Comptroller of the Currency
Administrator of National Banks

Quarterly Journal

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Office of the Comptroller of the Currency
December 2001

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

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Background

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

The OCC regulates national banks by its power to:

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

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

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

The Comptroller

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

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

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

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

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John D. Hawke Jr.

Comptroller of the Currency

The Administrator of National Banks

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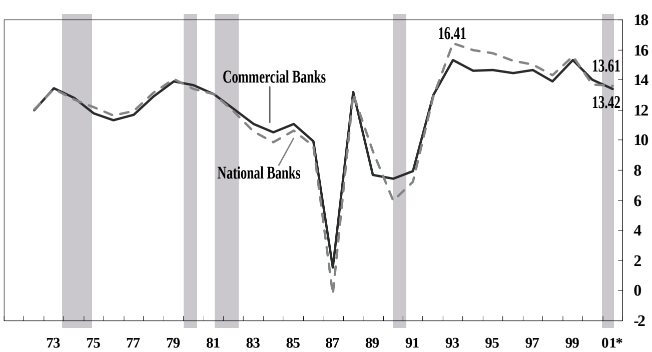
Condition and Performance of Commercial Banks

Summary

Bank earnings fell during the third quarter, as the recession cut into noninterest income, and banks adjusted to weakness in their loan books by boosting provisions. With both earnings and capital strong by standards of recent history, however, the industry is well positioned to absorb the costs imposed by a recession.

Figure 1-ROE slips in third quarter

Commercial and National Bank ROE   Percent



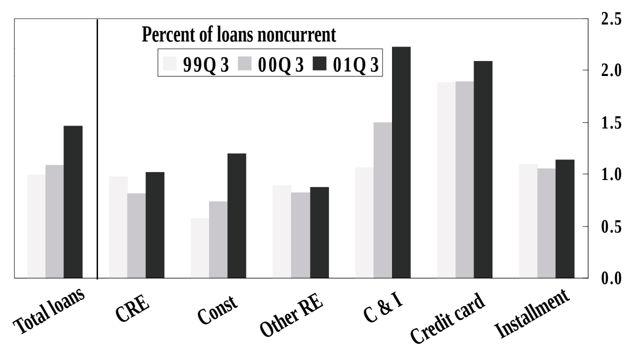
* 2001 data as of September 30, 2001. All other data as of year-end. Shaded areas represent periods of recession.
Source: Integrated Banking Information Sytem

The early months of the economic slowdown saw the greatest impact on the manufacturing sector, with output declining for all major market and industry groups except mining. Not surprisingly, commercial and industrial (C&I) loan volume slowed as a result. During the second and third quarters, signs of recession spread from the manufacturing sector to the consumer sector. The economy lost 1.2 million jobs between March and November; this compares with 1.8 million jobs lost in the recession of 1990–91.

As the economy has weakened, credit quality has suffered. Noncurrent loan ratios rose for all major classes of loans—particularly for C&I and construction loans at large banks and for credit card loans at small banks. Although provisions continue to exceed charge-offs, rapid growth in the noncurrent ratio has led to a decline in the reserve coverage ratio. Higher provisioning requirements will likely continue for at least several more quarters, as nonperforming and charge-off ratios remain high.

Figure 2-Noncurrent loans are increasing

National Banks   Percent



Noncurrent loans as a percent of loans in respective category.
Source: Integrated Banking Information System

Large banks have been hit disproportionately hard by credit quality deterioration. Moreover, market-sensitive income, on which many large banks depend, has fallen sharply from the record highs of recent years. International income, another important element on the income statements of many large banks, is unlikely to provide much of a boost, given the synchronized global slowdown now taking place. On the positive side, large banks have seen substantial increases in net interest income, and in potential gains from available-for-sale securities. For both small and large banks, loan growth will remain slow until the economy picks up.

Key Trends

In the third quarter, return on equity for national banks fell to 12.3 percent, down from 15.4 percent a year ago, and record-high 16-plus-percent levels recorded in the mid- and late-1990s. Increased provisioning accounted for most of the decline. Third-quarter income fell $1.2 billion (12 percent), compared with the third quarter of 2000, as increased provisioning more than offset an increase in net interest income.

Driving the decline was a large increase in provisioning—nearly double the figure for third-quarter 2000—as banks adjusted to a fall in credit quality. In addition, the weaker economy pushed down banks' noninterest income. On the positive side, banks in the aggregate, and large

Table 1– Increased provisioning costs and slippage in noninterest income main factors in weaker earnings

National Banks
Major income components ($billions)

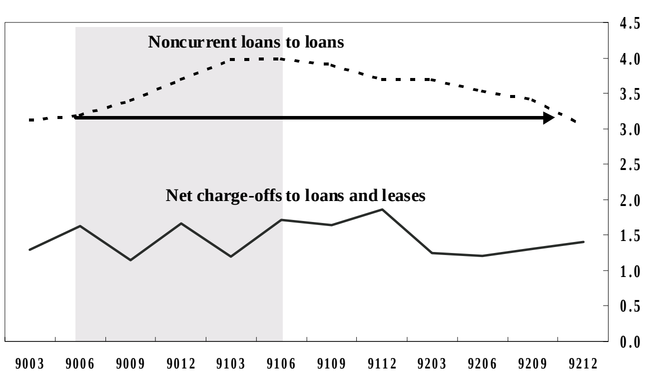
	Sep-00	Sep-01	Change
Positives			
Net interest income	29,132	31,415	2,283
Real gains/losses sec	-399	585	984
Negatives			
Provisioning	4,490	8,219	3,729
Noninterest income	25,516	24,425	-1,091
Noninterest expense	32,358	33,004	646
Net income	11,097	9,803	-1,294

Source: Integrated Banking Information System

banks in particular, saw a surge in net interest income as the Federal Reserve continued to push down interest rates.

Noncurrent loan ratios and charge offs are likely to remain high for several quarters after the end of the recession. In the 1990–91 recession, for example, the noncurrent ratio rose by an average of 57 basis points for the three quarters of the recession, and for three quarters afterwards. The charge-off ratio rose by an average of 25 basis points over those six quarters. If that pattern were to occur again, and banks were to maintain the same ratio of reserves to noncurrent loans, provisions would have to rise by about $40 billion—about 40 percent of pre-recession earnings—over 6 quarters. Thus, earnings may not return soon to the exalted levels of the last several years. Moreover, some banks will have to look elsewhere for a way to pay for provisioning requirements. Some will sell appreciated securities; others may reduce dividends.

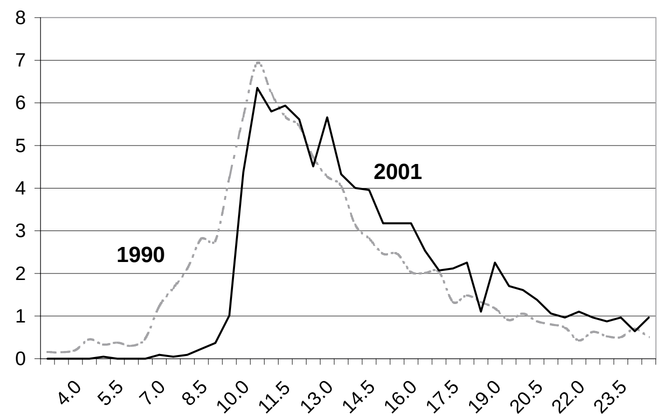
Figure 3– Based on past experience, credit quality problems will continue after recovery starts



Quarterly data. Shaded area represent period of recession.
Source: Integrated Banking Information System

Generally high capital levels give banks a better cushion against this recession than they had in 1990. The improvement is particularly noticeable at the low end of the capital range. For example, only 1 percent of national banks had a risk-based capital ratio of less than 9.5 percent in 2001, as against about 15 percent in 1990. Today, almost all banks have at least adequate levels of capital, providing a valuable buffer against the risks posed by a recession.

Figure 4– Percent of national banks with given levels of risk-based capital



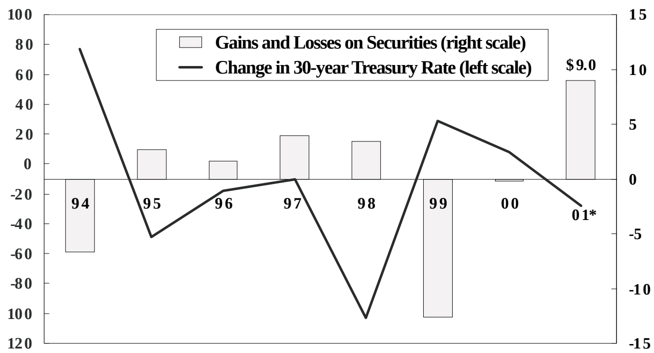
In addition, banks hold substantial quantities of available-for-sale securities, mostly bonds, which have risen in value as interest rates have fallen. The potential gains from the sale of these securities affords banks additional protection in covering their extra provisioning costs over the next several quarters, particularly while the economy remains weak and interest rates low. A rise in interest rates, however, would reduce the value of bonds, so this appreciation cannot be counted on as a consistent source of protection.

The manufacturing sector continues to suffer the greatest impact from the recession. Manufacturing output is now 8 percent below the peak reached 18 months ago; this is close to the post-war record decline of 10.8 percent set in the recession of 1981–82. The purchasing managers' index fell to an 11-year low in October. Even after a modest rise in November, the index has remained below the critical level of 50 for 16 consecutive months. The recession has hit corporate profits particularly hard, coming as it does after a three-year squeeze on corporate profit margins; profits as a share of corporate gross domestic product (GDP) have now matched the postwar lows reached in 1982.

Figure 5- Banks also have sizable potential gains on sales of securities if interest rates remain low

National Banks

Basis Points $ Billions



* 2001 data through September. All other data as of year-end.
Source: Integrated Banking Information System

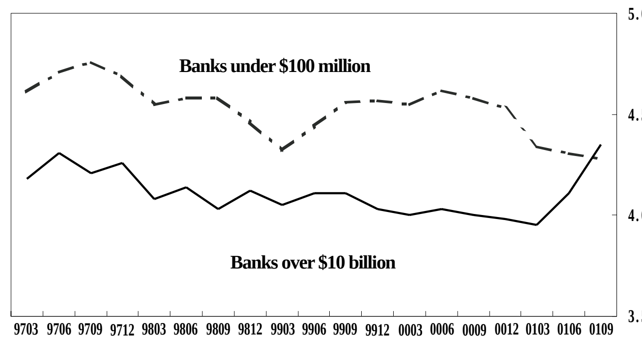
For banks, the result has been a decline in C&I loan volume. Through the third quarter, commercial banks' C&I portfolios are down 5 percent for the year. This will be the first year in a decade in which C&I loan volumes actually drop. The decline is concentrated in large banks, many of whose large corporate clients can now go directly to the bond market and replace short-term debt (commercial paper and bank loans) with longer-term debt, mostly bonds. Not surprisingly, bond issuance has risen sharply in 2001. In contrast, smaller banks have expanded their C&I portfolios; nearly half of smaller banks reported C&I loan growth of over 10 percent from a year earlier.

The recession has now spread beyond the manufacturing sector to the service and consumer sectors. By October, unemployment rates were up 1 percent or more over a year earlier in 19 states, with many of the new additions to the list, including Florida, Virginia, and Arizona, and Hawaii concentrated in the service sector. Consumer confidence, which had been falling since the beginning of the year, continued to fall in the third quarter, and is now about 25 percent below its peak. The consumer debt burden (debt service payments as a percent of disposable personal income) remains near the historical peak. Although consumer spending has continued to grow, the fall in consumer income that accompanies the recession will make this difficult to sustain.

Large banks have suffered from the sharp drop in market-sensitive income, which is heavily concentrated in a few banks: just 10 banks earn 75 percent of market-sensitive income. The synchronized global slowdown has also restrained large banks' international income. In contrast, during the last recession, both Japan and Europe were growing, boosting earnings for U.S. banks with an active international presence. For banks with over $10 billion in assets reporting international income, international income represented over 60 percent of total net income from 1990 to 1992. Over the last three years, however, the ratio has remained below 40 percent.

Figure 6- Large banks have seen gains on net interest income

Median NIM for Non-specialty National Banks Percent



Source: Integrated Banking Information System. Excludes specialty banks that have credit card loans (or securitized credit card credits) in excess of 25% of assets or loans less than 10% of assets.

Falling interest rates have helped large banks, which are net borrowers in the interbank market. They have gained particularly because the sharpest drop in rates has occurred in the shorter maturities, which dominate the interbank market. At the same time, falling rates have hurt those small banks that are net lenders. This is what happens in spot markets: buyers (borrowers) benefit, at the expense of sellers, when spot prices are falling. For both net borrowers and net lenders, net interest margins can be expected to return to more normal levels over time as banks reprice their loans.

Small banks face their own set of pressures. Net interest margins have fallen for small banks that lend heavily into the interbank market. Although credit quality in the aggregate has held up better at small banks than large banks, the consumer credit portfolio has deteriorated. Small banks have been increasing provisions to offset this deterioration. This provisioning will have to continue for several more quarters at least.

Key indicators, FDIC-insured national banks
Annual 1997–2000, year-to-date through September 30, 2001, third quarter 2000, and third quarter 2001

(Dollar figures in millions)

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q3	Preliminary 2001Q3
Number of institutions reporting	2,597	2,456	2,364	2,230	2,173	2,242	2,173
Total employees (FTEs)	912,463	974,871	983,186	948,648	947,715	945,383	947,715
Selected income data ($)							
Net income	$35,782	$37,607	$42,590	$38,959	$31,671	$11,097	$9,803
Net interest income	106,639	110,985	114,556	115,906	90,296	29,132	31,415
Provision for loan losses	13,065	15,242	15,549	20,555	19,461	4,490	8,219
Noninterest income	65,429	81,344	92,650	96,183	73,104	25,516	24,425
Noninterest expense	104,682	122,606	125,811	128,538	96,036	32,358	33,004
Net operating income	34,993	35,548	42,415	40,209	31,080	11,589	9,422
Cash dividends declared	28,587	25,414	29,870	32,327	20,895	7,140	7,105
Net charge-offs to loan and lease reserve	12,661	14,492	14,176	17,240	16,645	3,805	6,582
Selected condition data ($)							
Total assets	2,893,910	3,183,384	3,271,264	3,414,446	3,544,511	3,363,493	3,544,511
Total loans and leases	1,840,485	2,015,585	2,127,933	2,227,071	2,235,513	2,226,940	2,235,513
Reserve for losses	34,865	36,810	37,687	40,020	43,168	39,244	43,168
Securities	452,118	516,117	537,311	502,295	526,516	509,327	526,516
Other real estate owned	2,112	1,833	1,572	1,553	1,805	1,529	1,805
Noncurrent loans and leases	17,878	19,513	20,815	27,160	32,634	24,298	32,634
Total deposits	2,004,867	2,137,946	2,154,272	2,250,464	2,296,590	2,194,953	2,296,590
Domestic deposits	1,685,316	1,785,856	1,776,126	1,827,126	1,908,823	1,768,496	1,908,823
Equity capital	244,794	274,192	278,013	293,838	329,192	292,760	329,192
Off-balance-sheet derivatives	8,704,481	10,953,514	12,077,568	15,502,911	19,609,485	14,418,220	19,609,485
Performance ratios (annualized %)							
Return on equity	15.00	14.29	15.57	13.71	13.61	15.40	12.28
Return on assets	1.29	1.24	1.35	1.18	1.22	1.32	1.12
Net interest income to assets	3.83	3.67	3.63	3.50	3.47	3.48	3.59
Loss provision to assets	0.47	0.50	0.49	0.62	0.75	0.54	0.94
Net operating income to assets	1.26	1.18	1.35	1.21	1.19	1.38	1.08
Noninterest income to assets	2.35	2.69	2.94	2.91	2.81	3.05	2.79
Noninterest expense to assets	3.76	4.05	3.99	3.88	3.69	3.86	3.78
Loss provision to loans and leases	0.73	0.79	0.76	0.95	1.15	0.81	1.46
Net charge-offs to loans and leases	0.71	0.75	0.70	0.80	0.99	0.69	1.17
Loss provision to net charge-offs	103.19	105.12	109.69	119.23	116.92	117.98	124.87
Performance ratios (%)							
Percent of institutions unprofitable	4.89	5.94	7.06	6.91	7.32	6.65	7.87
Percent of institutions with earnings gains	67.96	61.60	62.18	66.68	53.01	59.59	54.21
Nonint. income to net operating revenue	38.02	42.29	44.71	45.35	44.74	46.69	43.74
Nonint. expense to net operating revenue	60.84	63.75	60.72	60.61	58.77	59.21	59.10
Condition ratios (%)							
Nonperforming assets to assets	0.70	0.68	0.70	0.86	0.98	0.78	0.98
Noncurrent loans to loans	0.97	0.97	0.98	1.22	1.46	1.09	1.46
Loss reserve to noncurrent loans	195.01	188.65	181.05	147.35	132.28	161.51	132.28
Loss reserve to loans	1.89	1.83	1.77	1.80	1.93	1.76	1.93
Equity capital to assets	8.46	8.61	8.50	8.61	9.29	8.70	9.29
Leverage ratio	7.42	7.43	7.49	7.49	7.74	7.60	7.74
Risk-based capital ratio	11.84	11.79	11.71	11.85	12.32	11.98	12.32
Net loans and leases to assets	62.39	62.16	63.90	64.05	61.85	65.04	61.85
Appreciation in securities (% of par)	1.11	0.82	−2.45	−0.01	1.85	−1.52	1.85
Residential mortgage assets to assets	20.10	20.41	20.60	19.60	21.42	20.24	21.42
Total deposits to assets	69.28	67.16	65.85	65.91	64.79	65.26	64.79
Core deposits to assets	51.59	49.72	47.01	45.61	46.44	44.80	46.44
Volatile liabilities to assets	31.42	31.77	34.81	35.18	32.39	35.97	32.39

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

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q3	Preliminary 2001Q3
Percent of loans past due 30–89 days							
Total loans and leases	1.32	1.27	1.16	1.26	1.37	1.14	1.37
Loans secured by real estate (RE)	1.39	1.33	1.22	1.42	1.28	1.21	1.28
1–4 family residential mortgages	1.65	1.50	1.61	1.95	1.56	1.60	1.56
Home equity loans	0.93	0.97	0.77	1.07	0.93	0.93	0.93
Multifamily residential mortgages	1.33	0.94	0.69	0.59	0.72	0.58	0.72
Commercial RE loans	0.95	1.02	0.70	0.72	0.81	0.64	0.81
Construction RE loans	1.63	1.82	1.07	1.12	1.36	1.08	1.36
Commercial and industrial loans*	0.76	0.81	0.71	0.71	0.95	0.70	0.95
Loans to individuals	2.52	2.44	2.36	2.40	2.33	2.28	2.33
Credit cards	2.75	2.52	2.53	2.50	2.65	2.49	2.65
Installment loans and other plans	2.34	2.37	2.24	2.31	2.32	2.11	2.32
All other loans and leases	0.46	0.46	0.50	0.58	1.35	0.58	1.35
Percent of loans noncurrent							
Total loans and leases	0.97	0.97	0.98	1.22	1.46	1.09	1.46
Loans secured by real estate (RE)	1.07	0.98	0.87	0.93	1.01	0.86	1.01
1–4 family residential mortgages	1.01	0.95	0.91	1.06	0.99	0.92	0.99
Home equity loans	0.43	0.41	0.32	0.41	0.43	0.39	0.43
Multifamily residential mortgages	1.01	0.88	0.43	0.55	0.41	0.40	0.41
Commercial RE loans	1.27	1.01	0.84	0.77	1.02	0.81	1.02
Construction RE loans	1.00	0.80	0.63	0.82	1.20	0.74	1.20
Commercial and industrial loans	0.78	0.86	1.11	1.66	2.23	1.50	2.23
Loans to individuals	1.49	1.59	1.52	1.46	1.48	1.44	1.48
Credit cards	2.03	2.06	2.00	1.89	2.09	1.89	2.09
Installment loans and other plans	1.04	1.19	1.16	1.06	1.14	1.05	1.14
All other loans and leases	0.27	0.31	0.40	0.85	1.25	0.53	1.25
Percent of loans charged-off, net							
Total loans and leases	0.71	0.75	0.70	0.80	0.99	0.69	1.17
Loans secured by real estate (RE)	0.06	0.05	0.10	0.12	0.26	0.13	0.47
1–4 family residential mortgages	0.08	0.07	0.14	0.14	0.37	0.13	0.76
Home equity loans	0.18	0.16	0.19	0.23	0.29	0.27	0.35
Multifamily residential mortgages	0.01	0.07	0.02	0.03	0.02	0.07	0.06
Commercial RE loans	−0.01	−0.02	0.03	0.07	0.12	0.08	0.16
Construction RE loans	−0.10	−0.01	0.03	0.05	0.10	0.08	0.14
Commercial and industrial loans*	0.27	0.38	0.54	0.87	1.21	0.70	1.36
Loans to individuals	2.86	2.92	2.65	2.84	2.88	2.54	3.13
Credit cards	4.95	5.03	4.51	4.43	4.69	4.23	5.16
Installment loans and other plans	1.20	1.23	1.27	1.54	1.48	1.14	1.63
All other loans and leases	0.10	0.53	0.31	0.32	0.44	0.21	0.55
Loans outstanding ($)							
Total loans and leases	$1,840,485	$2,015,585	$2,127,933	$2,227,071	$2,235,513	$2,226,940	$2,235,513
Loans secured by real estate (RE)	725,305	764,944	853,141	892,152	938,893	900,899	938,893
1–4 family residential mortgages	363,329	381,597	433,807	443,088	450,840	456,723	450,840
Home equity loans	67,669	66,091	67,267	82,672	95,639	80,373	95,639
Multifamily residential mortgages	23,346	23,201	26,561	28,021	30,263	28,149	30,263
Commercial RE loans	190,067	200,469	214,145	221,218	231,741	219,914	231,741
Construction RE loans	47,410	56,261	71,578	76,884	89,998	75,879	89,998
Farmland loans	10,178	10,930	11,957	12,346	12,670	12,341	12,670
RE loans from foreign offices	23,306	26,396	27,825	27,923	27,741	27,519	27,741
Commercial and industrial loans	508,589	583,903	622,006	646,995	618,076	649,897	618,076
Loans to individuals	371,477	386,410	348,634	370,363	372,891	353,795	372,891
Credit cards*	168,236	176,408	147,179	176,372	156,182	162,139	156,182
Other revolving credit plans	0	0	0	0	21,049	0	21,049
Installment loans	203,241	210,003	201,455	193,991	195,660	191,655	195,660
All other loans and leases	237,326	282,367	306,042	319,145	307,094	323,866	307,094
Less: Unearned income	2,212	2,039	1,890	1,584	1,441	1,516	1,441

*Previously banks reported "Credit card & related plans." Starting with 2001 this item will be split into separate categories, "Credit cards" and "Other revolving credit plans."

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

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3
Number of institutions reporting	1,126	1,027	940	974	132	131	44	41
Total employees (FTEs)	27,835	24,318	95,432	96,152	116,502	110,579	705,614	716,666
Selected income data ($)								
Net income	$147	$133	$766	$795	$1,724	$1,528	$8,459	$7,347
Net interest income	600	519	2,483	2,544	3,823	4,199	22,225	24,153
Provision for loan losses	37	40	278	243	573	821	3,602	7,114
Noninterest income	278	228	1,325	1,413	3,594	2,790	20,319	19,994
Noninterest expense	635	529	2,388	2,569	4,031	3,916	25,305	25,990
Net operating income	148	133	782	777	1,776	1,476	8,884	7,036
Cash dividends declared	76	83	357	423	794	1,040	5,912	5,558
Net charge-offs to loan and lease reserve	23	32	180	174	439	699	3,163	5,677
Selected condition data ($)								
Total assets	57,170	53,299	245,058	256,641	401,927	411,484	2,659,339	2,823,087
Total loans and leases	34,277	31,929	156,675	161,030	253,165	261,168	1,782,824	1,781,386
Reserve for losses	456	431	2,148	2,270	4,514	5,439	32,126	35,027
Securities	15,198	12,727	61,814	60,801	91,362	84,949	340,954	368,038
Other real estate owned	67	70	189	254	160	175	1,113	1,307
Noncurrent loans and leases	323	345	1,301	1,593	2,186	2,821	20,487	27,875
Total deposits	47,989	44,747	197,872	206,789	264,628	264,478	1,684,464	1,780,575
Domestic deposits	47,978	44,747	197,416	206,427	261,312	261,757	1,261,790	1,395,891
Equity capital	6,360	6,175	23,961	26,276	37,254	40,300	225,186	256,440
Off-balance-sheet derivatives	22	56	1,434	2,929	32,030	38,821	14,659,322	19,768,726
Performance ratios (annualized %)								
Return on equity	9.41	8.72	13.06	12.32	19.00	15.47	15.23	11.86
Return on assets	1.05	1.01	1.26	1.25	1.73	1.50	1.28	1.06
Net interest income to assets	4.25	3.94	4.09	4.01	3.83	4.13	3.35	3.47
Loss provision to assets	0.26	0.31	0.46	0.38	0.57	0.81	0.54	1.02
Net operating income to assets	1.05	1.01	1.29	1.22	1.78	1.45	1.34	1.01
Noninterest income to assets	1.97	1.74	2.18	2.23	3.60	2.75	3.06	2.87
Noninterest expense to assets	4.50	4.02	3.93	4.05	4.04	3.85	3.82	3.73
Loss provision to loans and leases	0.44	0.51	0.72	0.61	0.92	1.27	0.81	1.58
Net charge-offs to loans and leases	0.27	0.41	0.46	0.44	0.70	1.08	0.72	1.26
Loss provision to net charge-offs	159.56	125.06	154.62	139.35	130.43	117.56	113.87	125.33
Performance ratios (%)								
Percent of institutions unprofitable	10.04	11.98	2.45	4.11	6.82	4.58	9.09	4.88
Percent of institutions with earnings gains	58.61	47.52	62.02	59.96	54.55	61.83	47.73	60.98
Nonint. income to net operating revenue	31.66	30.57	34.79	35.70	48.45	39.92	47.76	45.29
Nonint. expense to net operating revenue	72.31	70.80	62.71	64.94	54.34	56.02	59.48	58.87
Condition ratios (%)								
Nonperforming assets to assets	0.68	0.78	0.61	0.72	0.60	0.74	0.83	1.05
Noncurrent loans to loans	0.94	1.08	0.83	0.99	0.86	1.08	1.15	1.56
Loss reserve to noncurrent loans	140.92	124.99	165.11	142.47	206.45	192.81	156.81	125.66
Loss reserve to loans	1.33	1.35	1.37	1.41	1.78	2.08	1.80	1.97
Equity capital to assets	11.12	11.59	9.78	10.24	9.27	9.79	8.47	9.08
Leverage ratio	11.22	11.21	9.66	9.54	8.41	8.45	7.20	7.40
Risk-based capital ratio	17.94	18.16	14.78	14.68	13.36	13.85	11.50	11.88
Net loans and leases to assets	59.16	59.10	63.06	61.86	61.86	62.15	65.83	61.86
Securities to assets	26.58	23.88	25.22	23.69	22.73	20.64	12.82	13.04
Appreciation in securities (% of par)	−1.39	2.27	−1.51	2.37	−1.45	2.16	−1.55	1.67
Residential mortgage assets to assets	21.39	21.77	24.61	24.68	26.95	26.95	18.80	20.32
Total deposits to assets	83.94	83.95	80.75	80.58	65.84	64.27	63.34	63.07
Core deposits to assets	71.33	70.48	67.75	67.08	55.14	54.09	40.56	43.00
Volatile liabilities to assets	15.31	15.25	18.83	17.93	28.00	25.78	39.20	34.99

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

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3
Percent of loans past due 30–89 days								
Total loans and leases	1.23	1.42	1.11	1.29	1.25	1.36	1.13	1.38
Loans secured by real estate (RE)	1.05	1.21	0.87	1.07	0.91	0.97	1.33	1.37
1–4 family residential mortgages	1.40	1.51	1.08	1.28	0.97	0.94	1.79	1.71
Home equity loans	0.76	0.81	0.70	0.77	0.86	0.89	0.96	0.94
Multifamily residential mortgages	0.54	0.97	0.42	0.44	1.01	0.94	0.49	0.71
Commercial RE loans	0.72	0.96	0.65	0.87	0.80	0.81	0.58	0.79
Construction RE loans	1.16	1.28	1.04	1.37	0.94	1.48	1.12	1.33
Commercial and industrial loans*	2.03	1.84	1.53	1.39	1.14	1.54	0.61	0.87
Loans to individuals	1.97	2.35	1.91	2.46	2.37	2.31	2.30	2.32
Credit cards	2.04	2.72	2.84	5.48	2.71	2.77	2.44	2.56
Installment loans and other plans	1.96	2.38	1.69	1.97	2.15	2.09	2.16	2.40
All other loans and leases	0.00	0.00	0.00	0.00	0.94	1.07	0.58	1.40
Percent of loans noncurrent								
Total loans and leases	0.94	1.08	0.83	0.99	0.86	1.08	1.15	1.56
Loans secured by real estate (RE)	0.74	0.93	0.66	0.81	0.63	0.81	0.94	1.08
1–4 family residential mortgages	0.63	0.81	0.60	0.71	0.56	0.69	1.03	1.09
Home equity loans	0.21	0.39	0.40	0.37	0.33	0.45	0.40	0.43
Multifamily residential mortgages	0.43	0.64	0.27	0.51	0.40	0.37	0.42	0.41
Commercial RE loans	0.77	1.03	0.77	0.91	0.75	0.93	0.84	1.08
Construction RE loans	0.68	0.71	0.54	0.94	0.69	1.22	0.79	1.26
Commercial and industrial loans*	2.48	1.81	1.60	1.48	1.25	1.67	1.51	2.33
Loans to individuals	0.65	0.78	0.80	1.14	1.29	1.43	1.53	1.52
Credit cards	1.09	1.74	2.23	4.40	2.23	2.41	1.83	1.98
Installment loans and other plans	0.63	0.76	0.48	0.56	0.67	0.76	1.23	1.30
All other loans and leases	0.00	0.00	0.00	0.00	0.33	0.52	0.55	1.32
Percent of loans charged-off, net								
Total loans and leases	0.27	0.41	0.46	0.44	0.70	1.08	0.72	1.26
Loans secured by real estate (RE)	0.04	0.05	0.05	0.07	0.13	0.16	0.14	0.60
1–4 family residential mortgages	0.02	0.05	0.06	0.07	0.15	0.22	0.14	0.95
Home equity loans	0.05	0.04	0.02	−0.06	0.17	0.21	0.29	0.39
Multifamily residential mortgages	−0.01	0.64	0.07	0.02	0.05	0.04	0.08	0.06
Commercial RE loans	0.07	0.01	0.03	0.09	0.11	0.10	0.08	0.20
Construction RE loans	0.07	0.03	0.04	0.09	0.07	0.12	0.09	0.15
Commercial and industrial loans*	0.89	0.83	0.61	0.72	0.72	0.96	0.70	1.44
Loans to individuals	0.69	0.98	2.13	1.86	2.35	3.65	2.64	3.16
Credit cards	−1.52	3.22	8.43	6.87	5.16	6.89	3.96	4.82
Installment loans and other plans	0.80	0.92	0.61	0.91	0.47	1.23	1.37	1.80
All other loans and leases	0.00	0.00	0.00	0.00	0.26	0.68	0.21	0.54
Loans outstanding ($)								
Total loans and leases	$34,277	$31,929	$156,675	$161,030	$253,165	$261,168	$1,782,824	$1,781,386
Loans secured by real estate (RE)	19,875	18,567	96,685	101,992	136,593	138,161	647,746	680,173
1–4 family residential mortgages	9,264	8,282	42,541	41,464	64,412	63,563	340,505	337,531
Home equity loans	452	475	4,023	4,374	9,767	9,280	66,131	81,511
Multifamily residential mortgages	440	404	3,337	3,693	4,936	4,933	19,437	21,233
Commercial RE loans	5,745	5,436	34,011	37,406	41,600	41,873	138,558	147,026
Construction RE loans	1,670	1,830	8,790	10,730	13,898	16,566	51,521	60,871
Farmland loans	2,304	2,141	3,977	4,322	1,809	1,799	4,252	4,408
RE loans from foreign offices	0	0	6	3	172	146	27,342	27,592
Commercial and industrial loans	5,757	5,420	27,893	28,889	49,921	49,347	566,326	534,421
Loans to individuals	4,749	4,274	22,575	20,406	50,481	53,750	275,990	294,460
Credit cards**	179	127	4,217	3,107	20,075	22,754	137,669	130,193
Other revolving credit plans	0	69	0	450	0	1,779	0	18,752
Installment loans	4,570	4,078	18,357	16,849	30,406	29,217	138,322	145,516
All other loans and leases	3,972	3,725	9,790	9,948	16,263	20,005	293,841	273,416
Less: Unearned income	76	57	268	205	92	95	1,080	1,084

*Includes “All other loans” for institutions under $1 billion in asset size.
**Previously banks reported “Credit card & related plans.” Starting with 2001 this item will be split into separate categories, “Credit cards” and “Other revolving credit plans.”

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	251	306	435	435	514	232	2,173
Total employees (FTEs)	285,924	259,263	187,243	58,492	55,422	101,371	947,715
Selected income data ($)							
Net income	$3,654	$1,280	$1,849	$824	$459	$1,736	$9,803
Net interest income	8,694	8,401	6,666	1,943	1,509	4,202	31,415
Provision for loan losses	2,246	2,408	2,173	311	142	938	8,219
Noninterest income	9,487	4,876	4,000	1,826	591	3,645	24,425
Noninterest expense	10,466	8,920	5,863	2,236	1,351	4,168	33,004
Net operating income	3,502	1,212	1,775	812	437	1,683	9,422
Cash dividends declared	1,420	2,391	1,294	667	282	1,051	7,105
Net charge-offs to loan and lease reserve	1,916	2,025	1,422	295	106	818	6,582
Selected condition data ($)							
Total assets	985,465	1,053,335	794,054	192,003	153,035	366,619	3,544,511
Total loans and leases	597,435	639,423	537,157	129,959	88,336	243,203	2,235,513
Reserve for losses	13,222	10,835	9,827	2,152	1,307	5,825	43,168
Securities	135,149	153,963	126,725	29,316	40,367	40,995	526,516
Other real estate owned	363	722	335	93	117	176	1,805
Noncurrent loans and leases	10,492	9,077	7,840	1,151	989	3,084	32,634
Total deposits	672,788	669,361	488,971	122,299	122,728	220,443	2,296,590
Domestic deposits	430,083	592,142	437,639	116,959	121,692	210,308	1,908,823
Equity capital	89,191	101,593	67,659	16,427	15,077	39,246	329,192
Off-balance-sheet derivatives	6,990,612	10,896,353	1,127,998	6,606	8,522	579,395	19,609,485
Performance ratios (annualized %)							
Return on equity	16.88	5.27	11.23	20.39	12.40	17.96	12.28
Return on assets	1.52	0.49	0.94	1.76	1.21	1.89	1.12
Net interest income to assets	3.61	3.23	3.38	4.16	3.99	4.59	3.59
Loss provision to assets	0.93	0.93	1.10	0.67	0.38	1.02	0.94
Net operating income to assets	1.45	0.47	0.90	1.74	1.16	1.84	1.08
Noninterest income to assets	3.94	1.88	2.03	3.91	1.56	3.98	2.79
Noninterest expense to assets	4.34	3.43	2.98	4.79	3.57	4.55	3.78
Loss provision to loans and leases	1.51	1.47	1.62	0.97	0.65	1.55	1.46
Net charge-offs to loans and leases	1.28	1.24	1.06	0.92	0.48	1.35	1.17
Loss provision to net charge-offs	117.25	118.90	152.80	105.66	134.54	114.67	124.87
Performance ratios (%)							
Percent of institutions unprofitable	7.17	14.38	3.22	5.06	7.39	15.09	7.87
Percent of institutions with earnings gains	56.97	53.59	57.01	57.47	50.00	50.00	54.21
Nonint. income to net operating revenue	52.18	36.73	37.50	48.45	28.14	46.45	43.74
Nonint. expense to net operating revenue	57.56	67.18	54.97	59.32	64.36	53.11	59.10
Condition ratios (%)							
Nonperforming assets to assets	1.12	0.93	1.05	0.65	0.72	0.92	0.98
Noncurrent loans to loans	1.76	1.42	1.46	0.89	1.12	1.27	1.46
Loss reserve to noncurrent loans	126.02	119.36	125.34	186.90	132.07	188.88	132.28
Loss reserve to loans	2.21	1.69	1.83	1.66	1.48	2.40	1.93
Equity capital to assets	9.05	9.64	8.52	8.56	9.85	10.70	9.29
Leverage ratio	8.00	7.50	7.23	7.81	8.36	8.52	7.74
Risk-based capital ratio	12.62	11.97	11.66	12.79	13.75	13.34	12.32
Net loans and leases to assets	59.28	59.68	66.41	66.57	56.87	64.75	61.85
Securities to assets	13.71	14.62	15.96	15.27	26.38	11.18	14.85
Appreciation in securities (% of par)	1.21	1.82	1.88	2.63	2.59	2.65	1.85
Residential mortgage assets to assets	13.43	26.17	22.79	25.62	27.81	21.45	21.42
Total deposits to assets	68.27	63.55	61.58	63.70	80.20	60.13	64.79
Core deposits to assets	35.25	49.72	47.82	55.60	66.77	50.84	46.44
Volatile liabilities to assets	43.58	26.86	31.49	27.63	19.09	28.16	32.39

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30–89 days							
Total loans and leases	1.27	1.18	1.70	1.22	1.27	1.53	1.37
Loans secured by real estate (RE)	1.42	1.09	1.64	0.69	1.21	1.15	1.28
1–4 family residential mortgages	1.66	1.44	2.19	0.55	1.18	1.36	1.56
Home equity loans	0.83	0.89	1.26	0.39	0.53	0.50	0.93
Multifamily residential mortgages	0.55	0.33	0.83	0.73	1.23	1.45	0.72
Commercial RE loans	0.65	0.59	1.09	0.87	1.25	0.71	0.81
Construction RE loans	1.03	0.90	1.61	1.52	1.29	1.89	1.36
Commercial and industrial loans*	0.57	0.54	1.57	1.93	1.12	1.43	0.95
Loans to individuals	2.58	1.91	2.42	2.00	1.80	2.41	2.33
Credit cards	2.90	2.11	2.39	2.07	1.13	2.62	2.65
Installment loans and other plans	2.58	1.96	2.62	2.07	1.91	2.21	2.32
All other loans and leases	0.56	2.29	1.46	0.84	1.18	1.73	1.35
Percent of loans noncurrent							
Total loans and leases	1.76	1.42	1.46	0.89	1.12	1.27	1.46
Loans secured by real estate (RE)	1.33	0.79	1.34	0.52	0.82	0.81	1.01
1–4 family residential mortgages	1.29	0.73	1.65	0.30	0.72	0.63	0.99
Home equity loans	0.30	0.32	0.71	0.25	0.32	0.26	0.43
Multifamily residential mortgages	0.25	0.47	0.44	0.35	0.25	0.44	0.41
Commercial RE loans	0.91	0.97	1.30	0.85	0.91	0.86	1.02
Construction RE loans	0.95	1.22	1.17	1.06	0.83	1.62	1.20
Commercial and industrial loans*	2.23	2.51	2.16	1.20	2.01	2.10	2.23
Loans to individuals	2.34	0.57	0.84	1.22	0.58	1.66	1.48
Credit cards	2.43	1.03	1.65	1.57	0.69	2.13	2.09
Installment loans and other plans	2.71	0.47	0.75	0.97	0.61	0.64	1.14
All other loans and leases	0.80	2.16	1.04	1.21	1.20	0.86	1.25
Percent of loans charged-off, net							
Total loans and leases	1.28	1.24	1.06	0.92	0.48	1.35	1.17
Loans secured by real estate (RE)	0.19	1.03	0.29	0.05	0.04	0.11	0.47
1–4 family residential mortgages	0.18	1.70	0.33	0.03	0.05	0.12	0.76
Home equity loans	0.14	0.45	0.42	0.19	0.18	0.30	0.35
Multifamily residential mortgages	0.00	0.13	0.05	0.04	0.02	0.00	0.06
Commercial RE loans	0.18	0.17	0.30	0.07	0.01	−0.01	0.16
Construction RE loans	0.19	0.12	0.12	0.00	0.06	0.25	0.14
Commercial and industrial loans*	0.75	1.81	1.74	0.88	1.11	1.21	1.36
Loans to individuals	4.02	1.81	2.07	2.79	1.09	4.80	3.13
Credit cards	5.24	3.19	4.97	5.10	2.16	6.04	5.16
Installment loans and other plans	2.25	1.39	1.57	0.64	1.06	1.97	1.63
All other loans and leases	0.33	0.28	1.17	0.80	0.25	0.33	0.55
Loans outstanding ($)							
Total loans and leases	$597,435	$639,423	$537,157	$129,959	$88,336	$243,203	$2,235,513
Loans secured by real estate (RE)	164,513	307,328	239,598	60,504	47,496	119,453	938,893
1–4 family residential mortgages	76,294	162,444	104,110	35,124	18,721	54,147	450,840
Home equity loans	17,435	29,971	31,185	3,753	1,187	12,107	95,639
Multifamily residential mortgages	3,562	10,168	9,775	1,494	1,559	3,706	30,263
Commercial RE loans	33,105	72,824	62,758	12,835	16,723	33,496	231,741
Construction RE loans	8,745	26,277	28,221	4,310	7,695	14,750	89,998
Farmland loans	495	2,799	3,539	2,988	1,611	1,239	12,670
RE loans from foreign offices	24,877	2,845	10	0	0	9	27,741
Commercial and industrial loans	189,933	178,572	151,006	23,778	22,985	51,802	618,076
Loans to individuals	138,021	72,256	70,697	28,466	12,657	50,795	372,891
Credit cards**	80,915	15,252	10,708	13,377	302	35,629	156,182
Other revolving credit plans	10,199	2,947	4,309	959	591	2,044	21,049
Installment loans	46,907	54,057	55,680	14,130	11,764	13,122	195,660
All other loans and leases	105,728	81,612	75,956	17,225	5,313	21,262	307,094
Less: Unearned income	760	345	98	14	115	109	1,441

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

**Previously banks reported “Credit card & related plans.” Starting with 2001 this item will be split into separate categories, “Credit cards” and “Other revolving credit plans.”

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

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q3	Preliminary 2001Q3
Number of institutions reporting	9,142	8,773	8,579	8,315	8,149	8,375	8,149
Total employees (FTEs)	1,538,408	1,626,978	1,657,602	1,670,857	1,671,162	1,655,790	1,671,162
Selected income data ($)							
Net income	$59,156	$61,782	$71,547	$71,007	$55,836	$19,257	$17,353
Net interest income	174,502	182,752	192,142	203,962	157,514	51,327	54,261
Provision for loan losses	19,851	22,215	21,816	30,005	28,001	6,742	11,578
Noninterest income	104,499	123,688	144,454	153,452	117,059	39,257	38,798
Noninterest expense	169,983	194,133	204,209	216,104	164,768	53,684	56,168
Net operating income	57,928	59,225	71,312	72,595	54,086	19,981	16,657
Cash dividends declared	42,541	41,004	51,936	53,842	39,184	12,475	13,556
Net charge-offs to loan and lease reserve	18,318	20,740	20,364	24,787	23,829	5,663	9,248
Selected condition data ($)							
Total assets	5,014,942	5,442,530	5,735,162	6,244,622	6,555,668	6,067,230	6,555,668
Total loans and leases	2,970,747	3,238,287	3,491,666	3,819,547	3,860,819	3,779,167	3,860,819
Reserve for losses	54,685	57,262	58,770	64,139	68,211	62,558	68,211
Securities	871,868	979,852	1,046,526	1,078,981	1,106,816	1,062,196	1,106,816
Other real estate owned	3,795	3,150	2,796	2,912	3,457	2,825	3,457
Noncurrent loans and leases	28,542	31,253	32,997	42,940	51,800	38,869	51,800
Total deposits	3,421,726	3,681,428	3,831,104	4,179,634	4,294,677	4,021,592	4,294,677
Domestic deposits	2,895,531	3,109,395	3,175,515	3,472,968	3,613,777	3,327,385	3,613,777
Equity capital	417,774	462,141	479,737	530,732	586,004	521,313	586,004
Off-balance-sheet derivatives	25,065,499	33,007,227	34,819,179	40,571,148	51,275,576	38,314,316	51,275,576
Performance ratios (annualized %)							
Return on equity	14.68	13.93	15.31	14.02	13.42	15.03	12.16
Return on assets	1.23	1.19	1.31	1.19	1.17	1.28	1.08
Net interest income to assets	3.64	3.51	3.51	3.41	3.30	3.41	3.37
Loss provision to assets	0.41	0.43	0.40	0.50	0.59	0.45	0.72
Net operating income to assets	1.21	1.14	1.30	1.21	1.13	1.33	1.03
Noninterest income to assets	2.18	2.37	2.64	2.57	2.46	2.61	2.41
Noninterest expense to assets	3.54	3.73	3.73	3.61	3.46	3.56	3.48
Loss provision to loans and leases	0.69	0.72	0.66	0.82	0.97	0.72	1.20
Net charge-offs to loans and leases	0.64	0.67	0.61	0.67	0.83	0.61	0.96
Loss provision to net charge-offs	108.37	104.81	107.12	121.04	117.51	119.07	125.19
Performance ratios (%)							
Percent of institutions unprofitable	4.85	6.11	7.50	7.34	7.53	6.83	8.09
Percent of institutions with earnings gains	68.35	61.22	62.83	67.38	53.27	58.89	55.12
Nonint. income to net operating revenue	37.45	40.36	42.92	42.93	42.63	43.34	41.69
Nonint. expense to net operating revenue	60.93	63.35	60.67	60.46	60.01	59.26	60.36
Condition ratios (%)							
Nonperforming assets to assets	0.66	0.65	0.63	0.74	0.85	0.70	0.85
Noncurrent loans to loans	0.96	0.97	0.95	1.12	1.34	1.03	1.34
Loss reserve to noncurrent loans	191.59	183.22	178.11	149.37	131.68	160.95	131.68
Loss reserve to loans	1.84	1.77	1.68	1.68	1.77	1.66	1.77
Equity capital to assets	8.33	8.49	8.36	8.50	8.94	8.59	8.94
Leverage ratio	7.56	7.54	7.79	7.70	7.81	7.84	7.81
Risk-based capital ratio	12.23	12.23	12.16	12.12	12.45	12.26	12.45
Net loans and leases to assets	58.15	58.45	59.86	60.14	57.85	61.26	57.85
Securities to assets	17.39	18.00	18.25	17.28	16.88	17.51	16.88
Appreciation in securities (% of par)	1.10	1.07	−2.31	0.20	2.07	−1.37	2.07
Residential mortgage assets to assets	20.03	20.93	20.78	20.20	20.53	20.57	20.53
Total deposits to assets	68.23	67.64	66.80	66.93	65.51	66.28	65.51
Core deposits to assets	50.06	49.39	46.96	46.39	46.31	45.75	46.31
Volatile liabilities to assets	31.92	31.68	34.94	34.98	33.26	35.72	33.26

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

	1997	1998	1999	2000	Preliminary 2001YTD	2000Q3	Preliminary 2001Q3
Percent of loans past due 30–89 days							
Total loans and leases	1.31	1.26	1.14	1.26	1.36	1.14	1.36
Loans secured by real estate (RE)	1.33	1.26	1.09	1.26	1.23	1.09	1.23
1–4 family residential mortgages	1.59	1.44	1.43	1.72	1.47	1.42	1.47
Home equity loans	0.96	0.98	0.75	0.98	0.88	0.84	0.88
Multifamily residential mortgages	1.11	0.86	0.57	0.55	0.73	0.55	0.73
Commercial RE loans	0.97	0.99	0.69	0.73	0.91	0.66	0.91
Construction RE loans	1.42	1.50	0.98	1.06	1.27	1.04	1.27
Commercial and industrial loans*	0.83	0.88	0.79	0.83	1.10	0.83	1.10
Loans to individuals	2.50	2.43	2.33	2.47	2.37	2.29	2.37
Credit cards	2.73	2.58	2.59	2.66	2.76	2.61	2.76
Installment loans and other plans	2.33	2.33	2.18	2.34	2.31	2.08	2.31
All other loans and leases	0.51	0.51	0.54	0.65	1.13	0.64	1.13
Percent of loans noncurrent							
Total loans and leases	0.96	0.97	0.95	1.12	1.34	1.03	1.34
Loans secured by real estate (RE)	1.01	0.91	0.79	0.81	0.93	0.77	0.93
1–4 family residential mortgages	0.94	0.88	0.82	0.90	0.92	0.81	0.92
Home equity loans	0.44	0.42	0.33	0.37	0.41	0.35	0.41
Multifamily residential mortgages	0.95	0.83	0.41	0.44	0.39	0.34	0.39
Commercial RE loans	1.21	0.95	0.77	0.72	0.95	0.75	0.95
Construction RE loans	0.97	0.81	0.67	0.76	1.07	0.74	1.07
Commercial and industrial loans	0.86	0.99	1.18	1.66	2.17	1.52	2.17
Loans to individuals	1.47	1.52	1.42	1.41	1.42	1.35	1.42
Credit cards	2.18	2.22	2.05	2.01	2.18	1.98	2.18
Installment loans and other plans	0.98	1.06	1.04	0.98	1.06	0.95	1.06
All other loans and leases	0.25	0.34	0.39	0.69	0.99	0.47	0.99
Percent of loans charged-off, net							
Total loans and leases	0.64	0.67	0.61	0.67	0.83	0.61	0.96
Loans secured by real estate (RE)	0.06	0.05	0.08	0.09	0.18	0.09	0.29
1–4 family residential mortgages	0.08	0.07	0.11	0.11	0.24	0.10	0.47
Home equity loans	0.16	0.14	0.15	0.18	0.23	0.20	0.26
Multifamily residential mortgages	0.04	0.05	0.02	0.03	0.02	0.04	0.02
Commercial RE loans	0.01	0.00	0.03	0.05	0.10	0.05	0.12
Construction RE loans	−0.02	0.01	0.04	0.05	0.10	0.07	0.14
Commercial and industrial loans*	0.28	0.42	0.58	0.81	1.12	0.69	1.30
Loans to individuals	2.70	2.69	2.32	2.43	2.53	2.23	2.71
Credit cards	5.11	5.19	4.45	4.39	4.79	4.27	5.20
Installment loans and other plans	1.04	1.04	1.04	1.18	1.17	0.94	1.27
All other loans and leases	0.11	0.52	0.34	0.31	0.39	0.22	0.45
Loans outstanding ($)							
Total loans and leases	$2,970,747	$3,238,287	$3,491,666	$3,819,547	$3,860,819	$3,779,167	$3,860,819
Loans secured by real estate (RE)	1,244,985	1,345,589	1,510,342	1,673,185	1,749,170	1,661,080	1,749,170
1–4 family residential mortgages	620,599	668,706	737,110	790,116	785,713	798,491	785,713
Home equity loans	98,163	96,647	102,339	127,541	145,749	122,912	145,749
Multifamily residential mortgages	41,231	43,242	53,168	60,401	63,499	60,181	63,499
Commercial RE loans	341,522	370,544	417,633	466,403	493,667	456,624	493,667
Construction RE loans	88,242	106,719	135,632	162,599	190,495	157,441	190,495
Farmland loans	27,072	29,096	31,902	34,092	35,468	33,965	35,468
RE loans from foreign offices	28,157	30,635	32,558	32,033	34,580	31,465	34,580
Commercial and industrial loans	794,998	898,556	969,260	1,051,060	1,010,441	1,041,624	1,010,441
Loans to individuals	561,325	570,863	558,424	606,664	607,555	584,341	607,555
Credit cards*	231,092	228,781	212,051	249,372	218,406	228,655	218,406
Other revolving credit plans	0	0	0	0	25,777	0	25,777
Installment loans	330,233	342,081	346,373	357,292	363,372	355,686	363,372
All other loans and leases	373,907	427,397	457,311	491,568	496,316	495,175	496,316
Less: Unearned income	4,469	4,117	3,671	2,931	2,664	3,053	2,664

*Previously banks reported "Credit card & related plans." Starting with 2001 this item will be split into separate categories, "Credit cards" and "Other revolving credit plans."

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

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3
Number of institutions reporting	4,922	4,598	3,069	3,150	302	321	82	80
Total employees (FTEs)	101,865	93,154	293,647	294,054	249,607	245,573	1,010,671	1,038,381
Selected income data ($)								
Net income	$615	$530	$2,444	$2,436	$3,222	$2,916	$12,975	$11,470
Net interest income	2,401	2,175	7,957	7,986	8,334	8,770	32,636	35,330
Provision for loan losses	149	171	744	756	1,139	1,643	4,710	9,007
Noninterest income	617	567	3,096	3,135	5,745	5,154	29,799	29,942
Noninterest expense	2,040	1,891	6,750	6,961	7,779	7,975	37,115	39,341
Net operating income	620	520	2,482	2,375	3,336	2,806	13,543	10,955
Cash dividends declared	931	269	1,125	1,140	1,624	4,161	8,796	7,985
Net charge-offs to loan and lease reserve	85	115	458	525	919	1,350	4,201	7,257
Selected condition data ($)								
Total assets	233,229	225,793	770,810	803,188	870,961	898,151	4,192,229	4,628,537
Total loans and leases	144,412	139,618	505,205	524,240	556,481	566,495	2,573,070	2,630,466
Reserve for losses	2,010	1,957	7,141	7,439	9,485	10,843	43,922	47,972
Securities	60,345	52,263	184,839	177,783	200,659	201,265	616,353	675,505
Other real estate owned	269	293	659	853	403	475	1,494	1,837
Noncurrent loans and leases	1,350	1,564	4,056	5,041	4,879	6,341	28,584	38,853
Total deposits	195,848	190,363	626,664	655,292	603,933	611,041	2,595,147	2,837,981
Domestic deposits	195,821	190,362	624,419	653,512	589,615	598,097	1,917,529	2,171,806
Equity capital	25,819	25,396	72,754	79,229	78,206	87,963	344,534	393,416
Off-balance-sheet derivatives	193	84	6,528	5,970	76,011	89,459	38,669,343	51,575,648
Performance ratios (annualized %)								
Return on equity	9.67	8.48	13.73	12.54	16.85	13.63	15.30	11.99
Return on assets	1.07	0.95	1.28	1.23	1.49	1.32	1.24	1.01
Net interest income to assets	4.17	3.91	4.18	4.03	3.86	3.96	3.13	3.11
Loss provision to assets	0.26	0.31	0.39	0.38	0.53	0.74	0.45	0.79
Net operating income to assets	1.08	0.93	1.30	1.20	1.54	1.27	1.30	0.96
Noninterest income to assets	1.07	1.02	1.63	1.58	2.66	2.33	2.86	2.63
Noninterest expense to assets	3.55	3.40	3.55	3.51	3.60	3.60	3.56	3.46
Loss provision to loans and leases	0.42	0.50	0.60	0.58	0.83	1.17	0.74	1.37
Net charge-offs to loans and leases	0.24	0.34	0.37	0.40	0.67	0.96	0.66	1.10
Loss provision to net charge-offs	175.34	147.89	162.73	144.04	123.93	121.73	112.12	124.11
Performance ratios (%)								
Percent of institutions unprofitable	9.67	11.31	2.44	3.65	5.30	5.61	6.10	7.50
Percent of institutions with earnings gains	56.32	49.80	62.92	61.37	60.60	67.91	56.10	63.75
Nonint. income to net operating revenue	20.46	20.68	28.01	28.19	40.81	37.02	47.73	45.87
Nonint. expense to net operating revenue	67.58	68.95	61.07	62.60	55.25	57.28	59.45	60.27
Condition ratios (%)								
Nonperforming assets to assets	0.70	0.82	0.61	0.74	0.61	0.77	0.73	0.89
Noncurrent loans to loans	0.93	1.12	0.80	0.96	0.88	1.12	1.11	1.48
Loss reserve to noncurrent loans	148.91	125.11	176.04	147.57	194.40	171.00	153.66	123.47
Loss reserve to loans	1.39	1.40	1.41	1.42	1.70	1.91	1.71	1.82
Equity capital to assets	11.07	11.25	9.44	9.86	8.98	9.79	8.22	8.50
Leverage ratio	11.16	10.85	9.34	9.26	8.43	8.66	7.25	7.22
Risk-based capital ratio	17.59	17.10	14.16	14.09	12.98	13.59	11.60	11.82
Net loans and leases to assets	61.06	60.97	64.62	64.34	62.80	61.87	60.33	55.80
Securities to assets	25.87	23.15	23.98	22.13	23.04	22.41	14.70	14.59
Appreciation in securities (% of par)	-1.42	2.30	-1.46	2.34	-1.49	2.07	-1.30	1.97
Residential mortgage assets to assets	20.95	21.44	23.51	23.77	25.74	26.25	18.93	18.82
Total deposits to assets	83.97	84.31	81.30	81.59	69.34	68.03	61.90	61.31
Core deposits to assets	71.24	70.93	67.90	67.78	55.46	54.31	38.25	39.83
Volatile liabilities to assets	15.32	15.02	18.94	17.78	28.45	26.74	41.45	38.10

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

	Less than $100M		$100M to $1B		$1B to $10B		Greater than $10B	
	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3	2000Q3	2001Q3
Percent of loans past due 30–89 days								
Total loans and leases	1.40	1.56	1.16	1.32	1.22	1.35	1.11	1.36
Loans secured by real estate (RE)	1.22	1.40	0.92	1.11	0.89	0.99	1.19	1.33
1–4 family residential mortgages	1.59	1.77	1.17	1.39	1.05	1.08	1.57	1.57
Home equity loans	0.78	0.83	0.69	0.78	0.84	0.88	0.87	0.90
Multifamily residential mortgages	0.57	0.77	0.65	0.51	0.69	0.65	0.46	0.83
Commercial RE loans	0.96	1.19	0.67	0.88	0.74	0.85	0.58	0.91
Construction RE loans	1.17	1.39	1.06	1.34	0.89	1.21	1.09	1.25
Commercial and industrial loans*	1.34	1.44	1.28	1.35	1.23	1.54	0.64	0.96
Loans to individuals	2.27	2.59	2.12	2.40	2.32	2.43	2.31	2.35
Credit cards	1.95	2.33	3.81	5.45	2.80	3.01	2.51	2.60
Installment loans and other plans	2.28	2.65	1.82	2.06	2.07	2.18	2.13	2.37
All other loans and leases	0.00	0.00	0.00	0.00	1.01	0.96	0.65	1.19
Percent of loans noncurrent								
Total loans and leases	0.93	1.12	0.80	0.96	0.88	1.12	1.11	1.48
Loans secured by real estate (RE)	0.76	0.98	0.64	0.82	0.70	0.87	0.84	0.99
1–4 family residential mortgages	0.70	0.87	0.60	0.73	0.70	0.83	0.90	1.00
Home equity loans	0.28	0.40	0.32	0.37	0.33	0.45	0.36	0.41
Multifamily residential mortgages	0.48	0.53	0.38	0.52	0.38	0.39	0.31	0.35
Commercial RE loans	0.80	1.13	0.64	0.89	0.76	0.89	0.80	1.00
Construction RE loans	0.56	0.94	0.72	0.95	0.77	1.18	0.76	1.08
Commercial and industrial loans*	1.32	1.45	1.25	1.34	1.28	1.76	1.54	2.34
Loans to individuals	0.81	0.98	0.82	1.00	1.04	1.31	1.53	1.52
Credit cards	1.07	1.72	2.36	3.80	1.88	2.42	1.98	2.07
Installment loans and other plans	0.80	0.97	0.54	0.65	0.60	0.68	1.16	1.26
All other loans and leases	0.00	0.00	0.00	0.00	0.53	0.67	0.48	1.01
Percent of loans charged-off, net								
Total loans and leases	0.24	0.34	0.37	0.40	0.67	0.96	0.66	1.10
Loans secured by real estate (RE)	0.06	0.06	0.04	0.07	0.09	0.14	0.11	0.43
1–4 family residential mortgages	0.03	0.06	0.05	0.08	0.14	0.15	0.11	0.68
Home equity loans	0.06	−0.05	0.04	0.02	0.13	0.17	0.24	0.32
Multifamily residential mortgages	0.01	0.19	0.05	0.00	0.03	0.00	0.04	0.03
Commercial RE loans	0.07	0.07	0.03	0.07	0.04	0.08	0.06	0.17
Construction RE loans	0.18	0.05	0.03	0.09	0.09	0.29	0.06	0.11
Commercial and industrial loans*	0.39	0.61	0.53	0.75	0.90	1.15	0.67	1.40
Loans to individuals	0.67	0.95	1.69	1.60	2.33	3.38	2.37	2.78
Credit cards	1.02	2.99	7.19	6.82	5.16	7.12	3.96	4.73
Installment loans and other plans	0.65	0.89	0.67	0.89	0.84	1.10	1.06	1.42
All other loans and leases	0.00	0.00	0.00	0.00	0.29	0.75	0.22	0.41
Loans outstanding ($)								
Total loans and leases	$144,412	$139,618	$505,205	$524,240	$556,481	$566,495	$2,573,070	$2,630,466
Loans secured by real estate (RE)	82,643	81,012	323,879	343,471	305,796	313,570	948,761	1,011,118
1–4 family residential mortgages	38,194	35,788	132,113	130,164	130,563	127,254	497,621	492,506
Home equity loans	1,993	2,185	13,711	14,812	19,799	19,219	87,408	109,532
Multifamily residential mortgages	1,788	1,804	10,946	11,420	12,482	13,379	34,965	36,896
Commercial RE loans	23,108	23,214	118,522	130,601	103,393	108,141	211,601	231,711
Construction RE loans	6,938	7,780	35,182	42,097	35,205	41,368	80,117	99,250
Farmland loans	10,623	10,240	13,363	14,339	4,003	3,865	5,976	7,025
RE loans from foreign offices	0	0	42	38	350	344	31,073	34,198
Commercial and industrial loans	24,601	24,111	90,989	93,369	122,417	117,541	803,617	775,420
Loans to individuals	19,695	17,869	64,045	59,922	96,024	99,377	404,577	430,387
Credit cards**	730	483	9,888	7,031	33,146	37,288	184,891	173,604
Other revolving credit plans	0	305	0	1,719	0	2,880	0	20,873
Installment loans	18,966	17,081	54,157	51,172	62,878	59,209	219,686	235,910
All other loans and leases	17,701	16,792	27,083	28,096	32,863	36,597	417,528	414,830
Less: Unearned income	229	167	791	618	620	589	1,413	1,290

*Includes "All other loans" for institutions under $1 billion in asset size.
**Previously banks reported "Credit card & related plans." Starting with 2001 this item will be split into separate categories, "Credit cards" and "Other revolving credit plans."

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Number of institutions reporting	650	1,411	1,738	2,106	1,351	893	8,149
Total employees (FTEs)	508,309	460,520	309,708	109,923	103,609	179,093	1,671,162
Selected income data ($)							
Net income	$6,216	$3,162	$3,116	$1,258	$810	$2,791	$17,353
Net interest income	15,979	13,836	10,528	3,375	2,673	7,871	54,261
Provision for loan losses	3,492	3,020	2,747	511 ,230	1,578	11,578	
Noninterest income	16,977	8,131	5,626	2,167	946	4,951	38,798
Noninterest expense	20,346	14,263	9,082	3,262	2,319	6,896	56,168
Net operating income	5,911	3,046	2,978	1,228	781	2,713	16,657
Cash dividends declared	2,601	5,538	2,466	870	428	1,653	13,556
Net charge-offs to loan and lease reserve	2,959	2,568	1,796	444	170	1,310	9,248
Selected condition data ($)							
Total assets	2,343,197	1,647,772	1,251,005	335,600	269,920	708,175	6,555,668
Total loans and leases	1,147,287	1,043,442	838,839	227,749	158,368	445,134	3,860,819
Reserve for losses	21,843	16,470	14,202	3,727	2,263	9,706	68,211
Securities	348,427	274,440	217,358	59,307	71,026	136,258	1,106,816
Other real estate owned,666	1,263	594	254	277	403	3,457	
Noncurrent loans and leases	18,347	12,809	11,340	2,192	1,705	5,407	51,800
Total deposits	1,445,514	1,086,707	817,413	239,394	219,740	485,910	4,294,677
Domestic deposits	942,304	996,840	751,033	234,054	218,690	470,856	3,613,777
Equity capital	189,772	157,928	107,740	30,991	26,544	73,029	586,004
Off-balance-sheet derivatives	38,404,743	10,987,528	1,231,912	8,685	9,506	633,202	51,275,576
Performance ratios (annualized %)							
Return on equity	13.41	8.31	11.83	16.52	12.44	15.62	12.16
Return on assets	1.09	0.78	1.00	1.53	1.21	1.59	1.08
Net interest income to assets	2.80	3.40	3.39	4.11	4.00	4.48	3.37
Loss provision to assets	0.61	0.74	0.89	0.62	0.34	0.90	0.72
Net operating income to assets	1.04	0.75	0.96	1.49	1.17	1.54	1.03
Noninterest income to assets	2.98	2.00	1.81	2.64	1.42	2.82	2.41
Noninterest expense to assets	3.57	3.50	2.93	3.97	3.47	3.92	3.48
Loss provision to loans and leases	1.23	1.15	1.31	0.91	0.58	1.43	1.20
Net charge-offs to loans and leases	1.04	0.97	0.86	0.79	0.43	1.18	0.96
Loss provision to net charge-offs	117.98	117.60	152.94	115.18	134.88	120.46	125.19
Performance ratios (%)							
Percent of institutions unprofitable	11.08	11.84	6.33	4.94	7.62	11.53	8.09
Percent of institutions with earnings gains	60.31	53.44	58.80	55.08	52.04	51.62	55.12
Nonint. income to net operating revenue	51.51	37.02	34.83	39.11	26.15	38.61	41.69
Nonint. expense to net operating revenue	61.74	64.93	56.22	58.87	64.08	53.78	60.36
Condition ratios (%)							
Nonperforming assets to assets	0.82	0.85	0.97	0.73	0.74	0.84	0.85
Noncurrent loans to loans	1.60	1.23	1.35	0.96	1.08	1.21	1.34
Loss reserve to noncurrent loans	119.05	128.58	125.24	170.06	132.72	179.52	131.68
Loss reserve to loans	1.90	1.58	1.69	1.64	1.43	2.18	1.77
Equity capital to assets	8.10	9.58	8.61	9.23	9.83	10.31	8.94
Leverage ratio	7.41	7.81	7.56	8.53	8.67	8.84	7.81
Risk-based capital ratio	12.38	12.12	11.91	13.33	14.19	13.58	12.45
Net loans and leases to assets	48.03	62.32	65.92	66.75	57.83	61.49	57.85
Securities to assets	14.87	16.66	17.37	17.67	26.31	19.24	16.88
Appreciation in securities (% of par)	1.45	2.73	1.99	2.53	2.39	2.06	2.07
Residential mortgage assets to assets	14.54	26.09	22.98	23.12	26.19	19.71	20.53
Total deposits to assets	61.69	65.95	65.34	71.33	81.41	68.61	65.51
Core deposits to assets	31.53	52.43	51.16	62.20	66.94	56.99	46.31
Volatile liabilities to assets	46.47	25.24	29.65	21.89	19.45	25.20	33.26

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

	Northeast	Southeast	Central	Midwest	Southwest	West	All institutions
Percent of loans past due 30-89 days							
Total loans and leases	1.33	1.21	1.62	1.31	1.31	1.37	1.36
Loans secured by real estate (RE)	1.41	1.08	1.48	0.88	1.22	1.02	1.23
1–4 family residential mortgages	1.45	1.42	1.88	0.86	1.38	1.26	1.47
Home equity loans	0.80	0.83	1.13	0.61	0.56	0.64	0.88
Multifamily residential mortgages	0.95	0.46	0.78	0.58	1.03	0.77	0.73
Commercial RE loans	1.07	0.75	1.13	0.90	1.11	0.64	0.91
Construction RE loans	1.12	0.92	1.60	1.38	1.23	1.59	1.27
Commercial and industrial loans*	0.80	0.69	1.67	1.87	1.21	1.47	1.10
Loans to individuals	2.62	2.15	2.34	2.38	1.91	2.18	2.37
Credit cards	3.06	2.53	2.37	2.93	1.59	2.35	2.76
Installment loans and other plans	2.49	2.13	2.48	2.10	1.98	2.10	2.31
All other loans and leases	0.63	1.91	1.38	0.80	1.02	1.41	1.13
Percent of loans noncurrent							
Total loans and leases	1.60	1.23	1.35	0.96	1.08	1.21	1.34
Loans secured by real estate (RE)	1.05	0.78	1.20	0.66	0.87	0.80	0.93
1–4 family residential mortgages	1.02	0.75	1.38	0.43	0.79	0.64	0.92
Home equity loans	0.32	0.32	0.64	0.30	0.30	0.29	0.41
Multifamily residential mortgages	0.25	0.46	0.51	0.32	0.47	0.32	0.39
Commercial RE loans	0.86	0.88	1.22	0.94	0.92	0.82	0.95
Construction RE loans	1.06	0.97	1.16	0.97	0.88	1.25	1.07
Commercial and industrial loans*	2.45	2.17	2.05	1.31	1.79	2.00	2.17
Loans to individuals	2.10	0.83	0.81	1.32	0.64	1.43	1.42
Credit cards	2.57	1.51	1.62	2.02	1.01	1.98	2.18
Installment loans and other plans	1.88	0.67	0.73	0.89	0.66	0.50	1.06
All other loans and leases	0.60	1.77	0.90	1.16	1.22	1.13	0.99
Percent of loans charged-off, net							
Total loans and leases	1.04	0.97	0.86	0.79	0.43	1.18	0.96
Loans secured by real estate (RE)	0.12	0.62	0.23	0.05	0.06	0.09	0.29
1–4 family residential mortgages	0.11	1.13	0.24	0.04	0.07	0.10	0.47
Home equity loans	0.10	0.33	0.33	0.19	0.17	0.22	0.26
Multifamily residential mortgages	−0.01	0.10	0.03	−0.12	0.03	−0.01	0.02
Commercial RE loans	0.09	0.11	0.24	0.07	0.03	0.02	0.12
Construction RE loans	0.18	0.14	0.16	0.04	0.08	0.16	0.14
Commercial and industrial loans*	0.95	1.60	1.53	0.82	0.97	1.49	1.30
Loans to individuals	3.31	1.74	1.77	2.77	1.03	4.07	2.71
Credit cards	5.51	3.45	4.74	5.84	2.89	5.52	5.20
Installment loans and other plans	1.40	1.20	1.35	0.61	0.98	1.50	1.27
All other loans and leases	0.24	0.32	0.92	0.89	0.33	0.30	0.45
Loans outstanding ($)							
Total loans and leases	$1,147,287	$1,043,442	$838,839	$227,749	$158,368	$445,134	$3,860,819
Loans secured by real estate (RE)	363,177	551,907	401,805	115,527	88,426	228,328	1,749,170
1–4 family residential mortgages	184,759	256,471	170,306	55,914	33,860	84,402	785,713
Home equity loans	29,149	47,897	44,686	5,379	1,508	17,131	145,749
Multifamily residential mortgages	15,090	17,211	15,922	3,063	2,555	9,658	63,499
Commercial RE loans	82,436	151,999	115,862	30,050	32,563	80,757	493,667
Construction RE loans	19,394	68,410	46,028	10,365	14,063	32,234	190,495
Farmland loans	1,336	7,074	8,968	10,756	3,877	3,457	35,468
RE loans from foreign offices	31,013	2,845	33	0	0	689	34,580
Commercial and industrial loans	342,735	255,477	232,324	41,626	37,209	101,071	1,010,441
Loans to individuals	231,921	132,464	96,157	39,662	22,849	84,501	607,555
Credit cards**	105,886	29,482	12,142	16,058	651	54,187	218,406
Other revolving credit plans	11,662	4,305	4,810	1,106	713	3,180	25,777
Installment loans	114,373	98,677	79,205	22,498	21,485	27,134	363,372
All other loans and leases	210,582	104,233	108,781	30,976	10,090	31,654	496,316
Less: Unearned income	1,129	638	228	42	207	421	2,664

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

**Previously banks reported "Credit card & related plans." Starting with 2001 this item will be split into separate categories, "Credit cards" and "Other revolving credit plans."

Glossary

Data Sources

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

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

Computation Methodology

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

Definitions

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

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

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

IBIS—OCC's Integrated Banking Information System.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Corporate Decisions

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

Mergers

On July 26, 2001, the OCC granted approval for Bank of Powhatan, N.A., Powhatan, Virginia, to undertake a reorganization pursuant to 12 USC 215a–2 and 12 CFR 7.2000(a). This is the first such approval by the OCC under this recently enacted amendment to 12 USC 215. This new section provides a streamlined process for national bank's to effect holding company reorganizations through an exchange of the bank's stock for cash or securities of a bank holding company. [Corporate Decision Letter No. 2001–21]

On July 26, 2001, the OCC granted approval to Bank One, N.A., Columbus, Ohio, to merge two nonbank mortgage company subsidiaries into the bank under the authority of 12 USC 215a–3. This represents the first such approval by the OCC under this recently enacted amendment to 12 USC 215. This new section expressly authorizes the merger of a national bank with its nonbank subsidiaries or affiliates. The section was adopted to facilitate the ability of banking organizations to effect corporate restructuring between national banks and their subsidiaries and affiliates in the most efficient way possible, while preserving regulatory oversight by requiring OCC approval. [Corporate Decision No. 2001–22]

On September 18, 2001, the OCC granted conditional approval for National Bank of Daingerfield, Daingerfield, Texas, to purchase and assume certain assets and liabilities of the Daingerfield branch of Jefferson Heritage Bank, FSB, Denton, Texas. The approval requires National Bank of Daingerfield to comply with the agreement it signed with the Department of Justice. [Conditional Approval Letter No. 491]

On September 29, 2001, the OCC granted conditional approval for Blackfeet National Bank, Browning, Montana, to consolidate with Native American Interim Bank, N.A., Browning, Montana, with the resulting title of Native American National Bank, in order to facilitate the acquisition of Blackfeet National Bank by Native American Bancorporation, Denver, Colorado. In addition to the conditions imposed on any newly chartered national bank, the conditions of approval address issues concerning tribal sovereignty and the condition of the target bank. [Conditional Approval Letter No. 493].

Operating Subsidiary

On July 3, 2001, the OCC granted approval for Business First National Bank, Santa Barbara, California, to acquire E-Commerce Financial Services and establish it as an operating subsidiary. E-Commerce enables small business merchants to obtain a package of electronic services that allows the merchant to create Web stores and process electronic payments for purchases made over the Internet. [Corporate Decision No. 2001–18]

On July 27, 2001, the OCC granted approval for Zions First National Bank, Salt Lake City, Utah, to establish an operating subsidiary that will provide integrated, online information service for secure web-based document storage, retrieval and collaboration of documents and/or files containing personal information or valuable confidential trade or business information. [Conditional Approval Letter No. 479]

On August 17, 2001, the OCC acknowledged receipt of the after-the-fact notice by Metropolitan National Bank, New York, New York, regarding the bank's acquisition of Cashzone, LLC. Cashzone engages in general check cashing services and other activities permissible under 12 CFR 5.34(e)(5)(v). The OCC's letter authorizes only the specific activities described in the bank's notice and acknowledged by the OCC in its letter. The OCC's letter further advises the bank that neither it nor Cashzone is authorized to engage in "payday lending" activities or to enter into arrangements with third parties to provide "payday" type loans through offices or facilities operated by a third party. [Corporate Decision No. 2001–24]

On September 13, 2001, the OCC granted approval for Bank One, N.A., Chicago, Illinois, to establish a wholly owned operating subsidiary to furnish administrative, management and consulting services to unaffiliated real estate construction lenders and investors. The services will include: project feasibility, cost, contract, environmental and seismic reviews; appraisals; loan document preparation; collateral and construction phase completion monitoring; syndicated loan lead agent tasks; and, lender training on construction loan administration. This operating subsidiary will not perform credit analysis, make underwriting decisions or provide legal services relative to a given real estate project. [Corporate Decision No. 2001–27]

CRA Decisions

On July 2, 2001, the OCC granted conditional approval for European American Bank, Uniondale, New York, to merge into and under the charter of Citibank, N.A., New York, New York. The OCC received comments from 16 individuals and community organizations expressing concerns with the Community Reinvestment Act (CRA) performance of Citibank, N.A. and of an affiliate, Associates National Bank. The OCC's investigation into those concerns disclosed no information that was inconsistent with approval under the CRA. However, the approval was conditioned upon Citibank providing the OCC with progress reports on the implementation of various consumer finance initiatives. [Conditional Approval Letter No. 476]

On July 18, 2001, the OCC granted approval to merger applications of Firstar Bank, N.A., Cincinnati, Ohio; U.S. Bank N.A., Minneapolis, Minnesota; U.S. Bank N.A., Canby, Oregon; and, U.S. Bank N.A., MT, Billings, Montana. While the OCC did not receive any comments in connection with these applications, the OCC considered the comments received by the Board of Governors of the Federal Reserve System in connection with the related bank holding company merger and considered the Board's analysis. The OCC found that approval of the transaction was consistent with the Community Reinvestment Act. [CRA Decision Letter No. 109]

Appeals Process

Appeal 1- Appeal of the Treatment of Credit Cards by a Liquidating Entity

Background

A credit card bank, in liquidation, appealed the OCC's decision regarding the continued existence and treatment of its private-label credit cards. With a few exceptions, the credit card portfolio had been sold to an independent third party (buyer). The credit card bank was in liquidation and concluding its activities. In addition to the previously issued disclosures, the OCC specifically requested that the credit card bank send out stickers to be affixed to the outstanding cards with current information as to customer service and ownership of the account.

The bank appealed that decision based on the following:

- The substantial expense ($2–3 million) and time to comply with the decision to issue stickers,
- No precedential support for the decision,
- The decision is impractical, and
- The decision violates the principle of equal treatment with other similar national credit card banks.

The liquidation of the credit card bank had been structured so that the buyer became the owner of the account and the issuer of credit to the account holder. However, the ownership of the actual plastic credit card remained with the original credit card bank. Upon expiration and renewal the buyer would then issue the account holder a new credit card. A notice conveying the sale of the ownership of the credit card accounts was sent to all cardholders at the time the portfolio was sold. The notice did not disclose the ownership of the plastic credit card.

Discussion

A key area of concern in this appeal involved the liquidation of the credit card bank. In reviewing the facts surrounding this appeal, the retention of ownership of the plastic credit cards by the credit card bank became the overriding regulatory concern because a liquidated entity cannot own assets. Options were explored on how the bank could resolve this issue without having an adverse impact on the involved parties.

Conclusion

In order to arrive at a feasible option to address all the issues involved, the ombudsman decided on the following course of action:

- The credit card bank should sell the plastic credit card ownership to a third party (either another affiliated entity or to the buyer) for a nominal fee.
- The credit card bank should notify all account holders of the new plastic credit card ownership. This notification would also contain information about future reissuance of expired cards by the buyer.

These actions facilitated the liquidation of the credit card bank since the bank would no longer have ownership of the plastic credit cards. The disclosure provided customers with information regarding the card ownership and when new cards would be issued, therefore alleviating the need for issuing stickers.

Appeal 2- Appeal of Sensitivity to Market Risk, Earnings, and Management Component Ratings

The ombudsman received a formal appeal of examination conclusions involving the sensitivity to market risk, earnings, and management component ratings. The bank's appeal stated that in the Report of Examination the OCC assigned the bank a 3 rating for sensitivity to market risk, a 5 rating for earnings, and a 5 for management. Bank management and the board of directors' contention was that these CAMELS component ratings did not accurately reflect the bank's condition at the time of the examination.

Sensitivity to Market Risk— ROE Rating 3

Background

Management and the bank's board believed that:

> Neither the condition of the bank's sensitivity to market risk as of the examination date, as compared to the last examination, nor the quality of the bank's Asset/Liability Management Policy warranted the OCC downgrading

the bank's Sensitivity to Market Risk rating from a "2" to a "3." Furthermore, by commissioning reports with outside consulting firms, which also reflects the positive state of the bank's interest rate risk management, the bank has illustrated sound risk management policies and procedures.

The supervisory office concluded in the ROE that the bank's interest rate risk was slightly elevated because of an imbalance resulting from assets repricing faster than liabilities. The ROE also commented that the board and management's planning and risk management processes were deficient. Additionally, the supervisory office believed the Asset/Liability Management Committee had not taken an active role in managing the balance sheet or interest rate risk.

Discussion and Conclusion

In accordance with OCC Bulletin 97–1 ("Uniform Financial Institutions Rating System") the sensitivity to market risk rating is intended to reflect the degree to which changes in interest rates can adversely affect the earnings and capital of a financial institution. Considerations in determining the sensitivity rating are management's ability to identify, measure, monitor, and control market risk, and the adequacy of the capital and earnings in relation to the bank's level of interest rate risk exposure.

The ombudsman's review did not find adequate support that the board and management was actively managing the bank's interest rate risk (IRR) position. Review of the information provided to the ombudsman's office revealed:

- The input and assumptions used in the modeling were not well supported and hindered an accurate assessment of the risk, making it difficult to quantify the bank's risk exposure.
- While the bank had purchased a complete bank simulator model, allowing for greater accuracy and more assumptions, the bank had never used this model.
- The modeling reports reflected gap positions outside of those limits established in the Asset/Liability management policy of the bank.
- The Asset/Liability Committee (ALCO) minutes provided no insight on management's and the board's efforts to manage IRR. The only discussion reflected in the ALCO minutes was pricing of depository products, which lacked detail. Furthermore, the minutes did not reflect the board's desired balance sheet composition or strategy to manage IRR.

Based on the risk management weaknesses described above, the ombudsman concluded that the 3 rating assigned during the examination was appropriate.

Earnings—ROE Rating 5

Background

The bank's submission commented that:

> Although at the time of the last ROE, the bank was experiencing losses, it was taking steps to increase earnings. During the past year, the bank commenced its SBA and Credit Card program, both of which introduced a significant revenue stream to the bank. The bank's earnings trend is not negative and does not represent a distinct threat to the bank's capital. During this time the bank also raised additional capital to compensate for funding the increased provision for loan losses. The increase in revenue from the last examination and the nature of the bank's expenses in no way can justify the downgrading of the bank's earnings rating. The OCC's assignment was wholly improper.

Comments in the ROE concluded that earnings remain poor and were eroding the bank's capital. The supervisory office also stated that management and the board needed to take immediate and ongoing action to alleviate large continuing losses and address the other weaknesses. Examiners' primary concern was that continuing losses of the magnitude experienced in the last years would threaten the bank's viability.

Discussion and Conclusion

Pursuant to OCC Bulletin 97–1 ("Uniform Financial Institutions Rating System") earnings are intended to reflect not only the quality and trend, but also factors that may affect the sustainability or quality of earnings. Considerations in determining the earnings rating are the following:

- The level of earnings, including trends and stability,
- The ability to provide for adequate capital through retained earnings,
- The quality and sources of earnings,
- The level of expenses in relation to operations,
- The adequacy of provisions to maintain the allowance for loan and lease losses, and
- The adequacy of the budgeting systems and forecasting processes.

The ombudsman review revealed that over the last two years, the bank had no traditional core earnings. The bank experienced net-operating losses in the last two years of approximately $600,000 and $900,000, respectively. These losses included provisions to the allowance for loan and lease losses of $600,000 and $700,000, respectively. Furthermore, the net interest margin declined from 4.60 percent to 3.80 percent in the same time period due to increasing funding costs and declining loan yields. Net losses had eroded capital, necessitating an injection of capital.

Additionally, the earnings posture of the bank could be further affected by the bank's risk profile and risk management practices. These include:

- The bank's high credit risk profile as evidenced by the level of classified assets centered in the unguaranteed portion of SBA loans, past dues, and non-accruals.
- Measuring and monitoring risk management systems. For instance, credit risk identification, underwriting standards, loan grading, allowance methodology, and collection efforts remain deficient.
- A weak budgeting process with overly optimistic assumptions based on past performance.

The bank's earnings posture, the high risk profile of the bank, and the questionable future prospects cause a significant supervisory concern and represent a distinct threat to the bank's viability through the erosion of capital. Therefore, the ombudsman concluded that the 5 rating assigned during the examination was appropriate.

Management—ROE Rating 5

Background

The bank's appeal letter stated management and the board have made a concerted and significant effort to improve the depth and stability of bank management by making position-specific improvements. They believed that through the creation of new officer positions and the hiring of new officers, the bank management team was significantly stronger at the time of this examination than at the time of the last examination. For these reasons, bank management believed a downgrade in the bank's management rating was inconsistent with the actual condition of the bank.

The ROE stated management and the board's supervision was ineffective. The ROE comments also asserted management actions were not substantive nor were they taken in a timely manner to strengthen the bank's loans and risk management systems. The bank continued to experience turnover in management and the board. Additional examination findings revealed the bank did not have a legal number of directors, the president/chief-lending officer was terminated, and the chief financial officer resigned.

Discussion and Conclusion

Pursuant to OCC Bulletin 97–1 ("Uniform Financial Institutions Rating System") the management rating is intended to reflect the capability and performance of the board and management. Some considerations in determining the management rating are:

- The level and quality of oversight and support of all activities in the bank,
- The overall performance of the bank and its risk profile,
- Management depth and succession,
- The adequacy and reliability of financial and regulatory reporting,
- The accuracy, timeliness, and effectiveness of management information and the risk monitoring systems appropriate for the institution's size, complexity, and risk profile,
- The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risk of significant activities, and
- The ability of the board of directors and management in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.

The ombudsman's review revealed that the position-specific appointments did not improve the depth, stability, and expertise needed in the board and management. This finding was based on the following:

- The board and management did not demonstrate the ability to reverse the deteriorating trends and improve the poor financial condition of the bank.
- The board and senior management had not developed and maintained appropriate risk management systems given the risk profile of the bank.
- Both the board and management were unstable with no strategic direction given the continual turnover in executive management.
- The bank had operated without the legal number of directors for the last two years.

Strong leadership is essential in a financially troubled institution. The board's effort to provide leadership had not been effective. Therefore, the ombudsman concluded the 5 rating assigned during the examination was appropriate.

Speeches and Congressional Testimony

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Of the Comptroller of the Currency

Of the Director, Securities and Corporate Practices Division

Statement of John D. Hawke Jr., Comptroller of the Currency, before the U.S. House Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, on reform of the federal deposit insurance system, Washington, D.C., July 26, 2001

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

Introduction

Chairman Bachus, Congresswoman Waters, and members of the subcommittee, I appreciate this opportunity to discuss reform of our federal deposit insurance system. Too often reform occurs against the backdrop of a crisis. Fortunately, we are not in that position today. The deposit insurance funds and the banking industry are strong. Nonetheless, the flaws in the current deposit insurance system pose an unnecessary risk to the stability of the banking system and so merit a careful and timely review by the Congress.

For the past year-and-a-half, the Federal Deposit Insurance Corporation (FDIC) staff has engaged in an inclusive and thoughtful process to identify and analyze deficiencies in the deposit insurance system and to recommend solutions to those problems. A staff paper released by the FDIC in April, and recent testimony by former FDIC Chairman Tanoue, identified what they believe to be four significant flaws in the existing deposit insurance system [http://www.fdic.gov/deposit/insurance/initiative/index.html]:

- First, even though the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) provide an identical product—deposit insurance—for virtually identical institutions, the law requires the FDIC to administer the two as separate insurance funds, sacrificing both operating efficiencies and opportunities for risk diversification.
- Second, the current system of deposit insurance premiums does not adequately reflect the risk that individual depository institutions pose to the deposit insurance system. Currently, 92 percent of all FDIC-insured institutions pay no deposit insurance premiums at all. More than 900 banks chartered within the last five years have never paid any deposit insurance premiums. The FDIC's inability to price deposit insurance according to risk results in a "free ride" for riskier banks, distorts management incentives to limit risks, and increases the moral hazard to the funds. It results in less risky banks effectively subsidizing the activities of riskier banks—the exact opposite of what was intended by the legislation that mandated a federal risk-based deposit insurance system.
- Third, deposit insurance may be "procyclical." Under the present system, when a deposit insurance fund falls below its designated reserve ratio (DRR) of 1.25 percent of insured deposits, the FDIC must raise premiums sufficiently to bring the reserve ratio back to 1.25 percent within a year. If that cannot be done, it must charge every bank a premium of at least 23 basis points of its total domestic deposits until the reserve ratio reaches 1.25 percent. Thus, if an economic downturn leads to a decline in insurance fund reserves, banks could face dramatically higher deposit insurance premiums at the very time that bank earnings and capital are under pressure.
- Fourth, the FDIC staff paper observes that the real value of the level of deposit insurance coverage, set in 1980 at $100,000 per account, has not kept pace with changes in the price level over the past 20 years. Those who seek a safe repository for their savings can offset this reduced coverage in a number of ways. They can, for example, open multiple accounts at a single institution or accounts at multiple institutions. Nonetheless, some banks have argued for an increase in the current coverage limit and the adoption of a framework for periodically adjusting the level of deposit insurance coverage.

There are also several other issues that should be considered in the context of deposit insurance reform. These include the appropriate size of the insurance fund, the desirability of having a fixed designated reserve ratio, and the prospect of issuing rebates when the size of the funds exceeds a specified limit.

The OCC strongly believes that one further set of issues should be considered in this connection. That is the use of the insurance fund to support the cost of bank supervision, and the inequitable treatment of national banks in the way the BIF is currently used to pay the costs of supervision of state nonmember banks.

In my testimony, I review a series of recommendations that I believe will strengthen the insurance fund while reducing the inherent cross subsidization and distortions that arise among institutions under the current deposit insurance system.

Merger of the Insurance Funds

Currently, the FDIC administers the BIF and the SAIF separately. The OCC recommends that the BIF and SAIF be merged. A merged fund would enable the FDIC to operate more efficiently and to realize the benefits of diversification.

The maintenance of separate deposit insurance funds is a historical anomaly that traces its roots back to the 1930s, when the FDIC and the Federal Savings and Loan Insurance Corporation (FSLIC) were created in separate acts of Congress. When the FSLIC was abolished in 1989, and its functions were taken over by the FDIC, there were significant differences in the powers of commercial banks and thrifts. The thrift industry was just emerging from a period of extraordinary problems, and the risk profiles of banks and thrifts differed significantly. Over time, however, those differences have diminished. Significant commingling of the insurance funds, in the form of SAIF-insured deposits held by BIF members and BIF-insured deposits held by SAIF members, has further blurred the distinctions between BIF and SAIF. As of March 31, 2001, 874 banks and thrifts were members of one fund, yet held deposits insured by the other fund. BIF-member institutions held 41 percent of SAIF-insured deposits.

Industry consolidation has led to an increased concentration of insured deposits in relatively few institutions, which increases the risks to the deposit insurance funds. According to the FDIC staff, the share of SAIF-insured deposits held by the three largest institutions increased from 8.7 percent to 15.5 percent between June 1990 and March 2001, while the corresponding share for BIF-insured deposits increased from 5 percent to 13.7 percent. Merging the funds would reduce these concentration risks; for a merged fund, the share of deposits held by the three largest institutions would have been 12.4 percent.

A combined fund would also have better geographic and product diversification.

Although the portfolios of banks and thrifts have become more similar in recent years, thrifts are still more highly concentrated in single family mortgages, while banks hold much higher percentages of commercial loans.

Pricing Deposit Insurance

In 1991, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) mandated a risk-based premium system and maintenance of required reserve levels, while providing the FDIC broad discretion to implement these goals. Five years later, the Deposit Insurance Funds Act of 1996 (DIFA) eliminated the FDIC's discretion. DIFA mandated zero premiums for banks in the lowest risk category when the fund equals or exceeds 1.25 percent of insured deposits. Further, it required the FDIC to charge a premium of at least 23 basis points on total domestic deposits when the fund falls below 1.25 percent for more than one year. The result is a pay-as-you-go system in which losses are determined after the fact and survivors are required to pay for the losses incurred in resolving insolvent institutions. Thus, while the size of the fund remains relatively stable, insurance premiums faced by individual banks can be extremely variable, regardless of the risk these banks present. Currently, the vast majority of banks and thrifts pay nothing for deposit insurance.

The OCC concurs with the FDIC staff's recommendation to eliminate the constraints introduced by DIFA on the FDIC's ability to set premiums, particularly the mandated zero premiums for banks in the lowest risk category whenever the insurance fund reserve ratio equals or exceeds 1.25 percent of insured deposits. The OCC further supports the FDIC exploring revisions to the deposit premium structure to improve the actuarial accuracy of the differential premiums paid by banks with different risk profiles. This does not necessarily mean that there is a need for a dramatically new and more complex approach to setting premiums. Even within the context of the FDIC's current matrix of premiums, we believe there are opportunities to make premiums more risk sensitive.

Under the current deposit insurance premium structure, 92 percent of banks (those that are well-capitalized with CAMELS 1 or 2 ratings) pay the same deposit insurance premiums. The risks those banks pose to the insurance funds, however, can vary greatly. The FDIC staff noted in its Deposit Insurance Reform Options paper that "the 5-year failure rate for CAMELS 2-rated institutions since 1984 was more than two-and-a-half times the failure rate for 1-rated institutions." That these banks currently pay nothing for deposit insurance is even more troubling. The net result is a pricing system that has severed almost completely any connection between risk and the price of deposit insurance. To maintain a proper incentive structure and to compensate the government for the benefits conferred by deposit insurance on all banks, even the least risky banks should pay some reasonable minimum insurance premium, regardless of the level of the fund.

Any effort to reform the pricing of deposit insurance should consider the appropriate range of insurance premiums. The premium structure initially adopted by the

FDIC under FDICIA, which charged banks in the highest risk category 31 basis points on domestic deposits, seems to have taken into account factors other than risk, including the likelihood that weaker banks would be unable to afford higher premiums. During the banking crisis of the early 1990s, however, the spread between the yields on the debt of the most- and least-risky banks was at times as much as 700 basis points. While we would not suggest that deposit insurance premiums should exhibit as broad a range as market prices for bank debt, we note that in the current environment spreads on subordinated debt can be as much as 150 basis points among banks that today pay no insurance premiums.

There are, of course, challenges to improving the risk sensitivity of deposit insurance premiums. Nonetheless, I believe it would be desirable to move incrementally, recognizing that perfection is not the relevant standard. Although measuring risk is an inexact science, I believe that, with the removal of some of the statutory constraints on pricing, the FDIC could implement in a reasonable time a risk-based system that improves significantly upon the existing system.

The Size of the Fund, Rebates, and Surcharges

Determining the appropriate size of the insurance funds and deciding when and how to pay rebates or impose surcharges if the funds get too large or too small, are two of the most important issues in deposit insurance reform. The current system is flawed in that the current designated reserve ratio of 1.25 percent of insured deposits has no clear actuarial basis—that is, it has no particular relationship to the risks borne by the funds. Rather, it is based on the actual range of the reserve ratio in the 1960s and 1970s. Recent experience would support consideration of a higher level, although we would prefer that there be no statutorily fixed ratios.

The OCC strongly supports eliminating the current DRR of 1.25 percent. We favor empowering the FDIC to establish a size range for the fund, based on the FDIC's evaluation of the risks borne by the funds and its assessment of potential losses. The FDIC should have the flexibility to adjust that range as the health of the banking system and the risks to the fund change through time. In this context we would support authority for the FDIC to pay rebates when the upper end of the range is exceeded and to impose surcharges when the ratio falls below the lower end of the range. We also believe that the FDIC should have the discretion in addressing the need for surcharges, to take into account the effect such surcharges might have on the performance or health of the banking system. As a corollary, in order to mitigate the procyclical effects of increasing premiums in times of stress, the appropriateness of maintaining a strongly capitalized fund in good times should be recognized.

With the introduction of minimum deposit insurance premiums, it is likely that reserve balances in the funds will periodically exceed the upper end of the target range for the reserve ratios. As a result, it may be appropriate for the funds to pay rebates to insured institutions. To ensure that rebates paid to insured institutions are equitable, it is first necessary to consider the nature of insured institutions' claims on the funds. For instance, institutions that have paid little, if anything, into the funds may have a lesser claim on any rebates compared with institutions that have contributed to building up the funds.

To preserve the integrity of risk-based premiums, rebates to individual banks should be based on a factor that is unrelated to their current premiums. In other words, high-risk banks that pay large premiums should not receive higher rebates per dollar of insured deposits than banks that pose a low risk to the fund. One approach to the calculation of rebates would be to base the rebates on past levels of domestic deposits on which a bank paid premiums.

Any program of rebates should also reflect the benefits that are presently received by FDIC-supervised state nonmember banks in the form of cost-free supervision and examination. Under the current system of bank supervision, the FDIC covers its costs of operations out of the BIF and SAIF. The FDIC spends approximately $600 million dollars a year to supervise state nonmember banks—that is, to perform for state banks exactly those functions the OCC performs for national banks. None of these costs is passed on to state banks in the form of direct assessments. By contrast, the OCC charges national banks for the full cost of their supervision.

This disparity is compounded by the fact that more than half of the funds spent by the FDIC for federal supervision of state nonmember banks are attributable directly to the accumulated contributions of national banks to the BIF. The earnings of the insurance funds—provided by all banks—finance the supervisory costs of only a portion of the banking industry. In other words, for every dollar the FDIC spends on the supervision of state banks, national banks, by our estimates, effectively contribute about 55 cents.

A key principle at the heart of deposit insurance reform is that the premiums paid by individual institutions should be closely related to the expected costs they impose on the funds. The objective is to identify and eliminate subsidies in the current system that can distort decision making. As the FDIC staff notes in its arguments for a risk-based pricing system, healthy, well-managed banks should not be required to bear the costs and risks presented by less well managed, riskier banks. Similarly, banking supervision should not be based on a system of subsidies—such as those embedded in the current deposit insurance system—that results in national banks paying a substantial portion of the FDIC's cost of supervising state banks. As a matter of equity among banks, regardless of charter, the OCC believes that reform of our system of deposit insurance should recognize that the *current* system requires that national banks cover a significant portion of the cost of supervising state nonmember banks. Because one of the main purposes of bank supervision is to protect the insurance fund, ensuring that supervision is funded in a fair and equitable manner is inextricably related to the subject of deposit insurance reform.

Attached to my testimony is a paper that discusses the disparity in funding supervision in greater detail and proposes a legislative remedy. Our proposal recognizes that effective supervision is a critical component of a sound deposit insurance system. Because the FDIC insurance fund currently funds federal supervision of state nonmember banks, we believe that it would make sense to extend the existing arrangement to cover the costs of both state and national bank supervision from the FDIC fund. In other words, instead of funding supervision through direct assessments on banks, we propose that it be funded by payments to supervisors—the OCC and state supervisors—from the insurance fund, to which all banks contribute. This approach would strengthen both federal and state supervision by ensuring that all supervisors have adequate, predictable resources available to carry out effective supervisory programs.

Coverage Limits

The erosion of the real value of the nominal deposit insurance coverage limit by inflation since 1980 has generated proposals to increase the coverage limit from its current level of $100,000 per account. Opponents of such an increase argue that it is not needed and that it would increase the exposure of the funds and would reduce market discipline.

While this is clearly an issue that deserves consideration by the Congress, the OCC is concerned that an increase in coverage might have unintended effects that most would judge to be undesirable, including an increase in moral hazard. We are fortunate today to have a very strong banking industry, but conditions may not always be so positive. Increasing deposit insurance coverage effectively allows weaker institutions to expand their risk-taking at a time when they should be retrenching—a lesson that we learned painfully during the savings and loan crisis. Increasing deposit insurance coverage also raises the cost to the insurance funds in the event of a bank failure. Reducing the risk of loss for large depositors may undermine market discipline and result in a haphazard reshuffling of existing deposits. We are not persuaded that an increase in coverage is necessary for deposit insurance to fulfill its purposes of preventing depositor runs on banks and providing a basic level of risk-free protection for depositors. Nor have we seen compelling evidence that depositors are demanding increased coverage.

The simple fact is that anyone who wants to use insured bank deposits as a means of holding their wealth can do so today virtually without limits—subject only to the inconvenience of having to open accounts at multiple banks. Of course, one may argue that, because of the relative ineffectiveness of the existing coverage limit, an increase may not have any substantial adverse consequences. But, it is precisely because of the dangers that attend legislating in the presence of uncertainty that the OCC would favor a cautious approach in this area.

The lack of consumer demand for increased deposit insurance coverage is evidenced by the fact that, despite the ability of depositors to achieve virtually unlimited coverage, there is over $1 trillion of uninsured deposits in the banking system, compared with over $3 trillion in insured deposits. This does not suggest, however, that large numbers of Americans are adversely affected by the existing coverage limit; the Federal Reserve's 1998 Survey of Consumer Finances reported that 98 percent of all households that held any deposits were fully insured. Moreover, money market mutual funds, which have some of the same features as bank transactions accounts and generally offer higher returns than bank deposits, today hold over $2 trillion, which suggests that many Americans do not see the additional risk involved in holding money-market fund shares as particularly significant. Against this background a relevant question for the Congress is whether deposit insurance should be converted into a governmentally protected all-purpose investment vehicle.

Another argument put forth in favor of an increase in the coverage limit is that it would significantly assist community banks in meeting their liquidity and funding needs, and would counteract the competitive disadvantage that community banks believe they face vis-à-vis large banks. Those who hold this view attribute the continuing increase in the average size of deposits at large banks, in both nominal and real terms, to the widespread belief that a

"Too-Big-To-Fail" doctrine protects large banks. While it is exceedingly difficult to know whether or to what extent the perception of such potential support for large banks actually affects depositor behavior, the vast holdings of liquid assets in money market mutual funds suggest that yield, rather than safety, may be a more significant motivating factor.

Whether an increase in the coverage limit would in fact enhance community bank funding is speculative at best. It is not at all clear that increasing the limit would result in a net increase in the deposits of the banking system. Depositors who multiply insurance coverage today by using multiple banks might simply consolidate their deposits in a single bank if coverage were raised, and there is no way of determining who would ultimately, when the switching process ended, benefit. Similarly, if a coverage increase did attract new funds into the system, it is not at all clear that the benefits would flow to smaller banks. Large, aggressive institutions might simply use the expanded coverage to offer an even more extensive governmentally protected investment vehicle to wealthy customers, with the consequence of increasing the liquidity pressures felt by smaller banks.

If there is a compelling case to be made for increasing the insurance limit and indexing it to inflation, it remains to be made. Consequently, we believe that Congress should move very cautiously in this area, and while it is certainly true that a coverage increase would be less problematic in the context of properly priced deposit insurance coverage, we think this proposal raises some fundamental questions that need to be addressed. One such question is whether insuring virtually a limitless amount of funds is part of the intent of deposit insurance. Clearly, it would be much easier to decide what to do with the existing $100,000 insurance limit if it were a hard and fast upper bound on coverage that was strictly enforced. There have been efforts to devise ways, which generally have been rejected on grounds of administrative complexity, to limit the total coverage or lifetime payouts that could be obtained by a person. In light of the advances that have been made in information technology, those proposals may deserve a second look.

Conclusion

Today, we have the opportunity to undertake comprehensive federal deposit insurance reform when both the banking industry and the deposit insurance funds are strong. A primary goal of reform should be to reduce the current cross subsidization embedded in the current system, including the inequitable treatment of national banks in the current use of the fund to pay the costs of state nonmember bank supervision.

The OCC supports the FDIC staff recommendations to merge the BIF and SAIF and to eliminate the current constraints on premiums, particularly the mandated zero premiums for well-managed, well-capitalized banks. We favor elimination of the fixed DRR of 1.25 percent of insured deposits and the empowerment of the FDIC to establish a size range for the fund, based on an assessment of the risks the fund faces. Regarding proposals to increase the insurance coverage limit of $100,000, we have not seen compelling evidence to date that increasing the insurance coverage would either further the purpose of federal deposit insurance or help to alleviate the liquidity and funding pressures of community banks.

Attachment: Reforming the Funding of Bank Supervision (July 2001)

Introduction

This paper addresses a fundamental flaw in our system of bank supervision—the way supervision is funded. It also offers a proposal for fixing this flaw. The proposal not only would enhance the resources available to assure quality supervision of our nation's banking system, but would reduce the assessments now imposed on both national and state banks to pay for their own supervision—with no additional cost to taxpayers.

Background

Under the present system, national banks pay the full costs of their supervision, through assessments levied on them by the Office of the Comptroller of the Currency (OCC), the federal agency that charters and supervises national banks.

State-chartered banks, by contrast, pay only for that small fraction of their supervision that is provided by state supervisory agencies. The predominant part of state bank supervision actually comes from two *federal* agencies, the Federal Reserve System (FRS) and the Federal Deposit Insurance Corporation (FDIC).[1] These federal agencies perform exactly the same supervisory functions for state banks as the OCC performs for national banks. The main difference is that the FRS and the FDIC do not assess state banks for the costs of their supervisory services.

[1] The FRS supervises state banks that have elected to become members of the Federal Reserve System. The FDIC supervises federally insured nonmember state banks.

In 2000, these two federal agencies spent almost $1 billion on state bank supervision, none of which was recovered from the banks they supervise.

The current situation is a problem that Congress needs to fix because:

It's unfair. The present system is doubly unfair to national banks: they not only are fully charged for the costs of their supervision, but they also have contributed a substantial portion of the deposit insurance premiums that the FDIC relies on to fund its supervision of state nonmember banks. The present system also unfairly imposes on taxpayers and on the FDIC insurance fund the costs of federal supervision of state banks.

It distorts the dual banking system. Healthy competition in the quality of supervision and innovation in meeting the needs of banks and their customers should lie at the heart of our dual banking system. Unfortunately, today a primary focus of this competition is on price. Because state banks receive a federal subsidy for the predominant part of their supervision, there is a cost incentive for banks to avoid or depart from the national charter in favor of the heavily subsidized state charter. This inevitably tends to undermine a vigorous and healthy dual banking system.

It compromises safety and soundness. The present system of funding bank supervision works pro-cyclically. It threatens national banks with additional cost burdens in times of economic stress, and it imposes constraints on supervisory resources at the very time they are most likely to be needed. When there is widespread stress in the banking system, as there was in the late 1980s and early 1990s, significantly increased supervisory attention is demanded and supervisory costs rise. As this occurs, healthy national banks, which already pay more than their state counterparts, face the prospect of substantial increases in assessments to pay the costs of more intensive supervision of problem banks. This creates a strong incentive to convert to a state charter. Such conversions, in turn, reduce the resources available to OCC to fund increased supervisory needs.

It's inconsistent with deposit insurance reform. A fundamental principle at the heart of deposit insurance reform is that subsidies should be eliminated. Healthy, well-managed banks should not be required to bear the costs and risks presented by less well-managed, riskier banks. By the same token, national banks should not be forced to bear the costs of supervising and insuring state banks. Any proposals to reform the deposit insurance system must inevitably come to grips with this inequity in the system, just as they must focus on such fundamental issues as the appropriate size of the insurance fund and how rebates, if any, should be distributed. Since the principal purpose of bank supervision is to protect the insurance fund, the manner in which supervision is funded is inextricably bound up with the subject of reform of the deposit insurance system.

The following discussion elaborates on each of these points:

The Present System is Unfair to National Banks and to Taxpayers

The three federal bank supervisory agencies—the OCC, the FRS, and the FDIC-perform virtual identical functions with respect to the banks they supervise, as is demonstrated by Table 1. Indeed, for more than 30 years, whenever Congress has enacted new bank regulatory laws, it has almost always parceled out identical supervisory and enforcement responsibilities to the three federal agencies. As a result, the FRS and the FDIC today perform the predominant part of state bank supervision.

Table 1– The federal regulatory agencies have similar supervisory responsibilities.

Responsibilities	OCC	FDIC	FED
Safety and soundness exams	X	X	X
CRA Exams	X	X	X
Fair Lending Exams	X	X	X
Enforce Bank Secrecy Act	X	X	X
Regulation	X	X	X
Entry	X	X	X
FFIEC	X	X	X
Enforce the Securities Exchange Act of 1934	X	X	X
Branch Applications	X	X	X
Merger & Consolidation Applications	X	X	X
Enforce Capital Requirements and PCA	X	X	X
Truth in Lending Act Examinations	X	X	X
Right to Approve Directors and Senior Execs	X	X	X
Authority to Prescribe Oper and Mgrl Stds	X	X	X
Supervisory Enforcement Actions	X	X	X
Supervise Foreign Activities	X	X	X

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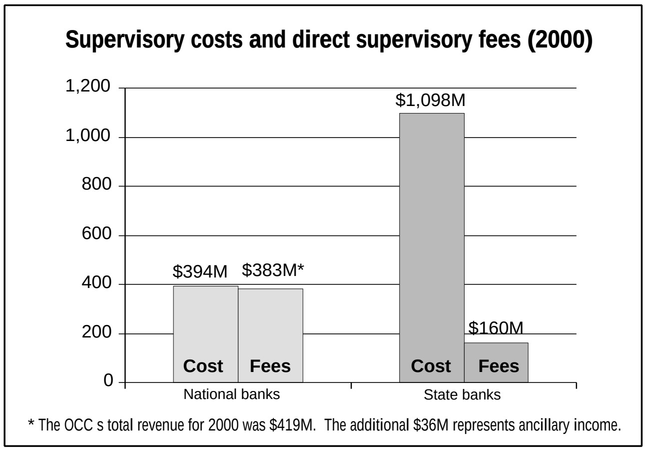
Yet the burden of funding supervision falls with vastly disproportionate weight on national banks. As shown in Table 2, virtually the entire amount of the cost of national bank supervision in 2000 was borne by national banks. By contrast, only 15 percent of the total cost of state bank supervision—that is, the costs of both state and federal supervisors—was paid by state banks, in the form of assessments by their state supervisors. The lion's share of these costs—85 percent—reflecting the costs of the FRS and the FDIC, were absorbed by those federal agencies.

Table 2- Supervisory fees paid by national banks cover 100% of their cost of supervision. Supervisory fees paid by state banks cover 15% of their cost of supervision.



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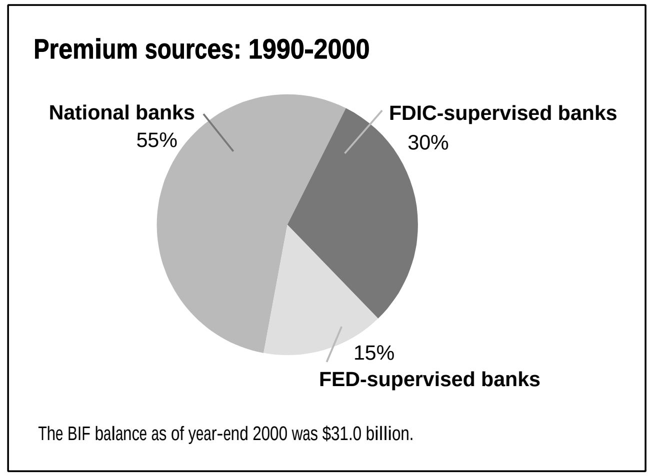
To understand how this federal subsidy unfairly impacts taxpayers and national banks, it is important to understand how the FRS and the FDIC are funded and how those funds are spent.

The FRS derives most of its revenues from open market operations—that is, from the earnings on its portfolio of government securities. Any portion of those earnings remaining after the FRS subtracts its costs of operation are paid over to the U.S. Treasury for the benefit of taxpayers. In 2000, the FRS spent about $300 million (out of $31 billion in total revenue) on its supervision of state banks. Thus, the costs of supervision of state banks by the FRS are, in practical effect, borne by all American taxpayers.

The FDIC's operating revenues are taken out of the deposit insurance funds, which have been built up over the years through the payment of premiums by all insured banks. In 2000, the FDIC tapped into the funds for a total of $1.2 billion, of which $638 million was spent on the supervision of state banks. Of this amount, $568 million was attributable to the FDIC's supervision of state-chartered commercial banks, and $70 million to its supervision of state-chartered thrift institutions.

As the holders of the largest share of the nation's bank deposits, national banks have always been the largest contributors to the bank insurance fund, and therefore to FDIC revenues. As shown in Table 3, national bank contributions today account for almost 55 percent of the funds in the FDIC's Bank Insurance Fund—and, by extension, 55 percent of the earnings that are used by the FDIC to supervise state nonmember commercial banks. *In other words, 55 cents of every dollar expended by the FDIC on state nonmember commercial bank supervision is attributable to payments by national banks.*

Table 3- Over one-half of the premiums paid into the bank insurance fund since 1990 came from national banks.



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To be sure, state banks have contributed to the insurance funds just as have national banks. *But the fact remains that state banks receive their federal supervision free of cost, while national banks bear the full cost of their supervision.*

There is no justification for a federal policy that subsidizes state banks, yet leaves national banks to bear the full cost of their supervision. Such a policy is especially unwarranted when the majority share of that subsidy is involuntarily funded by national banks through their contributions to the FDIC insurance fund.

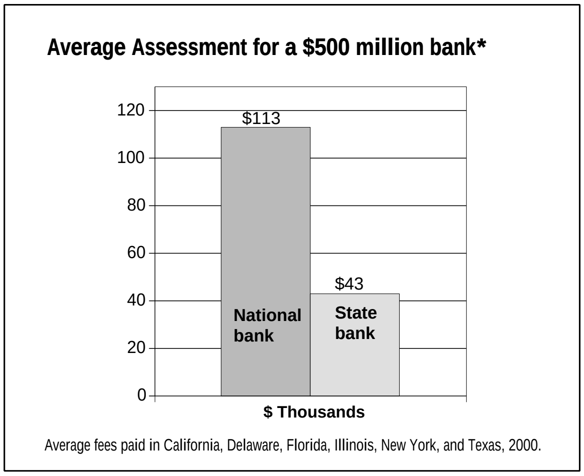
The Present System Undermines the Dual Banking System

Historically, the choice between a national or state charter centered on such things as supervisory philosophy and responsiveness, examination quality, and the scope of permissible activities. The cost of supervision was generally a minor factor. But that's no longer the case.

Today the costs of supervision have increased by orders of magnitude, largely because of laws that Congress has put in place over the past three or four decades to strengthen supervision and to increase protections for consumers—laws that Congress has charged the *federal* supervisors with the responsibility for enforcement. Since the FRS and the FDIC absorb those costs for state banks, while the OCC must pass them on to national banks, the disparity in supervisory costs paid by state and national banks has increased commensurately.

Thus, as shown in Table 4, state banks today pay supervisory costs on average less than half of what comparably sized national banks pay.

Table 4- Because state banks pay only for supervision costs incurred by states, their supervisory fees average less than half those of national banks.



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To compound the unfairness, many state bank supervisors today actively proselytize for charter conversions on the basis of the fee differential, in effect exploiting the value of the subsidy provided to state banks by the taxpayers and the FDIC. Thus, the fee disparity creates a significant incentive for a banker to choose a state over a national charter—to opt, in effect, to be the recipient, rather than the donor, of a subsidy.

If large numbers of banks were to make that choice—and the current pressures for cost reduction gives them a strong incentive to do so—the national bank charter could be seriously undermined. The result, perversely, would ultimately be to *increase* the cost to taxpayers and the insurance fund, since banks that convert from national to state charters would no longer pay the full costs of their federal supervision, and it would fall to the FRS and the FDIC to pick up *all* of the additional supervisory costs.

The Present System Compromises Safety and Soundness

The current funding system works pro-cyclically to *reduce* supervisory resources precisely when they are most likely to be needed and to increase the cost burdens on national banks at the very time they are grappling with an economy under stress. Of all the perversities in our system, none is more serious.

We saw this process at work during the wave of large bank failures in the late 1980s and early 1990s—a period of stress in the banking system not seen since the Great Depression. Supervisors were under mounting pressure to monitor and manage the crisis. Yet each bank failure translated into a reduction in the base on which assessments could be levied to support the agencies' increased costs. At the OCC this meant significant increases in assessment rates—14 percent in 1989, another 11 percent in 1991, and a whopping 30 percent in 1992.

Assessment rates were subsequently lowered when the crisis subsided and the industry returned to health. But it is unfair that our system requires well-managed banks to provide the additional supervisory resources needed to deal with problem institutions. *This is a flaw in the system that must be addressed.*

Moreover, even in times of relative economic calm, the present system can adversely affect the supervision of national banks. Given the concentration of assets in the banking system today, the loss of even a single large national bank—whether due to merger, conversion, or failure—could have a huge impact on the OCC's operating budget. Faced with the loss of a substantial part of its assessment base, the OCC would have only two choices: either to reduce its supervisory resources or to increase assessments on the remaining institutions.

State bank supervisors face a similar problem. In almost half the states, a single bank accounts for 25 percent or more of the asset base on which state supervisors base the assessments they need to fund their offices. Thus, the loss of such a large bank could have a crippling effect on a state supervisor's ability to provide quality supervision.

Deposit Insurance Reform Offers an Opportunity to Mend the Present System

A fundamental principle on which all of the current proposals for deposit insurance reform are based is that cross-subsidies in the system should be eliminated. Banks should contribute to the insurance funds based on the risks they present, and healthy banks should not be required to bear the costs and risks of providing deposit insurance to poorly managed, troubled banks.

Eliminating the fee disparity between national and state banks is an inextricable component of deposit insurance reform. National banks have, in effect, been forced to contribute more to the deposit insurance fund than they rightfully should, because more than half of their contributions to the fund go not for insurance coverage, but to defray the FDIC's costs of supervising state banks. *Any proposal to reform deposit insurance must deal with this cross-subsidy as much as it must deal with the risk subsidy provided by less risky banks.*

The FDIC's initiative to review and revise the deposit insurance system has focused on a number of fundamental issues relating to such questions as how deposit insurance premiums should be set, what the appropriate size of the deposit insurance funds should be, and how rebates, if any, should be distributed once the size of the fund exceeds some specified limit. Although some aspects of the FDIC's proposal are controversial, the debate over deposit insurance reform has been characterized by broad agreement that any reform program should advance the goals of efficient and equitable distribution of the costs and benefits of deposit insurance.

In that context, it's particularly important that we address the supervisory funding issue. *As long as premium income or the revenue it generates is used to fund the federal supervision of only one part of the industry, the FDIC's deposit insurance premium structure- even a revised one- cannot equitably price insurance coverage.* Remedying this inequity and separating the actual costs of the FDIC's supervisory functions from the costs of providing deposit insurance is an essential step toward efficient and rational pricing of both.

How to Fix the Problem

Any proposal for reform of our system of supervisory funding must pass several basic tests. It should—

- Strengthen both the federal and state supervisory processes, and protect them from the impact of random structural changes in the banking system;
- Enhance the *qualitative* aspects of competition within the dual banking system;
- Promote a fair and efficient deposit insurance system, and
- Ensure that all supervisors, state and national, have adequate, predictable resources available to carry out effective supervisory programs.

While there have been many different proposals to those ends, we believe that the most straightforward solution would be to develop a common approach to funding supervision. Since effective supervision is a critical component of a sound deposit insurance system—and since state nonmember supervision is already funded from the FDIC insurance fund—it makes sense to extend the existing arrangement to cover the costs of both state *and* national bank supervision from the FDIC fund. In other words, instead of funding supervision through direct assessments on banks, it should be funded by payments to supervisors—the OCC and state supervisors—from the insurance fund, to which *all* banks contribute.

How Would It Work?

Under a proposal the OCC has developed, the costs of both national bank supervision by the OCC and state bank supervision by the states would be paid from the FDIC insurance funds, as follows:

- Working with the FDIC, the OCC and state supervisors would jointly develop a formula for allocating funding based initially on current levels of funding.
- The formula would take into account both the number of institutions and total assets under supervision, as well as the financial condition and growth of the institutions.
- In subsequent years, the baseline allocation would be no less than the supervisors' costs for the preceding year, unless the baseline were adjusted to take account of changes in relevant factors.
- In no event would allocations exceed the investment earnings of the insurance funds for the preceding year. If earnings were insufficient to cover the baseline allocations, payments would be reduced pro rata. No payments could be made from the funds' principal.
- The agencies would retain the authority to impose supplemental assessments on their banks to meet unusual demands.

In short, this proposal would transfer the direct costs of supervision from the assessment process to the insurance funds—which, of course, have been built up by the very same banks that have paid national and state assessments.

The proposal would not involve any new costs for state banks. Indeed, the proposal envisages that assessments on state banks would be eliminated or reduced significantly.

Can the Funds Afford It?

It is clear that the FDIC funds could easily carry the costs of these allocations. In fact, the Bank Insurance Fund (BIF) alone could support the additional OCC and state supervisory costs. Today BIF holds over $31 billion in assets. Over the past five years, BIF's investment income—that is, excluding any premium income—has averaged more than $1.6 billion a year, or nearly 140 percent of the *combined* 2000 supervisory expenses of the OCC, FDIC, and the 50 state supervisors. Thus, even in the absence of premium payments, BIF is currently generating more than enough investment income to defray the supervisory expenses of the OCC and the states, and the FDIC as well.

What Benefits Would It Bring?

There would be enormous benefits to such a new approach to the funding of supervision, with no perceptible downside. Specifically:

- It would place supervision on a sounder and fairer footing, relieving national banks of the burden of subsidizing their state bank competitors, without threatening FDIC resources.
- It would be a step toward allocating the costs and benefits of deposit insurance in an equitable and efficient manner, thus facilitating deposit insurance reform.
- It would ensure that all supervisors have the resources necessary to provide effective bank supervision, regardless of changes in the economy or the structure of the banking system.
- It would revitalize the dual banking system to move beyond the current charter price competition and recapture the elements of the dual banking system that have made it vital to the fabric of our nation's banking system: creativity, efficiency, and healthy competition.

Statement of Ellen Broadman, Director, Securities and Corporate Practices Division, before the U.S. House Subcommittees on Capital Markets, Insurance, and Government-Sponsored Enterprises and on Financial Institutions and Consumer Credit, Committee on Financial Services, on broker-dealer exemptions under Gramm–Leach–Bliley Act, Washington, D.C., August 2, 2001

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

Chairman Baker, Chairman Bachus, Ranking Members Kanjorski and Waters, and members of the subcommittees, thank you for this opportunity to discuss the Securities and Exchange Commission's recent Interim Final Rules implementing the bank broker-dealer exemptions under Title II of the Gramm–Leach–Bliley Act of 1999 (GLB Act). The OCC appreciates the subcommittees' efforts to review the significant issues that the commission's rules raise.

To begin, I commend the commission for its recent actions on the rules. The commission's decision on July 18, 2001, to extend the time for banks to comply with the rules was a constructive first step. We also welcome and view as essential the commission's commitment to further extend the compliance date once final rules are adopted to give banks sufficient time to comply with changes. We are especially pleased that the commission anticipates amending the rules after considering public comments.

The OCC, Federal Reserve Board, and Federal Deposit Insurance Corporation (banking agencies) provided the commission with comments on the rules. As you requested, our testimony below briefly describes the reasons we decided to file joint comments and highlights a few of the areas of concern. Those comments provide a more comprehensive discussion of significant substantive concerns the banking agencies had with the rules, and are attached to this testimony [attachment omitted]. We offer this summary with the understanding that the commission has recognized the need to make changes to the rules. The banking agencies are currently working together to provide additional specific recommendations to the commission. We look forward to working with the commission in developing rules that are workable for banks and consistent with the GLBA and congressional intent. We appreciate the subcommittees' support for such a collaborative approach.

Banking Agencies' Concerns

The banking agencies provided comments to the commission because of the significant issues the rules raise. We are concerned that the rules create unworkable requirements that would force banks to discontinue traditional banking activities that Congress intended to preserve under the GLB Act. We also are concerned that the rules would significantly disrupt longstanding relationships between banks and their customers, restrict customer services, and increase customers' costs. We believe this result is unnecessary and inconsistent with the intent expressed by Congress in enacting these provisions. We strongly encourage the commission to address our concerns in revising the rules.

Trust and Fiduciary Activities

One area of particular concern is how the rules would implement the trust and fiduciary exemption. Congress adopted this exemption to permit banks to continue providing the types of trust and fiduciary services banks have traditionally offered to customers, subject to existing regulatory protections.[1] In response to concerns that banks might use the exemption to operate full scale retail brokerage operations, Congress required banks to be "chiefly compensated" for trustee- and fiduciary-related transactions on the basis of nonbrokerage-related fees and to not publicly solicit brokerage business.

To qualify for this exemption, the Interim Final Rules require banks to conduct an account-by-account review for each trust or fiduciary account and establish for each account that the bank is "chiefly compensated" by specified fees.[2] We believe this approach is enormously burdensome for banks and creates serious practical difficulties, particularly as applied to banks' multi-faceted trust and fiduciary services and multi-party trust and fiduciary relationships. Banks do not have systems to compute the complex calculations required for each account under the rules and would be required to expend enormous resources to restructure their operations to meet this requirement. A single account that fails to meet a techni-

[1] This exemption is particularly important since state laws generally permit banks and trust companies, but *not* broker-dealers, to act as trustees.

[2] Although the rules provide an exemption from the account-by-account calculation requirement, provisions in the exemption effectively require an account-by-account calculation of compensation.

cal requirement under the rule could cause banks to become an unregistered broker-dealer subject to considerable liabilities under the Exchange Act [Securities and Exchange Act of 1934]. Some banks would be forced to discontinue providing brokerage services to trust and fiduciary customers who have chosen to do business with the banks.

Our comments, therefore, recommend that the "chiefly compensated" limit be applied on an aggregate basis to the bank's trust and fiduciary activities, and not on an account-by-account basis.

Under the rules, a bank meets the "chiefly compensated" requirement if its "relationship compensation" exceeds its "sales compensation" from each account on an annual basis. Unfortunately the rules create a unique definition of "relationship compensation" that excludes legitimate, long-recognized forms of fiduciary compensation. Thus, even when a bank is predominately compensated for its services through traditional fiduciary fees, the bank may not meet the "chiefly compensated" test under the rules. In such cases, banks will be ineligible for the statutory exemption and therefore unable to continue providing customers certain trust and fiduciary services.

We believe the above provisions and the other requirements in the rule would seriously disrupt traditional trust and fiduciary activities, contrary to congressional intent.

Trustee Capacity

As noted above, the GLB Act expressly provides an exemption when banks effect transactions in a "trustee" capacity. The Interim Final Rules suggest that there is "uncertainty" concerning whether banks acting as ERISA [Employee Retirement Income Security Act], IRA [individual retirement account], or indentured trustees are "trustees" under this exemption and therefore grant a special exemption to resolve this ambiguity. We believe the commission's narrow view of the term "trustee" is inconsistent with the plain language of the GLB Act and casts a cloud over a wide range of other trust relationships banks have with their customers. We recommend that the commission instead interpret the term "trustee" consistently with its plain and ordinary meaning, which would eliminate the need for the "special exemption" in the rules.

Investment Advice for a Fee

As described above, the GLB Act provides an exemption for banks acting in a fiduciary capacity. Our comments express concern that the rules exclude from the fiduciary exemption activities that the GLB Act expressly includes within the term "fiduciary capacity." For example, the GLB Act specifically provides that a bank acts in a "fiduciary capacity" when the bank offers investment advice for a fee. That statutory language tracks the banking agencies' definition of "fiduciary capacity" which also includes investment advice for a fee.[3] The Interim Final Rules add new requirements, such as that the investment advice must be "continuous" and "regular," that are not included in the statute and that differ from the banking agencies' definition of "fiduciary capacity." Banks that offer investment advice for a fee, and do not meet those requirements, will be forced to discontinue offering transaction services to their customers. We believe the commission should develop a definition of "fiduciary capacity" that is consistent with the definition in banking regulations and that permits banks to continue conducting the fiduciary services covered by the plain language of the statutory exemption.

Custody and Safekeeping Activities

Custody and safekeeping activities, like trust and fiduciary activities, are part of the core business of banking. Congress created a custody and safekeeping exemption to allow banks to provide the full range of custody and safekeeping activities they traditionally provided "as part of customary banking activities."[4] Bank custodians have a long-standing history of accommodating customers by accepting and transferring orders for securities to a registered broker-dealer. Nonetheless, the Interim Final Rules do not include customary custodial order-taking services within the exemption.

The Interim Final Rules create special exemptions that are unnecessary if order-taking services to customers fall within the custody and safekeeping exemption. One of these special exemptions permits bank custodians to continue providing customary order-taking services if they do not charge *any fees* for the service. Our comments expressed concern that this restriction will cause banks either to stop offering this service or to move custodial activities outside the bank, contrary to the statutory language and congressional intent.[5] This would deny customers the convenience and choice of placing orders through their chosen bank custodian.

We believe the commission should instead include order taking within the custody and safekeeping exemption.

[3] 12 CFR 9.2(e).

[4] GLB Act, 201(4)(B)(viii)(1), 15 USC 78c(a)(4)(B)(viii)(l).

[5] The other exemption applies only to small banks and includes numerous burdensome restrictions.

Networking

National banks may establish arrangements with registered broker-dealers to offer brokerage services to bank customers on or off bank premises (networking arrangements). Under the GLB Act, a bank employee may receive a nominal one-time cash fee of a fixed dollar amount for referring customers to a broker-dealer under a networking arrangement. The Interim Final Rules define "nominal" in a manner that imposes new requirements on the amounts and manner banks may compensate their employees that create practical and operational difficulties for national banks, and effectively negate for many banks the availability of the specific statutory provision allowing for referral fees.

Other Areas of Concern

Our letter also describes in detail serious concerns with other areas, including affiliate transactions, sweep accounts, and supervision of dual employees. We also express particular concern with provisions that unduly restrict the ability of banks to sell their loans through asset-securitization to qualified investors.[6] We believe those exemptions should not be implemented in a manner that denies banks the ability to use the exemptions or that disrupts long-standing bank relations with customers who have chosen to do business with the banks.

Concerns with Process

Our letter also expressed concern with the process that the commission employed in adopting the rules. The commission issued the rules without the benefit of the normal notice and public comment process. Further, the commission's decision to use Interim Final Rules with an immediate effective date, coupled with exemptions that only temporarily suspend the rule's effectiveness, placed banks in an untenable position. Without knowing how the rules would be changed, banks were required to take immediate steps to comply with the rules by the effective date. Our comment letter urged the commission to review public comments *before* establishing final rules and then to grant banks a sufficient time period to bring their operations into compliance. We appreciate the commission's response in which it pledged to address these problems.[7]

Conclusion

The banking agencies provided comments to the commission because of the significant issues raised by the rules. The commission has taken a positive step by extending the dates for compliance and acknowledging that the rules must be amended after careful consideration of the comments. We stand ready to provide assistance to the commission in this process.

We thank the subcommittees again for this opportunity to express our views, and for its attention to this issue.

[Attachment omitted. Full text of the attachment, "Interagency Comment Letter with Appendix" (48 pp.), is available as the attachment to OCC Bulletin 2001–30, "SEC Interim Final Rules: Title II of Gramm–Leach–Bliley Act," dated June 29, 2001. It is also available on the OCC's Web site at http://www.occ.treas.gov/ftp/bulletin/2001–30a.pdf.]

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[6] By selling loans, banks are able to enhance their liquidity and expand the amount of credit they can offer to meet community, business, and individual needs.

[7] Once the commission adopts final rules, the banking agencies will proceed in adopting record-keeping requirements under the GLB Act.

Interpretations- July 1 to September 30, 2001

Interpretive Letters

911– June 4, 2001

12 USC 24(7)

Re: [ ] (bank)
Managed Loan Fund

Dear [ ]:

This is in response to your letter requesting an opinion from the Office of the Comptroller of the Currency (OCC) that national banks may acquire for their own account beneficial interests in a privately offered investment fund that would invest in loans, cash and cash equivalents, and an offshore fund that invests solely in loans. We conclude that if certain standards are met, it would be legally permissible for national banks to acquire such interests as securities, subject to a 5 percent aggregate investment limit and safe and sound banking practices, or as loan participations, subject to the requirements of Banking Circular No. 181 (Rev.) (August 2, 1984) (BC–181).

Background

The bank established the [ ] (fund) as a vehicle for investment in bank loans. The fund also may invest temporarily in cash and cash equivalents, and in an offshore fund managed by the bank that invests solely in bank loans. The bank is the investment manager of both the fund and the offshore fund. The fund holds approximately $30 million in assets, all of which have been provided by investors that qualify as "accredited investors" and "qualified purchasers" under the federal securities laws. The minimum investment in the fund is $10 million. Interests in the fund qualify for an exemption from registration as securities under section 4(2) of the Securities Act of 1933 because they are sold through private placements.[1] The fund is not subject to registration under the Investment Company Act of 1940 because its investors must be qualified purchasers.[2]

The fund is organized as a *[State]* limited liability company. The fund's governing instrument, the Limited Liability Company Agreement ("agreement"), provides that upon dissolution of the fund each beneficial owner will receive a dollar amount equal to its *pro rata* interest in the fund's net assets. The agreement limits the fund's activities to participation in the primary and secondary bank loan markets, and cash and cash equivalents. Investors in the fund are shielded from personal liability for the acts and obligations of the fund since their liability as owners of beneficial interests in the fund is limited to the value of their interests.

The fund will hold loans from a variety of industries. The fund will invest no more than 10 percent of its portfolio in loans to any one business sector. Other restrictions include limitations on loans to one borrower, limitations on loans to non-U.S. borrowers, and limitations on loans purchased from the bank or any of its affiliates. The fund values its loans monthly at market value using third-party pricing sources. In the event it is not possible to determine market value using third-party sources, the investment manager values the loans at fair value, which is intended to approximate market value.[3]

Investors in the fund receive information regarding the composition, credit quality, and performance of the loans in the fund's portfolio. This information includes a list of each loan held in the fund as of a specified date, the loan's credit rating, and information about the fund's credit underwriting standards. Investors also are able to consult with the bank concerning the fund's investment decision making. On a quarterly basis, investors receive information about the fund's performance and changes in its composition. The information about portfolio composition and underwriting standards is provided to investors whether the fund has invested directly in such loans or whether the investment is through the offshore fund.

After holding their initial purchase for six months, investors may liquidate their fund holdings on a quarterly basis and are required to provide at least 30 days prior notice of any redemption. Redemptions will be paid in an amount based on the market value of the fund's portfolio as of the redemption date.

[1] *See* 15 USC 77d(2).

[2] *See* 15 USC 80a–3(c)(7).

[3] The bank states that in valuing loans at "fair value," it will consider relevant factors such as: (1) the existence of bona fide, non-distressed transactions on the bank loans, if available; (2) data such as costs, size, current interest rate, period until next interest rate reset, maturity and base lending rate of the loans, the terms and conditions of the loans and any related agreements, and the position of the loans in the borrower's debt structure; (3) the nature, adequacy, and value of the collateral, including the investment manager's rights, remedies, and interests with respect to the collateral; (4) the creditworthiness of the borrower's business, cash flows, capital structure, and future prospects; (5) reliable price quotations for and trading in bank loans and interests in similar loans and the market environment and investor attitudes towards the bank loan investments and interests in similar loans; (6) the reputation and financial condition of the borrower, shareholders of the borrower, and/or the agent and any intermediary in the bank loans; and (7) general economic market conditions affecting the fair value of the bank loans.

Discussion

National Bank Authority to Purchase Investment Securities

National banks may purchase investment securities subject to the limits of 12 USC 24(Seventh) and 12 CFR Part 1. The OCC defines "investment security" as a "marketable debt obligation that is not predominantly speculative in nature."[4] A security is not "predominantly speculative in nature if it is rated investment grade."[5] When a security is not rated, it must be the credit equivalent of one that is rated investment grade.[6] The term "marketable" is defined to include a security that "[c]an be sold with reasonable promptness at a price that corresponds reasonably to its fair value."[7] The OCC, however, also states in its regulations that notwithstanding the definitions of investment security and investment grade, "a national bank may treat a debt security as an investment security for purposes of [Part 1] if the bank concludes, on the basis of estimates that the bank reasonably believes are reliable, that the obligor will be able to satisfy its obligations under that security, and the bank believes that the security may be sold with reasonable promptness at a price that corresponds reasonably to its fair value."[8] Such securities are subject to a 5 percent aggregate investment limit.[9] Banks purchasing securities permitted under Part 1 must adhere to safe and sound banking practices and consider, as appropriate, interest rate, credit, liquidity, price, foreign exchange, transaction, compliance, strategic, and reputation risk.[10]

The OCC permits national banks to purchase for their own accounts investment company shares, provided that the investment company's portfolio consists exclusively of assets that a national bank could purchase directly.[11] The OCC may permit a national bank to invest in an entity that is exempt from registration as an investment company, provided that the portfolio of the company consists exclusively of assets that a national bank may purchase and sell for its own account.[12] The OCC has permitted national banks to invest in limited partnerships and unregistered investment companies.[13]

A crucial factor in the OCC's regulations on investment in investment company shares and in its prior interpretations is whether the investment company's underlying assets consist of bank-eligible investments. Among the activities that make up the business of banking are the discounting and negotiating of promissory notes, drafts, bills of exchange, and other evidences of debt, loaning money on personal security, and obtaining, issuing, and circulating notes.[14] These powers are merely illustrative, however, and the list of bank powers contained in Section 24(Seventh) does not constitute the full scope of the "business of banking."[15]

National Bank Authority to Purchase Loan Participations

National banks may purchase participation interests in pooled loans under their general lending power.[16] Purchases of interests as loan participations merely constitute another way for national banks to engage in activities that long have been permissible for them. Under this analysis, the purchase of the interests is viewed as a purchase of a share of the assets that they represent. The OCC has issued extensive guidance on national bank purchases of

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[4] 12 CFR 1.2(e).

[5] *Id.*

[6] *See id.*

[7] *Id.* at 1.2(f)(4).

[8] *Id.* at 1.3(i)(1).

[9] *See id.* at 1.3(i)(2). This limit is 5 percent for *all* securities, in the aggregate, acquired pursuant to reliable estimates authority.

[10] *See id.* at 1.5(a).

[11] *See id.* at 1.3(h)(1).

[12] *See id.* at 1.3(h). Banking Circular No. 220 (November 21, 1986) (BC–220) states that the investment company must be registered with the SEC under the Investment Company Act of 1940 and Securities Act of 1933 or be a privately offered fund sponsored by an affiliated commercial bank. The proposed fund is privately offered, but not from an affiliated bank. The OCC, however, has permitted exceptions to the BC–220 requirements. *See*, *e.g.*, 12 CFR 1.3(h)(2). The fund at issue here is exempt from registration under the Investment Company Act of 1940 because its investors must be "qualified purchasers." *See* 12 USC 80a–3(c)(7). The proposed fund would also qualify as an exception to BC–220 because its portfolio consists exclusively of assets that a national bank may purchase and sell for its own account, and it is exempt from registration under the Investment Company Act of 1940. The fact that the exemption is provided under 12 USC 80a–3(c)(7), and not under 80a–3(c)(1), is immaterial. While section 3(c)(7) does not restrict participation to 100 or fewer investors, it does require a more sophisticated investor, *i.e.*, a "qualified purchaser," than under section 3(c)(1).

[13] *See* Interpretive Letter No. 617 (March 4, 1993), *reprinted in* [1992–93 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,457; and Interpretive Letter No. 435 (June 30, 1988), *reprinted in* [1988–89 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,659.

[14] *See* 12 USC 24(Seventh).

[15] *See Nations Bank* v. *Variable Annuity Life Insurance Company*, 513 US 251 (1995).

[16] *See* Interpretive Letter No. 579 (March 24, 1992), *reprinted in* [1991–92 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,349.

loans and loan participations.[17] National banks that purchase debt securities as loans must comply with the lending limit restrictions in 12 USC 84 and may not purchase them in an amount exceeding 15 percent of the bank's capital and surplus.[18] Bank purchasers also must adhere to the prudential requirements of OCC Banking Circular No. 181 (Rev.), including the requirement that they perform an independent credit analysis of the loan pool to satisfy themselves that the underlying credits meet their own credit standards.[19] The OCC requires banks to implement "satisfactory controls" over loan participations, including: (1) written lending policies and procedures governing those transactions; (2) an independent analysis of credit quality by the purchasing bank; (3) agreement by the obligor to make full credit information available to the selling bank; (4) agreement by the selling bank to provide available information on the obligor to the purchaser; and (5) written documentation of recourse arrangements outlining the rights and obligations of each party.[20]

Purchases of Interests in the Fund

National banks may purchase interests in the fund as securities, subject to a 5 percent aggregate investment limit, or as loan participations. Part 1 provides for national bank investments in unregistered investment companies so long as the underlying instruments in the portfolio are permissible investments for national banks. Part 1 does not require that the underlying assets of investment companies be limited to instruments labeled "securities."[21] Making loans is part of the business of banking, and national banks may hold shares of investment companies that invest in loans.[22]

Part 1 requires that an investment security be rated investment grade or the credit equivalent thereof.[23] Interests in the fund would not qualify under Part 1 as "investment securities" if the credit quality of the portfolio of loans in which the fund invests were below investment grade. Even if interests in the fund do not qualify as "investment securities," however, national banks may purchase limited quantities of interests in the fund if they are able to conclude: (1) that the obligor could satisfy its obligations under the security (based on reliable estimates); and (2) that the security could be sold with reasonable promptness at a price that corresponds reasonably to its fair value.

In the instant situation, national banks would need to demonstrate that, due to the fund's diversification and its investment standards, the fund would perform in a manner consistent with the reliable estimates standard. That determination would require an analysis of the performance of the fund's loans. The fund's diversification should help ensure its overall performance. Investors in the fund also should be able to sell their holdings with "reasonable promptness" at a "price that corresponds reasonably" to their fair value because redemptions can be made quarterly based on the interests' market value at the time of redemption. National banks would also need to consider risk factors enumerated in Part 1, such as liquidity risk, credit risk, compliance risk, and reputation risk, and satisfy themselves that they can manage such risks and that the investment is appropriate for them.[24]

In addition to purchasing interests in the fund as securities under Part 1, national banks also may purchase such interests as loans or loans participations in an amount not exceeding 15 percent of the bank's capital and surplus. In order to rely on this authority, national banks would need to have sufficient information available to them to make the independent credit analysis required by BC–181. The nature and extent of the required independent credit analysis is a function of the particular transaction. Banks investing in the fund would receive data from the bank on the fund's underwriting standards, and the principal terms, credit quality, and performance of loans in the fund's portfolio. Investors would also be able to consult with the bank concerning the fund's investment decision-making, and obtain information on the fund's performance and composition.

Conclusion

National banks as a legal matter may be able to purchase interests in the fund either as securities under the reliable estimates standard of Part 1, subject to a 5 percent aggregate investment limit for all securities purchased under this authority, or as loan participations, subject to a 15 percent limit. Investments made under Part 1 are subject

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[17] *See* Banking Circular No. 181 (Rev.) (August 2, 1984). The OCC currently is contemplating issuing a revision to Banking Circular No. 181 (Rev.). Banks must conform their activities to the guidance contained in Banking Circular No. 181 (Rev.) and all subsequent revisions, both when purchasing and when continuing to hold interests in loan funds.

[18] *See* Interpretive Letter No. 834 (July 8, 1998), *reprinted in* [1998–99 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–288; Interpretive Letter No. 833 (July 8, 1998), *reprinted in* [1998–99 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–287; and Interpretive Letter No. 579, *supra.*

[19] *See* Interpretive Letter No. 663 (June 8, 1995), *reprinted in* [1994–95 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,611; and Interpretive Letter No. 579, *supra.*

[20] *See* Banking Circular No. 181, *supra.*

[21] *See* 12 CFR 1.3(h); Interpretive Letter No. 687, *supra.*

[22] *See* 12 USC 24(Seventh).

[23] *See* 12 CFR 1.2(e).

[24] *See generally* 12 CFR 1.5(a).

to the prudential considerations set forth in the rule. National banks contemplating investment in the fund through the purchase of interests as loan participations must undertake an independent credit analysis as discussed above and must establish that the fund's investment strategy and portfolio of loans are consistent with their credit underwriting standards prior to making the investment. If you have any questions, please do not hesitate to contact Donald N. Lamson, assistant director, or Paul Vogel, senior attorney, Securities and Corporate Practices Division, at (202) 874–5210.

Julie L. Williams
First Senior Deputy Comptroller and Chief Counsel

912– July 3, 2001

12 CFR Part 1

Re: Bank Qualified Mutual Fund

Dear [ ]:

This letter responds to your request that the Office of the Comptroller of the Currency (OCC) determine that [ ] funds' proposed "Bank Qualified Mutual Fund" ("fund") is a permissible investment for national banks under 12 CFR Part 1. Assuming the permissibility of a national bank's investment in the fund, you ask what investment limit and risk-weight a purchasing bank should apply to the investment, and whether the investment should be accounted for as "held-to-maturity" or "available-for-sale."[1] For the reasons discussed below, and subject to the limitations described herein, we conclude that: [1] the fund is a permissible investment for national banks under 12 CFR 1.3(h)(2),[2] [2] the risk-weight assigned to the fund will depend on the composition of the fund's assets, but in no event will the minimum risk-weight be less than 20 percent, and [3] the investment can be accounted for as either a "trading" or "available-for-sale" asset.

I. Background

The fund will hold primarily general obligation and municipal revenue bonds that are designated by the issuer as bank qualified.[3] The fund will purchase municipal revenue bonds that are rated investment grade (*i.e.*, AAA/Aaa to BBB/Baa) at the time of purchase by independent rating agencies. The fund also may buy non-rated municipal revenue bonds if the investment adviser judges them to be the equivalent of investment grade.

The fund proposes to hold securities with five- to fifteen-year average maturities, with no more than 5 percent invested in any one issuer. The fund plans to diversify across states and territories. It will use short term Treasuries or a Treasury obligation mutual fund as the cash equivalent vehicle in the fund.

II. Discussion

Under 12 CFR Part 1, a national bank may purchase for its own account shares in a mutual fund with a portfolio consisting of bank-eligible investment securities.[4] National banks must conduct an independent review of a mutual fund's holdings to determine whether its portfolio consists of bank-eligible investment securities and to determine applicable legal investment limitations under 12 USC 24(Seventh) and 12 CFR Part 1 ("Part 1"). The minimum risk-weight that a national bank can apply to a mutual fund investment is 20 percent. A national bank's intent or purpose in acquiring mutual fund shares determines whether the investment can be accounted for as a "trading" or "available-for-sale" asset.

A. National Bank Authority to Purchase Mutual Fund Shares

A national bank may purchase for its own account, shares of an investment company, *e.g.*, a mutual fund with a portfolio consisting solely of obligations that are eligible for investment by a national bank.[5] Similarly, a national bank may invest in a fund that is exempt from registration as an investment company.[6]

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[1] You also question the capital gain or loss ramifications, and the tax-exempt status, of fund investments. We express no view on these issues.

[2] If the fund is an affiliate of the [ ] ("bank"), any investments by the bank and its affiliated depository institutions in the fund would be subject to 12 USC 371c and 371c–1.

[3] The fund will purchase municipal bonds based upon an assessment of a bond's relative value in terms of current yield, price, credit quality, and future prospects. The fund also will monitor the continued creditworthiness of its municipal investments, and analyze economic, political, and demographic trends affecting the municipal markets.

[4] National banks may purchase investment company shares for their own account based on other authorities, subject to applicable limits. See OCC Interpretive Letter No. 897 (October 23, 2000), *reprinted in* [2000–2001 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81416.

[5] *See* 12 CFR 1.3(h)(1)(i).

[6] *See* 12 CFR 1.3(h)(2).

Section 24(Seventh)[7] and Part 1 address national bank investments in bank-eligible investment securities. In general, Section 24(Seventh) permits national banks to purchase "investment securities" for their own account provided the aggregate par value of investment securities held by the bank issued by any one obligor does not exceed 10 percent of the bank's capital and surplus. The Section 24(Seventh) 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.'" Part 1 defines an "investment security" as "a marketable debt obligation that is not predominantly speculative in nature."[8]

Section 24(Seventh) and Part 1 exempt certain types of investment securities from the 10 percent investment limitation and permit a national bank to underwrite, deal in, purchase and sell those securities without quantitative limitation, *e.g.*, obligations issued by, or backed by the full faith and credit of, the U.S. Part 1, which classifies permissible national bank investment securities into several categories or types, classifies these investments as Type I investments.[9]

Section 151 of the Gramm–Leach–Bliley Act (GLBA)[10] amended Section 24(Seventh) to exempt municipal revenue bonds from the 10 percent investment limitation. To qualify for the exemption, a national bank must be "well capitalized" under prompt corrective action standards.[11] Specifically, Section 24(Seventh), as amended, permits national banks to deal in, underwrite, or purchase limited obligation bonds, revenue bonds, obligations that satisfy the requirements of section 142(b)(1) of the Internal Revenue Code of 1986, or other obligations issued by or on behalf of any state or political subdivision of a state, including any municipal corporate instrumentality of 1 or more states, or of a state.[12] Accordingly, municipal revenue bonds qualify under Part 1 as Type I investment securities for well-capitalized national banks. Indeed, the OCC has issued a notice of proposed rulemaking that, if adopted, would amend Part 1's list of Type I securities to include municipal bonds as defined in the GLBA amendment to Section 24(Seventh) for well capitalized national banks.[13]

If a national bank is *not* well capitalized, it may purchase and hold municipal revenue bonds as Type III investment securities.[14] Part 1 permits a national bank to purchase and sell Type III investment securities, provided the aggregate par value of investment securities held by the bank issued by any one obligor does not exceed 10 percent of the bank's capital and surplus.[15] To qualify as a Type III security, a municipal revenue bond must be rated investment grade or, if not rated, the credit equivalent of investment grade, and marketable.[16] "Investment grade" means a security that is rated in one of the four highest rating categories by two or more nationally recognized statistical rating organizations (NRSRO) or by one NRSRO if the security is rated only by one NRSRO.[17] A security is the credit equivalent of a security rated investment grade if, after a sufficient analysis, the bank makes that determination. A debt security is "marketable," if it is: [1] registered under the Securities Act of 1933 (" '33 Act");[18] [2] exempt from registration as a municipal revenue bond under the '33 Act;[19] [3] offered and sold under Rule 144A[20] and rated investment grade or is the credit

[7] *See* 12 USC 24(Seventh).

[8] 12 CFR 1.2(e). A security is not predominantly speculative in nature if it is rated investment grade. When a security is not rated, the security must be the credit equivalent of a security rated investment grade. *Id.*

[9] 12 CFR 1.2(i) and 1.3(a). You represent that, in addition to municipal revenue bonds, the fund will hold only Type I investment securities.

[10] Gramm–Leach–Bliley Act, Pub. L. No. 106–102, 151, 113 Stat. 1338, 1384 (1999) (codified at 12 USC 24(Seventh)); *see also* 12 CFR 1.2(i)(5).

[11] Section 38 of the Federal Deposit Insurance Act, 12 USC 1831o, states that "[a]n insured depository institution is 'well capitalized' if it significantly exceeds the required minimum level for each relevant capital measure." 12 USC 1831*o*(b)(1)(A). Section 38 also states that "[e]ach appropriate Federal banking agency shall, by regulation, specify for each relevant capital measure the levels at which an insured depository institution is well capitalized." 12 USC 1831*o*(c)(2). The OCC defines "well capitalized" for national banks at 12 CFR 6.4(b)(1).

[12] Footnote 10, *supra.*

[13] OCC Notice of Proposed Rulemaking, 66 *Fed. Reg.* 8178 (2001)("NPR"). The comment period for the NPR closes on April 2, 2001.

[14] 12 CFR 1.2(k). The NPR, if adopted, will make clear that Type III securities include municipal bonds that do not satisfy the definition of a Type I security.

[15] 12 CFR 1.3(c); OCC Interpretive Letter No. 777 (April 8, 1997), *reprinted in* [1997 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–204; OCC Interpretive Letter No. 781 (April 9, 1997), *reprinted in* [1997 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 81–208.

[16] *See* 12 CFR 1.2(e) and (f)(2).

[17] *See* 12 CFR 1.2(d) and (g).

[18] *See* 15 USC 77*a*, *et seq.*

[19] *See* 15 USC 77c(a)(2).

[20] *See* 17 CFR 230.144A.

equivalent thereof;[21] or [4] can be sold with reasonable promptness at a price that corresponds reasonably to its fair value.[22]

National banks that hold mutual fund shares, the portfolios of which do not qualify as Type I securities,[23] must use reasonable efforts to calculate and combine its pro rata share of a particular security in the portfolio of each fund with the bank's direct holdings of that security.[24] A bank's direct holdings of a particular security and the bank's pro rata interest in the same security in a mutual fund's portfolio may not, in the aggregate, exceed the investment limitation that would apply to that security. Alternatively, a national bank may elect not to combine its pro rata interest in a particular security in a mutual fund with the bank's direct holdings of that security if: [i] the fund's holdings of the securities of any one issuer do not exceed 5 percent of its total portfolio; and [ii] the bank's total holdings of the fund's shares do not exceed the most stringent investment limitation that would apply to any of the securities in the company's portfolio if those securities were purchased directly by the bank.[25] National banks must conduct periodic reviews to ensure that fund holdings do not exceed the most stringent investment limitation, relative to the bank's capital, that would apply to any of the securities if purchased directly.[26]

National bank management also must ensure that a particular mutual fund is an appropriate investment for the bank's investment portfolio.[27] A national bank's board of directors has the ultimate responsibility for deciding whether to invest in a mutual fund. Once that decision is made, the bank's board must review those holdings to determine whether a particular fund continues to be appropriate for the bank's investment portfolio.[28] Banks purchasing securities permitted under Part 1 must adhere to safe and sound banking practices and consider, as appropriate, interest rate, credit, liquidity, price, foreign exchange, transaction, compliance, strategic, and reputation risk.[29]

To the extent that the municipal revenue bonds held by the fund are permissible investments for national banks under the criteria above, national banks may use their authority under Section 24(Seventh) and Part 1 to purchase fund shares. If the purchasing bank is well capitalized under prompt corrective action standards, the investment may be treated as a Type I investment because the municipal revenue bonds and the other investments of the fund are Type I investments. As a Type I investment, national bank purchases of the fund's shares would not be subject to an investment limitation.

Conversely, if the bank purchasing fund shares is not well capitalized, then the fund shares could qualify as Type III investment securities, provided that applicable rating and marketability requirements are met. Under these circumstances, the investing bank could combine any direct holdings it had of a particular municipal revenue bond issuer with its pro rata interest by the same bond issuer held in the fund's portfolio, subject to a 10 percent investment limitation. Alternatively, an investing bank could choose not to combine its Type III holdings in fund with its direct holdings, if the fund's holdings of any issuer do not exceed 5 percent of the fund's total portfolio, in which case the bank could not invest more than 10 percent of its capital in fund, *i.e.*, the most stringent investment limitation applicable to the fund under this scenario.[30]

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[21] *See* 12 CFR 1.2(f).

[22] *Id.* OCC regulations also state that, notwithstanding the definitions of "investment grade" and "investment security" in Part 1, a national bank may treat a debt security as an investment security, based on the bank's reliable estimates that the obligor will be able to satisfy its obligations under that security. *See* 12 CFR 1.3(i)(1). The "reliable estimates" provision allows a bank to invest in a below investment grade security, *i.e.*, in a category below one of a rating agency's four highest categories, provided that the bank satisfies itself that the securities may be sold with reasonable promptness at a price that corresponds reasonably to their fair value. *Id.* National banks may purchase securities under the "reliable estimates" standard in an aggregate amount no greater than 5 percent of their capital and surplus. *See* 12 CFR 1.3(i)(2). This limit applies against all securities in their portfolios acquired predominantly on the basis of reliable estimates, rather than on a per issuer basis. *Id.*

[23] The OCC has a long-standing policy of permitting a national bank to treat investments that are backed by Type I securities as Type I securities. *See Security Pacific* v. *Clarke*, 885 F.2d 1034 (2nd Cir. 1989), *cert. denied*, 493 U.S. 1070 (1990); OCC Interpretive Letter No. 514 (May 5, 1990), *reprinted in* [1990–1991 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,218; OCC Interpretive Letter No. 378 (April 24, 1987), *reprinted in* [1988–1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,602.

[24] *See* 12 CFR 1.4(e)(1).

[25] *See* 12 CFR 1.4(e)(2).

[26] Banking Circular No. 220 (November 21, 1986): Investment in Investment Companies Composed Wholly of Bank Eligible Investments (BC-220).

[27] *Id.*

[28] *Id.*

[29] 12 CFR 1.5(a).

[30] If the fund's municipal bond issue is not rated, not the credit equivalent of investment grade or rated below investment grade, a national bank may treat the fund investment as an investment in investment securities if it concludes that: [1] the obligor could satisfy its obligations under the security (based on "reliable estimates") and [2] the security could be sold with reasonable promptness at a price that corresponds reasonably to its fair value. The purchasing bank's pro rata interest in the bonds would be combined with all of its other "reliable estimates" investments and subject to a 5 percent investment limitation. Conversely, provided that the fund does not hold more than 5 percent of the securities of any

B. Risk-Weighting

For regulatory capital purposes, a national bank's asset portfolio is divided into four categories. Each category is assigned a risk-weight percentage that in theory reflects the risk level of the assets within that category.[31] In the case of mutual fund investments, the assets represent an indirect holding of a pool of assets that encompass more than one risk-weight within the pool.[32] Thus, the OCC generally allows a national bank to risk-weight its total investment in a mutual fund in the risk category appropriate to the highest risk-weighted asset the fund holds, consistent with the investment limits the fund incorporates into its prospectus.[33] Alternatively, the OCC affords national banks the option of assigning fund investments to different risk categories on a pro rata basis according to the investment limits in the fund's prospectus.[34] The OCC believes that it is more prudent to base risk-weight distributions on investment limits than on a fund's actual underlying assets because actual fund holdings can change significantly from day-to-day.[35]

Regardless of the risk-weighting method used, the minimum risk-weight that may be assigned to a fund is 20 percent—a mutual fund has certain credit, transaction, and compliance risks that necessitate a risk-weight greater then zero percent.[36] Furthermore, if the bank assigns fund assets to risk categories on a pro rata basis, and the sum of the investment limits in the fund's prospectus exceeds 100 percent, the bank must assign the highest pro rata amounts of its total investment to the highest risk categories.[37]

Where a mutual fund is permitted to hold an immaterial amount of highly liquid, high quality securities ineligible for a preferential risk-weight, then those securities may be disregarded in determining the fund's risk-weight. However, if a fund engages in any activities that are speculative in nature or has any other characteristics that are inconsistent with the preferential risk-weighting assigned to the fund's assets, then a national bank's investment in the fund will be assigned to the 100 percent risk-weight category.[38]

In summary, a purchasing bank may risk-weight its total investment in the fund in the risk category appropriate to the highest risk-weighted asset the fund holds, consistent with the fund's investment limits as set forth in its prospectus. Otherwise, a purchasing bank may assign the fund's investments to different risk categories on a pro rata basis according to the investment limits in the fund's prospectus. In any case, the minimum risk-weight that may be assigned to a fund is 20 percent.

C. Mutual Fund Accounting Classification

Statement of Financial Accounting Standards Board No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FASB 115), identifies the categories among which national banks must divide their securities holdings as held-to-maturity, trading, and available-for-sale, and provides a different accounting treatment for each category. FASB 115 permits a national bank to include a security in the held-to-maturity category only if the bank has "the positive intent and ability to hold the security to maturity." Trading securities are those debt and equity securities that a bank buys and holds principally for the purpose of selling in the near term. Securities in the available-for-sale category are securities a bank does not have the positive intent and ability to hold to maturity, yet does not intend to trade them actively as part of its trading account.

National banks that invest in mutual funds give up the ability to control whether the underlying securities are held-to-maturity. A national bank's intent or purpose in acquiring the fund's shares will determine whether the investment should be accounted for as a "trading" or "available-for-sale" asset. When a national bank acquires mutual fund shares and at each subsequent reporting date, it must evaluate whether the investment should be accounted for as a "trading" or "available-for-sale" asset. If the mutual fund was bought principally to sell the investment in the near term, it should be accounted for as trading and marked to market through earnings. Otherwise, the mutual fund investment should be accounted for as an available-for-sale asset and recorded at its fair value.

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one issuer, a national bank could include its entire investment in the fund in its 5 percent "reliable estimates" investment limitation if the investment in the fund satisfied the criteria described above.

[31] 12 CFR Part 3, Appendix A. The risk-weights for national bank assets and off-balance-sheet items, range from zero to 100 percent. The higher the risk-weight percentage, the riskier the asset category. For example, the risk-weight percentage for private loans is 100 percent, while the risk-weight percentage for government securities is 0 percent. Thus, no capital is necessary to offset government securities, while 100 percent of the specified minimum capital levels must be held against a bank's loans.

[32] *Id.* at Section 3.

[33] *Id.*

[34] *Id.*

[35] 12 CFR Part 3, Appendix A, Section 3; Final Rule, "Risk-Based Capital Standards," 64 *Fed. Reg.* 10194 (March 2, 1999).

[36] *Id.*

[37] *Id.*

[38] *Id.*

III. Conclusion

Under 12 CFR Part 1, a national bank may invest in the fund under its authority to invest in mutual funds with portfolios that consist exclusively of bank eligible assets. Individual banks must determine the appropriate investment limits, based on the limitations of Section 24(Seventh), Part 1, and BC-220. The minimum risk-weight that a national bank can assign to the fund is 20 percent. A national bank's intent or purpose in acquiring fund shares will determine whether the investment should be accounted for as a "trading" or "available-for-sale" asset.

Our position is based on the facts and representations made in your letter and phone conversations, and any material changes in the facts or conditions may result in a different conclusion. We take no position on whether the proposed fund is a permissible investment for state member banks. The OCC does not endorse specific investments and this letter should not be used in a manner that suggests otherwise. If you have any questions, please do not hesitate to contact me at (202) 874–5210.

Tena M. Alexander
Counsel
Securities and Corporate Practices Division

913– August 3, 2001

12 USC 21–23

Subject: Revised Article 9 of the Uniform Commercial Code.

Dear [ ]:

I am responding to your inquiry of June 20, 2001, regarding the location of a national bank debtor under section 9–307 of the recently revised Article 9 of the Uniform Commercial Code. As a general matter under revised Article 9, the location of the debtor determines which state's law governs perfection of a security interest. Section 9–307 determines the location of debtors for choice-of-law purposes.

For the purposes of section 9–307(f), a registered organization (which term includes a national bank) that is organized under the law of the United States is located (1) in the state that the law of the United States designates, if the law designates a state of location; (2) in the state that the registered organization designates, if the law of the United States authorizes the registered organization to designate its state of location; or (3) in the District of Columbia, if neither paragraph (1) nor paragraph (2) applies. Under 12 USC 22(Second), organizers of a national bank are required to include in the organization certificate a designation of the bank's main office city and state. In addition, a national bank may relocate its main office. 12 USC 30 and 12 CFR 5.40. Accordingly, for the purpose of the location rule in section 9–307(f), federal law authorizes national banks to designate their state of location. Location for such purpose is the state in which the main office is located.[1]

I trust this letter is responsive to your inquiry.

Jonathan Fink
Senior Attorney
Bank Activities and Structure

914– August 3, 2001

15 USC 1691
12 CFR 215
12 CFR 226

Subject: [3rd Party]
[Program]

Dear [ ]:

This letter responds to your correspondence with Brenda Curry, district counsel of our Southeastern District office, which was referred to our Washington headquarters office. You had formally requested a program evaluation/ comfort letter in connection with [an overdraft protection program] ("program") offered by [3rd party].

We have reviewed the materials that were submitted along with your letter, and we are unable to provide such a letter. In our view, the program presents a number of concerns, which we summarize below.

Compliance Issues

Truth in Lending/Regulation Z

An overdraft would be "credit," as defined by the Truth in Lending Act and Regulation Z. 15 USC 1602(e). The key issue under Regulation Z, however, is whether the fee

[1] This result is consistent with the discussion of this issue in recent law review articles. *See* Charles Cheatham, "Changes in Filing Procedures under Revised Article 9," 25 *Okla. City U.L. Rev.* 235, 244 n. 42 (2000). *See also* Terry M. Anderson et al., "Attachment and Perfection of Security Interests under Revised Article 9: A 'Nuts and Bolts' Primer," 9 *Am. Bankr. Inst. L. Rev.* 179, 210 n.129 (2001).

charged in connection with the overdraft is a "finance charge." The answer would depend on:

- Whether a nonsufficient funds (NSF) fee charged by the bank is the same whether the NSF check is paid or returned; and
- Whether there is an agreement between the bank and the accountholder pursuant to which the bank will pay the accountholder's NSF checks and impose a fee for doing so.
- *See* 12 CFR 226.4(b)(2) and (c)(3).

If the fee were determined to be a finance charge, the bank would have to make the disclosures required in Regulation Z for open-end credit. *See*, *e.g.*, 12 CFR 226.5 and 226.6.

Truth in Savings/Regulation DD

Certain fees must be disclosed in connection with a deposit account. At the time an account is opened, the disclosures must include the amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed. 12 CFR 230.4(b)(4).

If the program were added to an already existing deposit account, advance notice to the accountholder may be required. A bank must give advance notice (at least 30 days before the change) to affected customers of any change in a term that was required to be disclosed under 230.4(b) (which includes fees imposed in connection with the account) if the change may reduce the annual percentage yield or adversely affect the consumer. 12 CFR 230.5(a)(1).

Electronic Fund Transfer Act/Regulation E

In connection with the [ ] Repayment Agreement, the customer is urged to repay the amount of the unpaid overdraft over time through preauthorized transfers from his/her checking account. A participating bank would need to comply with the Regulation E requirements for preauthorized transfers. 12 CFR 205.10(b).

Equal Credit Opportunity Act/Regulation B

An "overdraft" would be "credit" under Regulation B. *See* 12 CFR 202.2(e). A memorandum from [A] of [3rd party] to [B], dated June 10, 2000, provided criteria for selecting "ineligible (excluded) accounts," *i.e.*, those accounts that are not eligible for the program. Among those accounts are: "Accounts which, *in reviewing officer's judgment*, should *not receive* the automated overdraft payment service, such as (See sample memo): Not creditworthy or questionable financial condition." (Emphasis in original.)[1]

The materials do not appear to provide any indication of standards for the reviewing officer's determination. When a decision is left to bank personnel's discretion, there may be a potential for disparate treatment in violation of ECOA and Regulation B. *See* 12 CFR 202.4.

Federal Trade Commission Act

The Federal Trade Commission Act prohibits deceptive acts or practices, including representations or omissions that are likely to mislead reasonable consumers and, thus, affect a consumer's choice or conduct regarding a product. *See* 15 USC 45(a)(1) and the FTC Policy Statement on Deception (October 14, 1983).

The marketing materials for the program send a mixed message as to whether the bank is committing to pay overdrafts as long as the account meets the stated qualifications for the program and also raise numerous ambiguities about or overstate the benefits of the program:

- In a number of places the materials make such statements as "we *will* pay your checks . . . if you maintain your account in good standing." The back of the marketing materials, however, states that "we may refuse to pay an overdraft for you" and that this is being done as a "non-contractual courtesy."[2]
- The materials give the wrong impression about the scope of the protection offered by the program and oversell its benefits. Claims of "no more charges from retailers for insufficient checks," "make a mistake—you're covered," and "write a check or use an ATM for

[1] Elsewhere the materials provide that the management component of the program "involves the Operations person making judgments on when to pay over the specified limit, when to restrict or otherwise curtail the privilege, when to charge off delinquent accounts."

[2] Other materials also introduce language that could be construed as providing a basis for the bank to not pay overdrafts despite representations otherwise. Marketing materials state that if an account is in good standing, the bank will "*normally*" pay overdrafts up to the stated limits. At another point in the materials, it states that if the account is in good standing we will approve your "*reasonable*" overdrafts. Elsewhere, the materials refer to the program as a "non-contractual customer courtesy that can be withdrawn at any time." In addition, the requirement of a positive balance at least once every 30 days is, at some places, stated as the "need to make regular deposits to bring the account to a positive balance at least once every 30 days." It is unclear if this is one test or two—in other words, even if the account is brought to a positive balance in 30 days, can the overdraft feature be terminated if the bank did not consider "regular deposits" to have been made and, if so, what constitutes the making of "regular deposits."

more than you have in the bank—you're covered" are broad statements given the limitations placed on the program.

- The materials may leave the customer with the wrong impression about what the actual overdraft limits are. For instance, with respect to an account to which a $500 limit is applicable, the bank would not, under the program, pay an overdraft that exceeded $480 because the $20 NSF fee, would cause the overdraft to exceed the $500 limit.[3]
- The requirement that the account need only be brought to a positive balance once every 30 days also may be illusory. We note that the materials provide that "The amount of any overdrafts plus our Non-Sufficient Funds and/or Overdraft (NSF/OD) Charge(s) that you owe us shall be due and payable upon demand."[4]

Regulation O

Overdrafts are considered extensions of credit for purposes of Regulation O. 12 CFR 215.3(a)(2). If, as some of the materials appear to indicate, a bank also makes this product available to certain bank insiders, issues would appear to arise under Regulation O governing extensions of credit to bank insiders.

Supervisory Concerns

Your characterization of the product as something other than lending raises supervisory issues:

- It is posible that overdrafts would be paid for customers who would not qualify for loans under the prudent underwriting standards that the bank should use for all of its extensions of credit. This could increase a bank's credit risk profile (*e.g.*, higher delinquency and loss rates) by extending credit to borrowers that may not have normally qualified for payment of overdrafts or overdraft protection;

  - Given the loss history of bank overdraft programs, bank management must develop reasonable loss recognition guidelines and establish loan loss reserve methodologies to ensure timely loss recognition and estimated loss coverage.
- Although the submitted material indicates a measuring and monitoring process (infers MIS reporting), it is unclear what this entails, including the types and quality of information provided to a bank to assess credit risk performance on a periodic basis. Banks must have appropriate MIS reporting established.

Banks also need to take great care in entering into contracts with third party vendors.[5] This raises a variety of supervisory concerns that banks should address before entering into an arrangement with a vendor in connection with the potential purchase of products including:

- Most banks have software already capable of overdraft protection without incurring the high up-front and ongoing costs of the program. Consequently, the benefits of the program are not readily evident, in that a bank could otherwise achieve the same results if it implemented and marketed its existing capabilities;
- It appears that the arrangement a bank enters with the vendor to participate in the program is devised in such a manner that only the bank is subject to the credit and reputation risk, while the vendor shares the benefits, *i.e.*, the income;
- Banks are expected to conduct due diligence reviews of vendors. This includes initial and ongoing reviews of the financial information of any vendor. These reviews

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[3] The marketing materials address this but only in a rather oblique way:

> [Program] adds a pre-approved $500 overdraft limit to your personal checking account. If you overdraw your account, bank will cover each check up to $500 limit. You still pay bank's standard overdraft fee for each item returned, but the benefits are worth it.

This representation nowhere alerts the customer that bank will not, under the program, pay a check in an amount between $480 and $500 or pay, for instance, five overdraft checks in an amount between $400 and $500. Where the disclosure about the relationship between fees and the overdraft limit is made, it is set forth in an unduly complicated manner: ". . . we will normally honor (pay) your overdrafts up to the limits mentioned above, including our normal Non-Sufficient Funds (NSF) Charge(s)." It is not readily apparent that this disclosure would alert a customer that the overdraft fees are deducted from the overdraft limit.

[4] This lack of forthrightness in dealing with customers also is demonstrated by a sample letter, advising a consumer that s/he has just a few days to bring his/her checking account to a positive balance, which indicates that the customer *may* qualify for the [ ] Repayment Plan; but a follow-up letter sent when the customer fails to bring the account to a positive balance within the time period advises the customer that s/he has been "pre-approved" for the [ ] Repayment Plan. Moreover, the materials generally indicate that a person who fails to bring the account to a positive balance in the allotted period will be offered the opportunity to repay the overdraft in equal installments spread over a period of from six to 12 months.

Moreover, the integrity of the various representations are also called into question by the following typed notation on one aspect of the disclosures:

> [NOTE REGARDING POSITION OF FREE CHECKING: Position the disclosure somewhere in the middle of the checking account disclosures to avoid calling unnecessary attention to the Free Checking account.]

[5] *See* OCC Advisory Letter No. 2000–9: Third-Party Risk (August 29, 2000).

are necessary to ensure that the company can fulfill the representations as outlined in the contract. Requirements for the timing and quality of financial information should be set forth in the contract;

- The sample contract indicates a termination clause that appears to prohibit or severely restrict the contracting bank's ability to terminate once the program is initiated. Only the vendor has control of termination, and the only termination consideration is if the 150 percent fee income profitability goal is not achieved. This one-sided termination clause is potentially detrimental for the bank from a reputation, financial, and strategic risk perspective. Under the contract, the bank has no recourse if it becomes dissatisfied for a variety of reasons such as customer satisfaction/bank reputation and credit risk issues (*e.g.*, 50 percent of the customers complain or 15 percent delinquency rate).

Policy Issues

The program is designed to increase fee income by encouraging customers to write NSF checks. Although the program may be valuable to customers who might inadvertently or infrequently write an NSF check, banks participating in the program will, in essence, attempt to entice their customers to write NSF checks more frequently and on purpose in order to generate fee income. *This use of the program could promote poor fiscal responsibility on the part of some consumers.*[6]

In this regard, we note the complete lack of consumer safeguards built into the program:

- In some circumstances the charges assessed on customers may be just as burdensome as those imposed on borrowers utilizing other types of high interest rate credit;[7]
- An unlimited number of overdraft charges could be levied during a 30-day period as long as the consumer does not exceed the dollar amount limitation on overdrafts;
- No cooling off period following the repayment of overdraft amounts during which no overdrafts would be paid, thus increasing the likelihood that a customer would consciously resort to use of this product to pay for ordinary day-to-day expenses;
- No grace period (for instance, 24 hours) during which the customer can reimburse the bank without incurring the NSF charge after receiving notice that a check was paid;
- No effort by banks offering this program to identify customers who are writing overdraft checks regularly as a means of meeting regular obligations in order to attempt to serve their needs through more economical alternatives; and
- No effort by banks offering the program to inform customers generally of available alternatives for short-term consumer borrowing, explain to customers the costs and advantages of various alternatives to the program, or identify for customers the risks and problems in relying on this product and the consequences of abuse.

Thank you for the opportunity to evaluate the program. We hope that this information is useful to you.

Daniel P. Stipano
Deputy Chief Counsel

915- August 15, 2001

12 USC 24(7)

Dear [ ]:

You inquired whether national banks may underwrite and deal in municipal revenue bonds issued by or on behalf of Puerto Rico. Section 151 of the Gramm–Leach–Bliley Act of 1999 ("section 151") amended Section 24(Seventh) to provide that well-capitalized national banks may underwrite and deal in revenue bonds "issued by on behalf of

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[6] The materials are contradictory with respect to a bank's expectations about the use that its customers will make of the program. On the one hand, a sample letter states that the program "is not an invitation to overdraw your account, it is an added layer of protection should you accidentally write checks for more than you have in the bank." On the other hand, marketing materials state: "Once you [the bank] and [3rd party] install and implement the process, a phenomenon occurs. Your customers will use it and use it and use it . . . and your NSF income will soar." At another point, the marketing materials advise the customer: "This [overdraft privilege] is extended to you to provide additional flexibility and convenience in managing your funds. . . ." It belies logic to conclude that the customers will *accidentally* "use it and use it and use it" and that the program is designed to provide accidental "additional flexibility and convenience" to customers in managing their funds.

[7] For instance, a customer with a $500 overdraft limit who writes seven NSF checks in a month for a total overdraft of $360 would be assessed $140. We note, too, the observation in the materials with respect to the [repayment] program that "the customer will be encouraged to come in, acknowledge the OD amount (a large portion of which will now be fees), and set up a payment plan."

any State." Under Section 24(Seventh), the term "state" includes Puerto Rico for purposes of these provisions. Thus, well-capitalized national banks may underwrite Puerto Rican municipal revenue bonds.

I. Discussion

Section 24(Seventh), as amended by section 151,[1] permits well-capitalized national banks to underwrite and deal in municipal revenue bonds of "states" and "political subdivisions" of states. The term "states" in Section 24(Seventh) includes Puerto Rico. Section 5 of Public Law 93–100, enacted in 1973, permits national banks to own stock issued by any state housing corporation.[2] Section 5 amended several statutes, including Section 24(Seventh). Section 5 provides that

> [f]or purposes of this section *and any Act amended by this section* . . . the term 'State' means any State, the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands."[3]

Since Section 5 amends Section 24(Seventh), the term "state" in Section 24(Seventh) includes Puerto Rico.4

II. Conclusion

Under Section 24(Seventh), well-capitalized national banks may underwrite and deal in revenue bonds issued by Puerto Rico.[4]

Nancy Worth
Senior Attorney
Securities and Corporate Practices Division

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[1] Section 151 provides:

> . . . [T]he limitations and restrictions contained in this paragraph as to dealing in, underwriting, and purchasing investment securities for the national bank's own account shall not apply to obligations . . . issued by or on behalf of any State or political subdivision of a State, including any municipal corporate instrumentality of 1 or more States, or any public agency or authority of any State or political subdivision of a State, if the national bank is well capitalized (as defined in section 38 of the Federal Deposit Insurance Act).

[2] Pub. L. 93–100 5(c), 87 Stat. 344 (August 16, 1973).

[3] Emphasis added. This provision in Section 5 of Pub. L. 93–100 is codified as 12 USC 1470.

[4] Congress has authority to enact and amend statutes in ways that change the scope or effect of an existing statute. *See* 1A Sutherland *Stat. Const. 22.01 (5th ed.) (Clark Boardman Callaghan 1995).*

Mergers- July 1 to September 30, 2001

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Mergers– July 1 to September 30, 2001

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

Nonaffiliated mergers (mergers consummated involving two or more nonaffiliated operating banks), from July 1 to September 30, 2001

Title and location (charter number)	Total assets
New York	
Citibank, N.A., New York City (001461)	382,106,000,000
and European American Bank, Uniondale	15,427,000,000
merged on July 17, 2001 under the title of Citibank, National Association, New York City (001461)	398,363,000,000
Intervest National Bank, New York (023712)	117,384,000
and Intervest Bank, Clearwater	218,588,000
merged on July 20, 2001 under the title of Intervest National Bank, New York (023712)	335,788,000
Oklahoma	
The First National Bank and Trust Co., Chickasha (005547)	152,791,000
and The First American Bank, Minco	15,107,000
merged on July 1, 2001 under the title of The First National Bank and Trust Co., Chickasha (005547)	166,069,000
Tennessee	
National Bank of Commerce, Memphis (013681)	16,533,514,000
and First Vantage Bank—Tennessee, Knoxville	168,242,000
merged on August 13, 2001 under the title of National Bank of Commerce, Memphis (013681)	16,705,818,000
Texas	
First Mercantile Bank, National Association, Dallas (023466)	207,010,000
and TownBank, National Association, Mesquite (022975)	78,410,000
merged on September 10, 2001 under the title of First Mercantile Bank, National Association, Dallas (023466)	291,487,000
Wisconsin	
State Financial Bank, National Association, Hales Corners (000945)	1,071,079,000
and Liberty Bank, Milwaukee	96,863,000
merged on July 7, 2001 under the title of State Financial Bank, National Association, Hales Corners (000945)	1,167,942,000

Affiliated mergers (mergers consummated involving affiliated operating banks), from July 1 to September 30, 2001

Title and location (charter number)	Total assets
Colorado	
Colorado Business Bank, National Association, Denver (016723)	663,386,000
and First Capital Bank of Arizona, Phoenix	119,450,000
merged on September 7, 2001 under the title of Colorado Business Bank, National Association, Denver (016723)	782,836,000
Illinois	
Bank One, National Association, Chicago (000008)	141,439,135,000
and Bank One, Florida, Venice	213,009,000
merged on August 23, 2001 under the title of Bank One, National Association, Chicago (000008)	141,650,041,000
Indiana	
American National Trust and Investment Management Company, Muncie (022148)	6,853,000
and Old National Trust Company, Terre Haute (022729)	4,998,000
merged on July 31, 2001 under the title of American National Trust and Investment Management Company, Muncie (022148)	11,851,000
Kansas	
TeamBank, National Association, Paola (003350)	374,940,000
and Fort Calhoun State Bank, Fort Calhoun	27,332,000
merged on July 23, 2001 under the title of TeamBank, National Association, Paola (003350)	402,272,000
The Coldwater National Bank, Coldwater (006767)	11,785,000
The Wilmore State Bank, Wilmore	4,427,000
merged on August 1, 2001 under the title of The Coldwater National Bank, Coldwater (006767)	16,212,000
InTrust Bank, National Association, Wichita (002782)	2,355,831,000
and Will Rogers Bank, Oklahoma City	136,119,000
merged on August 10, 2001 under the title of InTrust Bank, National Association, Wichita (002782)	2,473,047,000
Kentucky	
Whitaker Bank, National Association, Lexington (022246)	443,416,000
and The Bank of Whitesburg, Whitesburg	148,833,000
merged on July 16, 2001 under the title of Whitaker Bank, National Association, Lexington (022246)	592,249,000
Minnesota	
U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
and U.S. Bank, National Association, Canby (023714)	5,000,000
merged on August 9, 2001 under the title of U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
American National Bank of Minnesota, Brainerd (024219)	242,405,000
and American National Bank of Alexandria, Alexandria (024218)	1,129,000
and American National Bank of Detroit Lakes, Detroit Lakes (024216)	1,129,000
and American National Bank of Grand Rapids, Grand Rapids (024215)	1,129,000
and American National Bank of Pequot Lakes, Pequot Lakes (024217)	1,069,000
and American National Bank of Walker, Walker (024213)	1,069,000
merged on August 1, 2001 under the title of American National Bank of Minnesota, Brainerd (024219)	247,450,000
Nevada	
Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	6,785,598,000
and First Security Trust Company of Nevada, Las Vegas	309,594,000
merged on August 10, 2001 under the title of Wells Fargo Bank Nevada, National Association, Las Vegas (023444)	7,095,054,000
North Carolina	
Wachovia Bank, National Association, Winston-Salem (001559)	68,284,706,000
and Republic Security Bank, West Palm Beach	2,842,930,000
merged on August 24, 2001 under the title of Wachovia Bank, National Association, Winston-Salem (001559)	70,999,967,000

Affiliated mergers (continued)

Title and location (charter number)	Total assets
Ohio	
Firstar Bank, National Association, Cincinnati (000024)	75,821,000,000
and U.S. Bank National Association, Minneapolis (013405)	79,691,000,000
merged on August 9, 2001 under the title of U.S. Bank National Association, Cincinnati (000024)	154,347,000,000
Bank One, National Association, Columbus (007621)	38,768,134,000
and First Chicago NDB Mortgage Company, Troy	2,540,420,000
and Bank One Mortgage Corporation, Indianapolis	1,000
merged on September 1, 2001 under the title of Bank One, National Association, Columbus (007621)	41,205,320,000
Texas	
First National Bank of Borger, Borger (023511)	53,484,000
and Citizens National Bank of Childress, Childress (023512)	20,880,000
merged on June 25, 2001 under the title of First National Bank of Borger, Borger (023511)	74,364,000

Tables on the Financial Performance of National Banks

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

	September 30, 2000	September 30, 2001	Change September 30, 2000– September 30, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,242	2,173	(69)	(3.08)
Total assets	$3,363,493	$3,544,511	$181,018	5.38
Cash and balances due from depositories	188,775	196,904	8,130	4.31
Noninterest-bearing balances, currency and coin	137,100	146,068	8,968	6.54
Interest bearing balances	51,674	50,836	(838)	(1.62)
Securities	509,327	526,516	17,188	3.37
Held-to-maturity securities, amortized cost	39,679	25,784	(13,895)	(35.02)
Available-for-sale securities, fair value	469,649	500,731	31,083	6.62
Federal funds sold and securities purchased	88,754	153,679	64,925	73.15
Net loans and leases	2,187,696	2,192,345	4,649	0.21
Total loans and leases	2,226,940	2,235,513	8,572	0.38
Loans and leases, gross	2,228,456	2,236,954	8,498	0.38
Less: Unearned income	1,516	1,441	(74)	(4.91)
Less: Reserve for losses	39,244	43,168	3,924	10.00
Assets held in trading account	105,341	130,552	25,211	23.93
Other real estate owned	1,529	1,805	276	18.07
Intangible assets	80,064	81,540	1,476	1.84
All other assets	202,007	261,171	59,163	29.29
Total liabilities and equity capital	3,363,493	3,544,511	181,018	5.38
Deposits in domestic offices	1,768,496	1,908,823	140,327	7.93
Deposits in foreign offices	426,457	387,767	(38,690)	(9.07)
Total deposits	2,194,953	2,296,590	101,638	4.63
Noninterest-bearing deposits	412,190	450,897	38,707	9.39
Interest-bearing deposits	1,782,762	1,845,693	62,931	3.53
Federal funds purchased and securities sold	250,354	272,526	22,172	8.86
Other borrowed money	356,423	336,252	(20,171)	(5.66)
Trading liabilities less revaluation losses	20,637	26,940	6,303	30.54
Subordinated notes and debentures	60,957	64,900	3,942	6.47
All other liabilities	166,891	218,111	51,220	30.69
Trading liabilities revaluation losses	56,781	60,647	3,866	6.81
Other	110,110	157,463	47,354	43.01
Total equity capital	292,760	329,192	36,432	12.44
Perpetual preferred stock	892	805	(87)	(9.77)
Common stock	13,904	13,184	(720)	(5.18)
Surplus	157,600	177,367	19,766	12.54
Retained earnings and other comprehensive income	120,364	137,870	17,506	14.54
Other equity capital components	NA	(34)	(34)	NM

NM indicates calculated percent change is not meaningful.
NA not available

Quarterly income and expenses of national banks
Third quarter 2000 and third quarter 2001

(Dollar figures in millions)

	Third quarter 2000	Third quarter 2001	Change Third quarter, 2000–third quarter, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,242	2,173	(69)	(3.08),
Net income	$11,097	$9,803	($1,294)	(11.66)
Net interest income	29,132	31,415	2,283	7.84
Total interest income	61,850	55,762	(6,089)	(9.84)
On loans	48,491	42,950	(5,540)	(11.43)
From lease financing receivables	1,910	1,874	(37)	(1.91)
On balances due from depositories	703	589	(114)	(16.22)
On securities	8,503	7,679	(824)	(9.70)
From assets held in trading account	941	938	(3)	(0.29)
On federal funds sold and securities repurchased	1,302	1,465	163	12.52
Less: Interest expense	32,718	24,347	(8,371)	(25.59)
On deposits	21,310	16,651	(4,660)	(21.87)
Of federal funds purchased and securities sold	3,698	2,377	(1,321)	(35.72)
On demand notes and other borrowed money*	6,613	4,401	(2,213)	(33.46)
On subordinated notes and debentures	1,097	915	(182)	(16.60)
Less: Provision for losses	4,490	8,219	3,729	83.07
Noninterest income	25,516	24,425	(1,091)	(4.28)
From fiduciary activities	2,287	1,963	(325)	(14.20)
Service charges on deposits	3,909	4,321	412	10.54
Trading revenue	1,300	1,803	503	38.66
From interest rate exposures	461	971	510	110.48
From foreign exchange exposures	641	767	126	19.69
From equity security and index exposures	194	62	(133)	NM
From commodity and other exposures	4	36	32	NM
Total other noninterest income	18,020	16,337	(1,683)	(9.34)
Gains/losses on securities	(399)	585	984	NM
Less: Noninterest expense	32,358	33,004	645	1.99
Salaries and employee benefits	11,959	12,782	822	6.88
Of premises and fixed assets	3,815	3,868	53	1.39
Other noninterest expense	16,584	15,099	(1,485)	(8.95)
Less: Taxes on income before extraordinary items	6,304	5,397	(907)	(14.39)
Income/loss from extraordinary items, net of income taxes	(0)	(3)	(2)	521.83
Memoranda				
Net operating income	11,589	9,422	(2,168)	(18.70)
Income before taxes and extraordinary items	17,401	15,202	(2,199)	(12.64)
Income net of taxes before extraordinary items	11,097	9,805	(1,292)	(11.64)
Cash dividends declared	7,140	7,105	(35)	(0.49)
Net charge-offs to loan and lease reserve	3,805	6,582	2,776	72.96
Charge-offs to loan and lease reserve	4,680	7,635	2,956	63.16
Less: Recoveries credited to loan and lease reserve	874	1,053	179	20.50

* Includes mortgage indebtedness

NM indicates calculated percent change is not meaningful.

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

	September 30, 2000	September 30, 2001	Change September 30, 2000–September 30, 2001 fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Number of institutions	2,242	2,173	(69)	(3.08)
Net income	$29,091	$31,671	$2,580	8.87
Net interest income	87,015	90,296	3,281	3.77
Total interest income	178,607	172,223	(6,384)	(3.57)
On loans	138,286	132,946	(5,340)	(3.86)
From lease financing receivables	5,507	5,780	273	4.95
On balances due from depositories	2,350	2,108	(242)	(10.29)
On securities	25,888	23,050	(2,838)	(10.96)
From assets held in trading account	2,403	2,887	484	20.12
On federal funds sold and securities repurchased	4,173	4,690	517	12.39
Less: Interest expense	91,592	81,928	(9,664)	(10.55)
On deposits	59,284	55,117	(4,167)	(7.03)
Of federal funds purchased and securities sold	10,925	8,237	(2,688)	(24.61)
On demand notes and other borrowed money*	18,362	15,649	(2,714)	(14.78)
On subordinated notes and debentures	3,021	2,925	(95)	(3.16)
Less: Provision for losses	13,591	19,461	5,870	43.19
Noninterest income	71,496	73,104	1,608	2.25
From fiduciary activities	7,115	6,063	(1,051)	(14.78)
Service charges on deposits	11,432	12,474	1,042	9.11
Trading revenue	4,417	5,480	1,062	24.04
From interest rate exposures	1,486	2,567	1,081	72.72
From foreign exchange exposures	2,127	2,466	340	15.97
From equity security and index exposures	765	306	(459)	(59.97)
From commodity and other exposures	39	170	130	331.20
Total other noninterest income	48,532	49,088	556	1.15
Gains/losses on securities	(2,086)	1,437	3,523	(168.90)
Less: Noninterest expense	96,714	96,036	(678)	(0.70)
Salaries and employee benefits	36,218	37,706	1,488	4.11
Of premises and fixed assets	11,525	11,459	(66)	(0.57)
Other noninterest expense	48,972	42,978	(5,993)	(12.24)
Less: Taxes on income before extraordinary items	17,045	17,300	255	1.49
Income/loss from extraordinary items, net of income taxes	16	(369)	(385)	NM
Memoranda:				
Net operating income	30,843	31,080	237	0.77
Income before taxes and extraordinary items	46,121	49,340	3,220	6.98
Income net of taxes before extraordinary items	29,075	32,040	2,965	10.20
Cash dividends declared	20,623	20,895	272	1.32
Net charge-offs to loan and lease reserve	11,025	16,645	5,621	50.98
Charge-offs to loan and lease reserve	13,770	19,715	5,945	43.17
Less: Recoveries credited to loan and lease reserve	2,746	3,070	324	11.80

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

Assets of national banks by asset size
September 30, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Total assets	$3,544,511	$53,299	$256,641	$411,484	$2,823,087	$6,555,668
Cash and balances due from	196,904	2,913	11,923	20,461	161,608	393,666
Securities	526,516	12,727	60,801	84,949	368,038	1,106,816
Federal funds sold and securities purchased	153,679	3,596	10,851	18,073	121,159	345,726
Net loans and leases	2,192,345	31,498	158,759	255,729	1,746,358	3,792,608
Total loans and leases	2,235,513	31,929	161,030	261,168	1,781,386	3,860,819
Loans and leases, gross	2,236,954	31,986	161,235	261,263	1,782,470	3,863,483
Less: Unearned income	1,441	57	205	95	1,084	2,664
Less: Reserve for losses	43,168	431	2,270	5,439	35,027	68,211
Assets held in trading account	130,552	0	566	1,004	128,982	352,062
Other real estate owned	1,805	70	254	175	1,307	3,457
Intangible assets	81,540	130	1,562	6,050	73,799	111,689
All other assets	261,171	2,366	11,925	25,043	221,836	449,643
Gross loans and leases by type:						
Loans secured by real estate	938,893	18,567	101,992	138,161	680,173	1,749,170
1–4 family residential mortgages	450,840	8,282	41,464	63,563	337,531	785,713
Home equity loans	95,639	475	4,374	9,280	81,511	145,749
Multifamily residential mortgages	30,263	404	3,693	4,933	21,233	63,499
Commercial RE loans	231,741	5,436	37,406	41,873	147,026	493,667
Construction RE loans	89,998	1,830	10,730	16,566	60,871	190,495
Farmland loans	12,670	2,141	4,322	1,799	4,408	35,468
RE loans from foreign offices	27,741	0	3	146	27,592	34,580
Commercial and industrial loans	618,076	5,420	28,889	49,347	534,421	1,010,441
Loans to individuals	372,891	4,274	20,406	53,750	294,460	607,555
Credit cards*	156,182	127	3,107	22,754	130,193	218,406
Other revolving credit plans	21,049	69	450	1,779	18,752	25,777
Installment loans	195,660	4,078	16,849	29,217	145,516	363,372
All other loans and leases	307,094	3,725	9,948	20,005	273,416	496,316
Securities by type:						
U.S. Treasury securities	14,771	781	2,807	3,592	7,591	47,925
Mortgage-backed securities	308,555	3,321	21,866	47,336	236,032	560,274
Pass-through securities	214,757	2,304	13,596	29,888	168,969	364,968
Collateralized mortgage obligations	93,797	1,018	8,270	17,447	67,062	195,306
Other securities	166,576	8,599	35,711	30,867	91,399	404,257
Other U.S. government securities	57,228	5,800	19,922	13,573	17,933	184,799
State and local government securities	42,120	2,142	11,084	8,621	20,273	95,673
Other debt securities	60,428	474	3,434	7,725	48,795	105,414
Equity securities	6,799	183	1,270	949	4,398	18,371
Memoranda:						
Agricultural production loans	20,896	3,231	5,196	3,110	9,359	48,284
Pledged securities	248,664	4,911	27,813	40,258	175,682	536,926
Book value of securities	517,502	12,499	59,617	83,314	362,072	1,086,524
Available-for-sale securities	491,718	10,247	50,776	73,217	357,478	993,164
Held-to-maturity securities	25,784	2,252	8,841	10,097	4,594	93,360
Market value of securities	527,052	12,783	61,031	85,113	368,125	1,108,961
Available-for-sale securities	500,731	10,475	51,960	74,852	363,444	1,013,456
Held-to-maturity securities	26,321	2,308	9,071	10,261	4,681	95,505

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

Past-due and nonaccrual loans and leases of national banks by asset size
September 30, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Loans and leases past due 30–89 days	$30,684	$453	$2,070	$3,551	$24,610	$52,605
Loans secured by real estate	11,971	225	1,091	1,334	9,321	21,486
1–4 family residential mortgages	7,038	125	531	596	5,785	11,548
Home equity loans	885	4	33	83	765	1,283
Multifamily residential mortgages	218	4	16	46	152	465
Commercial RE loans	1,887	52	327	340	1,168	4,472
Construction RE loans	1,225	23	147	246	808	2,414
Farmland loans	110	17	35	23	35	311
RE loans from foreign offices	609	0	0	0	609	993
Commercial and industrial loans	5,895	99	402	761	4,633	11,106
Loans to individuals	8,671	100	502	1,242	6,826	14,410
Credit cards	4,137	3	170	631	3,332	6,029
Installment loans and other plans	4,534	97	332	611	3,494	8,381
All other loans and leases	4,147	28	76	214	3,830	5,603
Loans and leases past due 90+ days	8,197	105	460	1,149	6,483	13,150
Loans secured by real estate	2,654	56	223	300	2,075	4,415
1–4 family residential mortgages	1,769	28	109	141	1,491	2,704
Home equity loans	126	1	6	18	102	208
Multifamily residential mortgages	18	0	4	3	11	39
Commercial RE loans	337	14	68	57	198	791
Construction RE loans	281	3	21	74	182	455
Farmland loans	54	10	15	6	23	142
RE loans from foreign offices	68	0	0	0	68	77
Commercial and industrial loans	902	22	83	131	667	1,691
Loans to individuals	4,061	18	131	689	3,224	6,267
Credit cards	2,854	2	83	524	2,244	3,989
Installment loans and other plans	1,208	16	47	165	980	2,279
All other loans and leases	580	10	23	29	517	777
Nonaccrual loans and leases	24,313	240	1,134	1,671	21,268	38,472
Loans secured by real estate	6,836	117	607	824	5,289	11,882
1–4 family residential mortgages	2,694	39	184	296	2,175	4,522
Home equity loans	288	1	10	24	253	395
Multifamily residential mortgages	107	3	15	15	75	212
Commercial RE loans	2,035	42	273	333	1,387	3,917
Construction RE loans	800	10	80	128	582	1,575
Farmland loans	217	23	44	27	124	446
RE loans from foreign offices	693	0	1	0	692	814
Commercial and industrial loans	12,893	77	346	694	11,776	20,257
Loans to individuals	1,442	16	101	80	1,246	2,368
Credit cards	414	1	53	23	337	779
Installment loans and other plans	1,028	15	47	57	909	1,589
All other loans and leases	3,266	31	80	74	3,080	4,142

Liabilities of national banks by asset size
September 30, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Total liabilities and equity capital	$3,544,511	$53,299	$256,641	$411,484	$2,823,087	$6,555,668
Deposits in domestic offices	$1,908,823	$44,747	$206,427	$261,757	$1,395,891	$3,613,777
Deposits in foreign offices	387,767	0	362	2,721	384,684	680,900
Total deposits	2,296,590	44,747	206,789	264,478	1,780,575	4,294,677
Noninterest bearing	450,897	6,934	31,457	46,861	365,644	777,457
Interest bearing	1,845,693	37,813	175,332	217,617	1,414,931	3,517,220
Other borrowed funds	336,252	1,280	11,640	50,284	273,048	550,905
Subordinated notes and debentures	64,900	5	155	3,370	61,369	92,442
All other liabilities	218,111	562	4,127	10,497	202,925	415,432
Equity capital	329,192	6,175	26,276	40,300	256,440	586,004
Total deposits by depositor:						
Individuals and corporations	1,778,994	29,080	146,569	210,497	1,392,848	3,306,943
U.S., state, and local governments	85,218	3,592	14,802	14,817	52,007	172,101
Depositories in the U.S.	42,921	490	1,563	702	40,167	96,836
Foreign banks and governments	63,278	1	320	1,193	61,764	126,972
Domestic deposits by depositor:						
Individuals and corporations	1,488,216	29,080	146,526	208,714	1,103,896	2,825,337
U.S., state, and local governments	85,218	3,592	14,802	14,817	52,007	172,101
Depositories in the U.S.	5,352	490	1,500	346	3,016	15,432
Foreign banks and governments	4,057	1	64	620	3,371	9,423
Foreign deposits by depositor:						
Individuals and corporations	290,778	0	43	1,783	288,952	481,606
Depositories in the U.S.	37,570	0	63	356	37,151	81,404
Foreign banks and governments	59,221	0	256	573	58,392	117,549
Deposits in domestic offices by type:						
Transaction deposits	353,348	12,897	48,398	40,739	251,314	648,587
Demand deposits	288,172	6,869	28,138	33,073	220,092	499,222
Savings deposits	922,654	9,346	61,861	124,082	727,365	1,620,800
Money market deposit accounts	661,261	5,279	37,597	83,373	535,011	1,148,329
Other savings deposits	261,393	4,067	24,264	40,708	192,354	472,471
Time deposits	632,821	22,504	96,169	96,937	417,212	1,344,385
Small time deposits	370,173	15,320	61,901	57,740	235,213	766,377
Large time deposits	262,648	7,184	34,268	39,197	181,999	578,008

Off-balance-sheet items of national banks by asset size
September 30, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Unused commitments	$3,306,328	$81,476	$360,519	$275,692	$2,588,641	$4,766,597
Home equity lines	146,737	357	4,162	10,506	131,713	199,263
Credit card lines	2,052,636	77,157	330,996	207,363	1,437,120	2,809,031
Commercial RE, construction and land	77,890	1,001	7,737	13,823	55,328	157,271
All other unused commitments	1,029,064	2,961	17,624	43,999	964,480	1,601,031
Letters of credit:						
Standby letters of credit	157,147	129	1,489	5,514	150,015	259,160
Financial letters of credit	126,535	84	887	4,006	121,558	214,388
Performance letters of credit	30,612	45	602	1,508	28,457	44,772
Commercial letters of credit	21,657	27	484	551	20,596	28,510
Securities lent	98,974	0	288	10,598	88,088	507,887
Spot foreign exchange contracts	201,047	0	9	103	200,935	395,585
Credit derivatives (notional value)						
Reporting bank is the guarantor	55,707	0	25	0	55,682	195,229
Reporting bank is the beneficiary	57,181	0	50	0	57,131	164,472
Derivative contracts (notional value)	19,609,485	56	2,920	38,718	19,567,791	51,275,576
Futures and forward contracts	5,125,232	41	186	3,585	5,121,421	10,364,440
Interest rate contracts	2,776,928	41	171	3,120	2,773,596	5,908,417
Foreign exchange contracts	2,280,324	0	14	465	2,279,844	4,315,488
All other futures and forwards	67,980	0	0	0	67,980	140,535
Option contracts	4,267,677	10	2,061	10,571	4,255,036	11,951,742
Interest rate contracts	3,643,764	10	2,060	10,515	3,631,179	9,963,800
Foreign exchange contracts	427,116	0	0	0	427,116	1,132,070
All other options	196,797	0	1	56	196,740	855,872
Swaps	10,103,688	5	598	24,562	10,078,522	28,599,693
Interest rate contracts	9,634,708	5	545	19,788	9,614,370	27,273,033
Foreign exchange contracts	418,056	0	2	4,397	413,656	1,187,390
All other swaps	50,924	0	51	376	50,497	139,269
Memoranda: Derivatives by purpose						
Contracts held for trading	18,527,846	40	71	10,037	18,517,699	49,547,957
Contracts not held for trading	968,751	16	2,774	28,681	937,280	1,367,917
Memoranda: Derivatives by position						
Held for trading—positive fair value	253,129	0	1	149	252,980	741,161
Held for trading—negative fair value	243,131	0	1	136	242,994	717,898
Not for trading—positive fair value	24,458	0	9	465	23,984	30,018
Not for trading—negative fair value	10,301	0	32	179	10,090	15,018

Quarterly income and expenses of national banks by asset size
Third quarter, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Net income	$9,803	$133	$795	$1,528	$7,347	$17,353
Net interest income	31,415	519	2,544	4,199	24,153	54,261
Total interest income	55,762	930	4,488	7,155	43,188	100,141
On loans	42,950	705	3,451	5,576	33,218	73,995
From lease financing receivables	1,874	3	30	76	1,765	2,733
On balances due from depositories	589	10	29	25	526	1,581
On securities	7,679	175	853	1,238	5,412	15,736
From assets held in trading account	938	0	1	15	923	2,346
On fed. funds sold & securities repurchased	1,465	34	99	164	1,169	3,179
Less: Interest expense	24,347	412	1,944	2,956	19,035	45,881
On deposits	16,651	389	1,730	1,916	12,615	32,228
Of federal funds purchased & securities sold	2,377	5	65	386	1,921	4,767
On demand notes & other borrowed money*	4,401	17	146	605	3,633	7,534
On subordinated notes and debentures	915	0	3	46	866	1,347
Less: Provision for losses	8,219	40	243	821	7,114	11,578
Noninterest income	24,425	228	1,413	2,790	19,994	38,798
From fiduciary activities	1,963	14	136	370	1,443	4,757
Service charges on deposits	4,321	62	286	425	3,548	6,714
Trading revenue	1,803	(0)	(32)	14	1,821	3,439
From interest rate exposures	971	0	2	9	960	(253)
From foreign exchange exposures	767	0	0	1	766	1,502
From equity security and index exposures	62	0	0	3	59	2,131
From commodity and other exposures	36	0	0	0	36	80
Total other noninterest income	16,337	152	1,023	1,981	13,181	23,888
Gains/losses on securities	585	4	24	75	481	1,007
Less: Noninterest expense	33,004	529	2,569	3,916	25,990	56,168
Salaries and employee benefits	12,782	258	1,054	1,407	10,063	23,260
Of premises and fixed assets	3,868	65	304	409	3,089	6,971
Other noninterest expense	15,099	201	1,172	1,928	11,798	24,186
Less: Taxes on income before extraord. items	5,397	46	374	800	4,177	8,973
Income/loss from extraord. items, net of taxes	(369)	(13)	25	(46)	(336)	(267)
Memoranda:						
Net operating income	9,422	133	777	1,476	7,036	16,657
Income before taxes and extraordinary items	15,202	182	1,168	2,328	11,524	26,320
Income net of taxes before extraordinary items	9,805	136	794	1,528	7,347	17,347
Cash dividends declared	7,105	83	423	1,040	5,558	13,556
Net loan and lease losses	6,582	32	174	699	5,677	9,248
Charge-offs to loan and lease reserve	7,635	40	216	810	6,570	10,812
Less: Recoveries credited to loan & lease resv.	1,053	8	42	111	893	1,564

* Includes mortgage indebtedness

Year-to-date income and expenses of national banks by asset size
Through September 30, 2001

(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Net income	$31,671	$395	$2,327	$4,110	$24,839	$55,836
Net interest income	90,296	1,525	7,344	12,178	69,249	157,514
Total interest income	172,223	2,821	13,574	22,209	133,620	310,535
On loans	132,946	2,101	10,370	17,258	103,217	229,444
From lease financing receivables	5,780	10	88	227	5,455	8,344
On balances due from depositories	2,108	31	88	98	1,891	5,141
On securities	23,050	548	2,602	3,841	16,059	47,914
From assets held in trading account	2,887	0	5	44	2,837	7,376
On fed. funds sold & securities repurchased	4,690	120	349	569	3,651	10,790
Less: Interest expense	81,928	1,296	6,230	10,031	64,370	153,021
On deposits	55,117	1,223	5,551	6,376	41,967	106,550
Of federal funds purchased & securities sold	8,237	18	218	1,436	6,565	16,623
On demand notes & other borrowed money*	15,649	55	452	2,086	13,055	25,672
On subordinated notes and debentures	2,925	0	8	133	2,783	4,176
Less: Provision for losses	19,461	108	632	2,237	16,484	28,001
Noninterest income	73,104	681	3,890	8,334	60,200	117,059
From fiduciary activities	6,063	43	417	1,137	4,466	14,727
Service charges on deposits	12,474	179	826	1,216	10,253	19,360
Trading revenue	5,480	0	(28)	52	5,456	10,222
From interest rate exposures	2,567	0	5	27	2,535	2,972
From foreign exchange exposures	2,466	0	0	5	2,462	3,744
From equity security and index exposures	306	0	0	16	290	3,242
From commodity and other exposures	170	0	0	0	169	267
Total other noninterest income	49,088	458	2,675	5,930	40,024	72,749
Gains/losses on securities	1,437	13	71	163	1,190	2,921
Less: Noninterest expense	96,036	1,557	7,361	12,052	75,066	164,768
Salaries and employee benefits	37,706	757	3,116	4,177	29,655	68,954
Of premises and fixed assets	11,459	192	893	1,248	9,126	20,477
Other noninterest expense	42,978	597	3,243	5,964	33,175	70,004
Less: Taxes on income before extraord. items	17,300	146	1,011	2,230	13,913	28,622
Income/loss from extraord. items, net of taxes	(369)	(13)	25	(46)	(336)	(267)
Memoranda:						
Net operating income	31,080	397	2,250	4,045	24,388	54,086
Income before taxes and extraordinary items	49,340	553	3,313	6,386	39,089	84,724
Income net of taxes before extraordinary items	32,040	407	2,302	4,155	25,175	56,102
Cash dividends declared	20,895	258	1,190	3,181	16,267	39,184
Net loan and lease losses	16,645	73	440	1,972	14,160	23,829
Charge-offs to loan and lease reserve	19,715	97	573	2,304	16,741	28,450
Less: Recoveries credited to loan & lease resv.	3,070	23	133	332	2,581	4,621

* Includes mortgage indebtedness

Quarterly net loan and lease losses of national banks by asset size
Third quarter 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	Memoranda: All commercial banks
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Net charge-offs to loan and lease reserve	$6,582	$32	$174	$699	$5,677	$9,248
Loans secured by real estate	1,100	2	18	56	1,024	1,276
1–4 family residential mortgages	869	1	7	34	827	938
Home equity loans	81	0	(1)	5	77	93
Multifamily residential mortgages	4	1	0	0	3	4
Commercial RE loans	92	0	9	11	73	142
Construction RE loans	30	0	2	5	23	66
Farmland loans	2	0	0	1	1	5
RE loans from foreign offices	0	0	0	0	0	0
Commercial and industrial loans	2,125	11	52	119	1,943	3,301
Loans to individuals	2,931	10	96	491	2,334	4,117
Credit cards	2,053	1	56	397	1,599	2,889
Installment loans and other plans	878	9	39	94	735	1,228
All other loans and leases	425	8	9	33	374	554
Charge-offs to loan and lease reserve	7,635	40	216	810	6,570	10,812
Loans secured by real estate	1,190	4	23	66	1,098	1,410
1–4 family residential mortgages	918	1	9	38	870	998
Home equity loans	91	0	0	6	85	106
Multifamily residential mortgages	5	1	0	0	3	7
Commercial RE loans	113	1	11	14	87	180
Construction RE loans	35	0	3	6	26	76
Farmland loans	3	0	0	1	1	9
RE loans from foreign offices	25	0	0	0	25	35
Commercial and industrial loans	2,438	13	61	137	2,226	3,745
Loans to individuals	3,523	14	120	570	2,818	4,994
Credit cards	2,354	1	68	447	1,838	3,345
Installment loans and other plans	1,169	13	53	123	980	1,649
All other loans and leases	484	9	11	36	428	662
Recoveries credited to loan and lease reserve	1,053	8	42	111	893	1,564
Loans secured by real estate	90	2	6	10	73	134
1–4 family residential mortgages	49	0	2	4	43	60
Home equity loans	10	0	1	1	8	13
Multifamily residential mortgages	1	0	0	(0)	0	3
Commercial RE loans	21	1	2	3	15	38
Construction RE loans	5	0	0	2	3	9
Farmland loans	1	0	0	0	1	3
RE loans from foreign offices	4	0	0	0	4	6
Commercial and industrial loans	312	2	10	18	283	444
Loans to individuals	591	3	25	79	484	878
Credit cards	300	0	11	50	239	456
Installment loans and other plans	291	3	13	29	245	421
All other loans and leases,	60	1	2	3	53	108

Year-to-date net loan and lease losses of national banks by asset size
Through September 30, 2001
(Dollar figures in millions)

	All national banks	National banks				Memoranda: All commercial banks
		Less than $100 million	$100 million to $1 billion	$1 billion to $10 billion	Greater than $10 billion	
Number of institutions reporting	2,173	1,027	974	131	41	8,149
Net charge-offs to loan and lease reserve	16,645	73	440	1,972	14,160	23,829
Loans secured by real estate	1,815	8	42	161	1,604	2,276
1–4 family residential mortgages	1,269	3	19	106	1,141	1,454
Home equity loans	191	0	1	13	176	228
Multifamily residential mortgages	4	1	1	1	1	11
Commercial RE loans	211	3	17	25	166	357
Construction RE loans	63	1	4	14	44	128
Farmland loans	17	0	0	3	14	25
RE loans from foreign offices	61	0	0	0	61	73
Commercial and industrial loans	5,789	28	119	371	5,272	8,656
Loans to individuals	8,009	27	257	1,379	6,346	11,479
Credit cards	5,686	3	157	1,103	4,423	8,170
Installment loans and other plans	2,323	24	100	276	1,923	3,309
All other loans and leases	1,032	11	22	62	937	1,418
Charge-offs to loan and lease reserve	19,715	97	573	2,304	16,741	28,450
Loans secured by real estate	2,111	11	61	191	1,849	2,700
1–4 family residential mortgages	1,424	4	25	119	1,276	1,653
Home equity loans	218	0	3	16	199	268
Multifamily residential mortgages	11	1	1	1	9	23
Commercial RE loans	285	4	25	35	222	476
Construction RE loans	77	1	5	18	54	156
Farmland loans	20	1	1	3	15	34
RE loans from foreign offices	75	0	0	0	75	91
Commercial and industrial loans	6,604	34	149	431	5,990	9,877
Loans to individuals	9,761	37	333	1,608	7,782	14,119
Credit cards	6,549	3	192	1,238	5,116	9,526
Installment loans and other plans	3,211	34	141	370	2,666	4,593
All other loans and leases	1,239	14	30	75	1,121	1,754
Recoveries credited to loan and lease reserve	3,070	23	133	332	2,581	4,621
Loans secured by real estate	296	3	19	30	244	425
1–4 family residential mortgages	155	1	6	13	134	199
Home equity loans	28	0	2	3	22	39
Multifamily residential mortgages	8	0	0	0	7	13
Commercial RE loans	75	1	9	10	55	118
Construction RE loans	14	0	1	4	10	28
Farmland loans	3	0	1	0	1	9
RE loans from foreign offices,	14	0	0	0	14	19
Commercial and industrial loans	814	6	30	60	718	1,220
Loans to individuals	1,751	10	76	229	1,436	2,640
Credit cards	863	0	35	135	693	1,356
Installment loans and other plans	888	10	41	94	743	1,284
All other loans and leases	208	3	8	13	184	336

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

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
All institutions	2,173	1,027	974	131	41	8,149
Alabama	23	12	10	1	0	158
Alaska	3	0	1	2	0	6
Arizona	18	8	5	2	3	44
Arkansas	40	11	28	1	0	182
California	83	35	39	7	2	302
Colorado	54	29	22	2	1	178
Connecticut	8	3	5	0	0	24
Delaware	16	2	9	2	3	33
District of Columbia	5	2	3	0	0	5
Florida	78	28	42	8	0	261
Georgia	65	31	31	2	1	330
Hawaii	1	0	1	0	0	8
Idaho	1	0	1	0	0	17
Illinois	186	76	100	6	4	702
Indiana	33	8	17	6	2	156
Iowa	46	25	19	2	0	423
Kansas	105	77	25	3	0	372
Kentucky	52	24	25	3	0	229
Louisiana	16	7	7	1	1	143
Maine	6	1	4	1	0	15
Maryland	13	6	7	0	0	72
Massachusetts	12	3	7	2	0	42
Michigan	27	11	15	0	1	162
Minnesota	127	80	43	2	2	484
Mississippi	20	9	9	2	0	100
Missouri	46	23	19	3	1	352
Montana	17	13	2	2	0	82
Nebraska	78	56	20	2	0	275
Nevada	9	2	3	4	0	33
New Hampshire	6	2	2	1	1	15
New Jersey	24	1	16	7	0	81
New Mexico	15	6	6	3	0	52
New York	60	12	39	8	1	143
North Carolina	8	2	3	0	3	78
North Dakota	15	6	6	3	0	107
Ohio	88	37	37	8	6	206
Oklahoma	97	59	34	4	0	282
Oregon	3	0	2	1	0	40
Pennsylvania	87	23	55	6	3	181
Rhode Island	3	1	0	1	1	7
South Carolina	25	15	9	1	0	77
South Dakota	18	9	7	1	1	93
Tennessee	28	6	19	1	2	191
Texas	346	204	133	8	1	692
Utah	8	2	3	2	1	56
Vermont	11	2	8	1	0	18
Virginia	36	10	24	2	0	144
Washington	15	11	4	0	0	77
West Virginia	23	9	11	3	0	72
Wisconsin	49	18	28	3	0	283
Wyoming	20	10	9	1	0	46
U.S. territories	0	0	0	0	0	18

Total assets of national banks by state and asset size
September 30, 2001
(Dollar figures in millions)

	All national banks	National banks: Less than $100 million	National banks: $100 million to $1 billion	National banks: $1 billion to $10 billion	National banks: Greater than $10 billion	Memoranda: All commercial banks
All institutions	$3,544,511	$53,299	$256,641	$411,484	$2,823,087	$6,555,668
Alabama	3,957	781	2,086	1,091	0	186,814
Alaska	5,274	0	110	5,164	0	6,310
Arizona	62,374	227	2,630	5,437	54,081	64,841
Arkansas	8,065	648	6,358	1,059	0	27,420
California	198,699	1,841	11,906	20,872	164,080	341,355
Colorado	29,116	1,554	5,431	5,065	17,067	49,134
Connecticut	1,294	258	1,036	0	0	3,497
Delaware	111,543	108	2,841	4,084	104,509	154,286
District of Columbia	816	82	734	0	0	816
Florida	27,928	1,729	10,404	15,794	0	61,172
Georgia	33,722	1,769	7,443	7,648	16,862	176,932
Hawaii	327	0	327	0	0	23,459
Idaho	252	0	252	0	0	2,793
Illinois	270,943	3,967	25,690	15,933	225,353	406,560
Indiana	67,031	388	6,327	19,260	41,055	102,645
Iowa	15,724	1,341	4,625	9,758	0	46,105
Kansas	14,968	3,785	6,654	4,528	0	34,760
Kentucky	23,301	1,490	4,873	16,937	0	53,484
Louisiana	25,187	409	1,335	6,874	16,568	41,893
Maine	6,179	18	1,598	4,563	0	8,137
Maryland	2,434	337	2,097	0	0	45,920
Massachusetts	8,957	174	1,566	7,217	0	117,365
Michigan	21,509	490	4,477	0	16,543	138,620
Minnesota	77,454	3,907	11,475	4,010	58,062	101,185
Mississippi	10,425	549	2,014	7,863	0	35,333
Missouri	26,707	1,179	5,181	9,983	10,364	67,557
Montana	3,731	537	483	2,711	0	12,564
Nebraska	16,302	2,623	4,736	8,943	0	30,314
Nevada	21,023	42	720	20,262	0	33,479
New Hampshire	23,539	60	394	4,902	18,183	25,881
New Jersey	31,725	59	4,638	27,028	0	71,043
New Mexico	10,230	354	1,922	7,955	0	14,660
New York	454,581	809	12,309	17,176	424,286	1,459,086
North Carolina	881,914	187	1,248	0	880,479	989,605
North Dakota	11,647	262	1,713	9,672	0	17,774
Ohio	390,786	1,906	10,755	18,153	359,973	468,883
Oklahoma	25,590	2,998	6,650	15,942	0	45,291
Oregon	8,785	0	458	8,327	0	16,618
Pennsylvania	144,537	1,382	17,134	9,776	116,244	187,062
Rhode Island	196,499	8	0	6,153	190,338	206,790
South Carolina	5,511	803	2,516	2,192	0	25,794
South Dakota	29,203	347	2,558	8,606	17,692	37,905
Tennessee	65,560	434	5,980	7,862	51,283	87,163
Texas	83,963	10,133	31,810	21,012	21,008	140,657
Utah	30,603	63	839	10,644	19,057	126,663
Vermont	3,362	103	2,228	1,031	0	7,745
Virginia	14,023	572	6,742	6,708	0	67,074
Washington	1,873	595	1,278	0	0	21,780
West Virginia	10,296	500	2,147	7,649	0	17,885
Wisconsin	20,483	1,021	6,361	13,101	0	80,813
Wyoming	4,562	469	1,550	2,542	0	8,197
U.S. territories	0	0	0	0	0	56,549

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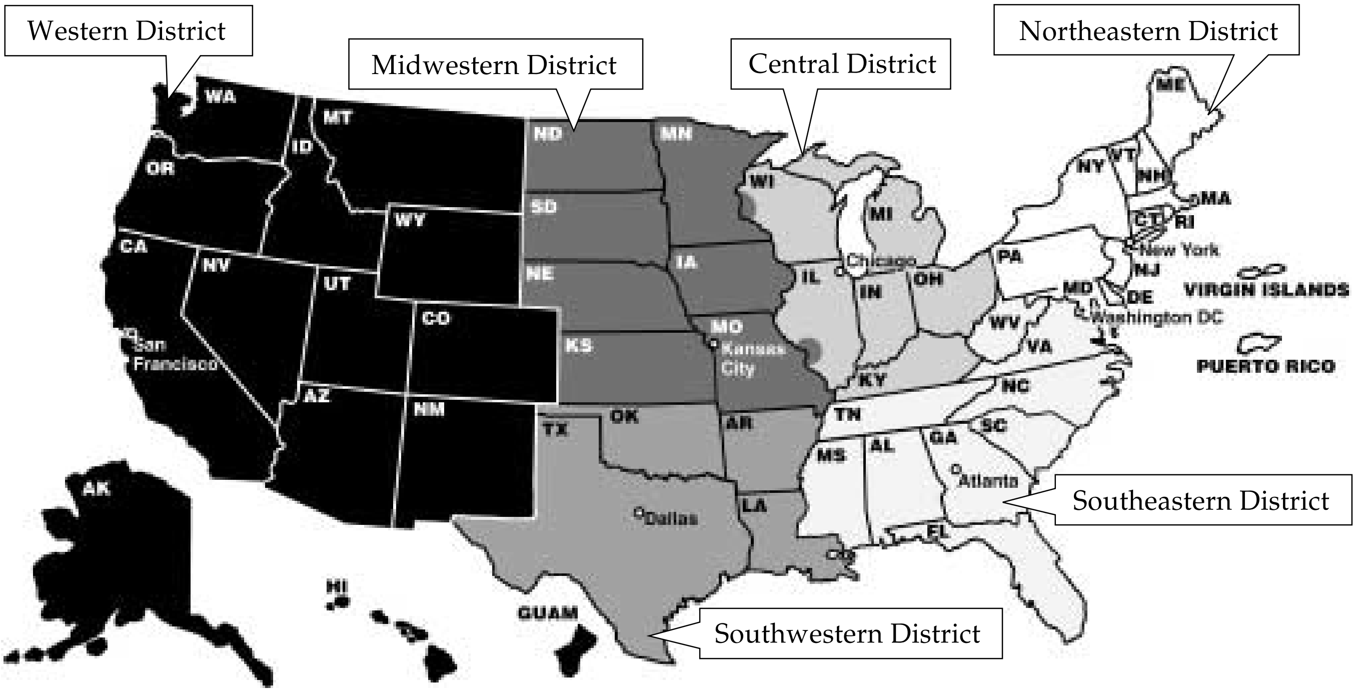

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