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**REPORT TO THE SENATE
COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS**

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**



**Information On Consolidation
Of Bank Regulatory Agencies**

Federal Deposit Insurance Corporation
Federal Reserve System
Comptroller of the Currency

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable William W. Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

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Dear Mr. Chairman:

Your letter dated June 3, 1975, asked us to review certain aspects of the functions of the three bank regulatory agencies--Federal Deposit Insurance Corporation (FDIC), Federal Reserve System (FRS), and Office of the Comptroller of the Currency (OCC). Subsequent to the receipt of the request, GAO met with representatives of the Senate Committee on Banking, Housing and Urban Affairs to clarify the scope of our review. It was agreed we would provide information to the Committee on (1) the cost incurred by the three Federal bank regulatory agencies during calendar year 1974 for regulating banks; (2) cost and other data relating to certain administrative expenses of the three Federal bank regulatory agencies, the Federal Home Loan Bank Board, the National Credit Union Administration, the Federal Power Commission, and the Securities and Exchange Commission; and (3) areas where the consolidation of the regulatory functions of the three bank regulatory agencies might produce cost savings.

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Our review at the Washington headquarters of FDIC, OCC, and FRS included discussions with officials of these organizations and examination of documents which they made available to us. GAO does not have the authority to review any of the activities of OCC, and only those activities of FRS related to the destruction of currency by the Federal Reserve banks. Also, the FDIC has denied us access to its bank examination reports except those involving closed banks. We, therefore, do not have firsthand knowledge of the agencies' activities which you asked us to review, and the information included in this letter is, for the most part, based on information provided by the agencies' headquarters about their programs.

Each of the areas of Committee interest are briefly discussed below and more details are presented in the appendices.

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BACKGROUND

FDIC is an independent agency created by the Banking Act of 1933 (12 U.S.C. 1811) to insure depositors against losses resulting from bank failures. The management of FDIC is vested in a Board of Directors. The headquarters office is located in Washington, and there are 14 regional offices in the field organization with a regional director in charge of each. Most of FDIC's field employees are bank examiners.

All national banks and State banks which are members of FRS are required by law to be insured by FDIC. Additionally, other State banks meeting FDIC's eligibility requirements may be insured.

FRS was established in 1913 to provide an elastic currency, to afford means for discounting commercial paper, and to supervise and regulate many banking functions. Its most important function is its ability to influence the availability and cost of money and credit. FRS comprises the Board of Governors; the Federal Open Market Committee; the 12 Federal Reserve banks and their 25 branches and special check clearing facilities situated in different sections of the United States; the Federal Advisory Council; and the member banks, which include all national banks in the 50 States of the United States and such State banks and trust companies as have voluntarily applied to the Board of Governors for membership and have been admitted to the System.

OCC was established in 1863. The Comptroller, as the primary administrator of national banks, is responsible for the execution of laws relating to national banks and promulgates rules and regulations governing their operations. Approval of the Comptroller is required for the organization of new national banks, conversion of State-chartered banks into national banks, consolidations or mergers of banks where the surviving institution is a national bank, and the establishment of branches by national banks.

As of December 31, 1974, there were 4,708 national banks and 9,520 State banks insured by FDIC. All national banks and 1,074 State banks were members of the FRS. The FDIC has statutory authority to examine all insured banks; the FRS has statutory authority to examine all member banks; and the OCC has statutory authority to examine national banks. As a matter of practice, FDIC examines only insured State banks that are not members of FRS; FRS examines only State member banks; and OCC examines national banks. It is the policy of FRS and FDIC to examine the State banks on an annual basis. The OCC is required by statute to examine national banks twice in each calendar year with the option to waive one examination in a 2-year period. The following table shows the number of bank examinations conducted during 1974.

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<u>Regulatory agency</u>	<u>Examinations conducted</u>
FDIC	7,451
FRS	1,044
OCC	6,436

More details concerning the functions and organization of the three bank regulatory agencies are presented in appendix I.

COST OF BANK REGULATION

Your letter of June 3, 1975, requested information on the present cost of bank regulation by the three Federal agencies. In a subsequent meeting with Committee representatives, it was agreed that all costs of OCC and FDIC would be considered as bank regulation costs. In view of FRS's major responsibilities in nonregulatory areas, such as monetary policy, it was agreed that with respect to FRS we would include only those costs relating to bank supervision and regulation.¹

Cost data was furnished to us by the three agencies and, where feasible, we reconciled it to the respective agency's audited financial statements. It was not practicable to reconcile the cost data for the 12 Federal Reserve banks to their annual financial statements because of the need to isolate only those costs related to the bank regulation function which are not separately identified on their financial statements. We, therefore, relied upon the cost breakouts provided by the FRS banks.

¹While the terms "bank regulation" and "bank supervision" are often used interchangeably, the term bank regulation more commonly is used to describe the formulation and issuance by authorized agencies, under governing law, of specific rules and regulations for the conduct of banking. Bank supervision, primarily achieved through bank examination, is often used to describe the continuous oversight of the activities of individual banks and the banking system to determine whether the industry's component units are operating safely, soundly, competitively, and constructively in accordance with applicable statutes and regulations. In this report, we did not attempt to delineate between the two functions.

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For calendar year 1974 the bank regulation cost amounted to \$137,589,121, divided as follows:

FDIC	\$ 59,330,135
FRS	22,753,510
OCC	<u>55,505,476</u>
	<u>\$137,589,121</u>

A significant portion of these costs were incurred in connection with bank examinations. This included about \$29 million for FDIC, \$11.4 million for the FRS, and \$45.5 million for OCC--a total of \$85.9 million. The remaining costs represented other functions such as legal, research, administrative, and the cost of top management. Detailed cost data is presented in appendix II.

ADMINISTRATIVE EXPENSES

In meeting with Committee representatives, it was agreed that GAO would obtain data relating to certain administrative expenses of the three bank regulatory agencies and the Federal Home Loan Bank Board, the Federal Power Commission, the National Credit Union Administration, and the Securities and Exchange Commission for comparison purposes. Specifically, we requested that each agency provide us average salary, training and travel cost per employee, office space square footage, cost of office space, and annual cost of furniture and equipment. This information is presented in appendix III.

Considerable difficulty was encountered in attempting to obtain comparable administrative expense data from the seven agencies. This difficulty can be attributed to the differing objectives and scopes of authority of the agencies and the differences in accounting systems, accounting periods, and terminology.

OCC and FRS officials expressed concern that the administrative expense data invited direct comparison and that the reader could make incorrect inferences from such comparisons. They suggested that the noncomparability of the data be emphasized.

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POTENTIAL COST SAVINGS BY
CONSOLIDATING BANK REGULATORY AGENCIES

National banks are regulated and supervised to some extent by all three bank regulatory agencies. State banks, in some cases, may be regulated and supervised by two of the three agencies. While in practice the three agencies have established arrangements that substantially reduce the effects of this overlap in responsibility, some overlap may still exist. Consolidation of the agencies into one organization could eliminate any overlap.

Additionally, we found that similar activities were being carried out differently in the three agencies and that in some cases these differences materially affected the cost of the activity. Combining the three agencies into one would probably result in establishing more uniform policy and practices. Under such a scheme, savings could result if it was decided that the less costly policies and procedures of the existing agencies would be adequate for the new single agency. Conversely, if the more costly policies and procedures were adopted, consolidation could result in greater cost.

The following sections briefly discuss some areas where costs could be affected by the consolidation of the bank regulatory function. We have not attempted to identify the cost savings or increases that might result since these matters would require lengthy study and would be largely dependent upon the organizational structure of the new consolidated agency as well as the policies and procedures adopted. Also, whether any savings or additional costs would effect the Federal Government or the banks would depend on the legislation adopted to achieve consolidation.

Overlap in regulation
and supervision

The principal cost incurred by the three agencies for regulating banks is attributable to bank examinations. The three agencies have mutually agreed not to exercise their overlapping statutory authority so that only one agency will examine each bank, i.e., OCC examines all national banks, FRS examines all State member banks, and FDIC examines all insured banks that are not examined by either OCC or FRS. The agencies do not appear to duplicate their bank examinations and thus consolidation of the three agencies into a single organization would not result in reduced cost in this area.

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There is, however, some apparent overlap in the three agencies' oversight responsibility. For example, all national banks receive their charter from OCC and are regulated and examined by the OCC. However, all national banks must also be members of FRS and insured by FDIC. While FRS and FDIC do not duplicate the actual examination made at the national banks by OCC, all three agencies review and analyze the examination reports of the OCC. This overlap in responsibility is illustrated below.

At the completion of a national bank examination, OCC will discuss the results with bank management. The reports are then reviewed by OCC's Regional Counsel for suspected violations of law. The report is reviewed by the regional administrator who follows up on any problems, and then forwards the report to the Bank Operations Division, Washington, D.C.

The Bank Operations Division is composed of two sections: (1) Assistant Chief National Bank Examiners and (2) Special Situations. The Assistant Chief National Bank Examiners section reviews all reports except those that concern problem banks which are sent directly to Special Situations section. If the Assistant Chief National Bank Examiners section finds "problems" (potential problem banks) that were overlooked by the regions, it forwards the report to the Special Situations section. This section is responsible for maintaining surveillance over problem banks.

FRS personnel obtain at least one examination report per year from OCC for each national bank. FRS utilizes the reports for a variety of purposes, some of which relate to its supervisory and regulatory responsibilities and others to its monetary policy and service responsibilities. In regard to bank regulation, the reports are used to:

- Substantiate the condition of each national bank.
- Provide a secondary source of information on the activities and condition of bank holding companies.
- Aid in cooperative efforts with other Federal supervisory agencies in matters such as problem banks, mergers, and acquisitions.

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Since FDIC has the responsibility for insuring the deposits of national banks, its Division of Bank Supervision reviews bank examination reports prepared by the OCC. Reports of examined banks on OCC's problem lists are automatically sent to the division and are reviewed as soon as they are received. Examination reports of banks with over \$100 million in assets are reviewed by the division annually while those with less than \$100 million in assets are reviewed at least every 3 years. A computerized list of reports is maintained by the division, and a computer program is utilized to "flag" those banks whose examination reports have not been reviewed within the previous 3 years.

Both FDIC and OCC maintain lists of problem national banks. However, the national banks which appear on the OCC list may or may not appear on FDIC's list and vice versa. Since reports of examinations are reviewed by both regulatory agencies, each one makes an independent judgment as to whether any bank should be placed on its list even though the bank appears on the other list.

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While bank examination reports are reviewed by the three agencies for somewhat different purposes, one of the basic objectives of each agency's review is to determine the financial soundness of the bank. Therefore, if the three agencies were consolidated, some reduction in the number of employees required to analyze and review examination reports might be possible.

In discussing this matter with OCC officials, they were of the opinion that for national banks the overlap of review is minimal because OCC performs the only detailed review of the examination report. Furthermore, they stated that even with a consolidated agency some overlap would exist because current regulatory activities would be divided among several divisions of the new agency. As a result, more than one review of a particular examination report would be required to fulfill all regulatory requirements.

We recognize that the nature of the review of a particular examination report would vary from agency to agency and that the primary agency's review would probably be more detailed. However, the fact that the three agencies must concern themselves with a review of the reports results in some overlap. Whether a new agency would eliminate this overlap would be largely dependent upon the organizational structure of the new agency.

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Payment for cost of Federal bank examinations

The OCC makes direct assessments against national banks to cover the direct cost of bank examinations. In fiscal year 1974, the cost of supervision and regulation of national banks was about \$55.5 million of which \$53 million was offset by assessments against the banks. The banks were assessed \$48.7 million by OCC for regular examinations, \$2.6 million for trust examinations, and about \$1.7 million for special investigations. The assessments for regular examinations are based on the assets of the national banks, whereas the assessments for trust examinations and special investigations are based on the actual time expended by examining personnel.

The FDIC requires each bank including national banks and State member banks to pay annually one-twelfth of 1 percent of its deposits less certain exclusions as insurance assessments. After payment of FDIC operating expenses, including the cost of State nonmember bank examinations, and insurance losses, one-third of the balance is credited to the FDIC insurance fund (capital account) while the remaining two-thirds is used to offset future bank assessments and is allocated pro rata to all insured banks.

FRS has the authority to charge member banks for examinations but does not do so. Each member bank is required to buy capital stock in the system based on the bank's capital stock and surplus and its stockholders receive a dividend of 6 percent annually. Also, member banks are required to maintain reserve balances with the appropriate Federal Reserve bank based upon varying percentages of their deposit structure. Nearly all of the FRS income is in the form of interest on its holding of Government securities. All FRS expenses, including the cost of bank examinations, are deducted from this income and the balance is returned to the Treasury at the end of the year.

Under the above system all banks are being assessed uniformly for FDIC insurance. However, the State nonmember banks which are examined annually by FDIC are not being assessed an additional fee to cover the examination expenses. Likewise, the State member banks which are examined by FRS are not being assessed for the examination costs. The national banks, on the other hand, must pay the standard insurance premium to FDIC and also the assessment to OCC for its examination. Therefore, under the current Federal bank regulatory system, national banks pay for the examinations performed by OCC through annual assessments based on the assets of the banks. State banks, on the other hand, are not directly charged for bank examinations.

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As can be seen, the current system for funding bank examinations produces several inconsistencies. A result is that national banks and State member banks indirectly share in the cost to examine State non-member banks because these examinations are financed from funds paid to FDIC by all insured banks for deposit insurance. Another result of the inconsistencies is that FRS does not recover the costs incurred in examining State member banks which reduces the amount of income FRS returns to the U.S. Treasury each year.

If one agency is to be responsible for all Federal bank examinations a decision will have to be made as to what system will be used to pay for the cost of Federal bank examinations. The fairest system would seem to be one that requires each bank to pay the cost of its examination directly to the new agency. Assuming that the total cost of bank examinations remained the same, this type of system could result in

- reduced total costs for national banks, because they would no longer be required to share indirectly in the cost of examining insured State nonmember banks,
- increased costs for State member banks, because they would be required to pay for the cost of examinations; however, there would be some benefit to the banks since they would no longer be sharing indirectly in the cost of examining State nonmember banks. This would result in increased income to the Federal Government since the net income paid by the Federal Reserve to the Treasury would not be reduced by the cost of examining State member banks, and
- increased costs for State nonmember banks, because they would no longer benefit from a sharing in the cost of bank examinations by national banks.

Possible savings through greater
use of examination reports
prepared by State examiners

The activities of State-chartered banks are regulated and monitored by State banking authorities. In fulfilling their responsibilities the State banking authorities perform periodic examinations of State-chartered banks. In performing its examinations of State member banks, FRS attempts to schedule its review of a particular bank concurrent with the State

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examination. According to FRS officials, close cooperation with State commissions avoids duplication of effort--thus reducing examiner time and costs--and increases the effectiveness of the examination process. The FRS also has extended its cooperation with State commissions to other common interest areas such as approving mergers and bank reorganizations.

Currently, the FDIC in performing annual examinations of State insured banks that are not members of FRS, does not make extensive use of the State examination reports. However, in early 1974, FDIC initiated an experimental selective examination withdrawal program for examining insured State nonmember banks in Iowa, Georgia, and Washington. For selected banks in these States, FDIC is reviewing the State examination reports instead of performing a complete examination. As of June 30, 1975, 339 reports have been examined by the Division of Bank Supervision. During 1976, FDIC examiners will perform examinations of these banks and compare its results with the State reports. If it is found that reliance can be placed on the State examiner's reports, FDIC plans to expand this program.

Based upon the usage that FDIC and FRS make of State examinations, it is apparent that there are differing views as to the degree of use that can be made of these examinations. The resolution of any differences, as well as the establishing of a uniform policy, could be more easily realized if only one Federal agency were involved in supervising and regulating State banks. Furthermore, if the new consolidated agency determines that increased reliance can be placed on State examinations, significant reductions in bank examination costs should be realized.

Possible savings through consolidating
and relocating field offices

The FDIC and OCC have 148 and 140 regional offices and field offices, respectively, which are responsible for bank examination. The FRS has 12 Reserve banks which primarily serve the same function. These offices and banks are considered duty stations for the bank examiners assigned to them. Each agency has similar travel policies for its examiners based on the duty station to which the examiners are assigned.

While some of the duty stations of the three agencies are located in the same cities and towns, many are not. As a result, there are numerous locations where the travel distances for the examiners performing

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the examinations are further than the distances from the offices of the Federal examiners of other agencies.

For example, an FRS official informed us that the 17 State member banks in Colorado are examined by representatives from their Kansas City, Missouri, office. OCC has two field offices and one regional office and FDIC has one field office in Colorado, all of which are more centrally located to the 17 State member banks than to the FRS Kansas City office.

The number and location of the field offices of a new consolidated bank regulatory agency would be an important decision requiring much study. However, unification of the three existing bank regulatory agencies into a single agency would present an opportunity to centrally locate field offices and minimize the bank examiners' travel. Any determination as to whether and how much savings in travel costs would be achieved by combining the Federal bank examination function in one agency will depend on where the bank examiners will be located under the new setup. Also, reductions in travel costs will have to be weighed against the costs involved in relocating employees, their families and household goods.

Recruiting and training of bank examiners

The entry level requirements for bank examiners are essentially the same for FDIC and OCC. The new examiner must have either 3 years of experience in banking or a bachelor's degree at an accredited institution with considerable course work in business administration or a related field. The agencies require that applicants meet Civil Service Commission standards and take the appropriate Federal examination.

FRS entry-level requirements do not differ significantly from those of FDIC and OCC. However, the FRS has more flexibility since applicants can be hired directly and are not subject to Civil Service Commission requirements.

Although the entry level requirements are basically the same for each agency, the recruiting practices differ significantly. In this regard, FDIC position vacancies are filled from the Civil Service Commission registers with prospective candidates interviewed by the regional office having the vacancies. Based upon these interviews and applicants' qualifications, the regional office decides who is to be hired.

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The OCC also makes use of the Civil Service Commission registers; however, an active college recruiting program is used to identify and attract prospective candidates. During 1974, OCC personnel made 179 visits to various colleges and universities and about 99 percent of the new hires were identified during these visits.

FRS recruiting practices include college recruitment, referrals by employment agencies, referrals by employees, newspaper advertisements, transfers from other departments, direct application, and the reemployment of former employees.

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All three agencies provide a number of internal training courses designed to acquaint the newly appointed examiner with the field of bank examination. The content and emphasis of the courses provided by the three agencies are substantially the same in that they provide instruction in the fundamentals of accounting, investment examinations, and the procedures employed in performing bank examinations. As the examiner progresses in his respective organization, additional advanced training is offered in fields such as international banking, automatic data processing, and supervisory training. (Training courses offered by each agency are detailed in appendix IV.)

Although we found marked similarities in the nature of the training provided by each of the regulatory agencies, interagency use and coordination of training was minimal. For the most part, the individual agencies develop and conduct their training courses independent of the other agencies.

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Based upon our review of the recruiting and training practices of the three regulatory agencies, we believe the concept of a single bank regulatory agency would offer the opportunity to:

- Standardize the entrance requirements for new examiners and the recruiting methodology employed to attract potential candidates.
- Increase the effectiveness of training through a consolidated program and standardization of instructional material, course location, and training methodology.

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The impact on recruiting and training costs that would result from consolidating these functions is difficult to measure and may in the long term be negligible. However, consolidation and standardization of these functions could increase overall program effectiveness.

SUPPORT FUNCTIONS

As previously indicated, the greater portion of bank regulation resources is devoted to the bank examination process. There are, however, other functions which support the regulatory process that require a substantial investment of resources and which are a function of each of the three bank regulatory agencies. During our review, we obtained information on two of these areas--legal and research--whose cost of operation could be affected by a decision to consolidate the regulatory process.

The legal function at each agency is required in order to develop and implement the banking rules and regulations necessary for the agency to fulfill its regulatory responsibility. The legal groups are involved in activities such as: providing counsel to various officers of the agencies; review and analysis of pending Federal legislation which affects banking generally; enforcement of bank regulations; ruling on bank mergers; or opening of new banks.

During 1974, the approximate costs incurred by the headquarters staffs of the three regulatory agencies for bank regulation legal support were as follows:

<u>Agency</u>	<u>Expenditures</u>
FDIC	\$1,691,310
FRS	729,878
OCC	<u>1,281,261</u>
Total	<u>\$3,702,449</u>

The bank regulatory agencies' supporting research functions have been set up to provide for the analysis of relevant data to be used in the processing of bank mergers, new bank applications, and bank holding formations and acquisitions. These research units also provide specialized services through reports and studies to the agency heads.

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During 1974, the headquarters staffs of the three agencies incurred costs of \$2.7 million for research in the bank regulatory area.

<u>Agency</u>	<u>Expenditures</u>
FDIC	\$1,624,031
FRS	439,552
OCC	<u>457,712</u>
Total	<u>\$2,721,295</u>

The economies, if any, that would occur in the legal and research areas as a result of combining the bank regulatory function are not readily determinable. We noted, however, that in these areas the three agencies were often involved in similar activities. For example, FDIC and FRS have computer systems for their research programs which accumulate and compile similar statistics on the same banks.

In discussing our review with Committee representatives, they indicated an interest in the legal and research areas. Accordingly, we have included as appendices V and VI a detailed description of the legal and research functions as they now exist at the three agencies.

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We have discussed the contents of this report with OCC and FRS officials and have considered their views in developing this report. Because of the short period of time afforded for completing our review, FDIC was not able to meet with us to discuss their views on the matters contained in this report.

Sincerely yours,

R. G. Kellum
Deputy Comptroller General
of the United States

FUNCTIONS AND ORGANIZATION
OF FEDERAL BANK REGULATORY AGENCIES

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC, an independent Government agency, was created by the Banking Act of 1933 (12 U.S.C. 1811) to insure depositors against losses resulting from bank failures. The enabling legislation authorizes FDIC to: insure deposits--currently up to \$40,000 for each depositor and \$100,000 for individual deposit accounts of Federal, State, and local governments--in any bank operating under the law of the United States or of any State; act as receiver for closed banks; operate for a limited time new national banks chartered to make available to depositors of closed banks the insured portions of their deposits; and purchase assets from, and make loans to, closed banks which were members of the FRS. One of the first major tasks of the FDIC was to create a Division of Examinations to conduct examinations of all banks which were not members of the FRS and which had applied for admission to the insurance fund.

In 1950 an important change was made to the enabling legislation (12 U.S.C. 1811) permitting FDIC to provide financial assistance to operating banks. At the discretion of its Board of Directors, FDIC was authorized to make loans to, purchase assets from, or make deposits in any insured bank in danger of closing, if continued operation is essential to provide adequate banking facilities for the community.

Management of FDIC is vested in the Board of Directors, composed of (1) two members appointed for a 6-year term by the President of the United States by and with the advice and consent of the Senate and (2) the Comptroller of the Currency.

Organizationally, FDIC is divided into six major units at the headquarters level: Office of the Controller, Division of Liquidation, Division of Bank Supervision, Legal Division, Division of Research, and Office of Management Systems.

The Office of the Controller is responsible for the maintenance, accuracy, and custody of all accounting records of FDIC and for the preparation of financial statements and reports therefrom. The Office of the Controller also has supervision over, and responsibility for, the administration of regulations of FDIC pertaining to assessments to which insured banks are subject.

The Division of Liquidation provides for the payment of insured deposits, establishment, and liquidation of claims of FDIC as subrogee of insured depositors, and the acquisition and liquidation of assets acquired by FDIC from an insured bank or from the receiver of liquidation thereof.

The Division of Bank Supervision is responsible for the performance of bank examinations and bank supervisory functions of FDIC. To carry out these functions, the division's personnel are assigned to a headquarters group, all 14 of FDIC's regional offices, and to numerous field offices.

The principal function of the field offices is to conduct examinations of commercial banks and trust departments and mutual savings banks. At December 31, 1974, the field examiners were responsible for examining 2,446 banks. The regional offices provide the field offices with guidance and serve as report reviewers. The headquarters group also reviews the reports of the examination, determines which banks are to be designated as problem banks, and prescribes policies to be followed by the regional and field offices.

The Legal Division renders all legal services necessary to enable the Board of Directors and the heads of organizational units within FDIC to discharge their respective duties. (This division is discussed further in appendix V.)

The Research Division conducts continuing research and compilation of studies and statistics pertaining to bank deposit insurance and banking and the financial conditions of banks. The division also prepares and presents to the Board of Directors any special studies, reports, or surveys as directed in the field of business or economics. (The Research Division is discussed further in appendix VI.)

The Office of Management Systems provides information systems support to all divisions and offices within FDIC and maintains FDIC's computer center. In carrying out these functions, the Office of Management Systems develops and designs computer base information systems and contracts when necessary computer systems support for processing approved FDIC information systems.

FEDERAL RESERVE SYSTEM

FRS was established December 23, 1913, by the Federal Reserve Act (12.U.S.C. 221) to give the country an elastic currency, provide facilities for discounting commercial paper, and improve the supervision of banking. However, it was recognized that the purposes of FRS included broader aspects of U.S. economic and financial objectives. Over the years, economic stability and growth, a high level of employment, and stability in the purchasing power of the dollar have come to be recognized as primary objectives of governmental economic policy.

Since a sound financial structure is one essential ingredient of a growing and prosperous economy, the FRS has been entrusted with many supervisory and regulatory functions. These functions include the responsibility for the amount of credit that may be used for purchasing or carrying equity securities; establishing maximum interest rates that member banks may pay on savings and time deposits; supervising State-chartered member banks; regulating the foreign activities of all member banks; administering the laws that regulate activities of bank holding companies; and establishing the rules of disclosure as to credit charges and repayment terms ("truth in lending") to which all lenders of consumer credit must adhere.

FRS consists of five major components. Three of these components --the Board of Governors, the Federal Open Market Committee, and the Federal Reserve banks--have responsibility for making and executing monetary policy. While their main responsibility is to regulate the flow of credit and money, they also perform important supervisory and service functions for the public, the U.S. Treasury, and the commercial banks. The other two components are the Federal Advisory Council and the member commercial banks.

Board of Governors

The apex of the Federal Reserve's organization is the Board of Governors (Board) in Washington, D.C., which has approximately 1,400 employees. Its leadership consists of seven board members appointed by the President of the United States and confirmed by the Senate for 14-year nonrenewable terms. One member is designated by the President as chairman for a 4-year term. Although the Board's prime function involves the formulation of monetary policy, it also has broad supervisory and regulatory responsibilities over the activities of member banks including their foreign operations and the operations of the Federal Reserve banks. In addition to being members of the Federal Open Market Committee, the Board establishes the reserve requirements for member banks within the limits prescribed by law and performs numerous other functions such as reviewing and approving discount rate actions of the Federal Reserve banks, issuing regulations governing the administration of the discount window at those banks, establishing ceiling rates of interest that member banks may pay on time and savings deposits, setting margin requirements on credit purchases in the stock market, and administering the law that regulates activities of bank holding companies.

Federal Open Market Committee

Open market operations are the principal instruments used by the Federal Reserve to implement national monetary policy. The Committee authorizes and directs the Federal Reserve Bank of New York to the extent necessary to buy or sell U.S. Government securities, securities of Federal agencies, or bankers' acceptances. The Committee also authorizes and directs operations in foreign exchange markets for major convertible currencies.

Federal Reserve banks

The operations of FRS are conducted through a nationwide network of about 26,000 employees at 12 Federal Reserve banks, 25 branches, and several other facilities used mainly for clearing checks. Each Federal Reserve bank is an incorporated institution with its own board of directors consisting of nine members: six elected by member banks in each Federal Reserve district and three appointed by the Board of Governors. The directors of each Reserve bank oversee the operations of their bank under the overall supervision of the Board of Governors, and they establish, subject to approval by the Board, the interest rates that the bank charges on loans.

Federal Advisory Council

The Council consists of one member from each Federal Reserve district, selected by the board of directors of the district bank. The Council confers with the Board of Governors on economic and banking matters and makes recommendations regarding the affairs of the Federal Reserve System.

Member banks

At December 31, 1974, 5,782 commercial banks out of a total of 14,946 in the country were members of the Federal Reserve System. Member banks consisted of 1,074 State and 4,708 national banks. National banks, which are chartered by the OCC, are required by law to be members of the System. State-chartered banks may elect to become members if they meet the requirements established by the Board of Governors pursuant to the Federal Reserve Act. The member banks own all of the stock of the Reserve banks; however, ownership of that stock does not carry with it the usual attributes of control and financial interest.

Regulatory functions

The Board of Governors establishes broad policy, issues regulations and interpretations, and sets guidelines for bank supervision. The Board also reviews and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory function. It acts on applications for admission of State banks to membership of the System; administers the public disclosure requirements of the Securities Exchange Act of 1934, as amended, with respect to equity securities of State member banks including regulating security credit transactions; prescribes regulations pursuant to the Truth in Lending Act for financial institutions and other firms engaged in extending consumer credit, and administers these regulations in their application to State member banks; and administers the provisions of the Fair Credit Reporting Act, the Currency Transaction Reporting Act, and the Civil Rights Act of 1968 in their application to State member banks.

The Board's authority includes approving or rejecting applications for: merging banks in instances where the resulting bank is to be a State member bank; forming or expanding bank holding companies establishing domestic branches for State member banks and foreign branches for all member banks; exercising expanded powers to create bank acceptances; establishing foreign banking and financing corporations; and investing in bank premises an amount in excess of 100 percent of a bank's capital stock.

The supervisory and regulatory functions are carried out primarily by the Division of Banking Supervision and Regulation, Office of Saver and Consumer Affairs, and Legal Division. In addition, the Board delegates certain of its supervisory functions to the Federal Reserve banks. These functions include: (1) the conduct of field examinations of State member banks; (2) the authority to approve certain State member applications to establish domestic branches; and (3) the authority to approve formations, acquisitions, and activities of bank holding companies.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

The OCC is headed by the Comptroller of the Currency who is appointed by the President and confirmed by the Senate for a term of 5 years. As the administrator of national banks, his primary responsibility is to ensure that each national bank is soundly operated and that the national system fills the public need for commercial banking services. To accomplish this the Comptroller

- approves or disapproves structural changes in the national banking system, including applications to (1) organize new national banks; (2) establish branches of existing national banks; (3) merge or consolidate banks when the resulting bank is a national bank; and (4) relocate national bank offices.
- determines when national banks become insolvent and appoints FDIC as receiver.
- issues rules and regulations governing the corporate structure of national banks and their lending and investment practices.
- examines each national bank periodically to ascertain if it is being operated soundly and in accordance with Federal statutes.

APPENDIX I

APPENDIX I

To aid him in exercising his responsibilities the Comptroller of the Currency has a headquarters staff in Washington, D.C., of approximately 300 divided into four functional areas: legal and research; new banks, branches, and merger operations; examination of national banks; and administration. In addition, as of October 1975, the OCC had about 2,200 employees working out of 14 regional offices, an overseas office in London, and 126 subregional offices. Regional and subregional office personnel are responsible for examining the approximately 4,700 national banks throughout the United States.

FDIC OPERATING COSTS
FOR CALENDAR YEAR 1974

Regional Offices

Atlanta	\$3,120,764
Boston	2,605,505
Chicago	3,523,587
Columbus	1,784,659
Dallas	3,381,745
Madison	2,518,813
Memphis	2,957,761
Minneapolis	2,327,670
New York	4,095,436
Omaha	2,226,069
Philadelphia	2,565,670
Richmond	2,152,741
St. Louis	2,920,802
San Francisco	<u>3,000,518</u>
Total regional offices	\$39,181,740

Washington Headquarters

Executive	\$ 1,255,280
Comptroller	10,152,845
Liquidation	499,727
Legal	1,691,310
Research	1,824,031
Management Systems	2,573,336
Bank Supervision (Washington)	<u>2,151,866</u>
Total headquarters	<u>20,148,395</u>
Total FDIC costs	<u>\$59,330,135</u>

FEDERAL RESERVE SYSTEM BANK REGULATORY COSTS (note a)

FOR CALENDAR YEAR 1974

Board costs

Division of Supervision and Regulation	\$ 1,880,626
Division of International Finance	39,236
Division of Personnel	53,975
Legal Division	729,878
Office of Saver and Consumer Affairs	204,665
Office of Managing Director for Operations	54,409
Division of Research and Statistics	<u>439,552</u>

Total Board regulatory costs

\$ 3,402,421^b

Federal Reserve bank costs

Examination of State member banks	9,301,118
Examination of trust operations	1,503,970
Examination of Edge Act Corporation	743,982
EDP examinations	<u>567,763</u>

Bank examination costs

\$12,116,733

Examination of bank holding companies	618,359
Processing bank holding company applications	2,406,078
Processing bank holding company reports	<u>637,402</u>

Bank holding company costs

3,661,839

Administering regulations	851,784
Processing applications for membership, mergers, and branches	528,868
All other supervisory and regulatory activities	<u>2,191,865</u>

Other regulatory costs

3,572,517

Total Federal Reserve bank regulatory costs

19,351,089

Total Federal Reserve System bank regulatory costs

\$22,753,500

^a Schedule includes only those costs associated with the bank regulatory function.

^b Bank holding company costs of \$1,190,880, bank merger costs of \$606,798, and foreign banking costs of \$279,927 are included.

APPENDIX II

APPENDIX II

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APPENDIX II

APPENDIX II

OCC OPERATING COSTS
FOR CALENDAR YEAR 1974

Regional Offices

Boston, Mass.	\$2,794,209
New York, N.Y.	5,591,876
Philadelphia, Pa.	3,094,529
Cleveland, Ohio	2,906,941
Richmond, Va.	3,200,709
Atlanta, Ga.	2,955,200
Chicago, Ill.	3,345,665
Memphis, Tenn.	3,006,556
Minneapolis, Minn.	2,491,612
Kansas City, Mo.	2,935,901
Dallas, Tex.	4,713,147
Denver, Colo.	2,398,713
Portland, Ore.	2,199,732
San Francisco, Calif.	<u>3,842,812</u>
Total regional costs	\$45,477,602

Washington Headquarters

Administration	1,793,961
Bank Organizations	
Mergers and Consolidations	\$ 161,391
Branch Applications	119,128
Capital Increase	77,418
New Bank Branch	86,956
Bank Organizations	<u>110,112</u> 555,005
Trust Department	183,495
International Department	458,031
Law Department	1,281,261
Economics	457,712
Comptroller, Deputy Comptroller, and Staff	971,046
Unallocated (note a)	<u>4,327,363</u>
Total OCC costs	<u>\$55,505,476</u>

^aRepresents rent and maintenance of headquarters and regional office and headquarters expenses--including increase in accrued annual leave, communications, printing, and reproduction, office machine repairs and rentals, depreciation and amortization, supplies, consulting service, conferences, and remodeling.

ADMINISTRATIVE COSTS
CALENDAR YEAR 1974
TRAINING COSTS (note a)

	<u>Total costs</u>	<u>Average number of employees</u>	<u>Average cost per employee</u>
<u>FDIC</u>			
Regions	b \$1,277,443	c 1,370	5 683.12
Headquarters	158,313	583	232.57
<u>Federal Reserve System</u> (note d)			
Federal Reserve banks	523,762	574	1,018.99
Board of Governors	13,353	92	147.32
<u>Comptroller of the Currency</u>			
Regions (note e)	352,827	2,239	157.58
Headquarters	48,358	304	160.72
<u>Federal Home Loan Bank</u>			
Board (notes f, <)	193,623	1,220	158.71
<u>National Credit Union</u>			
Administration (notes g, k)	• 141,592	528	268.17
<u>Federal Power Commission</u> (note h)			
Regions	1,890	136	13.90
Headquarters	36,309	1,137	31.93
<u>Securities and Exchange</u>			
Commission (notes i, k, <)	108,733	j 2,144	50.71

a Generally includes tuition and materials costs but not salaries of employees taking courses.

b Amounts pertain to fiscal year 1975 because calendar year 1974 data was not available. Includes travel for training, salaries of instructors and training administrators, and rental costs of training facility.

c Average employees for calendar year 1974. Includes summer interns as part-time employees. Therefore, four summer interns represent one full-time employee.

d Training costs pertain to bank examiners at the Federal Reserve banks and personnel in the Board's Division of Banking Supervision and Regulation. Accordingly, the average number of employees includes only those involved in the examination function.

e Includes travel for training, costs of special instructions, and other miscellaneous items pertaining to training.

f Also includes room rentals.

g Consists of travel for training only. Does not include costs of tuition and materials.

h Consists of external training only.

i Amounts pertain to fiscal year 1975 because calendar year 1974 data is not available. Includes travel for training and salary costs for special instructors, the training officer, and his secretary.

j Authorized positions at June 30, 1975.

k Breakdown of costs for field offices and headquarters is not available.

APPENDIX III

APPENDIX III

CALENDAR YEAR 1974
SALARY COSTS

<u>Organization</u>	<u>Total costs</u>	<u>Average number of employees</u>	<u>Average cost per employee</u>
<u>FDIC</u>			
Regions	\$28,347,644	1,870	\$15,159.17
Headquarters	10,759,938	^a 683	15,753.94
<u>Federal Reserve System</u> (note b)			
Federal Reserve banks	12,667,877	956	13,250.92
Board of Governors	2,872,613	169	16,997.72
<u>Comptroller of the Currency</u>			
Regions	33,388,180	2,239	14,912.09
Headquarters	5,162,565	304	16,982.13
<u>Federal Home Loan Bank</u>			
<u>Board</u>			
Regions	12,621,866	724	17,434.00
Headquarters	8,281,810	496	16,697.00
<u>National Credit Union</u>			
<u>Administration</u>			
Regions	7,186,843	403	17,833.36
Headquarters	2,109,536	125	16,876.29
<u>Federal Power Commission</u>			
Regions	2,670,776	136	19,638.06
Headquarters	19,257,256	1,137	16,936.90
<u>Securities and Exchange</u>			
<u>Commission (note c)</u>			
Regions	12,153,971	^d 780	15,582.01
Headquarters	20,402,759	^d 1,364	14,962.43

^a Includes summer interns as part-time employees. Therefore, four summer interns represent one full-time employee.

^b Supervisory and regulatory costs only.

^c Data pertains to fiscal year 1975.

^d Authorized positions at June 30, 1975.

APPENDIX III

APPENDIX III

CALENDAR YEAR 1974
TRAVEL COSTS (note a)

<u>Organization</u>	<u>Total costs</u>	<u>Average number of employees</u>	<u>Average cost per employee</u>
<u>FDIC (note b)</u>			
Regions	\$ 8,095,916	1,870	\$ 4,329.37
Headquarters	359,664	^c 563	526.60
<u>Federal Reserve System (note d)</u>			
Federal Reserve banks	1,990,086	956	2,081.68
Board of Governors	61,626	169	364.65
<u>Comptroller of the Currency</u>			
Regions	7,712,736	2,239	3,444.72
Headquarters	393,271	304	1,293.65
<u>Federal Home Loan Bank Board (note b)</u>			
Regions	3,299,304	724	4,557.05
Headquarters	440,438	496	887.98
<u>National Credit Union Administration</u>			
Regions	1,036,158	403	2,571.11
Headquarters	89,735	125	717.83
<u>Federal Power Commission</u>			
Regions	154,561	136	1,136.48
Headquarters	539,233	1,137	474.26
<u>Securities and Exchange Commission (note e)</u>			
Regions	656,224	^f 780	841.31
Headquarters	543,507	^f 1,364	398.47

^a Generally includes transportation and per diem costs.

^b Includes travel costs for training.

^c Includes summer interns as part-time employees. Therefore, four summer interns represent one full-time employee.

^d Supervisory and regulatory costs only.

^e Data pertains to fiscal year 1975.

^f Authorized positions at June 30, 1975.

APPENDIX III

APPENDIX III

CALENDAR YEAR 1974
COST OF OFFICE SPACE

<u>Organization</u>	<u>Total costs</u>
<u>FDIC</u>	
Regions	\$ 1,222,971
Headquarters	a 787,671
<u>Federal Reserve System</u>	
Federal Reserve banks	b(note c)
Board of Governors	1,005,772
<u>Comptroller of the Currency (note d)</u>	
Regions	711,093
Headquarters	811,845
<u>Federal Home Loan Bank Board (note d)</u>	
Regions	551,584
Headquarters	780,662
<u>National Credit Union Administration</u>	
(note e)	
Regions	203,213
Headquarters	284,353
<u>Federal Power Commission (note f)</u>	2,400,000
<u>Securities and Exchange Commission</u>	
(notes d, g)	
Regions	1,001,529
Headquarters	1,327,969

a Includes annual depreciation expense on headquarters building, rental costs on building at 1709 New York Avenue, and rental costs on training facility and apartments for housing students in Arlington, Virginia.

b Amount arrived at by taking total headquarters building costs of \$41,957,680 (\$4,452,156 for Board building and \$37,505,524 for Martin Building) dividing that amount by 50 (estimated useful life of building in years) and adding the annual rental cost of the Watergate building office space \$166,618.

c The Federal Reserve banks' buildings are self-owned. All of these buildings were built prior to 1925, with the exception of Minneapolis (1973) and Atlanta (1959) and can be considered fully depreciated. Therefore, the office costs for the Federal Reserve banks are not comparable to the office costs of the other agencies.

d All leased space.

e Costs for calendar year 1975.

f Breakdown between regional offices and headquarters was not available.

g Data pertains to fiscal year 1975.

CALENDAR YEAR 1974
COST OF FURNITURE, FIXTURES, AND EQUIPMENT

<u>Organization</u>	<u>Total costs</u>
<u>FDIC</u>	
Regions	\$ 287,746
Headquarters	338,210
<u>Federal Reserve System (notes a,e)</u>	
Federal Reserve banks	244,149
Board of Governors	530,208
<u>Comptroller of the Currency (notes b,c,e)</u>	1,292,070
<u>Federal Home Loan Bank Board (note c)</u>	1,344,456
<u>National Credit Union Administration</u>	
Regions	23,821
Headquarters	38,961
<u>Federal Power Commission (note f)</u>	
Regions	131
Headquarters	178,726
<u>Securities and Exchange Commission</u> (notes c,d)	244,256

^a Supervisory and regulatory costs only.

^b Obtained from the 1974 Financial Report of the Administrator of National Banks, Comptroller of the Currency "Statements of Changes in Financial Position."

^c Breakdown between regions and headquarters not available.

^d Increase in net book value between June 30, 1974, and June 30, 1975 (FY 1975).

^e Includes costs associated with furnishing new headquarters office space occupied during 1974.

^f Costs for fiscal year 1974. Calendar year data was not available.

1975 OFFICE SPACE

<u>Organization</u>	<u>Total space (square feet)</u>
<u>FDIC (note a)</u>	
Regions	181,357
Headquarters	227,331
<u>Federal Reserve System (note b)</u>	
Federal Reserve banks	143,140
Board of Governors	29,911
<u>Comptroller of the Currency</u>	
Regions	117,137
Headquarters (note a)	129,839
<u>Federal Home Loan Bank Board</u>	
Regions	73,744
Headquarters	110,590
<u>National Credit Union Administration (note a)</u>	
Regions	27,950
Headquarters	39,105
<u>Federal Power Commission (notes a,c)</u>	
Regions	29,032
Headquarters	212,343
<u>Securities and Exchange Commission</u>	
Regions	139,845
Headquarters	287,287

^a Net office space only (excludes storage, parking, and cafeterias).

^b Supervisory and regulatory space only.

^c Amounts pertain to fiscal year 1974 because calendar year 1975 data not available.

APPENDIX IV

FEDERAL RESERVE AGENCIES TRAINING COURSES AND PARTICIPANTS FOR CALENDAR YEAR 1974

Course	Duration (week)	Number of courses held	Agency		Foreign	Totals	Location	Eligibility requirements
			Other Federal Agency	State				
FDIC								
Assistant Examiner	1	8	220	34	2	256	Rosslyn, Va.	2-12 months
Senior Assistant Examiners	2	7	195	24	3	212	Rosslyn, Va.	12 months
Examiners	3	9	166	39	1	206	Rosslyn, Va.	30 months
Trust (Basic)	2	6	160	13	-	173	Rosslyn, Va.	6 months
Trust (Advanced)	2	4	90	17	-	107	Rosslyn, Va.	24 months
CEB II (Electronic Data Processing)	2	7	126	13	-	139	Rosslyn, Va.	Be a Senior Assistant Examiner
Commissioned Examiners	2	1	10	-	-	10	Rosslyn, Va.	Commissioned Examiner 2-5 years
Totals		42	959	140	6	1,105		
Comptroller of the Currency								
Assistant National Bank Examiner	2	12	310	-	-	310	Regional offices	6 months
National Bank Examiner	2	4	120	-	-	120	Washington, D.C.	Commissioned Examiner
Trust	1	1	10	-	-	10	Richmond, Va.	As needed
International	1	1	89	-	-	89	Washington, D.C.	As needed
Electronic Data Processing	1	15	359	-	-	359	Regional office	As needed
Management and Supervision	2 days	4	150	-	-	150	Regional office	National Bank Examiner
Examiners Workshop	2 days	2	76	-	-	76	Regional office	As needed
Totals		41	1,114	-	-	1,114		

APPENDIX IV

FEDERAL REGULATORY AGENCIES TRAINING COURSES AND PARTICIPANTS FOR CALENDAR YEAR 1974

Course	Duration (weeks)	Number of courses held	Participants		Totals	Location	Eligibility requirements
			Other Federal Agencies	State			
Federal Reserve Board							
Assistant Examiners	1	1	82	21	6	Washington, D. C.	6 months or less
Examiners	4	2	36	15	6	Washington, D. C.	2 to 5 years
Trust Examiners	3	1	7	20	-	Washington, D. C.	As needed
Senior Seminar for Trust Examiners	1	-	-	-	-	Washington, D. C.	As needed
Electronic Data Processing	2	1	19	-	-	Washington, D. C.	As needed
International	2	1	24	2	30	New York, N. Y.	As needed
Totals		8	168	58	12		
Other Examiners					242		

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LEGAL ACTIVITIES

The three banking agencies issue rules and regulations concerning the banking community's lending and investment practices. To develop and implement these rules and regulations, each of the regulatory agencies maintains a staff of attorneys and support personnel. As of August 1975, the legal staffs of the agencies had the following number of personnel.

	<u>FDIC</u>	<u>Board of Governors Federal Reserve</u>	<u>OCC</u>
Attorneys and Officers	33	33 ⁽¹⁾	43
Support Staff	<u>36</u>	<u>17</u> ⁽²⁾	<u>29</u>
Total	<u>69</u>	<u>50</u>	<u>72</u>

(1) Includes 10 full-time attorneys who devote a portion of their time to the bank regulatory function.

(2) Includes 9 full-time assistants who devote a portion of their time to the bank regulatory function.

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC's Legal Division is composed of two staff offices--Office of Administrative Counsel and Office of Legislative Counsel--and four function sections: Liquidation, Compliance and Enforcement, Bank Regulation, and Bank Operations and Applications. This division is headed by the General Counsel who reports directly to the Chairman, Board of Directors.

The Office of Administrative Counsel provides counsel to the Board of Directors and any office of the Corporation with respect to such legal questions as may arise in the conduct of the business and affairs of FDIC. This would include the interpretation of Federal and State laws, FDIC regulations, and other directives.

The Office of Legislative Counsel performs activities related to the review and analysis of pending Federal legislation which affects banking generally and the activities, operations, or functions of FDIC. This includes the preparation of drafts of proposed legislation, reports to the Congress, and reports for the use of the Board of Directors.

The Liquidation Section negotiates and develops agreements in connection with financial assistance to operating banks, asset assumptions, loans, and other liquidation activities concerned with closed insured banks. In addition, this section conducts litigation proceedings on behalf of FDIC.

APPENDIX V

APPENDIX V

The Compliance and Enforcement Section is responsible for the preparation of all necessary notices, charges, and other pleadings and documents concerning termination of insurance, cease and desist, and suspension or removal of directors or officers and also proceedings associated with these acts (section 8 of Federal Deposit Insurance Act). This section has also been delegated the authority to obtain and preserve testimony pursuant to the above proceedings (section 10c of Federal Deposit Insurance Act).

The Bank Applications and Operations Section and the Bank Regulation Section are both responsible for preparing opinions, regulations, rules, and legal documents such as the formulation and drafting of amendments to FDIC's rules, regulations, and statements of policy. The former also administers FDIC policy concerning banking laws (e.g., Bank Merger Act, Bank Holding Company Act, etc.).

The Legal Division also devotes considerable staff time to responding to public information requests received from individuals, banks, and other Government agencies. These requests are handled by the appropriate section within the division according to the subject matter of the requests.

The following table shows a breakdown of total staff time by function at October 8, 1975.

Time Allocation by Function

<u>Function</u>	<u>Percent of Time</u>
Counsel & advice	11.0
Legislation	6.0
Litigation	11.0
Legal documents (policy reviews)	16.0
Mergers	.5
Section's 8 & 10c proceedings	16.0
Closed bank agreements	21.0
Public information	15.0
Indexing and publication	<u>.5</u>
Subtotal	97.0
General administration	<u>3.0</u>
Total	<u>100.0</u>

THE FEDERAL RESERVE SYSTEM

The Board of Governors' Legal Division acts in an advisory and regulatory capacity. The division's primary responsibility is its advisory function to the Board of Governors, especially in connection with administrative proceedings and litigation in which it is involved. The division attorneys also draft legislation, analyze reports on pending legislation with respect to bank-related subjects, and prepare certain compilations of banking laws.

The regulatory functions of the Legal Division come under three categories: State member bank supervision and regulation, bank holding companies, and foreign banking. The first function involves the preparation and enforcement of specific bank regulations establishing standards to be followed by member banks. Some of the topics included in these regulations are: conditions necessary for the extension of credit, deposit requirements, check collection system standards, cases of interlocking directorates, maximum allowable interest rates on deposits, permissible securities, bank protection standards, and disclosure requirements.

In connection with bank holding companies, the Legal Division determines if their formations and acquisitions are legally permissible and if all requirements of applicable regulations have been met. Bank holding companies are also required to make applications to engage in non-banking activities. As a result of this division's review of applications, it advises the Board as to what action should be taken on acquisitions and formations of bank holding companies. The review includes a study by the Research Division of public benefits and competitive factors and a report of the financial and managerial soundness of the bank as provided by the Division of Supervision and Regulation and Federal Reserve bank examiners. The attorneys also review any requests concerning possible violations of the Bank Holding Company Act.

The foreign banking function includes two main areas of study in the Legal Division: determination of whether foreign branches of member banks should be approved and whether foreign investment by member banks should be permitted. Again, the Legal Division advises the Board concerning the legality and soundness of such foreign activities of member banks.

COMPTROLLER OF THE CURRENCY

The Law Department of the OCC is divided into eight operating divisions--Bank Operations, Enforcement and Compliance, Litigation, Antitrust, Corporate Regulation, Securities Disclosure, Legislative Counsel, and Associate Chief Counsel. The Department is headed by a Chief Counsel who reports to the First Deputy Comptroller.

The Law Department advises the Comptroller of the Currency and his staff concerning statutes and other laws affecting the operation of the

OCC and of the national banking system. In addition to advising the Comptroller, members of the Law Department also deal directly with national banks and their attorneys and with the staff of other Government agencies; issue rules and regulations that govern the corporate structure of national banks and their lending and investment practices; and make decisions required by the inquiries of bankers as to the meaning of general banking laws in a given situation. The OCC deals regularly in legislative problems, frequently in close cooperation with the Treasury Department. The OCC also is a regular litigant in the Federal courts, and has its own litigating staff.

The Bank Operations Division advises banks, bank lawyers, and members of the OCC staff as to interpretations of the National Bank Act and other banking laws. Statutes on which interpretations frequently are sought concern borrowing and lending limits of national banks, limits on real estate loans, restrictions on loans to bank affiliates, branch banking, truth-in-lending, fair credit reporting, and various State consumer protection laws applicable to national banks. Attorneys in this division also assist at hearings conducted in OCC's 14 regional offices on applications to charter new banks or to establish branch banks.

The Enforcement and Compliance Division deals with a relatively small number of enforcement problems. This division exercises three responsibilities:

1. Cease and desist proceedings. The Financial Institutions Supervisory Act of 1966 gave the OCC, for the first time, authority to issue cease and desist orders against national banks engaged in violations of law or in unsafe and unsound banking practices. These proceedings are to be conducted by an administrative law judge, and are the only proceedings vested in the OCC subject to the hearing provisions of the Administrative Procedure Act. The attorneys in this division try to negotiate informal settlements of problems before instituting formal proceedings.

2. Criminal referrals. This division supervises the process by which crimes discovered by national banks or by national bank examiners are referred to the Department of Justice. Minor embezzlements are referred to the Department of Justice by bank management or by national bank examiners without any supervision by the OCC lawyers. The Enforcement and Compliance Division, however, is active in the referral of major fraud cases, usually involving bank management.

3. Removal of officers. The OCC also has power to certify to the Board of Governors of the Federal Reserve System facts indicating that an officer, employee, or other person involved in a national bank had engaged in a violation of law or unsafe or unsound practices. The Board of Governors then may issue a notice of intention to remove--giving the person named in the notice an opportunity to appear at a formal hearing and dispute the facts set forth in the notice. The Board of Governors makes the final decision whether or not an officer should be removed. This statute has been little used and only one removal has taken place.

APPENDIX V

APPENDIX V

The Litigation Division works with the Civil Division of the Department of Justice in defending litigation in which the OCC is a named defendant. Most of this litigation is of two types: (1) suits brought by competing banks or by rejected applicants contesting the approval or disapproval of a new bank or branch bank application and (2) suits brought by a member of a competing industry contending that the OCC unlawfully has permitted a national bank to engage in a business activity which is outside the bank's statutory authority to conduct a banking business.

The Antitrust Division attorneys conduct litigation proceedings against the Antitrust Division of the Department of Justice. This litigation arises under the Bank Merger Act of 1966, which permits the OCC to intervene in its own name to contest actions brought by the Department of Justice challenging--as violations of the antitrust laws--bank mergers approved by the OCC.

The Corporate Regulation Division deals with various matters affecting the corporate affairs of national banks. Routine problems handled by this unit include those concerned with shareholders' meetings and with the issuance of subordinated debentures by national banks.

The Securities Disclosure Division deals primarily with filings by national banks with 500 or more shareholders under the Securities Exchange Act of 1934. By virtue of a 1964 amendment to the securities laws, the responsibility for administering these filings was transferred to the OCC from the SEC. National bank annual reports and other required documents are received and reviewed for completeness and accuracy. The division also handles numerous other problems which arise under the securities laws.

The Legislative Counsel prepares or supervises the preparation of comments on pending or proposed legislation solicited by congressional committees, the Treasury Department, the Office of Management and Budget, and other agencies.

The Law Department has one associate chief counsel who operates without portfolio. He specializes in matters relating to the investment authority of national banks and frequently prepares opinions for the OCC on whether or not particular debt issues are permissible.

In addition to the headquarters Legal Department, 9 of 14 regional offices have an attorney that renders legal counsel to regional administrators, national bank and trust examiners, bankers, and bank counsel. The advice of the regional counsel relates to the interpretation and application of laws, rulings, and regulations affecting the corporate organization, powers, operations, and practices of national banks. The regional counsel also renders counsel on various matters relative to establishment of bank programs, including deposits, loans, and investments and answers inquiries from the public.

INTERACTION BETWEEN LEGAL STAFFS
OF BANK REGULATORY AGENCIES

There are no formal requirements or procedures for coordinating the legal activities of FDIC, FRS, and OCC. However, we found that there is frequent interest among the three agencies on common regulatory and legislative problems and other matters where Federal statutes require consultation. For example, the Federal Deposit Insurance Act requires that FDIC consult with the other bank regulatory agencies before acting on bank merger applications.

An informal interagency coordinating committee has been established to develop a uniform regulatory approach for FDIC, FRS, OCC, Federal Home Loan Bank Board, and Department of the Treasury. Representatives from each of these agencies meet periodically to discuss their interpretations of laws common to them. This allows input from all these agencies before a final interpretation is made. However, in implementing most laws and regulations each agency usually has the sole responsibility for setting interpretations for banks under its supervision.

RESEARCH ACTIVITIES

One of the primary responsibilities of the bank regulatory agencies is to provide for the compilation of data to be used by the respective agencies in the processing of bank merger or new bank applications and to provide specialized services to the agency heads. To achieve this goal, the three regulatory agencies have established research or similarly named divisions. These divisions, in general, carry on research in areas such as developing standards for bank reporting, proposed legislation, flow of funds, structure of financial markets, and other pertinent areas.

As shown in the following table, the three regulatory agencies had--at their headquarters--a combined total of 69 professional and 74 nonprofessional employees at August 2, 1975, involved in the research functions in support of bank regulatory responsibilities.

	<u>Professional</u>	<u>Nonprofessional</u>
FDIC	41	49
Board of Governors	13	8
OCC	<u>15</u>	<u>17</u>
Total	<u>69</u>	<u>74</u>

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC's Research Division reports directly to the Chairman, Board of Directors, and is organized into two functional sections: the Financial and Economic Research Section and the Bank Statistics and Financial Analysis Section.

The Financial and Economic Research Section is primarily concerned with the analysis of policy issues (i.e., changes in existing regulatory policy or proposed new policies), economic research, legislative requests, and scientific computer programming. In addition, this section has a Competitive Analysis and Merger Unit which prepares analyses and recommendations on all merger cases in which the FDIC must make a decision or render an advisory opinion to the Board of Governors or the OCC.

The Bank Statistics and Financial Analysis Section is composed of the Applied and Statistical Research Unit, the Mathematical Programming and Simulation Unit, and the Banking Analysis Unit. The Applied and Statistical Research Unit is concerned with surveys and data requests. This unit develops and implements statistical surveys, analyzes data

collected, processes reports of condition and income from State nonmember banks, and responds to data requests from individual citizens, Government agencies, and legislators. The Mathematical Programming and Simulation Unit maintains the "FDIC Bank Management Simulation," which is a large-scale simulation model of commercial banks competing in the financial marketplace. This simulation is used as a training tool for bank executives and bank examiners. In addition, this unit provides technical assistance on mathematical programming to other units of the Research Division and other divisions within the FDIC.

The Banking Analysis Unit, in conjunction with FRS and OCC, is responsible for developing principles and standards of bank reporting, designing report formats, prescribing and administering reporting practices and procedures, counseling banking institutions on reporting problems, reviewing and analyzing reports submitted, and generally supervising the financial reporting of the banking system of the country as required by statute. In addition, this unit maintains the master control of the bank-branch structure of the United States banking system. This master record is intended to provide the control for all bank reporting and to enable the Federal bank regulatory system to effectively use computer technology for bank financial reporting and information.

The following table shows the Research Division's allocation of time to its various functions.

<u>Time allocation by function</u>	<u>Percent</u>	<u>Primary responsibility</u>
Policy issues	11.4	Economic Research Unit
Economic research and studies	7.1	Economic Research Unit
Legislative requests	7.2	Economic Research Unit/ Applied and Stat. Research Unit
Mergers and competitive analysis	5.4	Competitive Analysis and Res. Unit
Survey and data requests	17.4	Applied and Stat. Research Unit
Call and income reports	8.5	Banking Analysis Unit
Bank structure	3.7	Banking Analysis Unit
Scientific programming	6.8	Econ. Res. Unit/Math. Proc. Simulation Unit
Bank management simulation	5.5	Mathematical Programming Simulation Unit
Financial analysis	10.3	Applied and Stat. Res. Unit/ Banking Analysis Unit
Publications	<u>3.7</u>	Applied and Stat. Research Unit
Subtotal	87.0	
General administration	<u>13.0</u>	
Total	<u>100.0</u>	

FEDERAL RESERVE SYSTEM

The FRS's Research and Statistics Division conducts research projects and provides analysis for the Board of Governors and the Federal Open Market Committee on current and prospective developments in the domestic field. Implications of such developments for monetary policy are studied as well as other alternative courses of policy with the goal of achieving overall economic objectives. This division carries on research in such areas as production, prices, banking, capital markets, consumer and real estate credit, the structure of financial markets, flow of funds, consumer finance, and econometric models and their applications to policy. Researchers at the Board of Governors work with the research departments of the Federal Reserve banks in economic analysis and statistical reporting. Another function of this division is to maintain the Board's general library and economic editing services. Special ad hoc research projects are continually being studied and are derived from the policy questions of the day.

Within the specific function of supervision and regulation of banking, the Research and Statistics Division gets involved in the processing of applications of bank holding companies and bank mergers. Research economists conduct analyses to determine the competitive effects within a well-defined geographic market that would be affected by such an application. Before approval of these applications can be granted by the Board, there must be a demonstration that any resulting anti-competitive effects would be clearly outweighed by net public benefits or convenience.

There is one section within the Division of Research and Statistics that is involved in the overall regulatory function. This section entitled "Financial Structure" is exclusively involved in the processing of bank holding company and merger applications.

OFFICE OF THE COMPTROLLER
OF THE CURRENCY

The OCC has three different groups involved in research-related work at its headquarters level: Department of Research and Analysis, Strategic Studies, and Division of Statistics.

The Department of Research and Analysis is primarily concerned with developing and maintaining the numerous sources of data for the OCC. Such sources include the reports of condition, reports of income, liquidity report, maturity schedule of assets and liabilities, past due loan reports, trust department annual reports, and other statistical information. The department coordinates these activities with the other bank regulatory agencies, bank trade organizations, and the banking industry. Once such data sources are developed, the department participates in the collection, review, and summarization of such information for various users within the OCC.

The department also serves as an advisor on the economic aspects of various problems relating to bank operations, the banking structure, and proposed legislation. In addition, the department reviews all branch, charter, and merger applications.

The headquarters department also is responsible for the Regional Economic Program. Under this program, the Director, Department of Research and Analysis, appoints economic advisors who (1) assist the 14 regional administrators on economic matters; (2) perform economic research; and (3) review disputed charter, branch, and merger applications. The advisors are generally college professors and only work part-time.

In a recently issued report on the operations of the OCC, Haskins and Sells--a public accounting firm--recommended that the Department of Research and Analysis broaden and strengthen its analytical research capabilities. To achieve this goal the department is currently in the process of hiring four additional professional staff members.

The primary function of the Strategic Studies group is to ensure that the OCC is aware of recent developments in the banking industry. This is accomplished by meetings with the chief executive officers of banks and bank holding companies, members of bank trade associations, and other personnel in the financial area. At these meetings, areas such as possible new bank services and problems in the banking industry are discussed. The results of the meetings are summarized and distributed to interested departments within the OCC.

The primary responsibility of the Division of Statistics is to assure that the data received from national banks is accurate and processed into the large variety of recurring and nonrecurring reports required by the OCC. The division also has been given responsibility for providing the general public with Reports of Condition and Reports of Income of individual banks. According to an agency official, these reports are of substantial interest to commercial banks, bank consultants, the academic community, and others wishing to conduct research in the general area of commercial banking.