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GAO

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General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

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May 28, 1992

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate

Dear Mr. Chairman:

Vital indicators used by bank regulators--the Federal Deposit Insurance Corporation (FDIC), Federal Reserve System (FRS), and the Office of the Comptroller of the Currency (OCC)--to monitor the safety and soundness of our nation's banking system are quarterly call reports, which provide financial information on the operating conditions of banks. These bank-generated reports are required by regulators to help determine whether banks may be experiencing problems, so that corrective action can be taken.

In February 1991 we reported on call-report processing delays by FRS and the Office of Thrift Supervision (OTS) for the first quarter of 1990.[1] Earlier this year, we reported on a subsequent delay by OTS--the federal regulator for thrift institutions--for the third quarter of 1990.[2] Consequently, we recommended that OTS strengthen call-report system controls. This letter responds to your request for information on whether automation is being used to expeditiously make call reports available to the bank regulators and public for review.

As agreed with your office, we focused on determining the methods used by banks to submit call reports and the efforts taken by FDIC, FRS, and OCC to expedite how these submissions are entered into their systems. To accomplish this, we met with officials representing bank regulators and the banking industry in Washington, D.C. Our work was

[1] Banks and Thrifts: Cause of Federal Regulators' Delays in Releasing Timely Call Report Data (GAO/IMTEC-91-26BR, Feb. 26, 1991).

[2] Office of Thrift Supervision: Stronger System Controls Needed to Prevent Call Report Delays (GAO/IMTEC-92-22, Feb. 14, 1992).

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performed from April 1991 through May 1992, in accordance with generally accepted government auditing standards.

RESULTS IN BRIEF

Reducing call-report processing time can help protect against unnecessary Bank Insurance Fund losses by giving federal regulators vital financial indicators with which to determine as early as possible which banks may be experiencing problems. We are encouraged by steps taken by regulators to reduce processing time by urging banks to file call reports electronically. However, resistance by banks to electronic filing has slowed bank regulators' progress in obtaining call reports more quickly.

BACKGROUND

Call reports provide regulators with detailed information (e.g., income and asset levels) on the operating conditions of banks. Federal regulators use these reports during on-site bank examinations to help determine the safety and soundness of banks. Additionally, regulators use them between such examinations to identify adverse bank and industry trends and decide the frequency and timing of subsequent on-site examinations.

As of December 31, 1991, the three federal bank regulators had principal supervisory responsibility over 12,419 banks: FRS for 986 state-chartered banks that are members of the Federal Reserve System (referred to as member banks); FDIC for 7,644 state-chartered, federally insured banks that are not members of FRS (called nonmember banks); and (3) OCC for 3,789 nationally-chartered banks (referred to as national banks).

Banks are required to send call reports so that regulators receive them within 30 days.[3] They generally send call reports by mail or electronically. Handwritten, typed, and computer-generated reports that are mailed can take up to 5 days to enter into a regulator's system and are subject to input errors. In contrast, electronically-submitted call reports are automatically entered into a regulator's system, and software used by banks can include edit checks to minimize the possibility of errors.

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[3] The approximately 200 banks with foreign branches are given an additional 15 days to submit their call-report data to regulators.

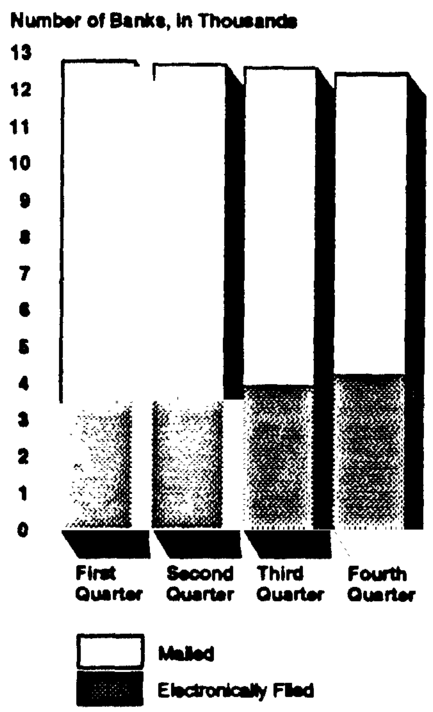
REGULATORS' EFFORTS TO IMPLEMENT ELECTRONIC FILING FALL SHORT

Federal bank regulators have taken steps to get bank call reports into their systems more quickly. In 1988 regulators authorized banks to voluntarily submit call reports via electronic computer-to-computer link, and in 1991 proposed making electronic filing mandatory. However, bank opposition to mandatory electronic filing has resulted in regulators' retracting their proposal.

Voluntary Electronic Filing Not Adopted by Most Banks

When the regulators instituted voluntary electronic filing in 1988, they expected 8,000 banks to be participating by 1990. By the end of 1990, however, only 3,218 banks were filing their call reports electronically. Our analysis of bank filing methods for 1991 found that banks of varying sizes continued to mail call reports to regulators. It also found--as shown in figure 1--that the number of banks filing electronically had only reached 4,199 in 1991.

Figure 1: Banks that Mailed and Electronically Filed Call Reports in 1991



Regulators' Steps To Mandate Electronic Filing

On October 1, 1991, the Federal Financial Institutions Examination Council (FFIEC) proposed and requested comment on a 2-year timetable in which banks would be required to submit their call reports electronically by size (starting with the largest banks).[4] Benefits of electronic filing include allowing call-report data to be made available to regulators more quickly and the reduced cost to regulators of getting call-report data into their systems. The annual cost of electronic filing software is estimated to range from $200 to $500.

According to FFIEC, call reports submitted electronically can normally be loaded into regulators' systems in 1 day. In contrast, mailed reports must be converted to electronic media and then entered into regulators' systems. FDIC in particular experiences backlogs as it converts approximately 8,600 mailed reports, which can take up to 5 days beyond the filing deadline to be completely loaded into FDIC's system. Additionally, regulators could save about $300,000 annually by eliminating the need to convert mailed call reports to electronic media.

Regulator processing time used to correct input and mathematical errors would also be saved by using electronic filing. Specifically, the Council stated that it would (1) eliminate input errors incurred while converting mailed reports to electronic media and (2) reduce mathematical errors, because the software used to prepare call reports and electronically send them detects and enables banks to correct mathematical errors the regulators would otherwise have to correct by contacting banks. The Council noted that banks filing electronically and those using call-report software to prepare and generate reports for mailing had one-third the mathematical error rate of those banks not using such software. This conclusion was based on the experience of 6,623 national and nonmember banks that used such software for the first quarter of 1991--3,238 of which

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[4] FFIEC was established in 1979 as a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions, and to make recommendations to promote uniformity in the supervision of these institutions. The Council's membership is composed of all three bank regulators plus the regulators for credit unions and thrift institutions.

submitted their call reports electronically. Our analysis of 1991 call-report error rates for all banks also found that those using call-report software had about one-third the mathematical error rate of banks not using such software.

Electronic Filing Costs a Key Concern

In January 1992 FFIEC withdrew its proposal for mandatory electronic filing of call reports. After receiving more than 120 comment letters on the mandatory electronic filing proposal, the Council concluded that further study of the costs and benefits and of alternative approaches was warranted. For example, banks contended that the cost of buying computer software and hardware to prepare and file electronic call reports and training bank personnel would exceed the benefits the regulators expected to derive from this initiative.

According to the chairman of the FFIEC task force responsible for the electronic filing initiative, the Council still plans to pursue mandatory electronic filing in the future because it is important for regulators to obtain call-report data more quickly, and it is an important first step in decreasing the reporting time currently provided banks. The task force plans to (1) study the feasibility of the regulators' acquiring software and hardware for banks and (2) report its findings to the Council toward the end of this year. In the interim, however, the task force will be considering other measures to increase timeliness. For example, banks may be provided with additional call-report edit checks to reduce errors. Accordingly, we are not making any recommendations at this time.

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We discussed the contents of this letter with the Executive Secretary of FFIEC, the Chairman of FFIEC's electronic filing task force, and senior call-report processing officials at FDIC, FRS, and OCC, who agreed with its contents.

We are providing copies of this letter to other members of Congress, executive branch agencies, and the public. We will also make copies available to others upon request.

If you have any questions about this letter, please contact me at (202) 512-6418 or Leonard Baptiste, Assistant Director, at (202) 512-6218.

Sincerely yours,

Howard G. Rhile
Director, General Government
Information Systems

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