigate the adverse effects, and OCC's approval requires implementation of the stipulations contained in the agreement. [Conditional Approval No. 414]

## Capital

On August 20, 2000, the OCC granted conditional approval for Eaglemark Bank, National Association, Carson City, Nevada (Eaglemark), to reduce its permanent capital. Eaglemark has discontinued banking operations as stipulated in its articles of association. The approval requires that the disbursement of capital by Eaglemark be made pursuant to a plan of voluntary liquidation. [Conditional Approval No. 410]

## Community Reinvestment Act Decisions

On August 29, 2000, the OCC granted conditional approval for Far East National Bank, Los Angeles, California, to establish a branch in Fremont, California. In early 2000, OCC examiners identified weaknesses in the bank's CRA performance. The bank subsequently developed a CRA plan and has made satisfactory progress in meeting the expectations of that plan. However, the OCC determined that the imposition of an enforceable condition was appropriate under the Community Reinvestment Act and OCC policies thereunder. [CRA Decision No. 107]

# Appeals Process

## Appeal 1–Appeal of 4 Composite CAMELS Rating and Various Component Ratings

### Background

A bank formally appealed the bank's composite CAMELS rating of 4 and each of the component ratings. The bank's ratings were:

- Capital component rating of 4;
- Asset quality component rating of 4;
- Management component rating of 4;
- Earnings component rating of 5;
- Liquidity component rating of 4; and
- Sensitivity to market risk component rating of 4.

Management believed that the report of examination also had an unjustified negative bias and in some specific areas contained misleading statements. Bank management stated their performance in the past and in the current situation did not demonstrate the characteristics of a 4-rated bank as described in Banking Circular 97-1, "Uniform Financial Institutions Rating System." They felt that the CAMELS ratings were the result of a political issue that motivated the OCC to "paint" their bank as a poor performer.

The bank's report of examination concluded that the bank's overall condition was unsatisfactory with serious financial and managerial deficiencies noted. The bank's assets grew significantly between examinations through the origination or purchase of a certain type of loan product to support a securitization activity. Unwinding of the accounting of these securitizations and rebooking of securitized loans also added significantly to the bank's balance sheet. This growth was funded by high cost brokered deposits. Current holdings of this type of loan product were at unsafe and unsound levels and had to be reduced. Management had not been able to sell these loans in an expedient manner at desired prices. The large concentration exposed earnings and capital to unacceptable levels of instability and risk and threatened the bank's ability to withstand business fluctuations. The reversal of the accounting treatment for these securitizations caused the bank to suffer losses. Earnings were insufficient to support capital. Interest rate, liquidity, and compliance activities also demonstrated significant weaknesses.

#### Discussion

OCC Bulletin 97-1, "Uniform Financial Institutions Rating System," states that the evaluation of the component ratings take into consideration the institution's size and sophistication, the nature and complexity of its activities, and its risk profile. While the composite rating generally bears a close relationship to the assigned component ratings, the composite rating is not derived by computing an arithmetic average of the component ratings. Each component rating is based on a qualitative analysis of the facts comprising that component and its interrelationship with the other components. When assigning a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the financial institution.

During and after the examination, the bank took aggressive action in correcting many of the deficiencies noted in the report of examination. These included a significant capital injection and successful reduction of their significant exposure in the particular type of loan product without significant losses to the bank.

### Conclusion

After a thorough review of the examination findings and discussions with bank management, the ombudsman concluded that the examination process was not efficiently managed and should have been more balanced; however, the OCC's supervisory conclusions were not out of context in light of the:

- Uncertainty and unknown factors regarding the bank's ability to reduce the significant exposure in a particular type of loan product,
- Potential impact of this exposure on the other areas of the bank, i.e., capital, earnings, liquidity; and
- Other risk management concerns.

Therefore, the ombudsman did not change the assigned ratings.

## Appeal 2- Appeal of the Allocated Transfer Risk Reserve Requirement

### Background

A bank formally appealed the OCC's decision regarding the allocated transfer risk reserve (ATRR) requirement for a credit transaction with a foreign-based obligor. The OCC supervisory office had concluded that under the Interagency Country Exposure Review Committee (ICERC) rules, the transaction was 'restructured to avoid delinquency,' and remained subject to ATRR requirements.

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

- The transaction did not constitute restructured debt and therefore was not subject to ATRR requirements.
- The loan and related transactions were effected by the bank to assist an existing customer in retiring higher interest rate debt, and at the same time, remove a weak asset from the bank's portfolio, replacing it with a stronger, different asset.

#### Discussion

The ICERC rules are intended to require banking institutions to recognize uniformly the transfer risk and diminished value of international assets that have not been serviced over a protracted period of time.

The bank entered into this credit transaction in order to facilitate the purchase of a matured certificate of deposit (CD) placement from its investment portfolio. The CD was from a failed financial institution in a foreign country. An extension of credit was made to an international borrower to purchase the CD from the bank and use the proceeds to extinguish its debt with another financial institution located in the same foreign country. The extension of credit was made without collateral requirements, and without a defined repayment plan.

As noted in the bank's credit presentation, the proceeds of the loan were downstreamed to two of its affiliates operating in the foreign country. The ultimate source of repayment was the cash flow from these affiliates. Also, it was anticipated that the bank would extend this loan as a five-year amortizing loan directly to one of the affiliates.

### Conclusion

While the restructure may have positively postured the bank from a credit risk perspective, the following was still applicable:

- The restructure was not considered 'new money' per the ICERC rules. ('New money' is not subject to ICERC ATRR requirements.)
- The foreign exposure had not been eliminated.

Therefore, the ombudsman concluded that the OCC supervisory office's decision that the credit transaction, as restructured, was still subject to ATRR requirements was appropriate.

## Appeal 3- Appeal of the Bank Secrecy Act Report of Examination

### Background

A bank formally appealed the examination conclusions concerning the activities of two foreign correspondent demand deposit accounts.

The review of two accounts, used by the foreign correspondents for currency exchange settlement, reflected unusual and repetitive dollar amount transactions that appeared suspicious in nature. The report of examination (ROE) stated that management must have a clear understanding of the manner in which all correspondent bank accounts are being used and the correspondent banks' controls to ensure that the account is being used solely for legitimate business purposes. In addition, the bank should periodically test accounts to determine whether or not it appears that the correspondent's controls may have been circumvented. All potentially suspicious activity should be investigated and documented, and a suspicious activity report filed, if appropriate.

The appeal submission stated that management disagreed with the OCC recommendations, as the accounts in question were merely checking accounts maintained by a correspondent bank.

#### Discussion

As discussed in the *Comptroller's Handbook* booklet, 'Bank Secrecy Act/Anti-Money Laundering' (September 2000), correspondent bank accounts are accounts banks maintain with each other on their own behalf and in their own names. Correspondent bank account relationships are maintained between domestic banks and between domestic and foreign banks. The relationships between domestic and foreign banks may incur a heightened risk of money laundering.

Banks use international correspondent bank accounts for a variety of legitimate business purposes. Many are used to facilitate international trade and investment activities. Others are used for settlement purposes for funds transfer activity and clearing of foreign items. These accounts are designed to move legitimate funds and assets swiftly and securely around the world.

International correspondent bank accounts may pose increased risk of potential illicit activities, including money laundering. Three of the more common types of activity found in international correspondent bank accounts that should received heightened security are funds (wire) transfer, correspondent accounts used as 'payable through accounts' and 'pouch/cash letter activity. This heightened risk underscores the need for effective and comprehensive systems and controls particular to these types of accounts.

A bank must exercise caution and due diligence in determining the level of risk associated with each of its correspondent accounts. Information should be gathered to understand fully the nature of the correspondent's business. Factors to consider include the purpose of the account, whether the correspondent bank is located in a bank-secrecy or money-laundering haven, the level of the correspondent bank's money-laundering prevention and detection efforts, and the condition of bank regulation and supervision in the correspondent's country. The level of perceived risk in each account relationship, including the availability of the account to third parties, should dictate the nature of risk management. Banks must comply with 12 CFR 21.11 and 21.21 and 31 CFR 103.18 and report transactions that have no apparent lawful purpose or are not the sort in which a particular customer would normally be expected to engage.

## Conclusion

After carefully reviewing the conclusions and recommendations in the ROE, along with a comprehensive discussion with bank management, the ombudsman concluded that the comments in the ROE were reasonable and relevant.

# Appeal 4- Appeal of a Loan Classification and the Earnings and Management Component Ratings

## Background

A bank formally appealed the supervisory office's loss classification of an investment in a particular business trust. The bank also appealed the 3 rating assigned to the earnings and management components in the report of examination (ROE). Management believed that the downgrade of these components was primarily driven by the loss classification of the investment.

The ROE stated, 'The bank's investment in the trust was imprudent and reflects unsafe and unsound investment practices. Management and the board did not perform adequate due diligence prior to purchasing this asset. Management's pre-purchase analysis did not adequately address the significant inherent risks in this investment.' The ROE concluded that the bank's investment in the trust is a non-bankable asset and was classified loss for the following reasons:

- Credit risk is high because:
  - The trust is a new entity with no established operating history;
  - Repayment period is protracted;
  - Timing and amount of payments are uncertain;
  - The beneficial interest is last in priority of payments; and
  - Ultimate residual value is unpredictable.
- The asset is long-term and predominantly speculative in nature.
- The asset is below investment quality and is not marketable.

The bank disagreed with the loss classification for reasons that included the following:

- Subsequent purchasers have paid a slightly higher price than the price paid by the bank.
- This type of transaction is commonplace in banking.
- The credit risk is spread among the collateral and other involved parties to this transaction.
- The co-investors and managers of the trust are top of the line experts in their field.
- The estimated residual proceeds versus the carrying value of the asset.
- The trust is now generating positive cash flow sufficient to service debt ahead of schedule.

### Discussion

The federal bank and thrift regulatory agencies currently use the following definitions for assets classified 'substandard,' 'doubtful,' and 'loss' for supervisory purposes:

> *Substandard assets*- A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the

distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

*Doubtful assets*- An asset classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

*Loss assets*- Assets classified as a loss are considered uncollectible and of such little value that there continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

The trust is a special-purpose business trust established to purchase, own, lease, and sell a certain type of equipment. The bank's investment represents a beneficial interest in the residual component of the transaction. The beneficial interest entitles the bank to a share of any residual proceeds after payment in full of all interest and principal on the debt.

The characteristics of the transaction include:

- An infrastructure which provides for:
  - Annual certified financial statements,
  - Annual appraisal of the equipment from three independent sources, and
  - A built-in reserve.
- The value of the underlying collateral.
- Tax benefits to be received for two years.
- Reputation of the servicer.
- Positive financial performance for the first 12 months of operation.

After thoroughly reviewing all facets of the asset, the following well-defined weaknesses were identified:

- The repayment period is protracted.
  - Residual proceeds (principal repayment) will not be received until 2016 at the earliest, and potentially not until 2024.
  - Although the bank will receive tax benefits in 1999 and 2000, it is not repayment of principal. Reinvestment of this tax benefit will still result in an extended period for principal recovery.
- The timing and amount of payments are uncertain. The bank's beneficial interest in the transaction is in last position for the priority of payments. There are five classes of debt that take priority over the residual interests.
- The ultimate residual value is unpredictable. There are variables that could affect the adequacy of cash flow through the life of the transaction, such as changes in interest rates and events that could diminish the value of the equipment.
- Residual interest is below investment grade quality.

### Conclusion

These well-defined weaknesses, discussed above, reflect an increased level of risk indicative of a substandard asset. Therefore, the ombudsman concluded that a substandard classification was more appropriate. The bank was instructed to monitor the value of this asset on at least an annual basis, recognizing any impairment in value, in accordance with GAAP guidance.

## Earnings (Rated 3)

### Discussion

The earnings rating reflects not only the quantity and trend of earnings, but also factors that may affect the sustainability of quality earnings. A rating of 2 indicates earnings that are satisfactory to support operations and maintain adequate capital and allowance for loan levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.

### Conclusion

In view of the change in classification of the above investment, the ombudsman concluded that a 2 rating was more reflective of the earnings posture of the bank.

## Management (Rated 3)

### Discussion

The component management rating reflects the capability of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risk of their institution's activities and to ensure that the financial institution is safe, sound, and that it efficiently operates in compliance with applicable laws and regulation. The management rating of 3 indicates management and board performance that needs improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored or controlled.

### Conclusion

While the investment classification was changed, the issues of suitability, due diligence, and risk management noted during the examination remain. However, while the investment decision was a factor in the assessment of the management rating, the rating was also based on a number of other factors that need enhancement. These included credit administration, compliance operations, and other risk management practices that were detailed in the report of examination. Therefore, the ombudsman concluded that a management rating of 3 was appropriate at the time of the examination.

## Appeal 5- Appeal of the Requirement to File a Section 914 Notification

### Background

The ombudsman received an appeal from a bank who had been formally requested by the supervisory office to file a Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) Section 914 notice for an individual who was proposed to manage a mortgage banking department.

The supervisory office and bank management had exchanged correspondences and had met on several occasions to discuss the bank's establishment and structure of a mortgage banking division. The supervisory office concluded that the responsibilities of the position meet the definition of an 'executive officer' and require the bank to file a Section 914 of FIRREA Notice, in accordance with 12 CFR 5.51, particularly because there are no other officers with mortgage banking experience.

The bank appealed this conclusion, stating that the individual had been hired to start up and then manage a limited mortgage banking department for the bank, but the officer would do so under board-established policy and would not exercise significant influence over, or participate in, major policymaking decisions of the bank.

### Discussion

The statute, 12 USC 1831i(a) 'Prior Notice Required,' states:

> An insured depository institution or depository institution holding company shall notify the appropriate Federal banking agency of the proposed addition of any individual to the board of directors or the employment of any individual as a senior executive officer of such institution or holding company at least 30 days (or such other period, as determined by the appropriate Federal banking agency) before such addition or employment becomes effective, if—
>
> (1) the insured depository institution or depository institution holding company is not in compliance with the minimum capital requirement applicable to such institution or is otherwise in a troubled condition, as determined by such agency on the basis of such institution's or holding company's most recent report of condition or report of examination or inspection; or
>
> (2) the agency determines, in connection with the review by the agency of the plan required under section 38 [12 USC 1831o] or otherwise, that such prior notice is appropriate.

The implementing regulation 12 CFR 5.51 defines a senior executive officer as follows:

> 12 CFR 5.51(c)(3) *Senior executive officer* means the chief executive officer, chief operating officer, chief financial officer, chief lending officer, chief investment officer, and any other individual the OCC identifies to the national bank who exercises significant influence over, or participates in, major policy making decisions of the bank without regard to title, salary, or compensation. The term also includes employees of entities retained by a national bank to perform such functions in lieu of directly hiring the individuals, and, with respect to a Federal branch operated by a foreign bank, the individual functioning as the chief managing official of the Federal branch.

### Conclusion

Through discussions with the board of directors during the appeals process, it was learned that subsequent to the appeal submission the president/chief executive officer of the bank had resigned from those responsibilities. The newly appointed president has experience in mortgage banking. The ombudsman concluded that these executive management changes required the board to revise their original plan for the mortgage banking business. The board was requested to not only reaffirm their desire and commitment to enter into the new business enterprise, but to also re-examine their plan for the management of the operation.

# Speeches and Congressional Testimony

# Statement of John D. Hawke Jr., Comptroller of the Currency, before the Securities and Exchange Commission, on enhancing auditor effectiveness, Washington, D.C., July 26, 2000

## Introduction

Chairman Levitt and commissioners, I appreciate the opportunity to participate in today's hearings on the Securities and Exchange Commission's (SEC) proposal to revise the rules relating to auditor independence. I believe the commission's proposed rule deserves careful consideration by all interested parties and I applaud you for this initiative.

It is indisputable that independent auditors play a critical role in maintaining public trust in our financial markets and in the integrity of corporate financial statements. Accordingly, ensuring not only the independence of external auditors, but also the appearance of independence, is vitally important for investors and other users of financial statements, including bank supervisors.

It is important to recognize, moreover, that the factors that influence independence may be extremely subtle and difficult to identify, and that the consequences of an impairment of independence may be difficult to document. In this sense, independence may really be more of a state of mind than a legal status. Thus, building safeguards for independence can present difficult challenges. In an ideal world, the external auditor should be free from any extraneous influences and motivations that might cause it to express anything less than its frank and forthright opinion.

The commission's proposed rule would comprehensively modernize and strengthen the standards for determining independence. Most relevant to the Office of the Comptroller of the Currency's (OCC) concerns, the proposal would establish the standard that an external auditor would not be deemed independent if it provided internal audit services for an audit client or an affiliate of an audit client, subject to limited exceptions. This part of the proposal is of great importance for bank supervisors and we support its adoption.

My testimony today will focus on the importance of independent external and internal audits for the safety and soundness of the banking system, and on the role each plays in bank supervision. I will also discuss some trends we are seeing in the relationships between external auditors and national banks, and steps the OCC is taking to strengthen both the internal and external audit functions at national banks. I will conclude with some observations on the commission's proposed rule.

## Importance of Audit to Bank Safety and Soundness

An effective audit process has always been an essential component of risk management for the banking industry, and it is becoming more critical as banks expand into new products, services, and technologies. Unfortunately, history offers many examples of serious problems that could have been avoided or mitigated through effective audits. Some of these situations resulted from breakdowns in fundamental operational controls that had gone undetected by the banks' external and internal auditors.

A well-planned and well-executed external audit complements the bank's internal audit function, helps to strengthen internal controls, and contributes to safe and sound operations. Such audits provide a bank's board of directors with an independent and objective view of the bank's activities. While external audits are required for all national banks having $500 million or more in total assets,[1] the OCC strongly encourages smaller national banks to have external audits performed by independent public accountants. And indeed, the vast majority of these banks have established some type of external audit program.

A bank's board of directors must have unfettered access to an independent assessment of the bank's internal controls, its adherence to established policies and procedures, and its compliance with applicable laws and regulations. Therefore, a key component of any effective audit is the auditor's independence. An internal auditor must have significant standing in the organizational structure of the bank and must be able to carry out assignments with objectivity and impartiality. Similarly, an external auditor must be able to provide reasonable assurances that internal controls related to financial reporting are effective, that transactions are recorded in a timely and accurate manner, and that financial and regulatory reports are complete and fairly stated. While auditors can and should work cooperatively with bank managers, they must remain independent of the activities they audit so that they can carry out their work freely and objectively, without bias or interference. Ideally, both the internal and external auditors will report conclusions directly to the bank's board of directors or an appropriate board committee.

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[1] *See* 12 CFR 363.

The OCC and other banking agencies require financial institutions' external auditors to adhere to the SEC's and American Institute of Certified Public Accountants' (AICPA's) rules and standards concerning the role of external accountants and their independence. Hence, the banking industry and we have considerable interest in the SEC's proposal.

### Role of Auditors in Bank Supervision

OCC examiners review a bank's internal controls and audit processes during every national bank examination. To provide guidance in this area, we have issued examination procedures for evaluating internal controls, as well as internal and external audit programs. As part of these procedures, examiners are directed to assess, and draw specific conclusions about, the adequacy of a bank's audit and control programs. A key qualitative factor that examiners consider when assessing a bank's audit programs is the independence of the audit function.

These conclusions have an important influence on the scope of the examination work to be performed by OCC examiners. At banks with strong, independent internal and external audit programs, our examiners will often rely upon work performed by the auditors, rather than engage in direct validation and testing of bank operations. Thus, the relationship between the quality of the audit and the resources we devote to an examination is very significant. A compliance examination, for example, is an important, resource-intensive component of bank supervision. Where we do not have a high degree of confidence in the quality of the bank's internal audit function, we must devote more of our own resources to compliance examinations and our examiners will perform more direct testing and verification than they might otherwise do.

## Recent Trends

We have observed a number of trends similar to those highlighted in the commission's proposal concerning the business relationships between national banks and external auditing firms. These trends affect both the structure used to manage the bank/accounting firm relationship and the range of services the auditing firm provides.

In particular, we have seen a growing number of national banks outsource some or all of their internal audit functions to auditing firms. This practice raises concerns that bank management and examiners must carefully assess. Specifically, the bank's board of directors and senior management must understand that these arrangements do not relieve them of their responsibilities for establishing, maintaining, and operating effective and independent audit programs. Management and the board cannot allow such outsourcing arrangements to compromise the integrity or independence of either the bank's internal or external audit functions.

The possibility for inherent conflicts and impairment of auditor independence and audit integrity is greatest when a bank outsources its internal audit function to the same firm that performs the bank's external financial audit. Such arrangements introduce a number of risks, including, as the commission has noted, questions about the independence of the external auditor, both in fact and appearance. These arrangements eliminate the normal checks and balances that can be expected to operate where the internal and external audit functions are performed independently. In addition, the combination of these functions deprives bank management and the board of having an independent review and assessment of the internal audit function performed by the entity that is likely to be best situated to do so—the bank's external auditor.

The commission's rule-making proposal summarizes in a succinct and compelling way the fundamental problem presented by such outsourcing:

> Since the external auditor generally will rely, at least to some extent, on the internal control system when conducting the audit of the financial statements, the auditor would be relying on its own work performed as part of the internal controls and internal audit function. In essence, by outsourcing the internal audit function, the auditor assumes a responsibility of the company and becomes part of the company's control system, as opposed to providing consulting advice. Also, there may well be a mutuality of interest where management and the external auditor become partners in creating an internal control system and share the risk of loss if that system proves to be deficient.[2]

## OCC Responses

Currently, the OCC and the other banking agencies do not impose a blanket prohibition on a bank's outsourcing internal audit work to the same external firm that audits its financial statements, because we follow the SEC's and AICPA's current rules and standards on auditor independence. However, we discourage this practice and have imposed a number of safeguards and quality controls to address our supervisory concerns. Guidance is set forth in a 1998 interagency policy statement on the internal audit function and its outsourcing[3] (issued jointly by the Federal Reserve Board, Federal Deposit Insurance Cor-

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[2] *See* Securities and Exchange Commission Proposed Rule S7–13–00, *Revision of the Commission's Auditor Independence Requirements*, at 33.

[3] *See* OCC Bulletin 98–1, *Interagency Policy Statement on Internal Audit and Internal Audit Outsourcing*.

poration, Office of Thrift Supervision, and the OCC) and our booklet in the *Comptroller's Handbook* on 'Internal and External Audits' (July 2000).

The interagency policy statement points out how the use of outside vendors for internal audit activities may affect an examiner's assessment of internal controls, and the effect such relationships may have on the independence of the external auditor. The statement references the AICPA's guidance on these issues[4] and further states that the 'federal banking agencies are concerned that outsourcing arrangements may involve activities that compromise, in fact or appearance, the independence of an external auditor.' It also notes that other actions may compromise independence in addition to those in AICPA Interpretation 101–13, including

- Contributing in a decision-making capacity or otherwise actively participating (*e.g.*, advocating positions or actions rather than merely advising) in committees, task forces, and meetings that determine the institution's strategic direction; and
- Contributing in a decision-making capacity to the design, implementation, and evaluation of new products, services, internal controls, or software that are significant to the institution's business activities.

The policy statement establishes a number of safeguards that banks should have in place for any internal audit outsourcing arrangements. These include

- Ensuring that the board of directors and senior management retain overall responsibility for having an effective system of internal controls and audit;
- Assigning responsibility for the internal audit function to a member of management who is independent of business operating units, who reports directly to the bank's board of directors, and who oversees the external auditor's work and establishes the scope and frequency of the work to be performed;
- Maintaining strong and open communications between the internal audit function, outsourcing vendor, and directors and senior management;
- Conducting sufficient due diligence to ensure that the outsourcing vendor or external auditor has sufficient expertise to perform the contracted work; and
- Having a contingency plan in place should an outsourcing arrangement be suddenly terminated in order to mitigate any significant discontinuity in audit coverage.

[4] AICPA Interpretation 101–13 and related rulings and AICPA Ruling 103.

The OCC's booklet on 'Internal and External Audit' stipulates that any outsourcing arrangement should meet the following additional guidelines:

- The arrangement must maintain or enhance the quality of a bank's internal audit function and internal controls;
- Key bank employees and the vendor must clearly understand the lines of communication and how the bank will address internal control or other problems noted by the external auditor or vendor;
- The board and management should perform sufficient due diligence to verify the auditor's or vendor's competence and objectivity before entering the outsourcing arrangement; and
- The arrangement must not compromise the role or independence of a vendor who also serves as the bank's external auditor.

When evaluating a national bank's external audit or any internal audit-outsourcing program, OCC examiners are directed to evaluate the independence, objectivity, and competence of the external auditor. Recognizing the SEC's and AICPA's primary jurisdiction in this area, our booklet references their auditor independence rules and standards for determining whether an external auditor's independence has been impaired. Under appropriate circumstances, the OCC could refer an external auditor's possible ethics violations to the auditors' state board of accountancy or to the SEC if involving an SEC registrant. While we have not done so to date, we also have the authority to bar an external auditor from engagements with OCC-supervised institutions.

The approach that the U.S. banking agencies have adopted on outsourcing is fully consistent with the general principles that have been endorsed by the Accounting Task Force of the Basel Committee on Banking Supervision, on which the OCC sits.[5] The task force has recognized that while outsourcing can bring significant benefits to banks, it also introduces the risk of the bank losing or having reduced control over the outsourced activity. The task force has cautioned that outsourcing to the same firm that provides a bank's external audit may compromise, in fact or appearance, the independence of the external auditor and it has noted that some countries prohibit such arrangements. In cases where home country rules permit the external auditor to provide this service, the task force has established prudential safeguards similar to those

[5] The Basel Committee on Banking Supervision is comprised of the central banks and supervisory authorities from the G–10 countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) and Luxembourg.

found in the interagency policy statement and the OCC booklet.

## OCC Experience To Date

As I previously noted, the OCC has seen a number of cases in which national banks have outsourced internal audit to the same firm that provides their external audit. Several of these arrangements have involved larger institutions and have involved extensive planning, coordination, and consultation between the bank's senior management and the auditing firms' senior partners.

While these arrangements incorporate the various safeguards outlined in the agencies' interagency policy statement, and have served to improve the quality of internal audits, I have strong reservations whether even these safeguards can sufficiently address the fundamental issue of external auditor independence. The pressures and influences that may come to bear on external auditors who also are seeking to perform the internal audit function may be exceedingly subtle and may not be effectively addressed by objective safeguards. Moreover, if such pressures and influences were to lead to a less rigorous external audit, the performance of the internal audit would also undoubtedly suffer. By contrast, if the external and internal audit functions are performed independently, bank management and the board have the benefits of the checks and balances that naturally flow from two separate reviews.

Even more problematic are the outsourcing arrangements that we are seeing among smaller community banks. In many of these cases, neither the bank nor the outside auditors have the staff or resources to institute the safeguards outlined in the interagency policy statement. For example, if a bank officer who is nominally in charge of the internal audit function lacks the expertise or stature within the bank to oversee the audit function effectively, or to ensure that appropriate follow-up actions are taken, internal controls may get less rigorous attention. In a few cases, we have seen a breakdown in fundamental operational controls in such situations. While we recognize that banks in some smaller communities may have a limited range of external firms to choose from, the maintenance of independence can be even more important in banks that lack the resources to manage their internal audit function effectively.

As I indicated earlier, however, banks under $500 million in size are not required to have independent external opinion audits, although a substantial number in fact do so. I would be concerned if a rigid application of a rule against outsourcing internal audit caused some smaller institutions to elect to forego independent opinion audits, in order to be able to continue outsourcing internal audit functions to the same firm they had been using for external opinion audits. This is an issue we would like to discuss further with you as your work with the proposal progresses.

These situations are indicative of a more general concern that the OCC has been voicing for some time about the adequacy of banks' control and audit programs. In 1998, in a speech before the Bank Administration Institute's (BAI) National Auditing and Compliance Conference, Acting Comptroller Julie Williams cautioned banks not to compromise their internal controls in their zeal to cut costs and overhead. In that speech she noted that, similar to the BAI's own Audit Benchmarking Survey, the OCC had found that the growth in audit capabilities at banks was not keeping pace with the growth of the banks themselves. She further noted that bank managers and directors should insist that their auditors constantly probe and test the effectiveness of the bank's internal controls.

In March of this year, at the Independent Community Bankers of America's annual conference, I stressed that a vigorous independent control and audit program is essential to a bank's safety and soundness. I noted that at our examinations of community banks, examiners will be evaluating the quality of board oversight of the bank's audit programs; the adequacy of audit policies, procedures, and programs; the competence and independence of the internal audit staff; and the effectiveness of outsourced internal audit arrangements, if applicable.

Despite these and other warnings, we have noted with dismay cutbacks in the size, status, independence, and proficiency of many banks' internal audit departments. As a result, I have made it one of the OCC's top priorities for this year to ensure that national banks have effective audit and internal control programs.

Concurrently with our handbook issuance, we have just sent an advisory letter to all national bank directors to underscore the importance of strong audit and internal control programs. Evaluating these programs—particularly those that involve internal audit outsourcing arrangements—will be a special emphasis in all OCC safety and soundness exams. We have also sent a letter to the chairman of the AICPA's Financial Services Expert Panel regarding the OCC's concerns about the quality of audit and internal control programs at many banks and have invited the AICPA to work cooperatively with us to address this issue. Finally, we are conducting examiner training on evaluating the audit function, including various outsourcing arrangements.

## OCC Views on SEC Proposal

Given the important and evolving role that external audits and auditors play in national banks' risk management programs, I believe the SEC's review of its auditor independence rule is timely and warranted. This review is consistent with many of the discussions taking place among bank supervisors, and I applaud the commission's efforts to address this important issue in a balanced and careful manner.

Although I am very interested in the perspectives that other participants in these hearings and commenters will bring to this discussion, I believe that the SEC's proposal attempts to strike a reasonable balance in this area. In particular, I agree with the SEC's initial views that a blanket prohibition on providing *any* consulting or non-audit services to financial statement audit clients may be unduly broad, given the considerable expertise that audit firms can provide their clients.

With regard to arrangements involving the outsourcing of internal audit to the external auditor, however, I believe there are serious risks both that the auditor's independence may be compromised and that banks will be deprived of the benefits that can flow from having internal and external audit functions performed independently. In light of the importance that we place on the audit functions in the conduct of our supervisory responsibilities, and given the subtlety of the pressures and influences that can come to bear in this area, I believe the commission's proposal on outsourcing the internal audit to the external auditor is right on the mark and should be supported. We look forward to consulting with you and the other banking agencies on this subject as the commission moves forward with this proposal.

# Remarks by John D. Hawke Jr., Comptroller of the Currency, before Women in Housing and Finance, on cooperation by federal banking agencies, Washington, D.C., July 27, 2000

There's been a surprising degree of confusion about the roles assigned by Congress to the various financial regulators under the Gramm–Leach–Bliley Act (GLBA). Some say that the legislation exacerbated an already balkanized system of financial regulation—that it parceled out responsibilities among the agencies based on considerations of industry politics and regulatory turf. Others view it as having created a new hierarchical structure, under which a single 'umbrella' regulator, with unique responsibilities for guarding against systemic risks, is to assume a position of preeminence among the financial regulators. Each of these views is, in my opinion, unfounded—and confused.

A little confusion can actually be a healthy thing when it's the product of an inquisitive and critical mind—one that rejects facile analysis and simple solutions to complex problems. The legendary journalist Edward R. Murrow once said, in trying to explain the nuances of the Vietnam War: 'Anyone who isn't confused doesn't really understand the situation.'

Of course, confusion has been a hallmark of our financial regulatory structure for nearly a hundred years—ever since Congress started layering new agencies on top of old ones and giving them overlapping jurisdictions. Certainly, no sensible person would characterize our structure as straightforward—and no one would recreate the present structure if they were designing it from scratch today. But underlying the complexity of the structure is a great deal more consistency and simplicity than meets the eye.

In my view, Congress didn't intend to create a new hierarchical structure of regulation in GLBA. Nor did it mean to further fragment an already complex system of financial supervision. On the contrary, GLBA strongly reaffirmed the existing roles of each of the financial regulatory agencies, and emphasized the importance of the special and complementary roles they play.

In doing so, it adopted an approach that puts a tremendous premium on cooperation and coordination among the various participants—something that has always been of key importance in our multipartite structure—both in order to assure that each can perform its respective role properly, and to reduce the burden of overlapping supervision on the regulated entities themselves.

This conclusion, it seems to me, is compelled both by the text of the new law and the history behind it. A brief review of that history not only explains how we came to the structure we have today, but provides a frame of reference for interpreting what Congress intended in GLBA.

We can pass over Congress' early experiments with federal involvement in banking in its creation of the First and Second Banks of the United States, for while the banks assumed something of a regulatory role, it was the result more of aggressive management than legislative intent. In 1863, however, when Congress created the national banking system and the Office of the Comptroller of the Currency (OCC), it took an explicit move—its first such move—into the realm of financial regulation. Since the expectation at the time was that state-chartered banks would find the new national charter irresistible and would convert in droves, there was no need for Congress to address the question of state regulation—although when that expectation was not vindicated, Congress attempted to eliminate the state charters by imposing a discriminatory tax on state bank notes.

As we know, of course, state banks survived, by moving to deposit banking and away from note issuance. Thus, by 1913, when the Federal Reserve was created, no less than 16,000 state banks remained in business. Congress made Fed membership optional for these institutions, and established the Fed as the regulator of state member banks.

In 1933, when Congress created the Federal Deposit Insurance Corporation (FDIC), it provided that all national banks and state member banks would automatically be covered by deposit insurance, and it extended the option of coverage to state nonmember banks. For those nonmember banks that elected coverage, the FDIC became the primary federal regulator, just as the Fed had been tapped for state member banks. Thus, coming out of the Great Depression we had the basic tripartite structure of federal bank regulation that's remained with us ever since—the OCC responsible for national banks, the Fed for state member banks, and the FDIC for state nonmember insured banks.

During the 1950s, Congress became alarmed that the prudential and regulatory rules applicable to banks, both state and national, might be evaded through the use of holding companies. While holding companies had, ever since Glass–Steagall in 1933, been required to obtain permits from the Federal Reserve in order to vote their shares in the banks they held, the limitations that generally applied to banks—such as the restrictions on permissible activities and constraints on geographic expansion—did not apply to holding companies.

Faced with the prospect that the regulatory structures for the banking industry might be circumvented through the use of holding companies, Congress enacted the Bank Holding Company Act of 1956. This legislation designated the Fed as the regulator of holding companies. At the time, fewer than 2 percent of all banks were controlled by holding companies, and Congress felt comfortable applying the new law only to those companies that controlled two or more banks.

By the late 1960s, however, the holding company format had been rediscovered as a mode of diversification, and following Citibank's conversion to the one-bank holding company format in 1968, banks by the score followed suit, primarily in order to expand into nonbanking financial activities. Congress responded in 1970 by amending the Bank Holding Company Act (BHCA) to cover one-bank companies.

While the Fed's work expanded significantly with the extension of the BHCA to one-bank holding companies, Congress, both before and after the 1970 amendments, reinforced its dedication to the tripartite division of primary supervisory authority that had been the pattern since 1933. In 1964, for example, it coined the term 'appropriate federal banking agency,' or AFBA, to refer to the primary regulator, to which the other agencies were expected to defer in carrying out their own responsibilities. And since then, in one law after another, whenever new supervisory responsibilities have been conferred on the federal banking agencies, Congress has almost always dispersed them in parallel form to the respective agencies.

As time's gone on, the roles of the AFBAs have become almost indistinguishable. The OCC, for example, has cradle-to-grave responsibilities for national banks—responsibilities that range from approving new charters to declaring insolvencies. We determine for national banks what the business of banking consists of, and what's incidental to that business. In our role as AFBA for national banks, we're charged by Congress with the responsibility for setting and enforcing requirements relating to capital adequacy, risk management systems, internal controls and audit, information systems, loan loss reserves, loan documentation and credit underwriting, and interest rate exposure, among other things.

We're required to pass on mergers and changes in control involving national banks, the establishment of bank subsidiaries, and the permissibility of bank investments. We're empowered to impose an array of sanctions and remedial measures against national banks, and we enforce a lengthy catalogue of safety and soundness and consumer protection laws and regulations. Finally, we and we alone are charged with the responsibility of performing regular, on-site, full-scope examinations of national banks. While the FDIC and the Federal Reserve do not charter or close banks, they pass on membership and insurance applications, and across the board their responsibilities are virtually identical to ours in their roles as the AFBAs for state banks.

While these jurisdictions unquestionably overlap at various points—the Fed, for example, has some duties that apply to all member banks, state and national; and the FDIC has some responsibilities for all insured banks—the basic pattern has been well established: primary supervisory authority is vested in the respective AFBAs, and the holding company regulator stands as a backup protector to assure that the activities of corporate owners of banks will not prejudice the interests of the banks themselves.

Let's now turn back to Gramm–Leach–Bliley. GLBA is surely one of the most far-reaching pieces of banking legislation of the twentieth century. It took a significant new direction and broadly expanded permissible activities for banking organizations. But what did it do to—and what, if anything, does it imply for—the structure of financial regulation? Does it represent a break with the past or a reaffirmation of it? And does it alter in any fundamental way the respective responsibilities of the federal banking agencies or the nature of the relationships among them?

In my view, GLBA strongly reaffirms Congress' commitment to the preexisting structure of financial regulation among the three banking agencies. It reinforces the roles of the AFBAs as the primary line of defense for the safety and soundness of depository institutions. It perpetuates the role of the Federal Reserve as the regulator of holding companies, with its traditional function of helping to protect banks from risks that might arise elsewhere in the corporate family, outside the bank.

To be sure, GLBA might have been an opportunity for Congress to rationalize the structure of financial regulation by unifying it under a single agency—in much the same way as has been done in the United Kingdom and Japan. But it chose not to do so. Consolidation of financial regulation is not an issue that has any public constituency; no one was arguing for it in the context of GLBA; and the last few times any initiative has been pursued to achieve consolidation, the result has been dismal failure.

Congress' reaffirmation of the role of the AFBAs runs throughout the new law. Jurisdiction for enforcing the new privacy and CRA 'sunshine' provisions of GLBA, for example, was allocated on the conventional pattern. Similarly, in conditioning eligibility to engage in new financial activities, whether through financial holding companies or financial subsidiaries of banks, on the respective banks being well capitalized and well managed, Congress made clear that these determinations had to be those of the AFBA, not a third party.

GLBA also reinforced the role of the primary bank regulators in two important additional ways. First, it required the Federal Reserve, in its role as the holding company regulator, to limit to the fullest extent possible, the focus and scope of its holding company examinations to the holding company itself and to nonbank subsidiaries that could have a materially adverse effect on the safety and soundness of any bank subsidiary.

Second, it required the Fed to give deference to the primary federal or state supervisor when seeking information on bank subsidiaries, requiring that the Fed use the examination reports of the primary supervisors to the fullest extent possible. In both regards, it reinforced the precept that the primary role of the holding company regulator is to protect the bank against risks that emanate from the holding company, and not to duplicate bank regulation itself.

In both cases, moreover, the new law used stronger language than has ever been used before in this context, in order to underscore its intention that the work of the primary bank regulator not be needlessly duplicated, and that the burdens of regulation on banks be kept to the absolute minimum. By thus reemphasizing the AFBA's responsibility for assuring the safety and soundness of the bank, and the holding company regulator's role with respect to activities outside the bank, Congress effectively underscored its intention that the bank safety net not be extended to the holding company affiliates of banks—an intention that might have been clouded were holding company regulation to have become more integrated with bank supervision.

At the same time, Congress preserved the role of the Federal Reserve as the regulator of all bank holding companies—a result that was by no means taken for granted in earlier versions of financial modernization legislation. As you'll recall, some proposals, such as that advanced by Chairman D'Amato in an earlier Congress, would have created a new type of financial services holding company that would not have been subject to Fed supervision.

Nevertheless, the final version—just as the legislative proposal sent to the Hill by former Secretary Rubin—retained the Fed in its conventional role as the bank holding company regulator. While the Fed lost the ability to pass on applications for new financial activities, and was required to share with Treasury some of the rulemaking jurisdiction it previously had to itself, its fundamental role remained unchanged.

GLBA's strong focus on functional regulation—that is, recognizing the primacy of securities and insurance regulators as to the matters traditionally within their jurisdictions—is completely consistent with its retention of the long-established pattern of allocating supervisory authority with respect to banks to the agencies having principal expertise in banking.

Congress determined that, in the world of financial conglomeration, the old exemptions that banks enjoyed, and the assumption by bank supervisors of supervisory responsibilities over bank-related insurance and securities activities, no longer made sense. Congress made the judgment that consumers of insurance and securities products should be entitled to exactly the same legal protections irrespective of whether those services were offered by a bank or by an entity not related to a bank. This objective was assured by making clear that the functional regulators would have primary jurisdiction in these areas.

It's certainly fair to ask whether, in an unconsolidated system of supervision, there may not be matters that fall between the chairs. Many large institutions, for example, pay little heed to internal organizational format in the way they actually conduct their operations or manage their risks. The insurance and securities departments of some banks may be no more than the people at the adjacent desks. And what about 'systemic' risk? Who's looking out for that?

The simple answer, I believe, is that *all* of the relevant regulators have a legitimate and important interest in these matters. The securities regulator will be just as interested in knowing how a holding company's consolidated risk management affects its securities operations as will the holding company regulator. And if a bank engages in transactions with or related to the operations of an insurance affiliate, both the bank regulator and the insurance regulator will have an interest, just as the bank regulator will have an interest in what's going on at other holding company affiliates that are not functionally regulated. The very nature of modern financial conglomeration will necessarily involve the concerns of all of those agencies having responsibilities for some portion of the company's activities.

Similarly, systemic risk is not an esoteric or proprietary concern, unrelated to the responsibilities of individual regulators. The Federal Reserve has a clear concern from the perspective of its discount window and payments system functions. The FDIC, as the guardian of the deposit insurance funds, has a strong interest in the health of the banking system, as does the OCC, as the supervisor of the predominant number of large banks. The SEC, the Commodity Futures Trading Commission, and state insurance regulators have comparable concerns. None of these agencies can carry out its responsibilities without taking due regard of the potential for contagion—both for problems within their areas of responsibility affecting other markets and other intermediaries, and for external problems affecting the entities they regulate.

What all of this makes clear is that close coordination and cooperation among the individual agencies—as well as due regard for the specific responsibilities Congress has expressly imposed on each—will be of utmost importance. The establishment of close working relationships, particularly at the field level, will be essential. When a bank examiner in the field identifies a problematic bank transaction involving an insurance or securities affiliate, and needs information, there may not be time for high-level deliberations.

Similarly, if a bank is facing problems that give rise to concerns about its solvency, the interests of the FDIC as insurer of deposits, the interests of the Fed as the provider of liquidity and the holding company supervisor, even the interests of the SEC in its oversight role with respect to corporate disclosure and securities trading, are likely to be involved.

Coordination and cooperation are also essential to minimize the burdens on the regulated entities. If every agency having an interest were to make its own separate information demands on a bank, for example, each desiring information in a different format—or if each were to decide to send its own examiners into every institution as to which they might have a colorable jurisdictional claim whenever they felt the need—the resulting burdens could be intolerable. Congress clearly had this in mind in its GLBA mandate that deference should be paid to the functional regulator of an entity, or to the primary federal or state regulator, in the case of a bank, when information is sought or examinations desired by the holding company regulator.

Coordination and cooperation are certainly not new concepts. Congress has made clear for many years that it has little patience for inconsistencies and disparities among financial regulators, and it has repeatedly expressed its desire that overlapping jurisdictions not result in the imposition of costly and needless burdens on regulated entities.

We at the OCC are committed to the course of cooperation and coordination. We've been engaged in discussions with our counterparts at the other banking agencies, as well as the functional regulators, aimed at assuring that we are all able to fulfill our respective responsibilities without stumbling over one another's feet or imposing needless burdens on the banks we supervise.

We believe that productive understandings are emerging from these discussions. We've reached an agreement with the Federal Reserve on the key principles of a pilot effort to coordinate our supervision of large national banks and their holding companies. We're in the midst of extensive discussions with the FDIC to ensure that both agencies have access to full and complete information about problem and non-problem banks under our respective supervision.

Our large bank examiners-in-charge meet quarterly with their counterparts at the Fed and FDIC to share information, discuss changes in their banks' risk profiles, and coordinate supervisory activities. Our large bank EICs now also routinely brief FDIC senior managers on supervisory strategies at their banks, and we're inviting the FDIC to participate in the examination of troubled banks at an early stage.

We're currently discussing information-sharing arrangements with the SEC, and we've concluded a model agreement with the National Association of Insurance Commissioners to share information about insurance complaints involving national banks. That model has provided the basis for agreements with 28 individual insurance regulators, and discussions with many of the others are under way as we speak. In the field, OCC supervisory staff has begun holding regular meetings with their regulatory counterparts in the insurance industry. The goal throughout is to expand the types of information shared by the OCC and state insurance agencies, to ensure effective and efficient supervision of bank insurance activities.

Key to each of these efforts is an understanding on the part of all concerned that we're operating neither in a fractionalized system of unrelated jurisdictions, nor in a hierarchical system in which one agency's role or interest is superior to that of another. Rather, we're in it together, bringing to bear different perspectives and different expertise, but all in the name of protecting the public interest.

It's really not so confusing, when you stop to think about it.

# Remarks by John D. Hawke Jr., Comptroller of the Currency, before the American Bankers Association, Washington, D.C., on technology and bank supervision, September 17, 2000

Let me extend a personal note of welcome to Washington to the members of the American Bankers Association. I think it's important for our nation's bankers to assemble periodically in the nation's capital—not because this is the seat of all wisdom, to be sure, but because of the critically important relationship that we in government have with your industry.

Indeed, I can think of no industry that's borne a heavier burden of government involvement than banking. And although last year's landmark financial modernization legislation unshackles banks from many of the constraints of the past, the industry cannot be assured that tomorrow won't bring other burdens and impositions, enacted to achieve various public policy goals.

As professional bank supervisors, we're always looking for ways to make our supervision more effective and less burdensome. The effort can be summed up in terms of two fundamental challenges: first, how do we balance our responsibility under the law for ensuring the safety and soundness of the banking system, on the one hand, with the burdens of supervision on the other—burdens that, if not carefully contained, can actually *undermine* safety and soundness?

I'm speaking now not only of the direct burdens of supervision—the need to comply with a plethora of detailed regulations and the intimate involvement in your business of platoons of bank examiners—but also of the opportunity costs imposed by time-consuming procedural and paperwork requirements.

Few would deny that the burdens of supervision have contributed to the erosion of the banking industry's market share and competitive strength over the years. Although regulatory authorities on the state and federal levels have made tremendous strides in adding value to their supervision, I've long wished we could do more to tip the balance decisively into the plus column, so that we can all feel comfortable in the conviction that the benefits of supervision for banks outweigh the burdens.

Now, perhaps, with some of the new tools we've developed—tools that I want to talk to you about this morning—we finally can do just that.

The second challenge that supervisors have faced from the earliest days is one that's common to the human condition—divining the future. Since the beginning of recorded time, we've read tea leaves, consulted the stars, and paid tribute to those who claimed some special gift of prescience about future risks and opportunities. In ancient times, oracles sacrificed a goat and sifted the entrails in search of clues to the future. In more recent times, coal miners used canaries, housed in cages fitted to their helmets. When the sensitive birds dropped from their perches due to lack of oxygen, the miners knew that danger lay ahead and that it was time to evacuate the shaft. We have long wished for an instrument of comparable reliability and predictive power in identifying the potential dangers in our banks, so that we can react to rising risk before it becomes too deeply embedded.

Now, perhaps, we may be able to achieve that goal.

It would be presumptuous to suggest that we've finally lain to rest the longstanding supervisory dilemmas I've just described. But revolutions in practice can and do occur. And I believe that we're witnessing just such a revolution today—one that will go a long way toward improving the cost–benefit ratio of supervision, reducing burden, and enhancing our ability to anticipate and control risk in the banking system.

It's part of the larger revolution in technology that's sweeping—and transforming—the globe. It's been under way for quite some time, and we in the regulatory community have long embraced its benefits. The Office of the Comptroller of the Currency (OCC) has been a government leader in automating its procedures, helping our examiners to work more effectively. But only recently have we been able to exploit the promise of the technology revolution in a way that provides material benefits for *bankers*.

A year ago, for example, the OCC unveiled National Banknet—an extranet Web site available exclusively to national bankers, which will, I believe, revolutionize the way supervisors and bankers communicate with one another. The first Banknet application, Comparative Analysis Reporting, or CAR, was quickly adopted by hundreds of national bankers, who have used its extensive database to generate reports on how their performance compares with that of their local, national, and regional peers. Based on the feedback we've received, we've updated and refined CAR, to make it more comprehensive and user-friendly. For example, users can now access total asset information on each bank and run comparative reports for different time periods.

But as we promised last year, CAR was just the beginning of what Banknet would have to offer. The brochure you found on your chair this morning provides more information on our recent enhancements to Banknet, and I would urge you to visit the OCC booth for a personal demonstration. I believe you'll be impressed by what you'll see, now and in the coming months: new analytical models, including early warning benchmarks and risk-based capital calculators, and new information sources, including internal OCC reports. It will include legislative and regulatory analysis, economic and risk updates, 'best practices' presentations, consumer complaint analysis, and other national bank—specific information—all designed to help you function more effectively in today's competitive financial services environment.

Other Banknet modules will drastically cut the processing time for corporate applications and produce big reductions in regulatory paperwork. Early next year, all national banks will be able to prepare branch and relocation applications on line, and submit them electronically. Not only will national banks save countless hours in the filing process; it will lead to significant economies and ensure greater consistency and responsiveness in our licensing decisions.

Over the next few years, in fact, I anticipate that the majority of routine transactions between the OCC and national banks will be capable of being conducted electronically—and securely—over Banknet. Examiners will exchange pre- and post-exam information and quarterly data with bankers on line. Assessments and fees will be billed and remitted electronically. Bankers will have the opportunity to file electronic comments on regulatory proposals.

And the future holds stills greater promise. The day is near when I and other OCC officials will be meeting with national bankers on line—to update you on regulatory developments, explain our policies, and answer your questions. As national bankers, you'll have access to our online staff directory, to help you identify the individual responsible for your area of concern. And when you *have* concerns—with an application, a ruling, or an interpretation—or when you need help picking your way through the regulatory thicket—we'll be available, with a few keystrokes, to provide help and advice.

Bank supervision has never been like this before. Clearly, it will never be the same again. And that's all to the good.

Touting the value of technology to an audience of bankers is surely preaching to the choir. Yet your experience—and ours—argues for considerable care in the way we apply technology and assess its benefits. Even as we embrace technology, as your conference's theme says, we must work to 'preserve trust.' For banks, that means meeting customers' expectations for service and privacy. We know that bankers who have fallen short of these expectations—for example, by forcing customers to deal with machines when they would have preferred to talk to bank employees—later regretted it. Not only did they suffer in the marketplace; they became lightning rods for public criticism and even legislative action. For banks, preserving trust means maintaining consistently high standards of customer responsiveness.

For bank supervisors, preserving trust has different connotations. Supervision is not just about statistics. Sometimes the numbers don't tell the whole story—or the true story, for that matter. No matter how sophisticated our automated systems are today or how advanced they may become, understanding a bank's true condition requires an examiner's insight and intuition. There's no substitute for the constructive interaction between bankers and examiners that can only take place across a table, face to face. Judging by what we hear from you about the value you place in the examiner's presence—especially in smaller banks—it's clear you wouldn't have it any other way. And neither would we. The knowledge and experience of the national bank examiner will always be the foundation of OCC supervision.

Making full use of the examiners' skill and judgment is the way that *we* 'preserve trust.'

Clearly, however, technology has a big and growing role to play in advancing the science of supervision—in making it more valuable and less burdensome today, in the ways I've already discussed, and better able to anticipate tomorrow's risks.

We don't use canaries anymore to alert us to environmental hazards. But OCC's Project Canary serves the same purpose in the banking environment. It's the name we've adopted for the OCC's core set of early warning tools—a package designed to enhance our identification of—and ability to respond to—emerging risks.

Canary gives us what no bank supervisor has ever had available before: a focused, concise, and technologically advanced early warning system that will allow us to zero in on those banks that have the greatest amount of financial risk and the greatest possibility of problems.

One of Canary's most important components is the system of benchmarks we've developed to serve as a kind of early warning tripwire. Let me give you an example of what the benchmarks tell us and what role we expect them to play in our overall supervision.

The current set of benchmarks consists of 15 financial ratios and measures. At present, six relate to credit risk; four to interest rate risk; and five more to liquidity. By extrapolating from our supervisory experience, we've established a threshold in each case that represents the point at which we've found that risk tends to rise. For example, experience teaches us that credit quality problems often increase when a bank's loan-to-asset ratio exceeds 70 percent. So that's where we've pegged that particular benchmark.

The finding that a bank has exceeded one or more of the Canary benchmarks will not trigger automatic supervisory action against the bank or anything of the sort. It goes without saying that not all banks whose loans to assets exceed 70 percent become troubled banks. The benchmark is simply designed to alert us to banks with a pronounced risk appetite in that area, so that we can allocate sufficient supervisory resources to probe more deeply. For a bank with loans to assets greater than 70 percent, for example, we would go on to evaluate the composition of the loan portfolio, the quality of the bank's risk management systems, and other related factors. Only if our concerns were borne out by this more intensive analysis of multiple risk factors would we consider taking supervisory action against the bank. But we'd be in a position to do it *before* the bank's safety and soundness were significantly impaired.

It's important to note that the number of benchmarks, their distribution among risk categories, and the established thresholds are not fixed in stone. Canary is meant to be a dynamic system that will constantly evolve to reflect changing circumstances and improvements in our understanding of risk.

Individually, the Canary benchmarks may be more suggestive than conclusive about a bank's risk profile. But they unquestionably correlate with the likelihood of problems. Used judiciously and in combination, they point us to banks with higher-than-average risk appetites. Certainly they will help us allocate supervisory resources more effectively, ensuring that only those national banks that really need it receive high-level supervisory attention. That means less supervisory burden on those institutions that don't.

As excited as we are about Canary and the benefits we expect it to deliver, we also recognize what it can never do—and what it was never intended to do. What I said earlier about Banknet also holds true for Canary. These systems are meant to augment, rather than replace, the work that OCC's highly skilled examiners do day in and day out at each and every national bank. Although we're dedicated to continuous refinement of state-of-the-art technology to enhance the value of our supervision, our commitment to the support and development of the best bank examiners in the world is first and foremost.

We're also committed to ensuring that our examiners make the best use of their time—and yours. Burden reduction is and always will be one of our top priorities. That's why we're working hard to find ways of improving coordination among the federal banking agencies, to minimize needless duplication and overlap and complexity.

Clearly, we've only scratched the surface with respect to what technology can contribute to easing supervisory burden. At the OCC, we're hard at work in the early phases of a project that I call Examination in the Twenty-First Century—a project that looks to the day when examiners will have on-line, real time access to all of the information they need to perform the supervisory function. No longer will it be necessary for bank employees to compile vast stacks of paper for examiner scrutiny, or for bank duplicating machines to churn out multiple copies of those records for the examiners' use. Our examiners will be able to sit at computer terminals at their duty stations and do the analytical work that needs to be done before meeting with bank management. To be sure, many technical and legal issues will need to be resolved before this vision becomes reality, and we will need to work closely with you to make sure that we are jointly using the new technology in the most productive and least burdensome way possible. But I believe that the vision of on-line, real time access to bank information holds the potential to further transform the supervisory process—to reduce the burdens on you and to ensure that the time of our examiners is spent productively and well.

Sometimes small changes can produce dramatic results. I believe that even a marginal improvement in the comparative burdens and benefits of supervision can and will make a big difference in the health and competitiveness of the banking industry. That's the premise that's been driving the supervisory innovations I've discussed with you this morning. By leveraging the expertise we've been building at the OCC for more than a century, technology will enable us to better serve you, just as it enables you to better serve *your* customers.

# Statement of Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency, before the Subcommittee on Finance and Hazardous Materials of the U.S. House Committee on Commerce, on sharing information with state regulators, Washington, D.C., July 20, 2000

*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 those of the President.*

## Introduction

Mr. Chairman and members of the subcommittee, thank you for inviting the Office of the Comptroller of the Currency to participate in this hearing. The significant changes to the financial services industry effected by the implementation of the Gramm–Leach–Bliley Act make cooperation and coordination between regulators at the federal and state levels more important than ever before. We appreciate this opportunity to share with you the OCC's experience working with state insurance regulators.

As the subcommittee requested, today I will provide a short overview of the dual banking system. I will then discuss how the OCC is implementing GLBA both through the formal development of supervisory policies together with state insurance regulators, and through our less formal, but equally important, efforts to strengthen and maintain the productive working relationships we have established with our state insurance regulator colleagues. I will conclude my remarks by reporting to you about the status of our work to prepare, in consultation with state insurance regulators, the insurance consumer protection regulations required by Section 305 of GLBA.

## The Dual System of Banking Regulation

The 'dual banking system' refers to the fact that banks may be chartered by either a state or the federal government. The development of the system may be traced back to the early years of our nation, when popular, and especially agrarian, animosity towards the establishment of banks by the national government was very strong.[1] The opposition was based on the widely accepted belief that banks encouraged usury, diverted funds from agriculture, increased speculation, and were responsible for a host of other social and economic evils.[2] Nonetheless, a permanent federal banking system was established in 1863, when the financial demands of the Civil War, and the need for the consistency and uniformity of a national system, made such action exigent.[3] However, the animus against banks did not prevent the establishment of state-chartered banks, and during the period between 1837 and 1863 many banks were formed under state authority. By the time the national banking system began in 1863, state-chartered banking was an established presence in the United States.

Thus, beginning in 1863, two separate and independent banking systems were operating in the country—the state and national banking systems. In the nineteenth century, a bank could be chartered and regulated by either authority without interference from the other.

Today, our dual banking system is far more complex. Starting with the Federal Reserve Act in 1913, federal regulatory involvement with the affairs of state-chartered banks began to grow. This involvement was accelerated by the advent of federal deposit insurance in 1933, so that today virtually all state banks are subject to substantial federal oversight. At the same time, federal provisions began to incorporate certain state laws into the federal regulatory framework, and made these laws applicable to federally chartered banks. Further, a bank may elect (with regulatory approval) to convert at any time from state to federal charter, or federal to state charter. Thus, instead of having two independent banking systems, the dual banking system today can best be described as two interrelated systems in which most state-chartered banks are subject to a significant degree of federal supervision and regulation, and where state laws are made applicable, to a varying extent, to federally chartered banks.[4] Indeed,

[1] J. White, *Banking Law* 7 (1976).

[2] *Id*.

[3] B. Hammond, *Banks and Politics in America from the Revolution to the Civil War*, 721–727 (1957). Hackley, 'Our Baffling Banking System,' 52 *Va. L. Rev.* 565, 570 (1966). Two federal banks were chartered prior to 1863—the First and Second Banks of the United States, each for a period of 20 years. In 1832, President Jackson vetoed legislation renewing the charter of the Second Bank of the United States, effectively ending federal chartering activity until the Civil War. J. White, *Banking Law* 16 (1976).

[4] For a more detailed description about the dual banking system, see Scott, 'The Patchwork Quilt: State and Federal Roles in Bank Regulation,' 32 *Stan. L. Rev.* 687 (1980); Scott, 'The Dual Banking System: A Model of Competition in Regulation,' 30 *Stan. L. Rev.* 1 (1977); Brown, *The Dual Banking System in the United States* (1968).

the largest component of state bank supervision and regulation is federal.

Some have criticized the dual banking system as an overly complex and burdensome institution that imposes conflicting standards on equivalent banking organizations and which encourages laxity in supervision by having the state and federal regulatory agencies compete with each other for chartering business.[5] This complexity is highlighted by the fact that the dual banking system actually consists of one federal system and 50 state systems, since each state is free to construct its own regulatory framework.

On the other hand, others have defended the dual banking system as representing federalism in practice by permitting individual states the flexibility necessary to provide for the banking services needed by their local communities, and encouraging experimentation and innovation at the state, as well as federal, level.[6] Further, some have argued that by providing an alternative chartering mechanism, the dual system provides 'checks and balances' against over-regulation by a single monolithic body.[7]

One key aspect of the current system of bank regulation for purposes of the subcommittee's inquiry today, however, is that the OCC's oversight of national banks has been interrelated with state insurance regulation for some time. Since 1916, national banks have been expressly permitted to sell insurance directly pursuant to the so-called 'place of 5,000' provision at 12 USC 92.[8] After the enactment of GLBA, national banks may also sell insurance through financial subsidiaries without regard to these geographic restrictions.

## GLBA's Functional Regulation Regime

GLBA establishes a system of functional regulation that requires each financial regulator to defer to the regulator primarily responsible for supervising particular entities. Thus, in general, state insurance regulators will oversee insurance agencies and companies, securities regulators will oversee registered securities firms, and banking regulators will oversee banking organizations.

[5] *See*, *e.g.*, Redford, 'Dual Banking: A Case Study in Federalism,' 31 *Law and Contemp. Probs.* 749, 770–773 (1966).

[6] *Id*.

[7] *Id. See also*, Golembe, 'Our Remarkable Banking System,' 53 *Va. L. Rev.* 1091 (1967).

[8] Before GLBA, an estimated 50 percent to 65 percent of all banking associations and virtually all banks with assets of more than $10 billion were selling some form of insurance. Larry LaRocco, 'Banks' Role in Insurance to Grow After Gramm-Leach-Bliley Act,' *National Underwriter*, Nov. 15, 1999, at 7.

The functional regulation provisions in GLBA restrict the OCC's ability to require reports from, examine, and take remedial actions against, functionally regulated national bank subsidiaries and affiliates. For example, GLBA requires the OCC to rely, to the fullest possible extent, on reports provided by national bank insurance subsidiaries to their functional regulator. In addition, GLBA permits the OCC to examine a functionally regulated subsidiary or affiliate of a national bank only if: (1) we have reasonable cause to believe that the subsidiary is engaged in activities that pose a material risk to the national bank; (2) we reasonably conclude—after reviewing reports obtained from the functional regulator—that the examination is necessary in order for us to be adequately informed about the systems for monitoring and controlling operational and financial risks that could pose a threat to the safety and soundness of the national bank; or (3) based on reports or other information, we have reasonable cause to believe that the subsidiary is not in compliance with laws that we have the jurisdiction to enforce. Other statutory standards substantially limit the ability of the OCC to take enforcement actions against functionally regulated entities.

These provisions effectively place the functional supervisor—state insurance regulators in the case of functionally regulated national bank insurance subsidiaries, for example—in a pivotal position to identify activities conducted by a national bank's insurance subsidiary that could compromise the safety and soundness of its parent national bank (or other parent depository institution). Close cooperation with state insurance authorities is thus not only statutorily required, but is essential for us to fulfill the OCC's primary mission of ensuring the safety and soundness of the national banking system.

To achieve this goal, the OCC will continue to monitor the impact of subsidiaries' insurance activities on the safety and soundness of parent national banks, by examining *banks'* systems and procedures for monitoring and controlling risks arising from those activities and by reviewing carefully the information we receive from state insurance regulators. Moreover, the GLBA functional regulation provisions highlight the importance of developing processes to share appropriate information between the OCC and the state insurance regulators and establishing close working relationships with state insurance regulators. The OCC has taken several actions in furtherance of these goals.

## Information Sharing

The exchange of appropriate and meaningful information not only assists the OCC and state insurance supervisors in identifying individual and systemic risks, but also establishes the foundation for prompt and effective action to address consumer concerns. The OCC recognized the need for cooperative efforts to address consumer concerns well before passage of GLBA. In 1996, the OCC invited state insurance commissioners to the OCC to open a dialogue between two historically distant regulatory systems and to begin exploring ways to better coordinate our efforts. As a result, the OCC and the National Association of Insurance Commissioners jointly developed a model agreement to share information about consumer complaints with respect to national banks involved in insurance sales activities. The OCC then worked with individual state insurance regulators to 'customize' the agreement to be consistent with unique features of a particular state's law. To date, the OCC has entered into consumer complaint sharing agreements with 28 state insurance regulators.

These agreements require the OCC to send to the appropriate state insurance regulator copies of all complaints that the OCC receives relating to insurance sales in that state by a national bank. Likewise, the state insurance regulator will send to the OCC copies of all complaints it receives involving a national bank. The agreement also provides that the OCC and the state insurance regulator communicate with each other to the fullest extent possible on matters of common interest, such as regulatory and policy initiatives.

These agreements enhance consumers' ability to remedy their complaints and facilitate banks' compliance with consumer safeguards by ensuring that the regulator with the appropriate jurisdiction and authority to resolve the complaint will receive and process the complaint. Complaints received from the states also will assist the OCC in focusing its examination resources with respect to national banks that sell insurance directly. Information about consumer complaints will help examiners spot trends in insurance sales practices among national banks that sell insurance and in the banking industry in general and enable them to take appropriate supervisory steps if any particular bank generates complaints with more than normal frequency.

The OCC's Customer Assistance Group (CAG), located in Houston, Texas, is primarily responsible for implementing these agreements in coordination with the state insurance regulators. The CAG is fully staffed with banking compliance professionals who log, track, and resolve national bank customer complaints with the assistance of a call center employing modern call center technology. As of June 30, 2000, the CAG has referred 70 complaints to those states that have signed the agreement and received three referrals from state insurance regulators. All referrals received by CAG are processed and sent to the bank for responsive action, and the information is shared with the appropriate state insurance regulator.

In light of the heavy reliance on state insurance regulation that GLBA requires, we are currently working to develop a broader agreement that will significantly expand the types of information shared by the OCC and the state insurance regulatory agencies. We anticipate that these agreements will provide for the sharing of various types of supervisory information in addition to incorporating the existing consumer complaint sharing provisions. For example, we expect the agreement to follow the GLBA provisions and permit each agency to request from the other information regarding: (1) the material risks to the operations or financial condition of a regulated entity; (2) the insurance activities of a regulated entity; or (3) other matters necessary to disclose fully the relations between a regulated entity supervised by the OCC and a regulated entity supervised by the state insurance regulator, provided the information requested is in furtherance of the agency's lawful examination or supervision of the regulated entity. The agreement is intended to cover the exchange of information involving national banks, national bank subsidiaries, federal branches or agencies, companies engaged in insurance activities subject to the supervision of the state insurance regulator, and other entities over which the OCC or the state insurance regulator has examination or supervisory authority.

These new, more comprehensive agreements are also intended to cover information relating to enforcement actions. This provision will permit each agency to assess whether the enforcement action poses risks to an entity it regulates that is not subject directly to the enforcement action and put the agency on notice of possible violations of law or unsafe and unsound practices that may require independent investigation and follow-up with the entity it does not regulate. Over the next few months, we expect to work with the NAIC to develop our draft into a model supervisory information sharing agreement that will serve as the basis for agreements between the OCC and each state insurance regulator.

The OCC also is exploring ways to better share information with state insurance regulators about individuals who have committed fraud or have otherwise been subject to OCC enforcement actions. The OCC currently makes this information publicly available through its Web site. For example, the OCC currently lists on its Web site the names of individuals who are the subject of formal enforcement actions, including removals from the industry, orders to make reimbursement, and assessments of civil money penalties.[9]

The OCC has also recently amended its rules relating to national bank corporate activities to include new proce-

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[9] This information is available on the OCC's Web site at http://www.occ.treas.gov/enforce/enforce.htm.

dures for sharing with state insurance departments appropriate information relating to initial and continuing affiliations between national banks and companies engaged in insurance activities. The OCC included these procedures following discussions with, and at the request of, NAIC members that they receive some notification when a national bank applies to the OCC to commence insurance operations in a particular state. Under the new procedures, a national bank must describe in its notice or application to the OCC to establish a financial subsidiary or an operating subsidiary, or to make a noncontrolling investment in an entity that will engage in insurance activities, the type of insurance activities that the bank is engaged in or will engage in and the lines of business for which the company holds or will hold an insurance license. The OCC will then forward this information to the appropriate state insurance regulator.

## Maintaining Intergovernmental Working Relationships

As I have described, our original consumer complaint sharing agreement grew out of the contacts we initiated with the NAIC in 1996. In an effort to further develop working relationships between the OCC and the state insurance regulators, we have been engaged in a continuing and productive dialogue with the NAIC and with individual state regulators. To date, regional representatives of the OCC have met with 43 state insurance regulators to identify implementation issues arising from the GLBA functional regulation system. Senior OCC representatives attend NAIC quarterly meetings on a regular basis. These meetings have provided a valuable means for the OCC and state insurance regulators to exchange information about their respective regulatory priorities and supervisory approaches.

OCC staff also has regularly consulted with NAIC staff and the staffs of the state insurance regulators regarding GLBA implementation issues. Senior NAIC and OCC staff have met on several occasions over the past year to discuss the new functional regulation framework. The OCC and the NAIC held an introductory meeting on November 1, 1999. On February 11, 2000, senior OCC staff, NAIC staff, and several state insurance commissioners met to discuss issues such as consultation about affiliations between banks and companies engaged in insurance activities, privacy, consumer protections, a national insurance licensing system, supervision methodologies, and a mechanism for coordination on emerging issues. Also in February, the OCC, the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), the Commodity Futures Trading Commission, the Securities and Exchange Commission (SEC), the state insurance commissioners, and the state banking commissioners met to discuss Gramm–Leach–Bliley implementation issues.

Going forward, the OCC will build on these relationships as we coordinate our oversight of insurance activities conducted by national banks and their subsidiaries with that of the functional insurance regulators. To this end, the OCC and NAIC are planning a follow-up meeting in August that I will attend. Among the issues on the tentative agenda for this meeting are the supervisory information sharing agreement, privacy regulations, insurance complaint resolution procedures, and continuing joint training and outreach opportunities.

### Insurance Consumer Protection Regulations

The OCC, as well as the other federal banking agencies, also has had productive discussions with the NAIC regarding the development of federal regulations to address consumer protection concerns relating to depository institution sales of insurance. Section 305 of GLBA requires the OCC, the Federal Reserve Board, the FDIC, and the OTS jointly to issue consumer protection regulations that apply to retail sales practices, solicitations, advertising, or offers of any insurance product by a bank (or other depository institution) or by any person engaged in such activities at an office of the institution or 'on behalf of' the institution. Among other things, the rules must address: (1) specific disclosures that must be made to the consumer before completion of the insurance sale; (2) the physical segregation of the area of insurance activity from the area where retail deposits are routinely accepted; (3) limitations on referrals by persons accepting deposits in the area where such transactions are routinely conducted; and (4) prohibitions on misrepresentations. The agencies are required to publish final regulations no later than one year after the enactment of the GLBA.

The banking agencies have provided a working draft of the proposed rule to the NAIC. On June 29, 2000, representatives of the OCC and the other agencies met with NAIC representatives to discuss the proposal. We expect that the agencies' proposal, which will be issued this summer, will reflect the comments and suggestions provided by the NAIC at that time.

## Conclusion

The notion of 'duality' suggested by the designation 'dual banking system' does not, either under the law or in practice, mean that today federal and state banking regulators operate independently of one another within their respective jurisdictional spheres. In the insurance area, the growing involvement of national banks in insurance activities has required a cooperative relationship with state regulators since well before GLBA was enacted. After GLBA, however, the federal state relationship assumes greater importance for the safety and soundness of the national banking system because of the reliance that the GLBA functional regulation framework places on the first-line supervision of insurance activities by the states. The OCC is committed to continuing to work closely with state insurance authorities not only to implement the express requirements of the statute but also to foster regular, open lines of communication that will facilitate the achievement of both federal and state regulatory objectives.

# Interpretations-July 1 to September 30, 2000

# Interpretive Letters

## 891–April 26, 2000

### 12 USC 214

Re: Share Exchanges Pursuant to Model Business Corporation Act (MBCA)

Dear [ ]:

This is in response to your request for confirmation that a national bank may elect the corporate governance provisions of the MBCA and complete a share exchange in accordance with those provisions. Based on the representations that you have made, we conclude that a bank may effect a share exchange by following the provisions of the MBCA.

### Background

The bank would elect the corporate governance provisions of the MBCA through amendment to its articles of association and bylaws, and engage in a share exchange as provided by the MBCA. The bank would form a parent holding company, and the share exchange would ensure that the holding company would own 100 percent of the shares of the bank.

The bank would use several steps to accomplish the share exchange. The bank would form a company to act as the holding company of the bank.[1] The shareholders of the bank would vote on the plan of share exchange. If the holders of two-thirds of the shares of the bank approve the share exchange, the holding company would then exchange its shares for shares of the bank using the procedures described in the MBCA.[2] As a result, each shareholder of the bank would own shares of the holding company, and the holding company would own 100 percent of the shares of the bank. Each shareholder of the bank would have the opportunity to own the same number and percentage of shares in the holding company as that shareholder previously held in the bank. In the alternative, shareholders could exercise dissenters' rights and receive cash for their shares.[3]

[1] The bank would file an application with the appropriate Federal Reserve Bank to form the holding company.

[2] *See* MBCA §11.02 *et seq*.

[3] *See id.* at §13.01 *et seq*

### Applicable Law

National banks may adopt corporate governance procedures that comply with applicable federal banking law and safe and sound banking practices. An OCC regulation provides that:

> To the extent not inconsistent with applicable Federal banking statutes or regulations, or bank safety and soundness, a national bank may elect to follow the corporate governance procedures of the law of the state in which the main office of the bank is located, the law of the state in which the holding company of the bank is incorporated, the Delaware General Corporation Law, Del. Code Ann. Tit. 8 (1991, as amended 1994, and as amended thereafter), or the Model Business Corporation Act (1984, as amended 1994, and as amended thereafter). A national bank shall designate in its bylaws the body of law selected for its corporate governance procedures.[4]

The MBCA expressly permits corporations to conduct share exchanges.[5] The holders of a majority of each class of shares entitled to vote must approve the plan of share exchange.[6] The corporation's board of directors also must approve the transaction.[7] After the shareholders approve the share exchange, the acquiring corporation must deliver articles of share exchange to the secretary of state.[8]

The MBCA requires corporations conducting share exchanges to provide dissenters' rights to shareholders.[9] Corporations must include notice of dissenters' rights with the notice for the meeting at which the shareholders will vote on the transaction.[10] Any shareholder who wishes to dissent must give notice to the corporation of intent to dissent and may not vote in favor of the transaction at the shareholders' meeting.[11] If the shareholders approve the transaction, the corporation must send written notice to all dissenters after the meeting concerning the procedure for demanding payment.[12] Dissenting shareholders must then demand payment, and the corporation must make

[4] 12 CFR 7.2000(b)

[5] MBCA §11.02a

[6] *Id*. at §11.03(e).

[7] *Id*. at §11.02(a) and 11.03(a)

[8] *Id*. at §11.05(a).

[9] *Id*. at §13.02(a)(2)

[10] *Id*. at §13.20(a).

[11] *Id*. at §13.21 (a).

[12] *Id*. at §13.22.

payment to the shareholders.[13] Any shareholder who is dissatisfied with the payment offered must provide the corporation with an estimate of fair value.[14] The corporation must then either pay the amount requested by the shareholder, or seek an appraisal from the court.[15] In an appraisal proceeding, the corporation is presumed to pay costs, but the court may assess the costs to the shareholders if the court finds that the shareholders' actions were arbitrary, vexatious, or not in good faith.[16]

Federal banking law does not expressly address the authority of national banks to engage in share exchanges. There are several mechanisms, however, by which a national bank may form a parent holding company that owns 100 percent of the shares of a bank. For example, a national bank can effect a holding company reorganization by forming a holding company and chartering an interim bank, which is a subsidiary of that company. The existing bank then merges into the interim bank.[17] The National Bank Act provides protection for shareholders in an interim merger by providing dissenters' rights.[18]

A national bank may become a holding company subsidiary through other methods, *e.g.*, by forming a holding company which then conducts a tender offer for the shares of the bank. Those methods can be time consuming, relatively expensive, and present a risk that the holding company will acquire less than 100 percent of the bank's shares.

## Discussion

A national bank may adopt MBCA corporate governance procedures and conduct a share exchange, to the extent that those procedures are not inconsistent with applicable federal banking statutes and regulations. OCC regulation expressly permits a national bank to elect the corporate governance procedures of the MBCA.[19]

MBCA provisions allowing share exchanges are not inconsistent with applicable federal banking statutes or regulations. MBCA provisions permitting share exchanges are consistent with those provisions in federal banking law that permit national banks to accomplish the same result through different steps where the bank provides adequate dissenters' rights, as described below. To ensure consistency with federal banking law addressing interim mergers,[20] national banks that effect a share exchange must provide reasonable appraisal rights to those shareholders who choose not to receive shares by dissenting from the transaction. A national bank conducting a share exchange should provide dissenters' rights that are substantially similar, although not necessarily identical to those in section 215a.[21]

The MBCA provision governing share exchanges provides shareholders with dissenters' rights that are substantially similar to those in section 215a for interim mergers.[22] Both the MBCA and section 215a provide shareholders the right to dissent and receive fair value for the shares.[23] In both cases, if the parties are unable to settle on the fair value of the shares, an independent third party (a state court under the MBCA or the Comptroller under the National Bank Act) ultimately determines the fair value of the shares. Under each system of dissenters' rights, a dissatisfied shareholder may dissent from the transaction and receive the fair value of the shares, as determined by the independent third party.

The MBCA in two respects is not consistent with the merger provisions of federal banking law. With regard to dissenters' rights, the MBCA provides that the corporation must pay the cost of any judicial appraisal, unless the court finds that the dissenting shareholders acted arbitrarily, vexatiously, or not in good faith in demanding payment.[24] Federal banking law, in contrast, requires the

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[13] *Id*. at § 13.23(a) and 13.25(a).

[14] *Id*. at § 13.28(a)

[15] *Id*. at § 13.30(a).

[16] *Id*. at § 13.31 (a).

[17] *See* 12 USC 215a and 12 CFR 5.33(e)(4). Some circuit courts have permitted interim mergers. *See*, *e.g.*, *NoDak Bancorporation* v. *Clarke*, 998 F.2d 1416 (8th Cir. 1993) (permitting interim merger of national bank that froze out minority shareholders).

[18] *See* 12 USC 215a(b)–(d). A dissenting shareholder must either vote against the merger, or give written notice of dissent prior to or at the shareholder meeting at which the shareholders vote on the merger. The value of the dissenting shareholder's shares is determined by an appraisal made by a committee of three persons: one chosen by the dissenting shareholders, one chosen by the directors of the bank (as it exists after the merger), and one chosen by the other two members of the committee. If the committee fails to determine a value of the shares, or a dissenting shareholder is not satisfied with the value determined, the OCC must make an appraisal of the shares. The resulting bank must pay the costs of any appraisal conducted by the OCC.

[19] 12 CFR 72000(b).

[20] 12 USC 215a.

[21] *See* footnote 18, *supra*.

[22] MBCA § 13.01 *et seq*.

[23] The scheme of dissenters' rights in the MBCA is also substantially similar to that found in Iowa law. *Compare* MBCA at § 13.01 *et seq. with* Iowa Code § 490.1301, et seq. The OCC has found that the dissenters' rights available under Iowa law afford comparable protections to corresponding provisions in the National Bank Act. *See* Interpretive Letter No. 786, *reprinted in* [1997 Transfer Binder] Fed. Banking Law Rep. (CCH) ¶ 81–213 (June 9, 1997) and Conditional Approval No. 99–10 (Apr. 1, 1999) at 5.

[24] MBCA § 13.31(a).

resulting bank to pay for any Comptroller appraisal, without exception.[25] Section 7.2000(b) limits the ability of national banks to adopt alternative corporate governance to only those statutes that are not inconsistent with federal banking law so that national bank shareholders will not suffer a disadvantage resulting from the bank's selection of that alternative law. To meet that limitation in section 7.2000(b), a national bank proposing to adopt the MBCA and conduct a share exchange must agree to pay the cost of any judicial appraisal that may result. The bank must also agree to pay for arbitration of the matter if the appropriate court refuses jurisdiction of an appraisal action. In addition, any arbitration must be conducted consistent with the rules of the American Arbitration Association or other organization with expertise in alternative dispute resolution.

With regard to the share exchange generally, the MBCA requires approval of the share exchange by a majority of each class of shares entitled to vote.[26] Federal banking law, in contrast, requires approval of a merger agreement by the shareholders owning two-thirds of the shares of the bank.[27] To ensure that national bank shareholders will not suffer any disadvantage from the difference in approval requirements, a national bank proposing to adopt the MBCA and conduct a share exchange must also agree not to complete the transaction if only shareholders holding less than two-thirds of the shares of the bank approve the transaction.

## Conclusion

For the above reasons, and subject to the above conditions, we conclude that the bank may effect a share exchange pursuant to the MBCA. If you have any questions concerning this letter, please contact Virginia S. Rutledge, senior attorney, Securities and Corporate Practices Division, at (202) 874–5210.

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

[25] 12 USC 215a(d).

[26] MBCA § 11.03(e).

[27] *See* 12 USC 215a(a)(2).

# 892- September 8, 2000

## 12 USC 24(7)

The Honorable James A. Leach
Chairman
Committee on Banking and Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515–6050

Dear Chairman Leach:

I am writing in response to your letter of today's date in which you raise concerns about an OCC determination concerning bank holdings of securities to hedge customer-driven, bank-permissible equity derivative transactions.[1] You had noted this point when we discussed this matter at some length on Wednesday of this week, and I offered to have OCC staff fully brief you and your staff on the issue. I regret that we were not afforded the opportunity to provide this briefing, which would have addressed the misunderstandings that were unfortunately reflected in your letter to me. In particular, I believe it would have been clear from such a briefing that these carefully limited transactions have no implications at all for bank involvement in merchant banking or for breaching the wall between banking and commerce—matters that I know well are of concern to you.

In brief, the OCC determined, in the case of three national banks, that the banks could take positions in equity securities solely to hedge bank-permissible equity derivative transactions originated by customers for their valid and independent business purposes. The banks committed that they will use equities solely for hedging and not for speculative purposes. The banks will not take anticipatory, or maintain residual positions in equities except as necessary to the orderly establishment or unwinding of a hedging position. Moreover, the banks may not acquire equities for hedging purposes that constitute more than 5 percent of a class of stock of any issuer.

Based on the representations and commitments made by the banks and an extensive review by supervisory staff of (1) the banks' derivative transactions, (2) proposed hedging of risks arising from those transactions, including an analysis of how equity holdings reduce risks and enhance the efficiency of the hedging, and (3) internal risk man-

[1] The term ' equity derivative transactions' means transactions in which a portion of the return (including interest, principal or payment streams) is linked to the price of a particular equity security or to an index of such securities. Equity derivative transactions include equity and equity index swaps, equity index deposits, equity-linked loans and debt issues, and other bank-permissible equity derivative products.

agement systems, we concluded the banks may hold equities to hedge customer-driven, bank-permissible equity derivative transactions as an activity that is incidental to the business of banking. National banks interested in using equities to hedge customer-driven, bank-permissible equity derivative transactions must consult with the examiner-in-charge of the bank and obtain OCC supervisory approval prior to engaging in the activity. Before the OCC will consider approving the activity for a national bank, the bank must provide the OCC information about its derivative business and proposed hedging activities, including their effectiveness and efficiency in reducing risks. Banks will also need to establish that they have an appropriate risk management process in place. As detailed further in the *Comptroller's Handbook* booklet, 'Risk Management of Financial Derivatives' (January 1997), and OCC Banking Circular 277,[2] an effective risk management process will include board supervision, managerial and staff expertise, comprehensive policies and operating procedures, risk identification, measurement and management information systems, as well as effective risk control functions that oversee and ensure the continuing appropriateness of the risk management process. It is unsafe and unsound for a national bank to engage in equity-hedging activities without an appropriate risk management process in place.

## I. Background

Currently, the banks enter into bank-permissible, customer-driven equity derivative transactions that they book directly. The banks hedge the equity derivative transactions with equity derivatives or through mirror transactions with nonbank affiliates. The terms of the 'mirror' transactions between the banks and nonbank affiliates exactly offset the terms of customer-driven equity derivative transactions. The affiliates hedge the mirror transactions by taking physical positions in equities.

To illustrate, in a 'long' equity swap transaction with a customer, the bank agrees to pay the customer the appreciation, over a set period of time, in the value of a notional principal investment in the underlying equity. The bank may also agree to pay the customer amounts equal to dividends on the underlying equity. In return, the customer agrees to pay the bank if there is any decrease in value of the notional principal investment in the underlying equity, and an agreed upon rate of interest applied to that investment.[3]

The bank hedges its long swap transaction by entering into a mirror transaction with a nonbank affiliate. Under the mirror transaction, the nonbank affiliate agrees to pay the bank the appreciation in, and dividends on, the same notional principal investment in the same underlying equity under the same terms as the bank's initial transaction with the customer. The bank, in turn, agrees to pay the nonbank affiliate depreciation in, and the rate of interest applied to, the value of the underlying equity.

The nonbank affiliate then hedges its obligations to the bank by purchasing the equity in an amount equal to the notional principal investment in that equity under the swap transaction between the bank and the customer.[4] The banks represent that engaging in customer-driven equity derivative transactions in this fashion effectively moves revenues from the banks to the relevant nonbank affiliate. The banks prefer to eliminate the 'mirror' portion of their equity derivative transactions and internally book the physical hedges.

The banks demonstrated that equity holdings provide substantial financial advantages. The banks' represented that eliminating the mirror transactions enables them to downsize the staff currently used to support the processing, reconciliation, accounting, reporting, and funding for all the internal transactions between the banks, their holding companies, and their nonbank affiliates, resulting in significant cost savings on an annual basis. The banks also established that equity hedging will allow the banks to retain the revenue and profits generated by the in-house equity derivative transactions and hedges. Finally, the banks represented that a reduction in net interest expense results from eliminating the mirror transactions, which are funded at the borrowing rate of their holding companies, rather than the more favorable rate enjoyed by the banks. The banks projected an increase in annualized savings as the business and related funding requirements continued to grow.

The banks also established that the equity hedges provide significant operational advantages. Upon eliminating the mirror transactions and moving the physical hedges into the banks, the banks expect a significant potential reduction in trading, risk management, compliance, and operation risks that currently result from the back-to-back booking of the mirror transactions.

The banks committed that they will use physical equities only to hedge risks arising from customer-driven, bank-permissible equity derivative transactions and will not engage in any speculation. The banks further committed

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

[3] This type of equity swap transaction is a total rate of return swap because the parties exchange the total return on the asset for another cash flow.

[4] Alternatively, the affiliate could hedge a portfolio of swap transactions using a basket of securities having a close correlation with the bank's underlying exposure.

that they will not maintain any residual positions in equities that are not directly for the purpose of hedging individual equity derivative transactions or a portfolio of equity derivative transactions. Finally, the banks may not acquire equities for hedging purposes that constitute more than 5 percent of a class of stock of any issuer.

Our determination that the activity in question was permissible for these particular banks was dependent on the facts and circumstances of each situation and our supervisory knowledge and experience with the banks involved, and did not represent a conclusion that the activity was generally permissible for all national banks. Thus, the conclusion was conveyed as a supervisory matter to those institutions rather than a generally applicable legal interpretation. As discussed above, the OCC will permit equity-hedging programs only after a careful review by our examination staff of each bank's program, only where the bank can establish equity holdings are solely for hedging purposes and offer benefits to the bank, and only where the bank has an appropriate risks management process in place. National banks are not generally authorized to conduct these activities based on our response to these particular banks.

## II. Discussion

National banks may engage in customer-driven equity derivative transactions as part of the business of banking. Hedging risks arising from these permissible banking activities is an essential and integral part of those banking activities. The banks' use of equities to hedge permissible equity derivative transactions provides the most accurate, least costly hedges, and thus is convenient and useful in conducting permissible banking activities, and incidental to the business of banking. National banks are not banned from holding equities in all circumstances and, in fact, hold equities in a variety of contexts in connection with their banking business. The equity-hedging activity is not prohibited by Section 16 of the Banking Act of 1933.[5]

### A. The National Bank Act ("Act")

A national bank may engage in activities pursuant to 12 USC 24(Seventh) if the activities are part of, or incidental to, the business of banking. Section 24(Seventh) expressly provides that national banks shall have the power:

> To exercise . . . all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of title 62 of the Revised Statutes.[6]

The Supreme Court has rejected a narrow view of the bank powers clause that would interpret the Act as granting to national banks only the five specified powers and such ancillary powers needed to perform those five.

The powers clause is a broad grant of the power to engage in the business of banking, including, but not limited to, the five specifically recited powers and such other powers that are reasonably necessary to perform not just the enumerated powers, but the business of banking as a whole.[7] Many activities that are not included in the enumerated powers, including equity derivative transactions and risk management activities such as hedging risks arising from banking activities, also are part of the business of banking.[8]

National banks are also authorized to engage in an activity that is incidental to the performance of the five powers enumerated in Section 24(Seventh) *or* incidental to the performance of an activity that is part of the business of banking. Incidental activities are activities that are permissible for national banks, not because they are part of the powers expressly authorized for banks or the 'business of banking,' but rather because they are 'convenient' or 'useful' to those activities.[9]

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[5] 48 Stat. 162 *et seq*. ('1933 Act').

[6] The cited language will be referred to later in this memorandum as the 'powers clause.'

[7] *NationsBank of North Carolina* v. *Variable Annuity Life Insurance Co.*, 513 U.S. 251 (1995) ('*VALIC*').

[8] Judicial cases affirming OCC interpretations establish that an activity is within the scope of the 'business of banking' if the activity: [1] is functionally equivalent to or a logical outgrowth of a traditional banking activity; [2] would respond to customer needs or otherwise benefit the bank or its customers; and [3] involves risks similar to those already assumed by banks. *See*, *e.g.*, *Merchant Bank* v. *State Bank*, 77 U.S. 604 (1871); *M & M Leasing Corp.* v. *Seattle First Nat'l Bank*, 563 F.2d 1377, 1382 (9th Cir. 1977), *cert. denied*, 436 U.S. 956 (1978); *American Insurance Assn.* v. *Clarke*, 865 F.2d 278, 282 (2d Cir. 1988). In *IAA* v. *Hawke*, ____ F.3d (D.C. Cir. May 16, 2000), the court expressed the position that the 'logical outgrowth' rational needed to be kept within bounds, but endorsed the 'functional equivalent' component of the test.

[9] *VALIC*; *Arnold Tours, Inc.* v. *Camp*, 472 F.2d 427 (1st Cir. 1972) ('*Arnold Tours*'); OCC Interpretive Letter No. 742 (August 19, 1996), *reprinted in* [1997–1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–106; OCC Interpretive Letter No. 737 (August 19, 1996), *reprinted in* [1997–1998 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–101; OCC Interpretive Letter No. 494 (December 20, 1989), *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,083.

In addition to the above authorizations, national banks are expressly authorized to enter into contracts under 12 USC 24(Third).

## B. Equity Derivative Transactions Are Authorized under Express Authorities in the National Bank Act and As Part of the Business of Banking

Congress has recognized the authority of national banks to engage in equity derivative transactions. Under the Gramm–Leach–Bliley Act[10] banks may offer 'identified banking products' without registration under the Securities Exchange Act of 1934,[11] subject only to banking law requirements. 'Identified banking products' include certain swap agreements, defined as 'any individually negotiated contract, agreement, warrant, note or option that is based, in whole or in part, on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, *securities*, currencies, interest or other rates, indices, or other assets.[12] The GLBA conference report further observes that these products are among the 'activities in which banks have traditionally engaged.'[13] Congress' recognition that banks engage in equity derivative transactions and exemption of these activities from certain securities regulations, provides confirmation for the OCC's longstanding position that equity derivative transactions are permissible activities for national banks.

The OCC has found equity derivative transactions permissible under the express statutory authority granted to national banks to accept deposits, make loans, and enter into contracts and as part of the business of banking as a financial intermediation activity. As early as 1988, the OCC determined that national banks could engage in equity derivative transactions.[14] In *MII Deposit*, the OCC concluded that a national bank may offer a nontransferable time deposit contract with interest payable at a rate tied to the S&P 500 Index.[15] In reaching that conclusion, the OCC recognized that the deposit was a permissible banking activity fully within a national bank's expressly authorized power to receive deposits and make loans and as part of the 'business of banking' under 12 USC 24(Seventh). More recently, the OCC determined that national banks may offer time-deposit accounts or certificates of deposit that pay interest at a rate based on the gain in designated equity indices.[16] The OCC concluded that the deposits were authorized under the express authority of national banks to receive deposits and enter into contracts under 12 USC 24(Seventh) and (Third) and as part of the business of banking as a financial intermediation activity.

In 1994, the OCC addressed the legal permissibility of national banks engaging in swap activities tied to equities and equity indices.[17] The OCC recognized that swap contracts are, in some respects, direct descendants of traditional deposit contracts because payments under the contacts are similar to the receipt of deposits and the payment of interest on deposits.[18] Based, in part, on that lineage, the OCC concluded that national banks may make payments to, or receive payments from, equity and

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[10] Pub. L. No. 106–102 (1990) (effective May 12, 2001) (GLBA).

[11] 15 USC 78c.

[12] Section 206 of Title II, Subtitle A of GLBA (emphasis added). The definition of 'swap agreement' is also defined broadly in the Federal Deposit Insurance Act and U.S. Bankruptcy Code. 12 USC 1821(e)(8)(D)(vi)(I); 11 USC 101(53B).

[13] H.R. Rep. No. 106–434 at 163 (1999) (Summary of Title II in Managers' Statement).

[14] *Decision of the Office of the Comptroller of the Currency on the Request by Chase Manhattan Bank, N.A. to Offer the Chase Market Index Investment Deposit Account* (Comptroller concludes that a national bank may buy and sell futures on the S&P 500 Index to hedge deposits with interest rates tied to the S&P 500 Index) (1988) ('*MII Deposit*'); *Investment Company Institute* v. *Ludwig*, 884 F. Supp. 4 (D.D.C. 1995) (upholding Comptroller's decision that the hedged deposit in MII Deposit is a bank-permissible product that does not violate the Glass–Steagall Act).

[15] *MII Deposit*, *supra*.

[16] Letter from Ellen Broadman, director, Securities and Corporate Practices Division, OCC, to Barbara Moheit, regional counsel, FDIC (October 29, 1998) (unpublished) ('*Broadman letter*').

[17] OCC Interpretive Letter No. 652 (September 13, 1994), *reprinted in* [1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,600. The OCC has recognized the ability of banks to engage in swap products for a number of years. In the 1980s the OCC opined on the permissibility of national banks engaging in interest rate, currency, and commodity price index swaps and caps. OCC No-Objection Letter No. 87–5 (July 20, 1987), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,034; OCC Interpretive Letter No. 462 (December 19, 1988), *reprinted in* Fed. Banking Law Rep. (CCH) ¶ 85,686; OCC letter from J. Michael Shepherd, senior deputy comptroller, Corporate and Economic Programs (July 7, 1988) (unpublished). Then, in the 1990's, the OCC recognized that national banks may advise, structure, arrange, and execute transactions, as agent or principal, in connection with interest rate, basis rate, currency, currency coupon, and cash-settled commodity swaps; swaptions, captions, and other option-like products; forward rate agreements, rate locks and spread locks, as well as similar products that national banks are permitted to originate and trade in and in which they may make markets. OCC Interpretive Letter No. 725 (May 10, 1996), *reprinted in* [1995–1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81,040; OCC letter from Jimmy F. Barton, deputy comptroller, Multinational Banking, to Carl Howard, associate general counsel, Citibank, N.A. (May 13, 1992) (unpublished); OCC letter from Horace G. Sneed, senior attorney, Legal Advisory Services Division (March 2, 1992) (unpublished); OCC No-Objection Letter No. 90–1 (February 16, 1990), *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,095.

[18] OCC Interpretive Letter No. 652, *supra*.

equity index swap customers in the event of a gain or loss in a designated equity or equity index. The OCC further recognized that equity and equity index swap activities are permissible for national banks as a financial intermediation activity.[19] In such arrangements, national banks act as financial intermediaries between customers that want to manage risks resulting from the variations in a particular equity or equity index. Customers do not deal directly with one another, but instead make payments through the intermediary bank.

Banks, through their equity derivative transactions, are better able to meet customer needs by offering financial instruments that serve important risk management and other financial functions. National banks have benefited from equity derivative transactions that enable them to diversify, expand their customer base, and increase revenues.[20] Equity derivative transactions pose risks similar to those inherent in other types of banking activities that national banks are familiar with and manage, *e.g.*, interest rate, liquidity, credit, and compliance risks.

## C. Hedging Risks Arising from Bank-Permissible Banking Activities is Integral to Those Permissible Activities

It is axiomatic that managing the risks arising from permissible banking activities is integral to the business of banking; this principle is equally valid whether the activity is deposit-taking or derivatives.[21] Entering into deposit, loan, and other contracts with customers, and engaging in other bank-permissible activities involve risks that banks must manage as part of the business of banking.[22] A bank must manage the risk in those activities to operate profitably and may engage in hedging activities to do so.[23] Indeed, the OCC recognizes that national banks may sell forwards to hedge against potential fluctuations in the price of silver as an integral part of the explicit statutory authority of national banks to buy and sell coins.[24] National banks may purchase spot and futures contracts on exchange, coin, and bullion to hedge against future price fluctuations intrinsic to those commodities.[25] National banks may also use futures to hedge against the risk of loss due to the interest rate fluctuations inherent in bank loan operations, U.S. Treasury bills, and certificates of deposit.[26]

Hedging risks arising from permissible equity derivative activities also is an integral part of permissible banking activities. In reviewing the legal permissibility of *MII Deposit*, the OCC authorized a national bank to purchase equity index futures to hedge interest rate risk exposure on deposit accounts having interest payable at a rate tied

[19] OCC Interpretive Letter No. 652, *supra*. OCC Interpretive Letter No. 652 pre-dates *VALIC* and characterized swaps as a financial intermediary activity incidental to a bank's express power to engage in deposit and lending activities under 12 USC 24(Seventh). Upon re-examination, the OCC since has concluded that swap and funds intermediation activities are part of the business of banking. *Broadman letter*.

[20] OCC Bank Derivatives Report, Second Quarter (2000).

[21] *Broadman letter*; OCC Interpretive Letter No. 684 (August 4, 1995), *reprinted in* [1993–1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,632; OCC Interpretive Letter No. 632 (June 30, 1993), *reprinted in* [1993–1994 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,516.

[22] OCC 'Bank Supervision Process' booklet, *Comptroller's Handbook for National Bank Examiners* (April 1996). In fact, a 1992 decision by an Indiana court and a class action filed in 1991 in the U.S. District Court of the Southern District of Texas suggest that a duty exists for corporations to hedge their exposures to changing commodity prices and currency values. *Brane* v. *Roth*, 590 N.E. 2d 587 (Ind. Cir. App. 1992); *In re Compaq Securities Litigation*, 848 F. Supp. 1307 (S.D. Tex. 1993). If corporations have a duty to manage those exposures, it reasonably follows that corporations must also hedge the exposures arising from equity derivative transactions.

[23] OCC Interpretive Letter No. 725, *supra*; OCC Interpretive Letter No. 652, *supra*; OCC Interpretive Letter No. 632, *supra*; OCC No-Objection Letter No. 90–1, *supra*; *MII Deposit*, *supra*; OCC No-Objection Letter No. 87–5 (July 20, 1987), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,034.

[24] OCC letter from Kenneth W. Leaf, chief national bank examiner (June 12, 1974).

[25] OCC letter to Republic National Bank from J.T. Watson, deputy comptroller of the Currency (March 12, 1975).

[26] OCC letter to Gregory Crane (October 26, 1976) (national banks may use GNMA futures to hedge the interest rate fluctuation risks inherent in FHA/VA loans as an activity incidental to banking and permissible under 12 USC 24(Seventh)); OCC letter to Alan E. Rothenberg, vice president, Bank of America, from Robert Bloom, first deputy comptroller (Policy) (October 11, 1976) (national banks may hedge the risk of interest rate fluctuations in conventional real estate loans with GNMA futures to reduce interest rate fluctuations as a legally permissible activity under the National Bank Act.). In 1976, the OCC also permitted a national bank to purchase T-bill futures for hedging purposes as part of the authority of national banks to deal in, underwrite, and purchase obligations issued by the U.S. OCC letter to Michael Sweeney, vice president, Merchants National Bank and Trust Company of Indianapolis (December 29, 1976); OCC letter to Senator Huddleston, from Donald A. Melbye, special assistant for Congressional Affairs (February 10, 1977) and OCC Banking Circular 79 (November 2, 1976) (BC 79). BC 79 was revised three times, with the latest revision dated April 19, 1983. On October 27, 1993, the OCC issued Banking Circular 277 which provided comprehensive guidance on all forms of financial derivatives and simultaneously rescinded BC 79; OCC letter to Charles N. Parrott, associate counsel, Deposit Guaranty National Bank, from Peter Liebesmann, LASD (February 15, 1983) (citing BC 79 (March 19, 1980) (2d Rev)). This determination specifically addressed the ability of national banks to buy 'puts' on the GNMA certificates that would enable the bank to sell the certificates at set prices with a given period of time. If the value of the certificates increased, the puts would not be exercised. If the value declined, the bank would exercise the put and deliver the certificates at the agreed upon price.

to the S&P 500 Index. The OCC concluded that the activity was permissible, in part, because the hedge was a necessary component of the bank's deposit-taking activities. The OCC has similarly concluded that hedging interest rate risk on deposits that pay interest at a rate based on the gain in designated equity indices with options is an integral part of traditional bank deposit functions and the authority of banks to enter into contracts.[27] Finally, national banks may hedge swaps, including equity and equity index swaps, to manage the risks in, and as an integral part of, those bank-permissible transactions.[28]

Through hedging activities, national banks serve as financial intermediaries, a traditional and permissible banking function.[29] Longstanding OCC precedent recognizes the authority of national banks to act as financial intermediaries, for example, by engaging in swap transactions and assuming offsetting swap positions or hedges.[30] In so doing, the bank protects itself against risks arising from an established, permissible banking activity. As a result of hedging, a bank becomes a financial intermediary in a swap transaction, by interposing itself between customers initiating swap transactions and customers providing offsetting returns. Thus, hedging is an integral part of financial intermediation services permissible for national banks.

## D. Banks May Purchase Equity Securities to Hedge Equity Derivative Transactions As an Activity That Is Incidental to the Business of Banking

Section 24(Seventh) gives national banks incidental powers to engage in activities that are necessary to carry on enumerated bank powers as well as the broader 'business of banking.'[31] Prior to *VALIC*, the standard that was often considered in determining whether an activity was incidental to banking was the one advanced by the First Circuit Court of Appeals in *Arnold Tours*.[32] The *Arnold Tours* standard defined an incidental power as one that is 'convenient or useful' in connection with the performance of one of the bank's established activities pursuant to its express powers under the National Bank Act.[33] Even prior to *VALIC*, the *Arnold Tours* formula represented the narrow interpretation of the 'incidental powers' provision of the National Bank Act.[34] The *VALIC* decision, however, has established that the *Arnold Tours* formula should be read to provide that an incidental power includes one that is 'convenient' or 'useful' to the 'business of banking,' as well as a power incidental to the express powers specifically enumerated in 12 USC 24(Seventh). Thus, national banks may take possession of equities for hedging purposes as an activity that is convenient and useful to permissible equity derivative transactions.

The equity hedges enable the banks to protect against loss in banking transactions in the most efficient manner and therefore are convenient and useful to the banks' equity derivative business. Here, the banks represented that physically hedging equity derivative transactions within the banks, rather than through affiliates, will enable them to retain additional revenues from equity derivative activities and enjoy substantial cost savings. Furthermore, when the mirror transactions are eliminated, the revenues and profits generated by the equity derivative transactions and the physical hedges will accrue to the benefit of the banks. Permitting the banks to use equities to hedge risks arising from permissible equity derivative transactions thus will enable the banks to operate more efficiently, compete more effectively with entities that engage in similar optimal hedges, offer customers the least costly and most attractive products and services, and operate profitably.

In addition, equity hedging is incidental to banking as a convenient and useful means of reducing the operational risks in its equity derivative business that exist as a result of the mirror transactions between the banks and their nonbank affiliates. In particular, by eliminating the mirror transactions and physically hedging the equity derivative transactions in the banks, the banks expect to see a potential reduction in trading, risk management, compliance, and operation risks that exist from the back-to-back booking of the mirror transactions.

The equity hedges are similar to commodity hedges that are convenient and useful to bank-permissible commodity-linked derivative transactions. The OCC has determined that in some instances national banks may take physical delivery of commodities to hedge bank-permissible commodity-linked derivative transactions as a convenient and useful means to manage the risks arising from those permissible banking transactions.[35] The OCC

[27] *Broadman letter*, *supra*.

[28] *See* n.17, *supra*.

[29] *Broadman letter*, *supra*.

[30] *Broadman letter*, *supra*.

[31] *VALIC*, *supra*, at 258 n.2.

[32] *Arnold Tours*, *supra*.

[33] *Id*. at 432.

[34] *See* n.9, *supra*.

[35] OCC Interpretive Letter Nos. 632 and 684, *supra*. The OCC also has permitted national banks to physically hedge against the risk of loss from potential payouts on bank-permissible employee compensation and benefit plans with incidental life insurance, in order to recover the cost of providing those benefits. OCC Interpretive Letter No. 848 (November 23, 1998), *reprinted in* [1998–1999

permitted the activity, in part, because the commodities provided accurate and precise hedges. The banks' physical possession of equities is similarly a means to manage the risks in bank-permissible derivative transactions in a manner that provides precise and cost-effective hedges. Accordingly, the equity hedges benefit the banks by enabling them to more effectively manage risks arising from permissible equity derivative transactions, and thus are convenient and useful to those bank-permissible activities.

## E. Use of Physical Equity Securities to Hedge Banking Risks Is Not Prohibited by Section 16 of the 1933 Act

### (1) Using Equity Securities to Hedge Equity Derivative Transactions Is Not Prohibited Underwriting or Dealing under Section 24(Seventh)

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

Here, the banks are not 'dealing' in or 'underwriting' securities as prohibited by Section 24(Seventh). Although 'dealing' and 'underwriting' are not defined in Section 24(Seventh)[36] 'dealing' in securities is generally understood to encompass the purchase of securities as principal for resale to others.[37] Dealing is buying and selling as part of a regular business. A dealer typically maintains an inventory of securities and holds itself out to the public as willing to purchase and sell and continuously quote prices.[38] 'Underwriting' is generally understood as encompassing the purchase of securities from an issuer for distribution and sale to investors.[39] Case law confirms that one cannot be an underwriter in the absence of a public offering.[40]

Under the above definitions, the banks' purchase of equity securities for hedging customer-driven equity derivative transactions is not 'dealing' or 'underwriting.' The banks committed to holding physical equity securities solely for purposes of hedging. The banks do not hold the securities in order to engage in a regular business of buying and selling them in the secondary market[41] and do not publicly offer the securities to investors.

### (2) The Purchase of Equity Securities for Hedging Purposes Is Not Subject to the Limitations on the Purchase of Investment Securities

The purchase of equities is not an investment in investment securities and therefore is not subject to the limitations placed upon the purchase of those securities in 12 USC 24(Seventh) or in 12 CFR Part 1. The statutory definition of investment securities includes 'marketable obligations evidencing the indebtedness of any person, copartnership, association or corporation in the form of bonds, notes, and/or debentures, commonly known as 'investment securities'' and gives the Comptroller the authority to define further that term. Accordingly, the OCC

Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–202; OCC Bulletin 96–51 (September 20, 1996), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 35–491. Most recently, the OCC concluded that it was convenient and useful for a national bank to physically hedge an employee compensation program with bank-impermissible insurance company products and investments because the hedge virtually eliminated all the risk arising under the program to the bank. OCC Interpretive Letter No. 878 (December 22, 1999), *reprinted in* [1998–1999 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–373.

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

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

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

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

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

[41] While the banks may purchase and sell equity securities on a regular basis consistent with its hedging activities, the banks will not act as market maker in the securities by quoting prices continuously on both sides of the market.

issued implementing regulations defining 'investment securities' at 12 CFR Part 1. Under Part 1, an investment security is defined as 'a 'marketable' debt obligation that is not predominantly speculative in nature.'[42] Equity securities do not fall within the Section 16 or Part 1 definitions of 'investment securities.' The basic characteristic of equity securities is a fractional ownership interest in the corporation involved.[43] Equity securities do not represent debt obligations. Accordingly, the provisions contained in Section 24(Seventh) applicable to investment securities do not apply to equity investments held by banks for the purpose of engaging in banking business.

### (3) Using Equity Securities to Hedge Is Not Prohibited by the Fifth Sentence of Section 24(Seventh)

Section 24(Seventh) does not provide a general authorization to national banks to hold equity securities. Instead, national banks may hold equity securities only to the extent such holdings are permissible because, in the situation presented, the holding is authorized as part of, or incidental to, the business of banking (or other specific statutory authority). The language in the fifth sentence of Section 24(Seventh) 'nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation' is not a blanket bar on national bank acquisitions of stock. Rather, as discussed below, that language makes clear that the authorization contained in the statute permitting banks to invest in investment securities does not include stock. This proviso does not affect national banks' authority to hold equities, if the holding can qualify as permissible because it is part of or incidental to permissible banking activities.

#### (a) The Fifth Sentence Clarifies That the Authority to Invest in Investment Securities Does Not Apply to Stock

The language contained in the fifth sentence referenced above is not a complete bar on bank purchases of stock. Rather, as a review of the legislative history of the language reveals, that language references and clarifies provisions in Section 24(Seventh) authorizing the purchase of *investment securities*. Congress' intent was to make clear that the authorization in Section 24(Seventh) for national banks to invest in *investment securities* was not the source of authority for national banks to purchase *stock*. Congress made its intent clear in several respects. First, the authorization to purchase investment securities was the only new *authorization* added to Section 24(Seventh) in 1933. Thus, the caveat in the fifth sentence that the new language does not *authorize* banks to purchase stock logically refers to the *authorization* to purchase investment securities. Second, the two provisions use the same language to describe the *activities* they address. One provision describes *activities* permitted for investment securities and the other clarifies that those same *activities* are not permitted for stock. The similarity in language used in the two provisions today, and in previous statutes, as discussed below, supports reading the fifth sentence to clarify that the authorization to invest in *investment securities* does not include stock.

It is important to appreciate that the 1933 Act was derived from a series of bills introduced in 1932. S. 3215, introduced on January 1, 1932, permitted banks to '*purchase and hold*' investment securities but precluded the '*purchase or holding*' of stock. The bill, however, did not define an 'investment security,' and by necessity contained a clarification that the authorization to invest in 'investment securities' did not include 'stock.'[44]

As the legislation evolved and the language authorizing investment in investment securities changed, the language in the fifth sentence was revised to mirror the language authorizing investment in investment securities. S. 4412, introduced on January 30, 1932, authorized an association to '*purchase* for its own account investment securities' and clarified that 'nothing herein contained shall authorize the *purchase*' of stock. The 1933 Act similarly provided that the association may '*purchase* for its own account investment securities,' and clarified that 'nothing herein contained shall authorize the *purchase* of stock.'[45] The only difference between these two provisions was the use of 'for its own account' in the authorizing language, but not in the proviso. That difference was eliminated in the 1935 Amendments which added the 'for its own account' to the clarifying provision so that it now reads 'nothing herein contained shall authorize the purchase by the association for its own account' of stock. Thus, the 1935 Amendments made the language in the fifth sentence identical to the language authorizing investment securities, providing further confirmation that the fifth sentence clarifies that the authorization to invest in investment securities does not include stock.

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[42] 12 CFR 1.2(e).

[43] Fabozzi and Zarb, *Handbook of Financial Markets: Securities, Options and Futures*, Second Edition (1986), at 251.

[44] Further clarification was provided subsequently in S. 4115 which defined 'investment securities' to include only debt obligations.

[45] S. 4412, as reported on April, 18, l932, added 'or holding' after the term 'purchase' in the clarifying provision, but this language was deleted in the 1933 Act passed by Congress so that the authorizing and qualifying language were the same.

What authority that exists for national banks to own stock must be found under other provisions of Section 24(Seventh), as part of, or incidental to, the business of banking.[46] This reading is consistent with other portions of Section 16 of the 1933 Act, enacted simultaneously with this section, which clearly envision that national banks could own stock in connection with banking activities

The 1933 Act recognized in several contexts the preexisting authority of national banks to own stock as authorized under the powers clause. The 1933 Act acknowledged the continuing authority of national banks to hold stock as part of the business of banking by placing restrictions on the amounts of such investments. For example, the provisions limiting the amounts that banks may invest in a safe-deposit business acknowledge a pre-existing separate, but not expressly stated, authority of national banks to invest in such businesses, which arises from the powers clause.[47] Similarly, the provisions limiting amounts a national bank may invest in a company that holds the bank's premises acknowledge the preexisting authority under the powers clause for national banks to invest in those companies.[48]

The 1933 Act also included a definition of an 'affiliate' that recognized a national bank's authority to own stock. Specifically, the 1933 Act definition of an affiliate included any corporation in which a national bank owns or controls a majority of the voting shares. The ability to own or control a majority of the voting shares of a corporation necessarily depends upon there being the preexisting authority of a national bank to hold stock under the powers clause.[49]

### (b) National Banks May Hold Equities Based on Existing Precedent

Most notably, nearly 35 years of precedent recognize the authority of national banks to hold stock of operating subsidiaries as part of, or incidental to, the business of banking. As early as the 1960s, the OCC developed a comprehensive scheme for the regulation and supervision of national banks engaging in the business of banking through bank-operating subsidiaries based on authorities arising from the powers clause. In 1966, the OCC issued a new regulation and a ruling confirming again the authority of national banks to own stock under the powers clause. Then, in 1971, the regulation was substantially revised to reflect the more comprehensive ruling. Subsequently, in 1983, the regulation was incorporated into 12 CFR 5.34 without substantive change. Today national banks may own equities of operating subsidiaries based on the authorities provided under the powers clause and in accordance with 12 CFR 5.34.[50]

Very recently, Congress affirmed in GLBA that national banks may own stock under Section 24(Seventh) by recognizing that national banks have subsidiaries engaged in activities permissible for the national bank.[51] Notably, rather than reauthorize national banks to own operating subsidiaries in GLBA, Congress instead recognized that preexisting authority.

Courts also recognize the power of national banks to own corporate stock in connection with satisfaction of debts previously contracted ('DPC').[52] The OCC similarly recognizes the DPC authority of national banks in its regulations and in its interpretive and no-objection letters.[53] This ability to hold stock arises from the powers of national

[46] As discussed above, national banks have no general authorization to acquire stock. Other statutory sections may also expressly authorize the acquisition of stock in specific circumstances, *e.g.*, 12 USC 24(Eleventh) (stock of community development corporations), 12 USC 371d (stock of bank premises corporations), 12 USC 1861 *et seq*. (stock of bank service corporations), and 15 USC 682(b) (stock of small business investment corporations).

[47] 1933 Act § 16, 48 Stat. at 185.

[48] 1933 Act § 14, 48 Stat. at 184.

[49] As an alternative, the definition may have simply referred to affiliate stock that banks could already hold pursuant to Sections 25 and 25A of the Federal Reserve Act pertaining to Edge Act and Agreement corporations and foreign banks under 12 USC 601, 611 *et seq*. However, nothing in the language of this definition suggests such a narrow reading.

[50] Since the recent revisions to 12 CFR 5.34 became effective on March 11, 2000, national banks that qualify as well capitalized and well managed have been permitted to engage through operating subsidiaries in an expanded list of activities by giving the OCC notice after the fact. While all of the activities contained in the *new* 12 CFR 5.34 list are ones the OCC has found to be part of, or incidental to, the business of banking, the preamble to the rule makes clear that the list is not all-inclusive, and that the OCC will periodically review and update the list as necessary. *See* Financial and Operating Subsidiaries, 65 *Fed. Reg.* 12905, 12908 (2000).

[51] Sections 121 and 122 of Title I, Subtitle C of GLBA.

[52] *First Nat'l Bank of Charlotte* v. *Nat'l Exchange Bank of Baltimore*, 92 U.S. 122 (1875) ('*First Nat'l Bank of Charlotte*'); *Atherton* v. *Anderson*, 86 F.2d 518 (6th Cir. 1936) *rev'd on other grounds*, 302 U.S. 643 (1937); *See also*, *Bouchelle* v. *First Nat'l Bank of Birmingham*, 173 So. 83 (Ala. 1937).

[53] 12 CFR 1.7; OCC Interpretive Letter No. 511 (June 20, 1990), *reprinted in* [1990–1991 Transfer Binder] *Fed. Banking L. Rep.* (CCH) ¶ 83,213; OCC Interpretive Letter No. 502 (April 6, 1990), *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,097; OCC No-Objection Letter No. 89–01 (January 25, 1989), *reprinted in* [1989–1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,009; OCC No-Objection Letter No. 88–7 (May 20, 1988), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,047; OCC No-Objection Letter 87–10 (November 27, 1987), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,039; OCC Interpretive Letter No. 395 (August 24, 1987), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,619.

banks under 12 USC 24(Seventh). In *First National Bank of Charlotte*, the Supreme Court made clear that as part of national bank's powers, the bank may hold stock in satisfaction of debt. In that case the Court stated:

> [The] right of a bank to incur liabilities in the regular course of business, as well as to become a creditor to others [must necessarily be implied]. Its own obligations must be met and debts due to it collected or secured. The power to adopt reasonable and appropriate measures for these purposes is an incident to the power to incur the liability or become the creditor. . . . Banks may do, in this behalf, whatever natural persons could do under like circumstances. . . . In the honest exercise of the power to compromise a doubtful debt owing to a bank, it can hardly be doubted that stocks may be accepted in payment and satisfaction, with a view to subsequent sale or conversion into money so as to make good or reduce anticipated loss. Such a transaction would not amount to a dealing in stocks. . . . Of course, all such transactions must be compromises in good faith, and not mere cloaks or devices to cover unauthorized practices.[54]

Based on the above, it is apparent that Congress, the courts, and the OCC recognize that in some instances, national banks may take physical possession of equities. Banks should similarly be permitted to take physical possession of equities for purposes of hedging the risks associated with permissible banking activities. The activity is permissible under 12 USC 24(Seventh) and is not prohibited by Section 16 of the 1933 Act.

## III. Conclusion

National banks may hold equity securities to hedge risks arising from permissible banking activities. OCC precedents have long recognized the authority of national banks to engage in derivative transactions, including those that are equity-linked, under express authorities and the broader business of banking powers in Section 24(Seventh). Similarly, OCC precedents recognize that national banks may hedge risks arising from permissible banking activities as an integral part of those activities using a broad range of risk management tools.

The banks' equity hedges are convenient and useful to customer-driven, bank-permissible equity derivative transactions. In order to conduct authorized equity derivative transactions, the banks must hedge the transactions to reduce risks, avoid losses, and operate profitably. The equity hedges provide the banks with the most cost-effective, precise means to hedge risks arising from customer-driven equity-driven transactions. By physically hedging its equity derivative transactions in house, the banks enjoy substantial financial and operational advantages. Accordingly, we concluded, in the particular circumstances presented, that the banks' physical possession of equities solely for hedging purposes would be a permissible activity for those banks. Our conclusions were dependent on the facts and circumstances and on our supervisory knowledge of and experience with the banks involved, and did not represent a conclusion that the activity was generally permissible. Thus, the conclusion was communicated as a supervisory matter rather than as a generally applicable legal interpretation.

I trust the foregoing is responsive to the issues raised in your letter, and I reiterate my offer to provide a full briefing on this issue.

John D. Hawke Jr.
Comptroller of the Currency

[54] *First Nat'l Bank of Charlotte*, *supra*, at 127.

# Mergers–July 1 to September 30, 2000

# Mergers–July 1 to September 30, 2000

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

**Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks), from July 1 to September 30, 2000**

| Title and location (charter number) | Total assets |
|---|---|
| Arizona | |
| National Bank of Arizona, Tucson (021383) | 1,596,195,000 |
| and County Bank, Prescott | 242,310,000 |
| merged on July 28, 2000 under the title of National Bank of Arizona, Tucson (021383) | 1,838,505,000 |

## Comptroller's Decision

### Introduction

On February 28, 2000, application was made to the OCC for prior authorization to merge County Bank, Prescott, Arizona with and into National Bank of Arizona, Tucson, Arizona. This application was based on an agreement entered into between the proponents and Zions Bancorporation, Salt Lake City, Utah on January 7, 2000.

### Participating Financial Institutions

As of December 31, 1999, National Bank of Arizona had total deposits of $1.2 billion and operated 43 offices. On the same date, County Bank had total deposits of $221 million and operated seven offices. National Bank of Arizona is 100 percent owned and controlled by Zions Bancorporation, a multi-bank holding company.

### Competitive Analysis

The relevant geographic markets for this proposal include the Cottonwood, Page, Prescott and Yuma banking markets (as defined by the Federal Reserve Bank of San Francisco) and Coconino County. These are the four areas where competition between National Bank of Arizona and County Bank is direct and immediate.

In the Cottonwood and Prescott banking markets, the OCC reviewed the competitive effects of this proposal by using its standard procedures for determining whether a business combination clearly has minimal or no adverse competitive effects. For those two areas, the OCC finds that the proposal satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

The Page banking market consists of the town of Page. Page, at the 1990 Census, had a population of 6,598 and, based on U.S. Bureau of the Census estimates, that population increased to 7,900 by July 1, 1998. The OCC considers an area with such a small population to be economically insignificant from a competitive standpoint. Therefore, any anticompetitive effects that may result from this transaction are considered de minimis.

The Yuma banking market, consisting of the Yuma Ranally Metropolitan Area and the town of Welton, Arizona, is currently served by 10 banks competing for $681 million in deposits. As of June 30, 1999, National Bank of Arizona had $158 million in deposits (or a 23 percent market share of deposits) in the Yuma banking market and County Bank had $36 million (or 5 percent market share of deposits). After the transaction, competition will continue to be provided by Wells Fargo (with a 26 percent market share), Bank One (with a 23 percent market share), and Bank of America (with a 9 percent market share), all three of which are large banking organizations, and by five other smaller banking organizations. While the resulting bank will control nearly 29 percent of the market and will eliminate one competitor in the Yuma banking market, any adverse competitive effects would be mitigated by the presence of eight other banking alternatives, including offices of three large region- or nation-wide banking companies.

### Banking Factors

The Bank Merger Act requires the OCC to consider '. . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served.' We find that the financial and managerial resources of National Bank of Arizona and County Bank do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served. National Bank of Arizona will consolidate County Bank's branch in Page with their existing branch in Page. Both Page branches are located approximately one-tenth of a mile apart. At the same time, National Bank of Arizona will consolidate their existing branch in Cottonwood with County Bank's branch in Cottonwood. These two branches are approximately 1.8 miles apart.

### Community Reinvestment Act

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

### Conclusion

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC 1828(c)) and/or 12 CFR 5.33, and find that it will not lessen significantly competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

*[Application control number: 2000-WE-02-0007]*

**Nonaffiliated mergers (continued)**

| Title and location (charter number) | Total assets |
|---|---|
| California | |
| First National Bank of Central California, Salinas (018182) | 946,946,000 |
| and San Benito Bank, Hollister | 200,743,000 |
| merged on August 1, 2000 under the title of First National Bank of Central California, Salinas (018182) | 1,147,689,000 |
| Ohio | |
| The First National Bank of McConnelsville, McConnelsville (000046) | 57,355,000 |
| and The Junction City Banking Company, Junction City | 10,623,000 |
| merged on July 31, 2000 under the title of The First National Bank of McConnelsville, McConnelsville (000046) | 68,153,000 |
| Oklahoma | |
| First National Bank at Antlers, Antlers (014131) | 70,552,000 |
| and Farmers Exchange Bank, Antlers | 16,849,000 |
| merged on September 11, 2000 under the title of First National Bank at Antlers, Antlers (014131) | 88,628,000 |

## Comptroller's Decision

### Introduction

On August 22, 2000, application was made to the Office of the Comptroller of the Currency (hereafter OCC) for prior authorization to merge Farmers Exchange Bank, Antlers, Oklahoma (hereafter Farmers) with and into First National Bank, Antlers, Oklahoma (hereafter FNB). The application was based on a merger agreement dated August 21, 2000 entered into between the proponents.

### Participating Financial Institutions

As of June 30, 2000, Farmers, an Oklahoma state-chartered institution, total deposits of $17 million and operated one office. On the same date, FNB had total deposits of $64 million and operated two offices. FNB is 100 percent owned and controlled by First Antlers Bancorporation, a one bank holding company.

### Competitive Analysis

The relevant geographic market for this proposal includes Choctaw County, Oklahoma and the town of Antlers, Oklahoma, where competition between First National Bank and Farmers Exchange Bank is direct and immediate and where each bank derives the bulk of its deposits. Within this market six banks compete for approximately $196 million in deposits. Security First National Bank of Hugo is the largest bank with approximately 32 percent of the market's total deposits. First National Bank is the second largest bank with approximately 22 percent of the market's total deposits. Farmers Exchange Bank is the fifth largest bank with approximately 12 percent of the market's deposits. As a result of the proposed merger, First National Bank would become the largest depository institution with approximately 34 percent of the market's deposits.[1] While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of four other banking alternatives in the market. Therefore, consummation of this proposal would not have a significantly adverse effect on competition in the relevant geographic market.[2] In addition, as indicated below, Farmers is critically undercapitalized and, as such, would not be expected to be an effective competitor in the market in the future in the absence of this transaction. Accordingly, to the extent that the transaction does reduce the number of competitive alternatives in the market, any anticompetitive effects are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

[1] We received some comments from citizens of the community protesting the merger on the grounds that if the proposed merger is consummated, Antlers, Oklahoma, will only have one bank left.

[2] The Department of Justice similarly found the proposed transaction would not have a significant adverse effect on competition. The Federal Reserve Bank of Kansas City, acting on behalf of the Board of Governors of the Federal Reserve System, reported that the merger could have a substantially adverse effect on competition, although it qualified its report by noting that it had not examined all the economic factors that may be relevant to the competitive effects of the proposal.

## Banking Factors

The Bank Merger Act requires the OCC to consider '. . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served.' We find that the financial and managerial resources of FNB do not raise concerns that would cause the application to be disapproved. The future prospects of the combined proponents are considered favorable. Farmers is critically under capitalized and FNB has management and recourses to operate the resulting bank. The future prospects of the combined institution is considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

## Community Reinvestment Act

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

## Conclusion

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC 1828(c)) and/or 12 CFR 5.33, and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved subject to the conditions noted in a separate communication to FNB.

*[Application control number: 2000-SW-02-0025]*

**Nonaffiliated mergers– thrift (mergers consummated involving nonaffiliated national banks and savings and loan associations), from July 1 to September 30, 2000**

| Title and location (charter number) | Total assets |
|---|---|
| Illinois | |
| Old National Bank, Lawrenceville (008846) | 6,573,318,000 |
| and Permanent Federal Savings Bank, Evansville | 496,932,000 |
| merged on July 27, 2000 under the title of Old National Bank, Lawrenceville (008846) | 7,121,759,000 |

## Comptroller's Decision

### Introduction

On March 30, 2000, an application was filed with the Office of the Comptroller of the Currency (OCC) for approval to merge Permanent Bank, Evansville, Indiana (Permanent) with and into Old National Bank, Lawrenceville, Illinois (ONB) under 12 USC 215c and 1828(c)(2) and consistent with section 1815(d)(3) (the Oakar Amendment). ONB has its main office in Lawrenceville, Illinois, and branch offices located in Illinois, Indiana, and Kentucky. Permanent has its main office in Evansville, Indiana, and branch offices located solely in Indiana.

As of December 31, 1999, ONB had assets of approximately $6.6 billion and deposits of approximately $5 billion. As of that same date, Permanent had assets of approximately $497 million and deposits of approximately $345 million. ONB is a wholly owned subsidiary of Old National Bancorp, Evansville, Indiana (Old National). Permanent is a wholly owned subsidiary of Permanent Bancorp, Evansville, Indiana (FSB Bancorp). ONB is a member of the Bank Insurance Fund (BIF). Permanent, a federally chartered savings bank, is a member of the Savings Association Insurance Fund (SAIF).

First, Old National will establish a merger subsidiary, Merger Corporation I to facilitate the elimination of Permanent's immediate holding company, FSB Bancorp. Second, Permanent will merge into ONB pursuant to 12 USC 215(c), 1815(d)(3), and 1828(c). Finally, FSB Bancorp will merge into Merger Corporation I (Company Merger).[1] These steps will occur concurrently.

### Statutory and Policy Reviews

### A. Oakar Amendment

The Oakar Amendment, section 1815(d)(3), permits merger transactions between BIF- and SAIF-member institutions provided that both BIF and SAIF proportionally insure the deposits of the resulting institution. *See* 12 USC 1815(d)(3)(A) & (B). These transactions may be approved by the regulator of the acquiring institution if they are in accordance with certain capital requirements.[2] *See* 12 USC 1815(d)(3)(E)(iii). Since ONB is a member of BIF and FSB is a member of SAIF, their merger must comply with the provisions of the Oakar Amendment. The OCC has determined that ONB, after the merger transaction with FSB, will meet all applicable capital requirements. Accordingly, the merger transaction complies with the provisions of the Oakar Amendment.

### A. The Bank Merger Act

The Bank Merger Act, 12 USC 1828(c), requires the OCC's approval for mergers between insured institutions where the resulting institution will be a national bank. Under the act, the OCC generally may not approve a merger that would substantially lessen competition. In addition, the act also requires the OCC to take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. For reasons stated below, we find the merger involved may be approved under section 1828(c).

### 1. Competitive Analysis

The OCC reviewed the impact of the proposed transaction on competition for the cluster of products and services offered by depository institutions in the areas surrounding the branches ONB is acquiring. There are two relevant geographic markets for this proposal, which are discussed below. The OCC finds that the markets are delineated in such a way as to accurately measure any adverse competitive effects from the proposed transaction and the effects of the proposed transaction, as now structured, will not result in a monopoly or be in furtherance of

[1] The Federal Reserve of St. Louis, acting on behalf of the Board of Governors of the Federal Reserve System, waived the notice requirement for the proposed transaction under section 4 of the Bank Holding Company Act.

[2] The Oakar Amendment also imposes certain limitations on interstate transactions. *See* 12 USC 1815(d)(3)(F) and 1842(d). Those limitations, however, are not applicable here since the principal office and branches of FSB, the SAIF-insured target, are all located within the home state of the acquiring bank's parent holding company.

any combination or conspiracy to monopolize the business of banking in any part of the United States, and will not substantially lesson competition in any part of the country, or tend to create a monopoly, and will not be in restraint of trade.[3] In making this determination, the OCC carefully considered the report of the Department of Justice, which similarly found the proposed transaction would not have a significant adverse effect on competition.[4]

### a. Jasper Banking Market

This market includes Dubois County, Indiana; Carter, Harrison and Clay townships in Spencer County, Indiana; and Clark township in Perry County, Indiana, and is the area where the Permanent's Jasper branch derives the bulk of its deposits, and where competition between ONB and Permanent's Jasper branch is direct and immediate. Within this market, ONB competes with seven other financial institutions for approximately $1 billion in deposits. ONB is the largest depository institution with approximately 28 percent of the market's total deposits. Permanent's branch is the smallest competitor in the market with approximately 4 percent of the deposits. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of six other banking alternatives, and including one of the largest regional banks in the nation.

### b. Evansville Banking Market

This market includes Vanderburgh, Posey and Warrick counties, Indiana; Henderson County, Kentucky; plus portions of Gibson County, Indiana (Johnson, Barton, Union townships and the southern half of Montgomery township), and Spencer County, Indiana (Grass, Luce, Jackson and Ohio townships). This is where Permanent's Vanderburg County and Gibson County branches derive the bulk of Permanent's deposits, and where competition between ONB and Permanent is direct and immediate. Within this market, ONB competes with 13 other commercial banks and four thrifts for approximately $4.5 billion in deposits. ONB is the largest depository institution with approximately 37 percent of the market's total deposits. Permanent's branches rank fourth with approximately 7 percent of the market's deposits. Upon consummation of the proposed transaction and excluding the deposits to be divested, ONB would remain the largest depository institution with approximately 43 of the market's deposits. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of a number of other banking alternatives, including three of the largest regional banks in the nation. Additionally, population growth in the Evansville metropolitan statistical area (MSA), mirrored by growth in deposits at depository institutions, makes the market attractive for entry by other financial institutions. The recent opening of a *de novo* bank in March 2000 further indicates the attractiveness of the market. In addition, there are 13 credit unions operating in the Evansville market. Collectively, credit unions account for roughly 10 percent of combined bank-S&L-credit union deposits. The largest of these, Evansville Teachers' Credit Union, offers a relatively complete line of financial products, including business loans. Recent legislative change may indicate an increased potential for credit unions to act as competitors with banks and thrifts. On August 7, 1998, the President signed into law the Credit Union Membership Access Act (CUMAA).[5] The CUMAA expanded the field of membership requirements so that credit unions could accommodate new members, and promoted the creation of 'multiple common-bond' credit unions.[6] While quantitative data on the long run effects are not yet available, legislative and regulatory changes may result in an increased competitive presence from credit unions. Based on an analysis of these competitive factors, the merger application may be approved under section 1828(c).[7]

## 2. Financial and Managerial Resources

The financial and managerial resources of ONB and Permanent are presently satisfactory. The future prospects of the institutions, individually and combined, are favorable. We find the financial and managerial resources factor is consistent with approval of the merger.

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[3] In defining the geographic markets, the OCC considered the Federal Reserve Bank of St. Louis' market delineation, as well as evidence of the areas from which the involved banks derive the bulk of their deposits.

[4] In reaching this conclusion, the Department of Justice relied on commitments by ONB that it would divest itself of Permanent's Bellemeade Avenue and University Avenue branches. This was stipulated in the divestiture agreement between the Department of Justice, ONB, and Permanent, dated June 20, 2000. ONB agreed that it would not consummate the merger until a contract with a competitively suitable purchaser as determined by the Department of Justice is signed by ONB and Permanent for the sale of the divested branches.

[5] 12 USC 1751–1795.

[6] *Id*. at 1759(b).

[7] The Federal Reserve Bank of St. Louis, acting on behalf of the Board of Governors of the Federal Reserve System, reported that the merger could have a substantially adverse effect on competition, although it qualified its report by noting that it had not examined all the economic factors that may be relevant to the competitive effects of the proposal.

### 3. Convenience and Needs

The merger will not have an adverse impact on the convenience and needs of the communities to be served. ONB will continue to serve the same areas that it now serves. There will not be a reduction of products or services as a result of the merger. The resulting bank is expected to meet the convenience and needs of the community to be served. While ONB anticipates that some overlapping branches of the resulting institution will be closed as a result of the transaction, current ONB and Permanent customers, as customers of the resulting bank, will have a greater number of branches at which to bank. ONB represents that Permanent's customers will benefit from resulting bank's enhanced product availability such as fiduciary, insurance products and broker-dealer services, higher lending limits, and more attractive deposit account terms. Accordingly, we believe the impact of the merger on the convenience and needs of the communities to be served is consistent with approval of the application.

## B. The Community Reinvestment Act

The Community Reinvestment Act (CRA) requires the OCC to take into account the applicants' record of helping to meet the credit needs of the community, including low- and moderate-income neighborhoods, when evaluating certain applications. 12 USC 2903 and 12 CFR 25.29(a). The OCC considers the CRA performance evaluation of each institution involved in the transaction. Under the CRA regulations, the OCC evaluates performance of most large banks using the lending investment, and service criteria. In these evaluations, the OCC considers the institution's capacity and constraints, including the size and financial condition of the bank and its subsidiaries.

A review of the record of this application and other information available to the OCC as a result of the its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods is less than satisfactory. We further note that ONB received a 'satisfactory' CRA rating as of July 7, 1998. Permanent received a 'satisfactory' CRA rating as of November 3, 1997. We received no public comments on this application.

The transaction is not expected to have an adverse effect on the resulting bank's CRA performance. The resulting bank will continue to serve the same communities the ONB currently serves. ONB will continue its current CRA programs and policies. We find that approval of the proposed transaction is consistent with the Community Reinvestment Act.

## D. Branch Retention Pursuant to 12 USC 36(c)

Branch retention following a merger with a federal thrift institution is covered by the McFadden Act. *See* 12 USC 36(c).[8] Section 36(c) authorizes a national bank to establish new branches:

> at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question. . . . (12 USC 36(c)(2))

Indiana law imposes no geographical limits on branching by state banks.[9] Consequently, there are no geographical limits to be incorporated by 12 USC 36 and applied to national bank branching in Indiana. Thus, following the merger transaction, ONB may retain as branches the main office and branches of Permanent.

## E. Retention of Subsidiaries

Permanent currently has direct and indirect investments in subsidiaries that are engaged in activities that are permissible for a national bank as well as entities engaged in non-conforming activities for national banks. As a result of the merger ONB will acquire as operating subsidiaries Permavest, Inc. (Permavest) and Perma Service Corp. (Perma Serve).

Permavest is a service corporation organized under the State of Delaware that provides custody, safekeeping, and bond accounting services for Permanent's municipal bond portfolio. Permavest owns 99.5 percent of Permavest Partners, which provides custody, safekeeping, and bond accounting services for approximately two-thirds of Permanent's taxable investment portfolio. FSB Bancorp owns the remaining 0.5 percent of Permavest Partners. Following the Company Merger, Merger Corporation I will own the 0.5 percent investment in Permavest Partners.

Perma Serve is a service corporation organized under the laws of Indiana that provides to its customers brokerage services through a third party (INVEST). Perma Serve also owns approximately 14.28 percent of Family Financial Life Insurance Company (the 'Company'). The Company underwrites credit life and health and accident insurance, mortgage life insurance and mortgage disability insurance, and fixed annuities. The Company reinsures 70 percent of the insurance and 100 percent of the annuities underwritten. ONB requests that it be allowed two years in which to conform to applicable laws or divest Perma

[8] *See* OCC Corporate Decision No. 97–70, August 14, 1997.

[9] *See* Ind. Code Ann. § 28–2–18–20.

Serve's investment in the Company. The OCC has permitted similar transition periods in other contexts and finds this one to be reasonable.[10]

Perma Serve owns 100 percent of the capital stock of Permanent Insurance, Inc. (Permanent Insurance). Permanent Insurance offers as agent, casualty, life, accident, health, mortgage disability and consumer credit insurance. ONB represents that at consummation of the merger, Orange County Bank, a subsidiary of Old National, will acquire Permanent Insurance.

[10] Conditional Approval No. 288 (September 30, 1998) (approving a merger of two banks and the continued operation for a two-year transition of a nonconforming insurance agency subsidiary); Conditional Approval No. 259 (October 31, 1997) (approving a two-year transition for nonconforming subsidiary engaged in credit-related insurance and annuity underwriting and sales that was being acquired by a national bank in the context of a merger of two bank holding companies); Corporate Decision 97–14 (March 4, 1997) (approving a conversion of a state bank to a national bank and granting a transition period in which to divest insurance agency subsidiaries or conform the activities to national banking law). See also 12 CFR 5.33(e)(5), dealing with business combinations, which provides:

> An applicant shall identify any nonconforming activities and assets, including nonconforming subsidiaries, of other institutions involved in the business combination, that will not be disposed of or discontinued prior to consummation of the transaction. The OCC generally requires a national bank to divest or conform nonconforming assets, or discontinue nonconforming activities, with a reasonable time following the business combination.

ONB may retain after the merger, Permanent's subsidiaries that engage in a variety of activities that are permissible for national bank subsidiaries under 12 USC 24(Seventh) and 12 CFR 5.34 and 5.39.

## Conclusion

The legal, policy, and procedural requirements for the proposal are satisfied. ONB is in satisfactory condition and the transaction is consistent with the Community Reinvestment Act. We have analyzed this proposal pursuant to 12 USC 215c, the Bank Merger Act (12 USC 1828(c)), 12 CFR 5.33 and 1815(d)(3) (the Oakar Amendment). Accordingly, the application is approved subject to the following conditions:

1. ONB must conform to applicable laws or divest of the investment in Family Life Insurance Company within two years from the date of consummation of the merger.

2. ONB must comply with the divestiture agreement between the Department of Justice, ONB, and Permanent dated June 20, 2000.

These conditions of approval are conditions 'imposed in writing by the agency in connection with the granting of any application or other request' within the meaning of 12 USC 1818. As such the condition is enforceable under 12 USC 1818.

*[Application control number: 2000-CE-02-0013]*

## Affiliated mergers (mergers consummated involving affiliated operating banks), from July 1 to September 30, 2000

| Title and location (charter number) | Total assets |
|---|---|
| California | |
| Wells Fargo Bank, National Association, San Francisco (001741) | 98,505,937,000 |
| and Norwest Bank Minnesota Red Wing, National Association, Red Wing (001487) | 58,208,000 |
| merged on July 8, 2000 under the title of Wells Fargo Bank, National Association, San Francisco (001741) | 98,567,478,000 |
| | |
| Wells Fargo Bank, National Association, San Francisco (001741) | 99,046,661,000 |
| and Napa National Bank, Napa (017374) on August 25, 2000 | 189,403,000 |
| and North County Bank, Escondido on August 18, 2000 | 415,839,000 |
| merged on those respective dates under the title of Wells Fargo Bank, National Association, San Francisco (001741) | 99,651,903,000 |
| | |
| Colorado | |
| Wells Fargo Bank West, National Association, Denver (003269) | 11,353,258,000 |
| and 1st Choice Bank, Greeley | 481,955,000 |
| merged on September 23, 2000 under the title of Wells Fargo Bank West, National Association, Denver (003269) | 12,237,085,000 |
| | |
| Illinois | |
| Uptown National Bank of Chicago, Chicago (014430) | 253,942,000 |
| and Heritage Bank, Phoenix | 76,005,000 |
| merged on September 1, 2000 under the title of Uptown National Bank of Chicago, Chicago (014430) | 329,948,000 |
| | |
| Michigan | |
| MFC First National Bank, Marquette (000390) | 397,782,000 |
| and MFC First National Bank, Menominee (003256) | 116,232,000 |
| and MFC First National Bank, Ironwood (014456) | 99,555,000 |
| and MFC First National Bank, Iron River (014102) | 73,715,000 |
| and MFC First National Bank, Iron Mountain (011954) | 65,527,000 |
| and MFC First National Bank, Houghton (007676) | 68,952,000 |
| and MFC First National Bank, Escanaba (003761) | 150,611,000 |
| merged on July 22, 2000 under the title of Wells Fargo Bank Michigan, National Association, Marquette (000390) | 972,374,000 |
| | |
| Minnesota | |
| Signal Bank National Association, Eagan (023582) | 311,817,000 |
| and Park National Bank, St. Louis Park (015110) | 251,130,000 |
| merged on July 10, 2000 under the title of Signal Bank National Association, Eagan (023582) | 562,947,000 |
| | |
| Wells Fargo Bank Minnesota, National Association, Minneapolis (002006) | 39,959,089,000 |
| and Norwest Bank Minnesota North, National Association, Duluth (003626) on July 8, 2000 | 1,019,270,000 |
| and Norwest Bank Minnesota South, National Association, Rochester (002088) on July 8, 2000 | 2,362,103,000 |
| and Norwest Bank Minnesota West, National Association, Moorhead (013075) on August 26, 2000 | 562,750,000 |
| and Norwest Bank Minnesota Southwest, National Association, Marshall (004614) on August 26, 2000 | 261,952,000 |
| merged on those respective dates under the title of Wells Fargo Bank Minnesota, National Association, Minneapolis (002006) | 44,165,165,000 |
| | |
| Marquette Bank, National Association, Golden Valley (022831) | 2,009,765,000 |
| and Marquette Bank Cedar Rapids, Cedar Rapids | 177,088,000 |
| merged on August 17, 2000 under the title of Marquette Bank, National Association, Golden Valley (022831) | 2,180,853,000 |
| | |
| Nebraska | |
| Wells Fargo Bank Nebraska, National Association, Omaha (002978) | 2,283,555,000 |
| and National Bank of Commerce Trust and Savings Association, Lincoln (007239) | 1,506,531,000 |
| and The Overland National Bank of Grand Island, Grand Island (014018) | 160,705,000 |
| and First National Bank and Trust Co. of Kearney, Kearney (014480) | 207,150,000 |
| and Western Nebraska National Bank, North Platte (020195) | 280,287,000 |
| and The First National Bank of McCook, McCook (003379) | 94,137,000 |
| and The First National Bank of West Point, West Point (003370) | 84,370,000 |
| merged on August 12, 2000 under the title of Wells Fargo Bank Nebraska, National Association, Omaha (002978) | 4,753,307,000 |
| | |
| New Jersey | |
| The Phillipsburg National Bank and Trust Company, Phillipsburg (001239) | 472,701,000 |
| and Twin Rivers Community Bank, Easton | 199,109,000 |
| merged on August 21, 2000 under the title of Vista Bank, National Association, Phillipsburg (001239) | 671,810,000 |

## Affiliated mergers (continued)

| Title and location (charter number) | Total assets |
|---|---|
| North Dakota | |
| Bremer Bank, National Association, Grand Forks (023295) | 335,601,000 |
| and Bremer Bank, National Association, Crookston (002567) | 219,567,000 |
| merged on August 1, 2000 under the title of Bremer Bank, National Association, Grand Forks (023295) | 555,168,000 |
| | |
| Community First National Bank, Fargo (005087) | 596,643,000 |
| and Community First National Bank, Phoenix (020258) | 651,767,000 |
| and Community First National Bank, Spring Valley (017676) | 254,302,000 |
| and Community First National Bank, Fort Morgan (007004) | 1,662,973,000 |
| and Community First National Bank, Decorah (023417) | 175,670,000 |
| and Community First National Bank, Fergus Falls (002030) | 909,527,000 |
| and Community First National Bank, Alliance (023415) | 288,871,000 |
| and Community First National Bank, Las Cruces (023691) | 152,716,000 |
| and Community First National Bank, Salt Lake City (023725) | 108,877,000 |
| and Community First National Bank, Spooner (023433) | 117,259,000 |
| and Community First National Bank, Cheyenne (023283) | 1,054,894,000 |
| merged on August 29, 2000 under the title of Community First National Bank, Fargo (005087) | 5,971,499,000 |
| | |
| Oklahoma | |
| Landmark Bank, National Association, Ada (023055) | 134,976,000 |
| and Landmark Bank Company, National Association, Ardmore (018487) | 122,825,000 |
| merged on August 25, 2000 under the title of Landmark Bank, National Association, Ada (023055) | 256,101,000 |
| | |
| South Dakota | |
| CorTrust Bank National Association, Mitchell (023771) | 231,692,000 |
| and The First National Bank of Freeman, Freeman (006181) | 49,884,000 |
| merged on September 22, 2000 under the title of CorTrust Bank National Association, Mitchell (023771) | 279,076,000 |
| | |
| CorTrust Bank National Association, Mitchell (023771) | 238,591,000 |
| and Day County Bank, Webster | 31,102,000 |
| merged on July 14, 2000 under the title of CorTrust Bank National Association, Mitchell (023771) | 269,693,000 |
| | |
| Texas | |
| Bank of Texas, National Association, Dallas (024082) | 586,755,000 |
| and Mid-Cities National Bank, Hurst (017010) | 93,689,000 |
| merged on June 23, 2000 under the title of Bank of Texas, National Association, Dallas (024082) | 680,444,000 |

**Affiliated mergers- thrift (mergers consummated involving affiliated national banks and savings and loan associations), from July 1 to September 30, 2000**

| Title and location (charter number) | |
|---|---|
| Ohio | |
| First National Bank of Southwestern Ohio, Hamilton (000056) | 1,173,925,000 |
| and Home Federal Bank, a Federal Savings Bank, Hamilton | 268,079,000 |
| merged on July 21, 2000 under the title of First National Bank of Southwestern Ohio, Hamilton (000056) | 1,442,004,000 |

# Tables on the Financial Performance of National Banks



Tables are provided by the Economic Analysis Division and include data for nationally chartered, FDIC-insured commercial banks that file a quarter-end call report. Data for the current period are preliminary and subject to revision. Figures in the tables may not sum to totals because of rounding.

**Assets, liabilities, and capital accounts of national banks**
**September 30, 1999 and September 30, 2000**
(Dollar figures in millions)

| | September 30, 1999 | September 30, 2000 | Change September 30, 1999–September 30, 2000 | |
|---|---|---|---|---|
| | Consolidated foreign and domestic | Consolidated foreign and domestic | Amount | Percent |
| Number of institutions | 2,382 | 2,242 | (140) | (5.88) |
| Total assets | $3,227,072 | $3,363,543 | $136,471 | 4.23 |
| Cash and balances due from depositories | 189,833 | 188,775 | (1,058) | (0.56) |
| Noninterest-bearing balances, currency and coin | 134,792 | 137,099 | 2,308 | 1.71 |
| Interest bearing balances | 55,041 | 51,675 | (3,366) | (6.11) |
| Securities | 559,411 | 509,327 | (50,083) | (8.95) |
| Held-to-maturity securities, amortized cost | 55,387 | 39,679 | (15,708) | (28.36) |
| Available-for-sale securities, fair value | 504,024 | 469,649 | (34,375) | (6.82) |
| Federal funds sold and securities purchased | 101,982 | 88,754 | (13,228) | (12.97) |
| Net loans and leases | 2,028,237 | 2,187,800 | 159,564 | 7.87 |
| Total loans and leases | 2,066,107 | 2,227,044 | 160,937 | 7.79 |
| Loans and leases, gross | 2,067,974 | 2,228,559 | 160,586 | 7.77 |
| Less: Unearned income | 1,867 | 1,516 | (351) | (18.81) |
| Less: Reserve for losses | 37,870 | 39,243 | 1,373 | 3.63 |
| Assets held in trading account | 93,986 | 105,341 | 11,355 | 12.08 |
| Other real estate owned | 1,680 | 1,527 | (153) | (9.08) |
| Intangible assets | 70,955 | 80,071 | 9,116 | 12.85 |
| All other assets | 180,990 | 201,948 | 20,958 | 11.58 |
| Total liabilities and equity capital | 3,227,072 | 3,363,543 | 136,471 | 4.23 |
| Deposits in domestic offices | 1,764,998 | 1,768,496 | 3,498 | 0.20 |
| Deposits in foreign offices | 376,414 | 426,457 | 50,043 | 13.29 |
| Total deposits | 2,141,412 | 2,194,953 | 53,541 | 2.50 |
| Noninterest-bearing deposits | 415,274 | 412,180 | (3,094) | (0.74) |
| Interest-bearing deposits | 1,726,138 | 1,782,773 | 56,634 | 3.28 |
| Federal funds purchased and securities sold | 256,503 | 250,363 | (6,140) | (2.39) |
| Demand notes issued to U.S. Treasury | 28,057 | 20,509 | (7,548) | (26.90) |
| Other borrowed money | 301,126 | 356,426 | 55,300 | 18.36 |
| With remaining maturity of one year or less | 187,655 | 230,455 | 42,801 | 22.81 |
| With remaining maturity of more than one year | 113,472 | 125,971 | 12,499 | 11.02 |
| Trading liabilities less revaluation losses | 17,771 | 20,637 | 2,867 | 16.13 |
| Subordinated notes and debentures | 55,447 | 60,957 | 5,510 | 9.94 |
| All other liabilities | 150,006 | 166,928 | 16,922 | 11.28 |
| Trading liabilities revaluation losses | 55,842 | 56,781 | 939 | 1.68 |
| Other | 94,164 | 110,147 | 15,983 | 16.97 |
| Total equity capital | 276,750 | 292,769 | 16,019 | 5.79 |
| Perpetual preferred stock | 783 | 892 | 109 | 13.86 |
| Common stock | 15,451 | 13,904 | (1,547) | (10.01) |
| Surplus | 144,858 | 158,394 | 13,536 | 9.34 |
| Net undivided profits and capital reserves | 116,685 | 120,746 | 4,061 | 3.48 |
| Cumulative foreign currency translation adjustment | (1,027) | (1,166) | (139) | NM |

NM indicates calculated percent change is not meaningful.

**Quarterly income and expenses of national banks**
**Third quarter 1999 and third quarter 2000**
(Dollar figures in millions)

| | Third quarter 1999 | Third quarter 2000 | Change Third quarter, 1999–third quarter, 2000 fully consolidated | |
|---|---|---|---|---|
| | Consolidated foreign and domestic | Consolidated foreign and domestic | Amount | Percent |
| Number of institutions | 2,382 | 2,242 | (140) | (5.88) |
| Net income | $11,430 | $11,101 | ($330) | (2.89) |
| Net interest income | 29,375 | 29,156 | (219) | (0.74) |
| Total interest income | 54,899 | 61,875 | 6,976 | 12.71 |
| On loans | 42,318 | 48,512 | 6,194 | 14.64 |
| From lease financing receivables | 1,439 | 1,910 | 471 | 32.75 |
| On balances due from depositories | 553 | 703 | 150 | 27.17 |
| On securities | 8,929 | 8,506 | (423) | (4.73) |
| From assets held in trading account | 595 | 941 | 346 | 58.15 |
| On federal funds sold and securities repurchased | 1,065 | 1,302 | 238 | 22.31 |
| Less: Interest expense | 25,524 | 32,719 | 7,195 | 28.19 |
| On deposits | 16,651 | 21,311 | 4,660 | 27.99 |
| Of federal funds purchased and securities sold | 3,053 | 3,698 | 645 | 21.11 |
| On demand notes and other borrowed money* | 4,907 | 6,613 | 1,706 | 34.77 |
| On subordinated notes and debentures | 913 | 1,097 | 184 | 20.12 |
| Less: Provision for losses | 3,767 | 4,492 | 726 | 19.26 |
| Noninterest income | 23,370 | 25,484 | 2,114 | 9.05 |
| From fiduciary activities | 2,446 | 2,287 | (159) | (6.48) |
| Service charges on deposits | 3,806 | 3,909 | 103 | 2.70 |
| Trading revenue | 1,115 | 1,300 | 185 | 16.62 |
| From interest rate exposures | 364 | 461 | 97 | 26.73 |
| From foreign exchange exposures | 662 | 641 | (21) | (3.15) |
| From equity security and index exposures | 62 | 194 | 132 | NM |
| From commodity and other exposures | 27 | 4 | (23) | NM |
| Total other noninterest income | 15,931 | 17,988 | 2,056 | 12.91 |
| Gains/losses on securities | (170) | (399) | (229) | NM |
| Less: Noninterest expense | 30,978 | 32,346 | 1,368 | 4.42 |
| Salaries and employee benefits | 12,274 | 11,960 | (314) | (2.56) |
| Of premises and fixed assets | 3,856 | 3,815 | (41) | (1.06) |
| Other noninterest expense | 14,847 | 16,570 | 1,723 | 11.60 |
| Less: Taxes on income before extraordinary items | 6,400 | 6,302 | (97) | (1.52) |
| Income/loss from extraordinary items, net of income taxes | (1) | (0) | 0 | (43.28) |
| Memoranda: | | | | |
| Net operating income | 11,547 | 11,593 | 46 | 0.40 |
| Income before taxes and extraordinary items | 17,831 | 17,403 | (427) | (2.40) |
| Income net of taxes before extraordinary items | 11,431 | 11,101 | (330) | (2.89) |
| Cash dividends declared | 7,396 | 7,131 | (265) | (3.58) |
| Net charge-offs to loan and lease reserve | 3,388 | 3,807 | 420 | 12.39 |
| Charge-offs to loan and lease reserve | 4,309 | 4,682 | 372 | 8.64 |
| Less: Recoveries credited to loan and lease reserve | 922 | 874 | (47) | (5.15) |

NM indicates calculated percent change is not meaningful.

**Year-to-date income and expenses of national banks**
**Through September 30, 1999 and through September 30, 2000**
(Dollar figures in millions)

| | September 30, 1999 | September 30, 2000 | Change September 30, 1999– September 30, 2000 fully consolidated | |
|---|---|---|---|---|
| | Consolidated foreign and domestic | Consolidate foreign and domestic | Amount | Percent |
| Number of institutions | 2,382 | 2,242 | (140) | (5.88) |
| Net income | $32,935 | $29,105 | ($3,829) | (11.63) |
| Net interest income | 86,784 | 87,019 | 234 | 0.27 |
| Total interest income | 162,058 | 178,611 | 16,553 | 10.21 |
| On loans | 122,729 | 138,290 | 15,560 | 12.68 |
| From lease financing receivables | 5,202 | 5,508 | 306 | 5.88 |
| On balances due from depositories | 2,288 | 2,350 | 62 | 2.70 |
| On securities | 26,120 | 25,888 | (232) | (0.89) |
| From assets held in trading account | 1,934 | 2,403 | 469 | 24.27 |
| On federal funds sold and securities repurchased | 3,784 | 4,173 | 388 | 10.26 |
| Less: Interest expense | 75,274 | 91,593 | 16,319 | 21.68 |
| On deposits | 50,115 | 59,285 | 9,170 | 18.30 |
| Of federal funds purchased and securities sold | 9,138 | 10,925 | 1,787 | 19.56 |
| On demand notes and other borrowed money* | 13,430 | 18,362 | 4,932 | 36.72 |
| On subordinated notes and debentures | 2,591 | 3,021 | 430 | 16.58 |
| Less: Provision for losses | 11,554 | 13,584 | 2,030 | 17.57 |
| Noninterest income | 68,481 | 71,492 | 3,011 | 4.40 |
| From fiduciary activities | 7,270 | 7,115 | (155) | (2.13) |
| Service charges on deposits | 11,019 | 11,432 | 413 | 3.75 |
| Trading revenue | 3,843 | 4,417 | 575 | 14.96 |
| From interest rate exposures | 1,566 | 1,486 | (80) | (5.09) |
| From foreign exchange exposures | 2,014 | 2,127 | 113 | 5.60 |
| From equity security and index exposures | 229 | 765 | 537 | 234.90 |
| From commodity and other exposures | 34 | 39 | 5 | 14.63 |
| Total other noninterest income | 46,349 | 48,527 | 2,178 | 4.70 |
| Gains/losses on securities | 415 | (2,086) | (2,501) | (603.01) |
| Less: Noninterest expense | 92,772 | 96,702 | 3,930 | 4.24 |
| Salaries and employee benefits | 36,605 | 36,219 | (387) | (1.06) |
| Of premises and fixed assets | 11,554 | 11,525 | (29) | (0.25) |
| Other noninterest expense | 44,612 | 48,958 | 4,346 | 9.74 |
| Less: Taxes on income before extraordinary items | 18,388 | 17,050 | (1,338) | (7.28) |
| Income/loss from extraordinary items, net of income taxes | (32) | 16 | 48 | NM |
| Memoranda: | | | | |
| Net operating income | 32,699 | 30,857 | (1,842) | (5.63) |
| Income before taxes and extraordinary items | 51,354 | 46,139 | (5,215) | (10.16) |
| Income net of taxes before extraordinary items | 32,967 | 29,090 | (3,877) | (11.76) |
| Cash dividends declared | 21,612 | 20,639 | (973) | (4.50) |
| Net charge-offs to loan and lease reserve | 10,290 | 11,020 | 730 | 7.09 |
| Charge-offs to loan and lease reserve | 13,096 | 13,766 | 670 | 5.12 |
| Less: Recoveries credited to loan and lease reserve | 2,805 | 2,746 | (60) | (2.13) |

*Includes mortgage indebtedness
NM indicates calculated percent change is not meaningful.

# Assets of national banks by asset size
## September 30, 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Total assets | $3,363,543 | $57,078 | $245,200 | $401,927 | $2,659,339 | $6,064,084 |
| Cash and balances due from | 188,775 | 2,794 | 10,535 | 21,223 | 154,222 | 331,832 |
| Securities | 509,327 | 15,198 | 61,815 | 91,362 | 340,954 | 1,061,160 |
| Federal funds sold and securities purchased | 88,754 | 2,617 | 6,372 | 12,708 | 67,067 | 224,133 |
| Net loans and leases | 2,187,800 | 33,824 | 154,627 | 248,651 | 1,750,697 | 3,714,677 |
| Total loans and leases | 2,227,044 | 34,279 | 156,776 | 253,165 | 1,782,824 | 3,777,210 |
| Loans and leases, gross | 2,228,559 | 34,355 | 157,044 | 253,257 | 1,783,904 | 3,780,256 |
| Less: Unearned income | 1,516 | 76 | 268 | 92 | 1,080 | 3,046 |
| Less: Reserve for losses | 39,243 | 455 | 2,149 | 4,514 | 32,126 | 62,533 |
| Assets held in trading account | 105,341 | 0 | 225 | 976 | 104,140 | 279,573 |
| Other real estate owned | 1,527 | 66 | 189 | 160 | 1,113 | 2,817 |
| Intangible assets | 80,071 | 185 | 1,352 | 6,202 | 72,333 | 104,516 |
| All other assets | 201,948 | 2,394 | 10,085 | 20,646 | 168,823 | 345,376 |
| Gross loans and leases by type: | | | | | | |
| Loans secured by real estate | 900,900 | 19,875 | 96,686 | 136,593 | 647,746 | 1,659,400 |
| 1–4 family residential mortgages | 456,723 | 9,264 | 42,541 | 64,412 | 340,505 | 797,685 |
| Home equity loans | 80,373 | 452 | 4,023 | 9,767 | 66,131 | 122,866 |
| Multifamily residential mortgages | 28,149 | 440 | 3,337 | 4,936 | 19,437 | 60,059 |
| Commercial RE loans | 219,915 | 5,745 | 34,012 | 41,600 | 138,558 | 456,113 |
| Construction RE loans | 75,879 | 1,670 | 8,790 | 13,898 | 51,521 | 157,267 |
| Farmland loans | 12,342 | 2,304 | 3,977 | 1,809 | 4,252 | 33,944 |
| RE loans from foreign offices | 27,519 | 0 | 6 | 172 | 27,342 | 31,465 |
| Commercial and industrial loans | 649,901 | 5,759 | 27,895 | 49,921 | 566,326 | 1,044,323 |
| Loans to individuals | 353,893 | 4,749 | 22,673 | 50,481 | 275,990 | 584,412 |
| Credit cards | 162,237 | 179 | 4,315 | 20,075 | 137,669 | 228,747 |
| Installment loans | 191,656 | 4,570 | 18,358 | 30,406 | 138,322 | 355,665 |
| All other loans and leases | 323,866 | 3,972 | 9,790 | 16,263 | 293,841 | 492,121 |
| Securities by type: | | | | | | |
| U.S. Treasury securities | 47,546 | 1,307 | 4,212 | 5,751 | 36,276 | 94,351 |
| Mortgage-backed securities | 223,980 | 2,967 | 17,767 | 43,925 | 159,322 | 448,962 |
| Pass-through securities | 155,167 | 2,092 | 10,863 | 29,087 | 113,124 | 283,378 |
| Collateralized mortgage obligations | 68,814 | 874 | 6,904 | 14,839 | 46,197 | 165,584 |
| Other securities | 237,801 | 10,924 | 39,836 | 41,685 | 145,356 | 517,847 |
| Other U.S. government securities | 79,737 | 7,791 | 24,289 | 18,579 | 29,077 | 233,541 |
| State and local government securities | 40,191 | 2,353 | 10,804 | 8,373 | 18,662 | 90,367 |
| Other debt securities | 94,559 | 380 | 2,916 | 11,201 | 80,061 | 154,091 |
| Equity securities | 23,315 | 400 | 1,827 | 3,532 | 17,555 | 39,848 |
| Memoranda: | | | | | | |
| Agricultural production loans | 20,740 | 3,443 | 4,813 | 2,981 | 9,502 | 47,331 |
| Pledged securities | 255,200 | 5,778 | 29,612 | 44,673 | 175,137 | 534,556 |
| Book value of securities | 516,783 | 15,384 | 62,637 | 92,446 | 346,316 | 1,074,066 |
| Available-for-sale securities | 477,104 | 12,327 | 50,554 | 78,154 | 336,069 | 937,539 |
| Held-to-maturity securities | 36,679 | 3,058 | 12,082 | 14,292 | 10,247 | 136,527 |
| Market value of securities | 508,918 | 15,171 | 61,691 | 91,102 | 340,954 | 1,059,358 |
| Available-for-sale securities | 469,649 | 12,140 | 49,732 | 77,070 | 330,707 | 924,633 |
| Held-to-maturity securities | 39,269 | 3,031 | 11,959 | 14,033 | 10,247 | 134,725 |

**Past-due and nonaccrual loans and leases of national banks by asset size**
**September 30, 2000**
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Loans and leases past due 30–89 days | $25,425 | $421 | $1,740 | $3,146 | $20,118 | $43,186 |
| Loans secured by real estate | 10,917 | 209 | 845 | 1,232 | 8,632 | 18,020 |
| 1–4 family residential mortgages | 7,313 | 130 | 459 | 622 | 6,102 | 11,326 |
| Home equity loans | 751 | 3 | 28 | 86 | 633 | 1,040 |
| Multifamily residential mortgages | 162 | 2 | 14 | 50 | 96 | 331 |
| Commercial RE loans | 1,404 | 42 | 222 | 330 | 810 | 3,000 |
| Construction RE loans | 813 | 19 | 92 | 127 | 575 | 1,636 |
| Farmland loans | 101 | 13 | 29 | 17 | 42 | 248 |
| RE loans from foreign offices | 374 | 0 | 0 | 0 | 374 | 439 |
| Commercial and industrial loans | 4,550 | 117 | 423 | 567 | 3,443 | 8,641 |
| Loans to individuals | 8,064 | 94 | 433 | 1,195 | 6,343 | 13,369 |
| Credit cards | 4,033 | 4 | 122 | 545 | 3,361 | 5,972 |
| Installment loans | 4,032 | 90 | 311 | 650 | 2,981 | 7,397 |
| All other loans and leases | 1,893 | 1 | 38 | 152 | 1,701 | 3,156 |
| Loans and leases past due 90+ days | 6,069 | 98 | 381 | 938 | 4,653 | 10,149 |
| Loans secured by real estate | 1,517 | 42 | 168 | 206 | 1,102 | 2,772 |
| 1–4 family residential mortgages | 1,015 | 24 | 89 | 127 | 775 | 1,704 |
| Home equity loans | 90 | 0 | 5 | 11 | 73 | 132 |
| Multifamily residential mortgages | 25 | 0 | 3 | 5 | 17 | 43 |
| Commercial RE loans | 226 | 7 | 49 | 46 | 123 | 535 |
| Construction RE loans | 106 | 3 | 11 | 13 | 80 | 221 |
| Farmland loans | 27 | 7 | 11 | 3 | 6 | 106 |
| RE loans from foreign offices | 27 | 0 | 0 | (0) | 27 | 32 |
| Commercial and industrial loans | 717 | 39 | 97 | 124 | 456 | 1,488 |
| Loans to individuals | 3,509 | 16 | 101 | 595 | 2,797 | 5,466 |
| Credit cards | 2,548 | 2 | 56 | 447 | 2,044 | 3,568 |
| Installment loans | 961 | 14 | 45 | 148 | 753 | 1,897 |
| All other loans and leases | 326 | 1 | 14 | 13 | 299 | 422 |
| Nonaccrual loans and leases | 18,232 | 226 | 924 | 1,247 | 15,834 | 28,702 |
| Loans secured by real estate | 6,228 | 105 | 471 | 647 | 5,005 | 10,018 |
| 1–4 family residential mortgages | 3,173 | 34 | 167 | 235 | 2,737 | 4,755 |
| Home equity loans | 224 | 1 | 11 | 21 | 191 | 300 |
| Multifamily residential mortgages | 87 | 2 | 6 | 14 | 64 | 162 |
| Commercial RE loans | 1,552 | 36 | 213 | 265 | 1,037 | 2,886 |
| Construction RE loans | 453 | 9 | 36 | 83 | 325 | 947 |
| Farmland loans | 155 | 24 | 37 | 29 | 65 | 342 |
| RE loans from foreign offices | 585 | 0 | 0 | 0 | 585 | 626 |
| Commercial and industrial loans | 9,052 | 105 | 350 | 501 | 8,096 | 14,367 |
| Loans to individuals | 1,572 | 15 | 82 | 57 | 1,418 | 2,429 |
| Credit cards | 518 | 0 | 40 | 2 | 476 | 948 |
| Installment loans | 1,053 | 14 | 42 | 55 | 941 | 1,481 |
| All other loans and leases | 1,380 | 2 | 21 | 41 | 1,316 | 1,888 |

## Liabilities of national banks by asset size
## September 30, 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Total liabilities and equity capital | $3,363,543 | $57,078 | $245,200 | $401,927 | $2,659,339 | $6,064,082 |
| Deposits in domestic offices | $1,768,496 | $47,959 | $197,435 | $261,312 | $1,261,790 | $3,325,374 |
| Deposits in foreign offices | 426,457 | 11 | 457 | 3,315 | 422,674 | 694,207 |
| Total deposits | 2,194,953 | 47,970 | 197,892 | 264,628 | 1,684,464 | 4,019,581 |
| Noninterest to earnings | 412,180 | 7,761 | 30,525 | 43,619 | 330,276 | 704,190 |
| Interest bearing | 1,782,773 | 40,209 | 167,367 | 221,009 | 1,354,187 | 3,315,391 |
| Other borrowed funds | 647,936 | 2,151 | 20,129 | 88,653 | 537,003 | 1,127,344 |
| Subordinated notes and debentures | 60,957 | 4 | 153 | 2,507 | 58,293 | 84,510 |
| All other liabilities | 166,928 | 593 | 3,056 | 8,886 | 154,393 | 311,451 |
| Equity capital | 292,769 | 6,360 | 23,970 | 37,254 | 225,186 | 521,195 |
| Total deposits by depositor: | | | | | | |
| Individuals and corporations | 1,937,595 | 43,463 | 180,574 | 245,832 | 1,467,727 | 3,580,595 |
| U.S., state, and local governments | 78,728 | 3,811 | 13,970 | 13,376 | 47,570 | 160,643 |
| Depositories in the U.S. | 78,435 | 377 | 1,915 | 3,090 | 73,053 | 109,897 |
| Foreign banks and governments | 87,971 | 1 | 249 | 923 | 86,798 | 142,028 |
| Certified and official checks | 9,468 | 318 | 1,184 | 1,400 | 6,567 | 18,334 |
| All other foreign office deposits | 2,755 | 0 | 0 | 7 | 2,749 | 8,085 |
| Domestic deposits by depositor: | | | | | | |
| Individuals and corporations | 1,650,212 | 43,453 | 180,324 | 243,249 | 1,183,186 | 3,094,771 |
| U.S., state, and local governments | 78,728 | 3,811 | 13,970 | 13,376 | 47,570 | 160,643 |
| Depositories in the U.S. | 25,427 | 377 | 1,915 | 2,943 | 20,192 | 43,116 |
| Foreign banks and governments | 5,777 | 0 | 42 | 344 | 5,392 | 9,738 |
| Certified and official checks | 8,352 | 318 | 1,184 | 1,400 | 5,451 | 17,107 |
| Foreign deposits by depositor: | | | | | | |
| Individuals and corporations | 287,383 | 10 | 250 | 2,583 | 284,541 | 485,824 |
| Depositories in the U.S. | 53,008 | 0 | 0 | 147 | 52,861 | 66,781 |
| Foreign banks and governments | 82,194 | 1 | 207 | 579 | 81,407 | 132,290 |
| Certified and official checks | 1,116 | 0 | 0 | 0 | 1,116 | 1,228 |
| All other deposits | 2,755 | 0 | 0 | 7 | 2,749 | 8,085 |
| Deposits in domestic offices by type: | | | | | | |
| Transaction deposits | 338,728 | 14,389 | 48,646 | 40,332 | 235,361 | 629,233 |
| Demand deposits | 281,353 | 7,749 | 28,531 | 32,788 | 212,285 | 489,054 |
| NOW accounts | 56,735 | 6,505 | 19,744 | 7,416 | 23,069 | 138,278 |
| Savings deposits | 775,808 | 9,771 | 55,608 | 115,653 | 594,776 | 1,358,090 |
| Money market deposit accounts | 539,307 | 5,425 | 33,652 | 78,070 | 422,161 | 933,275 |
| Other savings deposits | 236,500 | 4,346 | 21,956 | 37,583 | 172,615 | 424,814 |
| Time deposits | 653,960 | 23,799 | 93,181 | 105,328 | 431,653 | 1,338,051 |
| Small time deposits | 392,505 | 16,615 | 61,810 | 65,654 | 248,427 | 787,167 |
| Large time deposits | 261,456 | 7,184 | 31,371 | 39,674 | 183,226 | 550,884 |

## Off-balance-sheet items of national banks by asset size
## September 30, 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Unused commitments | $3,057,310 | $89,576 | $310,818 | $210,135 | $2,446,782 | $4,331,504 |
| Home equity lines | 119,953 | 349 | 3,947 | 10,030 | 105,627 | 163,998 |
| Credit card lines | 1,823,190 | 85,258 | 283,143 | 150,160 | 1,304,629 | 2,420,665 |
| Commercial RE, construction and land | 75,197 | 1,002 | 6,998 | 11,950 | 55,247 | 146,466 |
| All other unused commitments | 1,038,970 | 2,966 | 16,729 | 37,995 | 981,279 | 1,600,375 |
| Letters of credit: | | | | | | |
| Standby letters of credit | 142,057 | 149 | 1,374 | 5,490 | 135,044 | 242,637 |
| Financial letters of credit | 114,044 | 95 | 842 | 3,982 | 109,125 | 200,644 |
| Performance letters of credit | 28,013 | 54 | 532 | 1,508 | 25,919 | 41,993 |
| Commercial letters of credit | 19,822 | 27 | 509 | 613 | 18,672 | 29,067 |
| Securities borrowed and lent: | | | | | | |
| Securities borrowed | 17,626 | 25 | 224 | 4,799 | 12,578 | 27,996 |
| Securities lent | 73,591 | 22 | 203 | 6,305 | 67,060 | 484,349 |
| Financial assets transferred with recourse: | | | | | | |
| Mortgages—outstanding principal balance | 40,082 | 56 | 83 | 5,579 | 34,365 | 63,179 |
| Mortgages—amount of recourse exposure | 8,552 | 37 | 73 | 493 | 7,949 | 14,102 |
| All other—outstanding principal balance | 274,187 | 531 | 4,593 | 28,374 | 240,688 | 324,420 |
| All other—amount of recourse exposure | 14,602 | 27 | 379 | 1,683 | 12,512 | 20,118 |
| Spot foreign exchange contracts | 274,589 | 0 | 12 | 41 | 274,536 | 437,758 |
| Credit derivatives (notional value) | | | | | | |
| Reporting bank is the guarantor | 32,588 | 0 | 15 | 7 | 32,567 | 159,889 |
| Reporting bank is the beneficiary | 53,712 | 0 | 0 | 0 | 53,712 | 218,696 |
| Derivative contracts (notional value) | 14,418,153 | 22 | 1,355 | 31,989 | 14,384,787 | 38,312,818 |
| Futures and forward contracts | 4,517,301 | 7 | 167 | 1,577 | 4,515,550 | 9,643,245 |
| Interest rate contracts | 2,208,969 | 7 | 100 | 1,231 | 2,207,630 | 5,152,426 |
| Foreign exchange contracts | 2,263,097 | 0 | 67 | 346 | 2,262,684 | 4,356,676 |
| All other futures and forwards | 45,236 | 0 | 0 | 0 | 45,236 | 134,142 |
| Option contracts | 2,899,691 | 10 | 387 | 9,399 | 2,889,894 | 7,127,044 |
| Interest rate contracts | 2,317,824 | 10 | 387 | 9,261 | 2,308,167 | 5,577,271 |
| Foreign exchange contracts | 379,507 | 0 | 0 | 42 | 379,465 | 819,780 |
| All other options | 202,359 | 0 | 1 | 97 | 202,262 | 729,993 |
| Swaps | 6,914,861 | 5 | 785 | 21,006 | 6,893,064 | 21,163,944 |
| Interest rate contracts | 6,585,761 | 5 | 785 | 16,306 | 6,568,664 | 20,149,999 |
| Foreign exchange contracts | 274,012 | 0 | 0 | 4,567 | 269,445 | 856,886 |
| All other swaps | 55,087 | 0 | 0 | 132 | 54,955 | 157,059 |
| Memoranda: Derivatives by purpose | | | | | | |
| Contracts held for trading | 13,291,757 | 0 | 9 | 5,538 | 13,286,211 | 36,473,543 |
| Contracts not held for trading | 1,040,095 | 22 | 1,331 | 26,445 | 1,012,298 | 1,460,689 |
| Memoranda: Derivatives by position | | | | | | |
| Held for trading—positive fair value | 147,429 | 0 | 0 | 120 | 147,309 | 404,438 |
| Held for trading—negative fair value | 141,857 | 0 | 0 | 38 | 141,819 | 396,232 |
| Not for trading—positive fair value | 5,625 | 0 | 3 | 128 | 5,493 | 8,605 |
| Not for trading—negative fair value | 5,754 | 0 | 6 | 242 | 5,506 | 8,573 |

## Quarterly income and expenses of national banks by asset size
### Third quarter 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Net income | $11,101 | $160 | $758 | $1,724 | $8,459 | $19,272 |
| Net interest income | 29,156 | 600 | 2,507 | 3,823 | 22,225 | 51,312 |
| Total interest income | 61,875 | 1,106 | 4,785 | 7,740 | 48,244 | 110,119 |
| On loans | 48,512 | 816 | 3,651 | 5,799 | 38,246 | 82,699 |
| From lease financing receivables | 1,910 | 3 | 32 | 74 | 1,802 | 2,792 |
| On balances due from depositories | 703 | 10 | 27 | 44 | 622 | 1,456 |
| On securities | 8,506 | 235 | 972 | 1,560 | 5,739 | 17,316 |
| From assets held in trading account | 941 | 0 | 1 | 22 | 918 | 2,490 |
| On fed. funds sold & securities repurchased | 1,302 | 42 | 102 | 241 | 917 | 3,366 |
| Less: Interest expense | 32,719 | 505 | 2,278 | 3,917 | 26,019 | 58,807 |
| On deposits | 21,311 | 471 | 1,957 | 2,473 | 16,411 | 39,731 |
| Of federal funds purchased & securities sold | 3,698 | 12 | 118 | 658 | 2,910 | 7,089 |
| On demand notes & other borrowed money* | 6,613 | 23 | 201 | 748 | 5,641 | 10,449 |
| On subordinated notes and debentures | 1,097 | 0 | 3 | 37 | 1,057 | 1,537 |
| Less: Provision for losses | 4,492 | 34 | 283 | 573 | 3,602 | 6,761 |
| Noninterest income | 25,484 | 275 | 1,296 | 3,594 | 20,319 | 39,265 |
| From fiduciary activities | 2,287 | 15 | 150 | 426 | 1,696 | 5,343 |
| Service charges on deposits | 3,909 | 59 | 266 | 385 | 3,199 | 5,940 |
| Trading revenue | 1,300 | 0 | 20 | 19 | 1,261 | 2,804 |
| From interest rate exposures | 461 | 0 | 20 | 11 | 430 | 1,139 |
| From foreign exchange exposures | 641 | 0 | 0 | 1 | 639 | 1,114 |
| From equity security and index exposures | 194 | 0 | 0 | 7 | 188 | 472 |
| From commodity and other exposures | 4 | 0 | 0 | 0 | 4 | 78 |
| Total other noninterest income | 17,988 | 201 | 860 | 2,764 | 14,164 | 25,164 |
| Gains/losses on securities | (399) | (1) | (17) | (88) | (294) | (713) |
| Less: Noninterest expense | 32,346 | 619 | 2,391 | 4,031 | 25,305 | 53,651 |
| Salaries and employee benefits | 11,960 | 273 | 998 | 1,393 | 9,296 | 21,808 |
| Of premises and fixed assets | 3,815 | 73 | 289 | 409 | 3,045 | 6,649 |
| Other noninterest expense | 16,570 | 273 | 1,105 | 2,228 | 12,964 | 25,194 |
| Less: Taxes on income before extraord. items | 6,302 | 61 | 353 | 1,002 | 4,886 | 10,183 |
| Income/loss from extraord. items, net of taxes | 16 | 22 | (0) | (6) | 0 | 16 |
| Memoranda: | | | | | | |
| Net operating income | 11,593 | 161 | 773 | 1,776 | 8,884 | 19,994 |
| Income before taxes and extraordinary items | 17,403 | 221 | 1,112 | 2,726 | 13,344 | 29,452 |
| Income net of taxes before extraordinary items | 11,101 | 160 | 758 | 1,724 | 8,459 | 19,269 |
| Cash dividends declared | 7,131 | 76 | 358 | 784 | 5,912 | 12,452 |
| Net loan and lease losses | 3,807 | 22 | 183 | 439 | 3,163 | 5,666 |
| Charge-offs to loan and lease reserve | 4,682 | 29 | 229 | 524 | 3,899 | 7,019 |
| Less: Recoveries credited to loan & lease resv. | 874 | 8 | 46 | 84 | 736 | 1,352 |

*Includes mortgage indebtedness

## Year-to-date income and expenses of national banks by asset size
## Through September 30, 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Net income | $29,105 | $538 | $2,323 | $4,311 | $21,934 | $53,438 |
| Net interest income | 87,019 | 1,754 | 7,360 | 11,187 | 66,717 | 152,310 |
| Total interest income | 178,611 | 3,151 | 13,691 | 22,018 | 139,751 | 316,176 |
| On loans | 138,290 | 2,298 | 10,363 | 16,391 | 109,238 | 235,397 |
| From lease financing receivables | 5,508 | 9 | 91 | 223 | 5,184 | 7,918 |
| On balances due from depositories | 2,350 | 29 | 75 | 119 | 2,126 | 4,601 |
| On securities | 25,888 | 695 | 2,879 | 4,615 | 17,699 | 51,491 |
| From assets held in trading account | 2,403 | 0 | 3 | 53 | 2,347 | 6,840 |
| On fed. funds sold & securities repurchased | 4,173 | 121 | 278 | 617 | 3,156 | 9,927 |
| Less: Interest expense | 91,953 | 1,397 | 6,331 | 10,830 | 73,034 | 163,866 |
| On deposits | 59,285 | 1,308 | 5,428 | 6,819 | 45,729 | 110,151 |
| Of federal funds purchased & securities sold | 10,925 | 30 | 323 | 1,783 | 8,789 | 20,257 |
| On demand notes & other borrowed money* | 18,362 | 59 | 571 | 2,112 | 15,621 | 29,152 |
| On subordinated notes and debentures | 3,021 | 0 | 9 | 116 | 2,896 | 4,306 |
| Less: Provision for losses | 13,584 | 98 | 665 | 1,466 | 11,355 | 19,772 |
| Noninterest income | 71,492 | 869 | 3,717 | 8,605 | 58,300 | 113,212 |
| From fiduciary activities | 7,115 | 24 | 443 | 1,270 | 5,378 | 16,220 |
| Service charges on deposits | 11,432 | 193 | 755 | 1,126 | 9,358 | 17,321 |
| Trading revenue | 4,417 | 3 | 44 | 70 | 4,301 | 9,694 |
| From interest rate exposures | 1,486 | 3 | 43 | 44 | 1,396 | 3,856 |
| From foreign exchange exposures | 2,127 | 0 | 1 | 5 | 2,121 | 3,791 |
| From equity security and index exposures | 765 | 0 | 0 | 20 | 745 | 1,618 |
| From commodity and other exposures | 39 | 0 | 0 | 0 | 39 | 429 |
| Total other noninterest income | 48,527 | 650 | 2,475 | 6,140 | 39,263 | 69,977 |
| Gains/losses on securities | (2,086) | (5) | (30) | (235) | (1,817) | (2,484) |
| Less: Noninterest expense | 96,702 | 1,817 | 6,993 | 11,337 | 76,554 | 160,622 |
| Salaries and employee benefits | 36,219 | 808 | 2,952 | 4,135 | 28,324 | 66,020 |
| Of premises and fixed assets | 11,525 | 209 | 847 | 1,239 | 9,230 | 19,846 |
| Other noninterest expense | 48,958 | 800 | 3,194 | 5,963 | 39,000 | 74,756 |
| Less: Taxes on income before extraord. items | 17,050 | 188 | 1,066 | 2,439 | 13,357 | 29,223 |
| Income/loss from extraord. items, net of taxes | 16 | 22 | (0) | (6) | 0 | 16 |
| Memoranda: | | | | | | |
| Net operating income | 30,857 | 519 | 2,347 | 4,477 | 23,514 | 55,482 |
| Income before taxes and extraordinary items | 46,139 | 703 | 3,389 | 6,756 | 35,292 | 82,645 |
| Income net of taxes before extraordinary items | 29,090 | 516 | 2,323 | 4.316 | 21,934 | 53,422 |
| Cash dividends declared | 20,639 | 309 | 1,285 | 3,220 | 15,824 | 35,227 |
| Net loan and lease losses | 11,020 | 60 | 522 | 1,230 | 9,208 | 15,973 |
| Charge-offs to loan and lease reserve | 13,766 | 86 | 677 | 1,495 | 11,508 | 20,184 |
| Less: Recoveries credited to loan & lease resv. | 2,746 | 26 | 155 | 265 | 2,300 | 4,211 |

*Includes mortgage indebtedness

## Quarterly net loan and lease losses of national banks by asset size
### Third quarter 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Net charge-offs to loan and lease reserve | $3,807 | $22 | $183 | $439 | $3,163 | $5,666 |
| Loans secured by real estate | 285 | 2 | 11 | 43 | 230 | 377 |
| 1–4 family residential mortgages | 149 | 0 | 6 | 24 | 118 | 202 |
| Home equity loans | 52 | 0 | 0 | 4 | 48 | 59 |
| Multifamily residential mortgages | 5 | (0) | 1 | 1 | 4 | 6 |
| Commercial RE loans | 42 | 1 | 2 | 12 | 27 | 56 |
| Construction RE loans | 15 | 0 | 1 | 2 | 12 | 25 |
| Farmland loans | 4 | 0 | 1 | 0 | 3 | 8 |
| RE loans from foreign offices | 18 | 0 | 0 | 0 | 18 | 20 |
| Commercial and industrial loans | 1,124 | 12 | 44 | 89 | 979 | 1,802 |
| Loans to individuals | 2,228 | 8 | 121 | 297 | 1,802 | 3,218 |
| Credit cards | 1,681 | (1) | 93 | 261 | 1,328 | 2,389 |
| Installment loans | 547 | 9 | 28 | 36 | 474 | 829 |
| All other loans and leases | 170 | 0 | 7 | 11 | 153 | 269 |
| Charge-offs to loan and lease reserve | 4,682 | 29 | 229 | 524 | 3,899 | 7,019 |
| Loans secured by real estate | 389 | 3 | 15 | 51 | 320 | 525 |
| 1–4 family residential mortgages | 202 | 1 | 8 | 28 | 165 | 268 |
| Home equity loans | 60 | 0 | 0 | 5 | 54 | 70 |
| Multifamily residential mortgages | 7 | 0 | 1 | 1 | 5 | 8 |
| Commercial RE loans | 69 | 1 | 4 | 14 | 49 | 108 |
| Construction RE loans | 18 | 0 | 1 | 2 | 15 | 31 |
| Farmland loans | 5 | 0 | 1 | 0 | 4 | 10 |
| RE loans from foreign offices | 28 | 0 | 0 | (0) | 28 | 30 |
| Commercial and industrial loans | 1,298 | 16 | 55 | 104 | 1,124 | 2,115 |
| Loans to individuals | 2,764 | 11 | 151 | 355 | 2,248 | 4,020 |
| Credit cards | 1,942 | (1) | 110 | 290 | 1,544 | 2,794 |
| Installment loans | 822 | 12 | 42 | 65 | 704 | 1,225 |
| All other loans and leases | 230 | 0 | 8 | 14 | 208 | 359 |
| Recoveries credited to loan and lease reserve | 874 | 8 | 46 | 84 | 736 | 1,352 |
| Loans secured by real estate | 103 | 1 | 4 | 8 | 90 | 148 |
| 1–4 family residential mortgages | 53 | 1 | 2 | 3 | 47 | 65 |
| Home equity loans | 8 | 0 | 0 | 1 | 6 | 10 |
| Multifamily residential mortgages | 1 | 0 | 0 | 0 | 1 | 2 |
| Commercial RE loans | 27 | 0 | 2 | 3 | 22 | 52 |
| Construction RE loans | 3 | (0) | 0 | 0 | 3 | 6 |
| Farmland loans | 1 | 0 | 0 | 0 | 1 | 2 |
| RE loans from foreign offices | 10 | 0 | 0 | (0) | 10 | 10 |
| Commercial and industrial loans | 174 | 4 | 10 | 15 | 145 | 313 |
| Loans to individuals | 536 | 3 | 30 | 58 | 445 | 801 |
| Credit cards | 262 | 0 | 17 | 29 | 216 | 405 |
| Installment loans | 275 | 3 | 13 | 29 | 229 | 397 |
| All other loans and leases | 60 | 0 | 1 | 4 | 55 | 90 |

## Year-to-date net loan and lease losses of national banks by asset size
## Through September 30, 2000
(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 | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Net charge-offs to loan and lease reserve | 11,020 | 60 | 522 | 1,230 | 9,208 | 15,973 |
| Loans secured by real estate | 715 | 4 | 21 | 111 | 578 | 965 |
| 1–4 family residential mortgages | 421 | 2 | 14 | 70 | 335 | 573 |
| Home equity loans | 116 | 0 | 1 | 12 | 104 | 137 |
| Multifamily residential mortgages | 6 | 0 | 1 | 0 | 5 | 8 |
| Commercial RE loans | 101 | 1 | 4 | 24 | 72 | 147 |
| Construction RE loans | 19 | 0 | 1 | 5 | 12 | 41 |
| Farmland loans | (8) | 0 | 1 | 1 | (10) | (1) |
| RE loans from foreign offices | 60 | 0 | 0 | 0 | 60 | 61 |
| Commercial and industrial loans | 3,167 | 30 | 93 | 167 | 2,877 | 4,836 |
| Loans to individuals | 6,679 | 26 | 395 | 930 | 5,327 | 9,484 |
| Credit cards | 4,986 | 5 | 324 | 773 | 3,884 | 7,008 |
| Installment loans | 1,693 | 21 | 71 | 157 | 1,443 | 2,476 |
| All other loans and leases | 460 | 0 | 13 | 21 | 426 | 688 |
| Charge-offs to loan and lease reserve | 13,766 | 86 | 677 | 1,495 | 11,508 | 20,184 |
| Loans secured by real estate | 1,005 | 7 | 35 | 140 | 823 | 1,381 |
| 1–4 family residential mortgages | 543 | 4 | 19 | 82 | 438 | 740 |
| Home equity loans | 141 | 0 | 1 | 16 | 124 | 172 |
| Multifamily residential mortgages | 16 | 0 | 2 | 1 | 13 | 21 |
| Commercial RE loans | 189 | 2 | 9 | 33 | 145 | 289 |
| Construction RE loans | 33 | 1 | 3 | 7 | 23 | 63 |
| Farmland loans | 8 | 1 | 2 | 1 | 4 | 19 |
| RE loans from foreign offices | 75 | 0 | 0 | 0 | 78 | 78 |
| Commercial and industrial loans | 3,714 | 42 | 133 | 215 | 3,324 | 5,811 |
| Loans to individuals | 8,408 | 36 | 491 | 1,106 | 6,775 | 12,026 |
| Credit cards | 5,824 | 6 | 379 | 857 | 4,582 | 8,276 |
| Installment loans | 2,584 | 31 | 112 | 248 | 2,193 | 3,750 |
| All other loans and leases | 639 | 0 | 17 | 35 | 586 | 965 |
| Recoveries credited to loan and lease reserve | 2,746 | 26 | 155 | 265 | 2,300 | 4,211 |
| Loans secured by real estate | 290 | 4 | 14 | 28 | 245 | 416 |
| 1–4 family residential mortgages | 122 | 2 | 6 | 12 | 103 | 167 |
| Home equity loans | 25 | 0 | 0 | 4 | 21 | 35 |
| Multifamily residential mortgages | 9 | 0 | 0 | 1 | 8 | 13 |
| Commercial RE loans | 88 | 1 | 5 | 9 | 73 | 142 |
| Construction RE loans | 15 | 0 | 1 | 1 | 12 | 22 |
| Farmland loans | 16 | 0 | 1 | 0 | 14 | 20 |
| RE loans from foreign offices | 15 | 0 | 0 | (0) | 15 | 17 |
| Commercial and industrial loans | 548 | 12 | 41 | 48 | 447 | 975 |
| Loans to individuals | 1,729 | 10 | 96 | 175 | 1,448 | 2,542 |
| Credit cards | 838 | 1 | 56 | 84 | 698 | 1,269 |
| Installment loans | 891 | 9 | 41 | 91 | 750 | 1,274 |
| All other loans and leases | 178 | 0 | 4 | 14 | 160 | 277 |

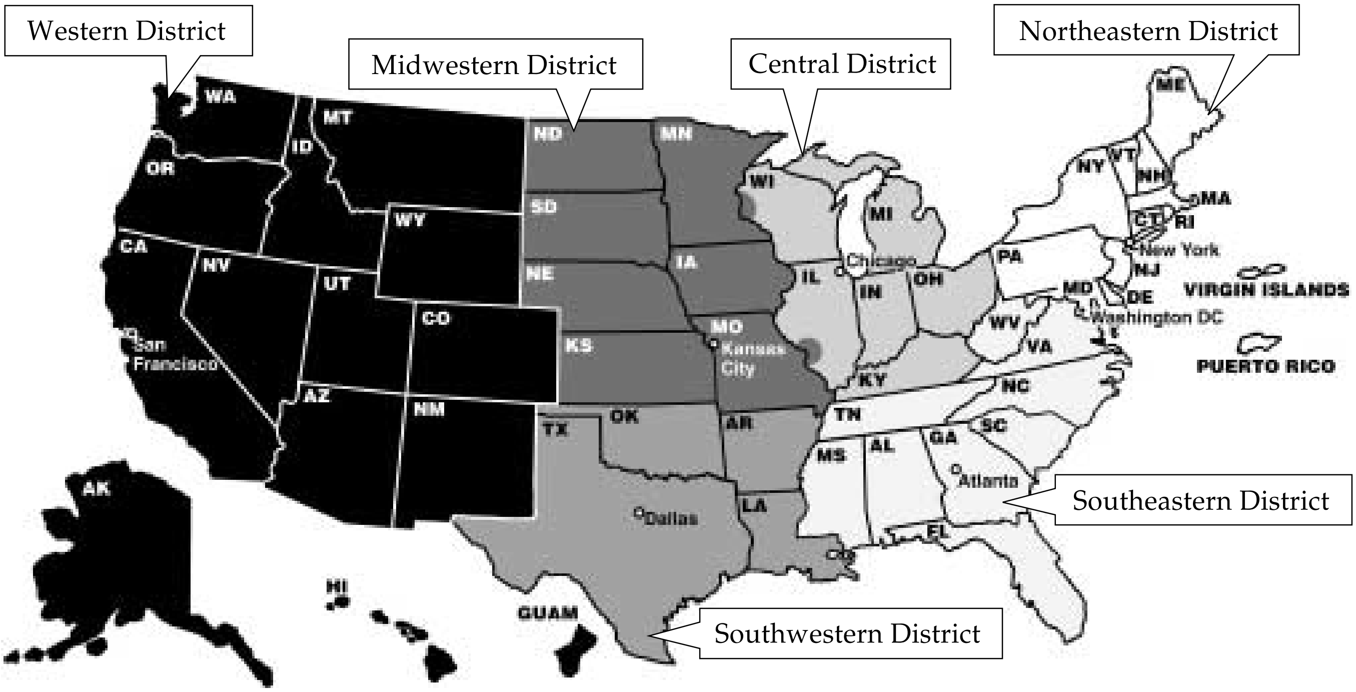
**Number of national banks by state and asset size**
**September 30, 2000**

| | All national banks | National banks: Less than $100 million | $100 million to $1 billion | $1 billion to $10 billion | Greater than $10 billion | Memoranda: All commercial banks |
|---|---|---|---|---|---|---|
| All institutions | 2,242 | 1,125 | 941 | 132 | 44 | 8,375 |
| Alabama | 24 | 12 | 12 | 0 | 0 | 158 |
| Alaska | 3 | 1 | 0 | 2 | 06 | |
| Arizona | 16 | 6 | 5 | 2 | 3 | 42 |
| Arkansas | 41 | 13 | 28 | 0 | 0 | 188 |
| California | 82 | 31 | 40 | 9 | 2 | 310 |
| Colorado | 56 | 36 | 18 | 1 | 1 | 185 |
| Connecticut | 8 | 3 | 5 | 0 | 0 | 23 |
| Delaware | 15 | 2 | 8 | 2 | 3 | 32 |
| District of Columbia | 5 | 2 | 3 | 0 | 0 | 6 |
| Florida | 83 | 35 | 41 | 7 | 0 | 267 |
| Georgia | 65 | 37 | 26 | 1 | 1 | 338 |
| Hawaii | 1 | 0 | 1 | 0 | 0 | 8 |
| Idaho | 1 | 0 | 1 | 0 | 0 | 17 |
| Illinois | 194 | 81 | 102 | 7 | 4 | 711 |
| Indiana | 32 | 8 | 17 | 5 | 2 | 153 |
| Iowa | 46 | 25 | 19 | 2 | 0 | 434 |
| Kansas | 107 | 77 | 27 | 3 | 0 | 376 |
| Kentucky | 55 | 26 | 26 | 3 | 0 | 245 |
| Louisiana | 18 | 10 | 5 | 1 | 2 | 150 |
| Maine | 6 | 1 | 4 | 1 | 0 | 16 |
| Maryland | 16 | 6 | 8 | 2 | 0 | 75 |
| Massachusetts | 13 | 5 | 6 | 2 | 0 | 44 |
| Michigan | 28 | 11 | 15 | 1 | 1 | 168 |
| Minnesota | 127 | 79 | 44 | 1 | 3 | 492 |
| Mississippi | 19 | 7 | 11 | 1 | 0 | 97 |
| Missouri | 48 | 28 | 17 | 3 | 0 | 361 |
| Montana | 18 | 14 | 2 | 2 | 0 | 85 |
| Nebraska | 78 | 58 | 18 | 2 | 0 | 279 |
| Nevada | 8 | 2 | 2 | 3 | 1 | 30 |
| New Hampshire | 6 | 2 | 2 | 1 | 1 | 16 |
| New Jersey | 24 | 3 | 13 | 8 | 0 | 77 |
| New Mexico | 16 | 6 | 7 | 3 | 0 | 51 |
| New York | 63 | 14 | 40 | 8 | 1 | 150 |
| North Carolina | 9 | 2 | 3 | 1 | 3 | 72 |
| North Dakota | 17 | 7 | 7 | 3 | 0 | 111 |
| Ohio | 92 | 42 | 34 | 10 | 6 | 215 |
| Oklahoma | 103 | 68 | 31 | 4 | 0 | 292 |
| Oregon | 4 | 1 | 2 | 1 | 0 | 43 |
| Pennsylvania | 93 | 24 | 59 | 7 | 3 | 190 |
| Rhode Island | 3 | 1 | 0 | 1 | 1 | 7 |
| South Carolina | 24 | 16 | 7 | 1 | 0 | 78 |
| South Dakota | 21 | 11 | 8 | 1 | 1 | 98 |
| Tennessee | 28 | 8 | 17 | 1 | 2 | 193 |
| Texas | 361 | 226 | 127 | 6 | 2 | 725 |
| Utah | 8 | 3 | 2 | 2 | 1 | 54 |
| Vermont | 11 | 3 | 7 | 1 | 0 | 18 |
| Virginia | 36 | 14 | 19 | 3 | 0 | 148 |
| Washington | 15 | 12 | 3 | 0 | 0 | 81 |
| West Virginia | 25 | 11 | 10 | 4 | 0 | 78 |
| Wisconsin | 50 | 24 | 24 | 2 | 0 | 316 |
| Wyoming | 20 | 11 | 8 | 1 | 0 | 48 |
| U.S. territories | 0 | 0 | 0 | 0 | 0 | 18 |

**Total assets of national banks by state and asset size**
**September 30, 2000**
(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 |
|---|---|---|---|---|---|---|
| All institutions | $3,363,543 | $57,078 | $245,200 | $401,927 | $2,659,339 | $6,064,084 |
| Alabama | 3,731 | 709 | 3,022 | 0 | 0 | 179,415 |
| Alaska | 5,012 | 60 | 0 | 4,952 | 0 | 5,983 |
| Arizona | 52,989 | 164 | 1,703 | 3,825 | 47,297 | 56,190 |
| Arkansas | 7,269 | 663 | 6,606 | 0 | 0 | 25,006 |
| California | 173,492 | 1,563 | 12,121 | 22,794 | 137,015 | 305,119 |
| Colorado | 26,288 | 1,765 | 4,627 | 3,955 | 15,941 | 46,084 |
| Connecticut | 1,149 | 215 | 933 | 0 | 0 | 3,124 |
| Delaware | 93,703 | 140 | 2,432 | 3,828 | 87,303 | 138,308 |
| District of Columbia | 652 | 62 | 590 | 0 | 0 | 759 |
| Florida | 25,027 | 2,144 | 10,608 | 12,275 | 0 | 57,521 |
| Georgia | 25,059 | 1,981 | 6,060 | 6,411 | 10,608 | 162,940 |
| Hawaii | 299 | 0 | 299 | 0 | 0 | 23,987 |
| Idaho | 217 | 0 | 217 | 0 | 0 | 2,403 |
| Illinois | 226,784 | 4,088 | 25,321 | 21,431 | 175,944 | 350,445 |
| Indiana | 56,854 | 389 | 5,881 | 16,021 | 34,562 | 80,926 |
| Iowa | 13,148 | 1,327 | 4,576 | 7,246 | 0 | 43,354 |
| Kansas | 18,417 | 3,584 | 7,135 | 7,697 | 0 | 36,569 |
| Kentucky | 22,867 | 1,642 | 4,690 | 16,535 | 0 | 50,275 |
| Louisiana | 35,043 | 628 | 982 | 5,812 | 27,621 | 50,345 |
| Maine | 5,830 | 28 | 1,428 | 4,375 | 0 | 9,304 |
| Maryland | 5,704 | 344 | 2,131 | 3,229 | 0 | 46,572 |
| Massachusetts | 9,056 | 264 | 1,295 | 7,497 | 0 | 104,572 |
| Michigan | 16,833 | 461 | 3,519 | 1,255 | 11,599 | 133,670 |
| Minnesota | 158,802 | 3,755 | 10,852 | 2,285 | 141,909 | 181,132 |
| Mississippi | 10,079 | 341 | 2,933 | 6,804 | 0 | 33,933 |
| Missouri | 24,425 | 1,446 | 5,452 | 17,527 | 0 | 61,739 |
| Montana | 3,560 | 582 | 393 | 2,586 | 0 | 10,567 |
| Nebraska | 15,913 | 2,661 | 4,343 | 8,909 | 0 | 29,042 |
| Nevada | 26,413 | 73 | 355 | 14,802 | 11,182 | 38,741 |
| New Hampshire | 20,468 | 55 | 379 | 4,761 | 15,273 | 22,607 |
| New Jersey | 28,464 | 186 | 4,161 | 24,116 | 0 | 95,102 |
| New Mexico | 11,066 | 305 | 2,591 | 8,170 | 0 | 15,100 |
| New York | 397,266 | 910 | 11,958 | 15,400 | 368,998 | 1,240,134 |
| North Carolina | 906,051 | 85 | 1,186 | 2,767 | 902,012 | 988,237 |
| North Dakota | 12,230 | 290 | 2,139 | 9,801 | 0 | 17,823 |
| Ohio | 286,300 | 2,043 | 9,765 | 21,622 | 252,870 | 349,226 |
| Oklahoma | 24,025 | 3,504 | 6,131 | 14,390 | 0 | 41,604 |
| Oregon | 10,507 | 4 | 573 | 9,930 | 0 | 17,682 |
| Pennsylvania | 153,031 | 1,376 | 17,119 | 15,246 | 119,290 | 196,371 |
| Rhode Island | 167,207 | 8 | 0 | 5,490 | 161,710 | 177,282 |
| South Carolina | 4,720 | 756 | 2,066 | 1,898 | 0 | 22,513 |
| South Dakota | 28,827 | 375 | 2,586 | 7,416 | 18,451 | 36,867 |
| Tennessee | 65,567 | 587 | 5,045 | 7,828 | 52,107 | 86,855 |
| Texas | 108,766 | 11,233 | 29,908 | 16,175 | 51,450 | 162,051 |
| Utah | 26,235 | 146 | 648 | 9,244 | 16,197 | 88,525 |
| Vermont | 3,309 | 188 | 2,084 | 1,037 | 0 | 7,596 |
| Virginia | 12,941 | 707 | 4,844 | 7,390 | 0 | 57,319 |
| Washington | 1,638 | 603 | 1,035 | 0 | 0 | 14,631 |
| West Virginia | 13,216 | 655 | 2,355 | 10,206 | 0 | 22,409 |
| Wisconsin | 13,015 | 1,518 | 6,744 | 4,753 | 0 | 77,321 |
| Wyoming | 4,080 | 467 | 1,380 | 2,234 | 0 | 7,258 |
| U.S. territories | 0 | 0 | 0 | 0 | 0 | 51,546 |

# Index

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### Southwestern District

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