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Statement by

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Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing and Urban Affairs

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I am pleased to appear before this Committee on behalf of the Board of Governors of the Federal Reserve System to review the System's performance in supervising the banking institutions under its jurisdiction. I know that the Committee is particularly interested in how banks experiencing financial difficulty are identified and treated by the regulatory agencies.

As we are all aware, there have been a number of unauthorized disclosures and much comment recently in the press about banks and bank holding companies that have been placed on the so-called "problem" lists by the supervisory authorities. Indeed, such disclosures, to some extent, prompted these hearings and are responsible for my being here before you today. The Board, therefore, welcomes this opportunity to assure the Committee and the American public that the United States banking system remains sound and that the Federal Reserve has been responsive to its supervisory responsibilities with respect to the more than 1,000 State member banks in our system.

However, before beginning my discussion of the specific areas in which the Committee has expressed an interest, I wish to make a few brief comments about the lists of so-called "problem banks" and "problem bank holding companies". As many of the representatives from the regulatory agencies have been quick to point out, the term "problem" as it relates to these institutions is an unfortunate one in that it implies to the public a more severe condition than actually exists in most cases. The majority of banking organizations appearing on the lists maintained by the Federal Reserve are institutions that have encountered some difficulties and that have been identified as being in need of more than the usual degree of supervisory attention and monitoring. But, these institutions are not in imminent danger of failure. On the contrary, most have identified their problems, have demonstrated the capacity to overcome them and are making substantial progress. These positive steps, coupled with the improving trend in economic activity and the substantial reduction in the rate of inflation that is being achieved, make the prospects for the future of the economy, and, therefore, the banking system, brighter than has been the case for some time.

While we believe that the Nation's banks are generally well able to cope with their loan and asset problems, we do not wish to treat lightly the difficulties that were encountered and that, to some extent, still exist. The seeds of these difficulties were sown in the early 1970's when the banking system and the economy were growing at unsustainable rates. With the advantage of hindsight, it is clear that there were a number of mistakes made during this period.

Among those mistakes were: the over-stimulation of the construction industry brought about to a significant degree by the proliferation of Real Estate Investment Trusts; the failure to recognize and prepare for the impending energy crisis; the inadequacy of fiscal planning among many of the Nation's cities and political subdivisions; and, finally, the establishment of growth rather than quality goals by some banking institutions. It is quite clear that these mistakes are the underlying cause of the heavy volume of troubled loans and investments in the portfolios of some of the Nation's banks. To suggest that bankers themselves or the bank supervisors should have had the foresight to anticipate all of the problems and thus avoid them is to expect a great deal, especially in the climate of unbridled optimism that prevailed at the time.

By way of caveat, it would be unfair if I did not point out that some of the growth of the banking system that took place during this period resulted from inflationary pressures. In our environment of double-digit inflation, for example, many public utilities and others turned to the banking system when they were unable to obtain needed funding from internal sources or through the capital markets. To their credit, many banks, though already feeling the pressure of excessive loan demand, met these needs. These actions aside, however, there were clearly some excesses.

The Federal Reserve did recognize fairly early the hazards of the speed and direction in which financial institutions were moving. A number of supervisory steps designed to slow and focus banking growth were taken. Those steps included:

> April 1973 -- a letter signed by Chairman Burns was sent to the Chief Executive Officer of each State member bank with deposits exceeding $100 million concerning their loan commitment policy. The letter stated in part that "... The apparent large volume of bank commitments currently outstanding and sharply increased takedowns thereunder are indicative of the need for special attention to this subject at this time ...".

> May 1973 -- a letter signed by Chairman Burns was forwarded to all State member banks requesting their cooperation in assuring that the rate of credit extension be appropriately disciplined. The letter stated in part "Some key segments of the Nation's economy are now growing at an unsustainable pace, thereby adding substantially to inflationary pressures. Since excessive bank loan

expansion is a factor in this development, the Federal Reserve last week supplemented its previous policy actions by adopting several regulatory amendments with a view to further curbing such expansion. I am writing to you and every other member bank today on behalf of the Board to give emphasis to these recent actions and to invite your personal cooperation in assuring that the rate of credit extension by your bank is appropriately disciplined...".

June 1973 -- a letter was sent by Chairman Burns to about 100 foreign owned banking institutions in the United States. The letter requested cooperation in assuring that the rate of bank credit expansion in the United States is restrained.

September 1974 -- the Board released a statement on bank lending policies that had been received from its Federal Advisory Council. The letter urged that banks discipline their lending policies so as to exclude loans for speculative purposes.

Beginning in early 1974 and continuing through 1975, the Board began formulating policies concerning bank holding company expansion. A so-called "go slow" policy was adopted because it was believed that managerial and financial resources could often be used more effectively to strengthen the existing operations, particularly in the bank subsidiaries, some of which had experienced sharply declining capital ratios.

In 1974 and 1975, the Board through its statutory powers concerning applications for foreign expansion, denied a number of applications of major banks stating, in effect that the capital of the organization should be used to support existing business rather than more expansion.

Moreover, during this time, examiners were examining individual banks, and discussing with management any significant problems. When needed, examination personnel were requesting additions to capital, improvement in liquidity, and strengthening of lending policies.

Federal Reserve Governors made public addresses about these problems and urged that remedial steps be taken.

These actions obtained results. A number of banks' and bank holding companies' managements recognized their problems and realigned their lending policies to obtain better credit decisions; improved, to the extent possible, their liquidity positions; added to capital by slowing the rate of increase in cash dividends; added to capital funds by sale of subordinated debt; and, finally, adopted more manageable growth and expansion goals. The impact of the recent recession on the banking system would have been much more severe than it was, if these actions had not been taken.

I would be remiss if I did not point out that the banking system, to its credit, is making good progress in working its way out of these difficulties without the benefit of massive government assistance. As you may recall, there was considerable discussion this past year about the need for establishing an RFC program to provide assistance to troubled firms in a variety of industries and activities that had borrowed in excess of their debt servicing capacities. This does not seem necessary now since the banks have demonstrated their capacity to arrange for orderly workout of loans in many problem cases, and, where this was not possible to absorb the necessary losses through earnings power and still continue as viable sound institutions.

Let me turn now to the more specific areas in which the Committee has expressed an interest. I have submitted, for the record, information concerning the details of some of the procedures, tests, and methodology employed in the examination of a bank for which the Committee made inquiry. For the purposes of this testimony, however, I will touch on the broader aspects of bank supervision, will bring the Committee up-to-date on what we are doing to improve it, and discuss some of our broad areas of concern.

In the process of identifying those banks that are in need of more than the usual degree of supervision or monitoring, consideration is given to the quality of the bank's assets, the adequacy of its capital, the strength of its earnings, its liquidity position, and the competency of its management. Although there are benchmark measurements for some of these factors as illustrated in the attached description of the uniform system for rating banks, (see Appendix I), considerable judgment by individuals with years of experience is brought to bear in the final decision as to whether or not a particular institution should be considered as warranting special surveillance. The determination of the need for special surveillance may be based on the presence of an existing or a potential problem.

At the conclusion of each examination of a State member bank, the Reserve Bank rates the condition of the bank on a scale of 1 to 4, based on information developed by the examiners. I have attached a list of ratings of State member banks examined by the Federal Reserve during the years 1971 and thru 1975 to the extent the reports have been completed. (See Appendix II). The Board of Governors does not review or pass on these ratings although it does receive periodic staff reports on the condition of banks in the various categories. Banks determined to be in satisfactory condition in all major respects are given a rating of 1. About 66 per cent of the more than 1,000 State member banks qualify for such a rating.

Banks with one or more deficiencies in asset quality, level of risk assets, management strength, or liquidity, may be given a rating of 2 unless their capital position is strong enough to offset such deficiencies. Banks in this category include many sound institutions that serve their communities very well. Ordinarily, the managements of these banks respond promptly to examiner criticisms.

Category 3 includes largely those banks having a relatively high volume of loans that need careful attention. Over the past 2 to 3 years, there has been an increase in the number and especially in the size of banks placed in this category. As I mentioned, I believe the underlying cause of this increase can, to a significant extent, be traced to the inflationary excesses of the early 1970's that became apparent in the recent recession.

Category 4 includes banks with capital that has been impaired and with aggravated deficiencies present in condition and management. These banks usually require prompt and extensive attention to restore them to satisfactory condition. Only a few State member banks are so rated, less than 5 in any recent year.

While there are a number of banks that have been flagged for special surveillance, the second table (Appendix III) illustrates that there has been a significant turnover in individual banks on the list. Since the beginning of 1970, for example, 75 banks have been removed from the special surveillance category while 107 were added. These data demonstrate that most banks, upon recognizing and identifying areas of trouble and potential trouble, are able to institute corrective action and overcome their difficulties. This is an indication of the resiliency of the banking system. We believe that it also illustrates that supervisory efforts on the part of the Federal Reserve are timely and obtain results. Moreover, as economic conditions improve, banks should be able to improve the condition of their loan accounts even more rapidly.

We also note the Committee's interest in the foreign activities of U. S. banks. This is an area of increasing importance, as evidenced by the fact that assets of foreign branches of U. S. banks increased from $47 billion in December 1970 to over $166 billion by September 1975. As further evidence of the increased volume of foreign activities by U. S. banks, a few of the larger banking institutions of the U. S. reported that upwards of one-half of their total income last year represented income from foreign activities. Clearly, this is an appropriate area of inquiry for the Committee.

The condition of every overseas branch of a State member bank is reviewed during the annual examination of the bank. This review takes two forms: either it is conducted exclusively at the head office based on the reports and information there; or, head office records are scrutinized in connection with an on-site examination of the foreign branches. Whether conducted at the head office or on-site, the methodology in reviewing the operations of foreign branches is fundamentally the same as that employed for domestic offices. Federal Reserve examiners conduct a careful review of loans and other risk assets to determine their collectibility. Of equal importance is a review of audit reports to determine the range and effectiveness of the internal controls in place at the overseas branches and to ascertain the scope and accuracy of the data forwarded to the head office for management and supervisory use.

Emphasis is still concentrated on scrutiny of head office records since, in Federal Reserve experience, an understanding of the operations of overseas branches necessarily involve the head office. While credits are on the books of overseas branches, they may well have been negotiated and concluded at the head office and supervision of the credit may be the responsibility of the head office. In addition, the senior lending officers who approve major credits and formulate the bank's lending policies are usually located at the head office. The examiners need to review reports from the overseas offices at the head office where they can determine how branch operations mesh into the bank's overall operations and reporting systems and where they can determine how head office management exercises control and supervision over the foreign branches.

Periodically, examiners are sent to the principal overseas branches of State member banks in order to gain first hand experience with branch records, the market conditions in which they operate, and with local branch management. While at the branch, the examiners also try to satisfy themselves that the credit, operating and audit reports forwarded to the head office are accurate and complete. Information obtained at the branches is then compared with that at the head offices. This forms another basis for discovering deficiencies in internal reporting and management systems which can then be called to the attention of senior management for correction.

When on-site examinations are conducted, an area of operations given particularly close attention is money market and foreign exchange trading. The internal controls in place in this area are carefully scrutinized so as to insure that unauthorized transactions or losses do not go undetected. The records of past transactions are reviewed to determine that they were within the guidelines established by senior management and that exceptions to bank policies were reported to responsible bank officials.

The character of overseas branch banking is changing rapidly. As the volume of business has grown, American banks have found it necessary to delegate greater credit and operational authority to officers in the overseas branches. As a result, information at the head offices on many borrowers at the branches is no longer so current and complete. Because of this and the generally increased complexity of international operations, supervisory practices within the Federal Reserve System are being reviewed and revised. While scrutiny of banks' foreign branches from head office records will continue, it is clearly recognized that more frequent on-site examinations of foreign branches may be required. Some of these will be general in scope; others may be confined to specific segments of branch operations.

In some countries, of course, laws prevent on-site examinations. For the branches in these countries, supervision will necessarily be centered on assuring that sufficient information is obtainable at head offices where it can be reviewed by examiners. Over the longer run, international cooperation among banking authorities may result in different ways of mitigating this problem.

We have submitted, for the record, a table indicating the coverage of on-site examinations of foreign full service branches of State member banks in the years 1971 thru 1975. Other foreign branches were not ignored during these years; rather, their activities were reviewed at the banks' head offices as explained earlier.

I wish to briefly discuss bank holding companies and the Board's action with respect to its responsibilities under the Bank Holding Company Act. Although there have been a large number of acquisitions of non-bank entities by bank holding companies since the 1970 amendments to the Bank Holding Company Act, it should be remembered that bank holding company organizations, for the most part, continue to be overwhelmingly dominated by their banks. The Board, however, recognizes that some of the bank-related industries, most notably mortgage banking, have resulted in difficulties for a few holding companies. In response to these and other developments, the Federal Reserve has stepped up its monitoring and surveillance efforts.

In discharging its responsibilities as primary regulator of bank holding companies, the Federal Reserve has at its disposal a number of supervisory tools that can be employed to meet specific objectives, although fewer than Congress has provided for dealing with banks. These range from "moral suasion" to denial of applications and, in aggravated cases, issuance of cease and desist orders.

We believe that the present remedies available to the Federal Reserve are sufficient to effect correction in the most troublesome areas. Nevertheless, as a result of continuous review of the bank holding company movement and its effect on the banking system, we fully expect that, from time to time, the Federal Reserve will seek new legislation designed to deal with the changing environment. One item of legislation that would be especially helpful would be authority to assess civil penalties for violations of the Bank Holding Company Act. That and other legislation was recommended to Senator McIntyre by Chairman Burns in his letter of September 5, 1975.

In pointing up some of the difficulties that a few bank holding companies have encountered, I do not wish to minimize the strengths of many and the contributions that have been made. The bank holding company movement has resulted in improved competition in certain sectors; has caused an increase in levels of service in some areas thereby better meeting the convenience and needs of the public; has provided the vehicle for raising capital needed by the subsidiary banks; and has resulted in better management of some banks, particularly smaller institutions. The Board believes that the bank holding company movement, on balance, has been in the public interest, if all factors are taken into account.

Finally, I would like to turn to the very difficult subject of disclosure. Some argue that bank examination reports should be in the public domain, citing fears that financial institutions are protected by a cloak of secrecy. This is just not so. The fact is the banking system is one of the most highly regulated industries in the United States. Disclosure requirements for banks are very extensive. Banks, by statute, are required to file with the supervisory agencies and to publish in the local press, a Report of Condition quarterly. It should be noted that supervisory agencies are in the process of expanding the information contained in this and other reports that are available to the public. In addition to these sources of information, most of the large bank holding companies are registered with the Securities and Exchange Commission and are subject to reporting requirements under the Securities Exchange Act. As any one who has leafed through a 10-K report is aware, the disclosure requirements are vast. Still more information is available on individual banks in the prospectus that is filed whenever new capital is publicly marketed, and in reports filed with Federal bank regulators under the Securities laws. In addition, the long-term debt of many bank holding companies is rated by the rating services and much data and analyses are available from market analysts. We favor still more disclosure of information, but of standard information of the type revealed by other corporations, not confidential examination data.

There is no dearth of information concerning the activities of America's banks. The issue, therefore, is not one of disclosure, per se, but is the much more narrow issue of the desirability of disclosure of supervisory reports. The examination process is one that has evolved over a number of years and many of the practices and procedures are time-tested. The bank examiner has free access to all of the bank's records and most bankers, recognizing the confidentiality of their remarks, discuss very candidly the bank's most intimate affairs with the examiner.

Disclosure of the examiners' reports would undoubtedly change the candid relationship between the banker and the examiner, and thus change the examination process itself. We should carefully consider whether or not we are prepared to risk these changes, particularly in light of the fact that these processes and procedures have served both the banking system and the public well for a number of years.

With respect to the specific disclosures to which I referred in my opening remarks, I believe it is too early to assess the impact of such revelations on those organizations and possibly on public confidence in the banking system. It would be extemely unfortunate if the reputations of those institutions are tarnished to such an extent as to interfere with their ability to effectively complete the corrective actions that they now have underway. In the long term, these disclosures could well prove to be counter-productive to the interests of the banking system and the economic recovery of the Nation.

¶ **2400.70 Uniform system for rating commercial activities of member banks.** [Feb. 17, 1960, S-1730 as amended by S-2094 of July 22, 1969.] While any Federal Reserve Bank may continue to use for its own purposes any method of rating banks it may consider desirable, it is requested that, for the purposes of the Board of Governors, all State member banks be rated in accordance with the below described formula which is essentially the same as that used by the Comptroller of the Currency for rating national banks. The rating as determined by the formula should be entered and initialed by the Vice President in Charge of Examinations at the bottom of page E of the confidential section of the report of examination as follows:

$$\frac{\text{1-A-S*}}{1} \quad \text{(initials)}$$

In order that the transmittal to the Board of copies of reports of examination of State member banks may not be delayed by the absence of the Vice President, the Board will accept the initials of the Chief Examiner, the Manager of the Bank Examinations Department, or another officer of the Reserve Bank provided the Vice President in Charge of Examinations will promptly review all such reports and advise the Board of any adjustments in the rating as originally reported which he may consider desirable as a result of his review.

Composite or Group Rating

Rating No. 1

Banks rated No. 1 should be sound institutions in every respect.

Rating No. 2

Banks rated No. 2 are those with (a) asset weaknesses ranging from relatively moderate to moderately severe, or (b) negligible asset problems but definitely undercapitalized, or (c) unsatisfactory managements, or (d) a modified combination of these and other weaknesses.

Rating No. 3

Banks should be rated No. 3 which have, in relation to capital protection, an immoderate volume of asset weaknesses which, in view of the (a) character of the asset problems, or (b) management deficiencies, or (c) economic conditions, or a combination of these and other points, could reasonably develop into a situation urgently requiring aid either from the shareholders or otherwise. Banks in this category require special attention.

* Rating symbols for capital positions, quality of assets and, management are shown above the line in that order; the composite or group rating symbol is shown below the line.

Rating No. 4

Banks rated No. 4 are those confronted with asset weaknesses of a character and volume, in relation to capital protection and quality of management, urgently requiring aid from the shareholders or otherwise and whose failure, if such aid is not forthcoming, would appear to be probable. These are the serious or hazardous cases requiring constant supervisory attention.

Capital Position

Rating No. 1 or Roman Numeral I

Capitalization adequate in relation to

(a) volume of risk assets, *and*
(b) volume of marginal and inferior quality assets, *and*
(c) volume of deposits.
(d) Points a, b, and c to be considered in relation to strength of management.

Capitalization will not be considered adequate unless in the judgment of the Vice President in Charge of Examinations it is adequate in relation to the above enumerated points. Consideration will, of course, be given to earnings retention capacity. Ratios are not the primary determinant of this rating. Judgment must be exercised in deciding whether capital-wise a bank comes within this category. Although some banks will be regarded as under-capitalized with better ratios, in general a bank will be considered under-capitalized if (a) its ratio of total capital structure to total assets is worse than 8%, (b) its risk asset ratio is worse than 12.5%, or (c) its ratio of actual capital to the requirement under the Form for Analyzing Bank Capital is less than 80%. But in any case where a bank has either a ratio of total capital structure to total assets worse than 8%, a risk asset ratio worse than 12.5%, or a ratio of actual capital to the requirement under the Form of less than 80%, and the institution is believed to be adequately capitalized and deserving of a number 1 capital rating, this judgment will be so indicated by using Roman Numeral I.

Rating No. 2

Capitalization inadequate in relation to

(a) volume of risk assets, *or*
(b) volume of marginal and inferior quality assets, *or*
(c) volume of deposits.
(d) Points a, b, and c to be considered in relation to strength of management

While adequate capitalization is based on adequacy in relation to points a, b, and c, as a group, and the weighing of those three points in relation to management competency, capital inadequacy may exist because of the adverse relationship of the capital structure to any one of the first three points (a, b, or c), giving due weight to management as a possible mitigating factor, but not beyond a reasonable point. The least important factor is the relationship of capital to deposits unless extreme. The Federal Reserve Bank officials must exercise their own best judgment with reasonable emphasis on conservatism in determining capital adequacy or inadequacy for rating purposes. The exercise of judgment is required by the use of Roman Numeral I for those banks considered adequately capitalized despite ratios that normally would be regarded as sufficiently adverse to warrant a 2 or inadequate capitalization rating.

Rating No. 3

Inadequate capitalization is worse than defined under No. 2 above and is regarded as hazardous. This normally will include all banks whose aggregate of classified assets is sufficient to impair the capital account.

Rating No. 4

Capital impaired by losses.

Quality of Assets

Rating A

Good. Ordinarily banks so classified will not have an aggregate total of (1) classified assets, plus (2) 50% of Other Loans Specially Mentioned, plus (3) unclassified speculative bonds, stocks, and other real estate, that is in excess of 20% of the gross capital structure*, and the character of the problems in such assets is not severe in the judgment of the Federal Reserve Bank officer making the rating. An aggregate total of such assets somewhat in excess of 20% of the gross capital structure will not preclude an A rating, provided the actual or potential seriousness of the problems in the assets concerned is regarded as relatively moderate. However, if the primary asset problems are regarded as severe, or if additional problems exist in Large Lines, bond concentrations, or a heavy investment in fixed assets, a less favorable rating should be used even though the aggregate total of primary asset problems is less than 20% of the gross capital structure*.

Rating B

Fair. Instructions, and elasticity to exercise judgment through use of a more favorable or less favorable rating, are the same as noted under rating "A" except banks so classified ordinarily will not have an aggregate total of (1) classified assets, plus (2) 50% of Other Loans Specially Mentioned, plus (3) unclassified speculative bonds, stocks, and other real estate, that is in excess of 40% of the gross capital structure*.

Rating C

Unsatisfactory. Instructions, and elasticity to exercise judgment through use of a more favorable or less favorable rating, are the same as noted under rating "A", except banks so classified will *not* have an aggregate total of (1) classified assets, plus (2) 50% of Other Loans Specially Mentioned, plus (3) unclassified speculative bonds, stocks, and other real estate, that is in excess of 80% of the gross capital structure*.

Rating D

Hazardous. Any bank will be so classified when the total of (1) classified assets, plus (2) 50% of Other Loans Specially Mentioned, plus (3) unclassified speculative bonds, stocks, and other real estate, is in excess of 80% of the gross capital structure*.

Management

S—Satisfactory

A "satisfactory" management (directorate and active officers) is adequate to all its responsibilities and has the ability to cope successfully with existing or foreseeable problems. It is a safe and competent management which has established a satisfactory record of performance *in the situation in which it is found.*

Note: The "S" rating does not necessarily connote a management which is superior or excellent, or representing experience or competence greater than required in the particular bank under review. New and untried management may be accorded an "S" rating pending demonstration of satisfactory performance, providing other related circumstances and disclosures do not indicate the use of a lower rating.

F—Fair

A "fair" management lacks in some measure the competence desirable to meet the problems of the situation in which it is found. Either it is characterized by mediocrity when above-average capabilities are called for, or it is distinctly below-average for the same type and size of bank. An "F" rated management may be safe at the moment but criticizable features of the bank's operations outweigh more favorable factors, and abilities to correct existing unsatisfactory conditions or trends are not impressive.

Note: The "F" rating does not connote satisfactory management (which is rated "S"). In all cases where it is assigned, management is lacking in some rather important respects, but deficiences are not sufficient to warrant the "P" rating. (Lack of adequate succession arrangements may, in some cases, be cause for assigning the "F" rating to an otherwise satisfactory management.) Banks with an "F" management rating would be accorded a composite rating no better than "2"; they often may warrant a "problem" rating because of a current unsatisfactory asset condition or capital position, or they may present rather strong evidence of deteriorating into that category unless improvement in management performance can be brought about promptly in response to supervisory action.

P—Poor

The description assigned the "P" rating is self-explanatory. The rating should be reserved for those cases where incompetency has been demonstrated or where management deficiencies are of such seriousness that the over-all characterization of "poor" is amply justified. In the cases so rated, problems resulting from management weakness or incompetence create so unsatisfactory a condition that management may need to be strengthened or replaced before sound hank conditions may be brought about.

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* For purposes of determining asset ratings, "gross capital structure" consists of the "total capital account" and total "valuation reserves" on loans and securities as shown on page [2] of the report of examination.

RATINGS OF STATE MEMBER BANKS
EXAMINED BY THE FEDERAL RESERVE DURING INDICATED YEARS

APPENDIX II

Composite Ratings
(Deposits in Thousands)

Year		All Ratings	Rating 1	Rating 2	Rating 3	Rating 4
1971	Number of Banks 1/	1,112	759	307	43	3
	Percent	100.00	68.26	27.61	3.87	.27
	Total Deposits 2/	102,878,429	36,913,386	63,419,800	1,352,142	1,193,101
	Percent	100.00	35.88	61.65	1.31	1.16
1972	Number of Banks	1,074	738	303	31	2
	Percent	100.00	68.72	28.21	2.89	.19
	Total Deposits	123,184,992	48,111,876	73,855,916	1,194,932	22,268
	Percent	100.00	39.06	59.96	97	.02
1973	Number of Banks	1,044	736	278	30	0
	Percent	100.00	70.50	26.63	2.87	0.00
	Total Deposits	143,821,634	52,683,267	87,043,859	4,094,508	0
	Percent	100.00	36.63	60.52	2.85	0.00
1974	Number of Banks	1,026	711	266	45	4
	Percent	100.00	69.30	25.93	4.39	.39
	Total Deposits	162,279,629	54,155,893	56,039,479	51,967,233	117,024
	Percent	100.00	33.37	34.53	32.02	.07
1975 3/	Number of Banks	810	533	230	46	1
	Percent	100.00	65.80	28.40	5.68	.12
	Total Deposits	88,535,439	31,425,126	36,069,149	21,038,031	3,133
	Percent	100.00	35.49	40.74	23.76	0.00

1/ Number examined during the calendar year.

2/ Deposits as of the date of examination.

3/ Data for 1975 relate to the 810 banks for which examination reports have been completed.

APPENDIX III

Date	Banks under Special Surveillance	Additions	Deletions
12/31/65	43	15	20
12/31/66	38	16	23
12/31/67	49	22	11
12/31/68	43	14	20
12/31/69	35	12	20
12/31/70	39	13	7
12/31/71	48	15	6
12/31/72	36	10	22
12/31/73	29	5	12
12/31/74	38	22	13
12/31/75	65	42	15

The table above contains data on the number of special surveillance banks at the close of each calendar year commencing in 1965. Also included in the table are the numbers of additions to and deletions from the list of special surveillance banks during the calendar year. It will be observed that an inconsistency originating in 1966 was not adjusted until 1970.