

FEDERAL RESERVE BANK  
OF NEW YORK

AT CR No 9315(B)  
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**FINANCIAL CONDITION OF DATA PROCESSING SERVICERS**

*To the Chief Executive Officer of Each State Member Bank  
in the Second Federal Reserve District:*

The Federal financial regulatory agencies have completed a review of arrangements made by financial institutions with independent data processing servicers. Although most of these arrangements are quite satisfactory and provide the financial institutions with excellent and reliable recordkeeping capabilities, the review revealed instances where the financial condition of the independent servicer is unknown to the serviced institution. Under such circumstances the financial institution is unable to assure itself that its independent servicer has the financial ability to continue to provide critical data processing services.

It is recommended, therefore, that financial institutions obtain, through a provision in the servicing contract or otherwise, periodic financial statements of their independent servicer. Further, it is recommended that these financial statements be analyzed and that contingency plans for alternative sources of processing be pursued in those instances where circumstances warrant.

Questions on this matter may be directed to our Specialized Examinations and Training Division (Tel. No. 212-791-7946).

ANTHONY M. SOLOMON,  
*President.*